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

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2006

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: **000-17219**

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

Utah	**87-0398877**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

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

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

1825 Research Way, Salt Lake City, Utah 84119
(Former address of principal executive offices, if changed since last report)

Indicate by check 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 x No ☐

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

Larger Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No x

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. There were 12,145,068 shares of the Company's Common Stock, par value $0.001, outstanding on November 13, 2006.

CLEARONE COMMUNICATIONS, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2006

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DISCLOSURE 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; however, not all forward-looking statements contain these words. 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 in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," Item 3, "Quantitative and Qualitative Disclosures About Market Risk," and Item 4, "Controls and Procedures" included in this Quarterly Report on Form 10-Q. 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 Part II - Other Information, Item 1A, "Risk Factors" and the application of "Critical Accounting Policies" as discussed in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations." 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 ClearOne assumes no obligation to update forward-looking statements to reflect subsequent events, changes in circumstances, or changes in estimates.

CLEARONE COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands of dollars, except per share amounts)

	September 30, 2006	June 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,734	$ 1,240
Marketable securities	20,550	20,550
Accounts receivable	7,300	7,784
Note receivable	153	-
Inventories, net	6,179	6,614
Income tax receivable	2,548	2,607
Deferred income taxes, net	94	128
Prepaid expenses	188	255
Net Assets of Discontinued Operations	-	565
Total current assets	38,746	39,743
Property and equipment, net	1,473	1,647
Note receivable - long-term	166	-
Other assets	22	15
Total assets	$ 40,407	$ 41,405
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,643	$ 2,597
Accrued liabilities	2,136	2,397
Deferred product revenue	5,249	5,871
Total current liabilities	9,028	10,865
Deferred income taxes, net	94	128
Total liabilities	9,122	10,993
Commitments and contingencies (see Note 8)		
Shareholders' equity:		
Common stock, par value $0.001, 50,000,000 shares authorized, 12,185,427 and 12,184,727 shares issued and outstanding, respectively	12	12
Additional paid-in capital	52,997	52,764
Treasury stock	(37)	-
Accumulated deficit	(21,687)	(22,364)
Total shareholders' equity	31,285	30,412
Total liabilities and shareholders' equity	$ 40,407	$ 41,405

See accompanying notes to condensed consolidated financial statements

CLEARONE COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands of dollars, except per share amounts)

	Three Months Ended	
	September 30, 2006	September 30, 2005
Product Revenue:	$ 9,411	$ 8,778
Cost of goods sold:		
Product	4,205	3,921
Product inventory write-offs	111	93
Total cost of goods sold	4,316	4,014
Gross profit	5,095	4,764
Operating expenses:		
Marketing and selling	1,918	1,812
General and administrative	809	1,771
Settlement in shareholders' class action	-	(1,205)
Research and product development	2,079	1,799
Total operating expenses	4,806	4,177
Operating income (loss)	289	587
Other income (expense), net:		
Interest income	307	159
Other, net	25	7
Total other income (expense), net	332	166
Income (loss) from continuing operations before income taxes	621	753
Benefit from income taxes	19	222
Income (loss) from continuing operations	640	975
Discontinued operations:		
Income from discontinued operations	55	118
Gain on disposal of discontinued operations	3	1,496
Income tax provision	(21)	(602)
Income from discontinued operations	37	1,012
Net income	$ 677	$ 1,987

See accompanying notes to condensed consolidated financial statements

CLEARONE COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)
(Unaudited)
(in thousands of dollars, except per share amounts)

	Three Months Ended	
	September 30, 2006	September 30, 2005
Basic earnings (loss) per common share from continuing operations	$ 0.05	$ 0.09
Diluted earnings (loss) per common share from continuing operations	$ 0.05	$ 0.08
Basic earnings (loss) per common share from discontinued operations	$ 0.00	$ 0.09
Diluted earnings (loss) per common share from discontinued operations	$ 0.00	$ 0.08
Basic earnings (loss) per common share	$ 0.06	$ 0.18
Diluted earnings (loss) per common share	$ 0.06	$ 0.16
Basic weighted average shares	12,184,849	11,284,244
Diluted weighted average shares	12,231,744	12,278,664

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended	
	September 30, 2006	September 30, 2005
Cash flows from operating activities:		
Net income from continuing operations	$ 640	$ 975
Adjustments to reconcile net income (loss) from continuing operations		
to net cash provided by operations:		
Depreciation and amortization expense	268	326
Stock-based compensation	230	342
Write-off of inventory	111	93
(Gain) loss on disposal of assets and fixed assets write-offs	-	(40)
Provision for doubtful accounts	-	3
Changes in operating assets and liabilities:		
Accounts receivable	484	(414)
Note receivable - Ken-A-Vision	(319)	-
Inventories	324	661
Prepaid expenses and other assets	67	(280)
Accounts payable	(954)	(430)
Accrued liabilities	(261)	(1,357)
Income taxes	59	380
Deferred product revenue	(622)	(207)
Net change in other assets/liabilities	(6)	1
Net cash provided by continuing operating activities	21	53
Net cash provided by discontinued operating activities	35	527
Net cash provided by operating activities	56	580
Cash flows from investing activities:		
Purchase of property and equipment	(112)	(64)
Proceeds from the sale of property and equipment	18	43
Purchase of marketable securities	-	(3,000)
Sale of marketable securities	-	1,800
Net cash used in continuing investing activities	(94)	(1,221)
Net cash provided by discontinued investing activities	567	938
Net cash used in investing activities	473	(283)
Cash flows from financing activities:		
Proceeds from common stock	2	-
Common stock purchased and retired	(37)	-
Net cash used in continuing financing activities	(35)	-
Net cash used in discontinued financing activities	-	-
Net cash used in financing activities	(35)	-
Net increase in cash and cash equivalents	494	297
Cash and cash equivalents at the beginning of the period	1,240	1,892
Cash and cash equivalents at the end of the period	$ 1,734	$ 2,189

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended	
	September 30, 2006	September 30, 2005
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ -	$ -
Cash paid (received) for income taxes	(57)	-
Supplemental disclosure of non-cash financing activities:		
Value of common shares issued in shareholder settlement	$ -	$ 2,264

See accompanying notes to condensed consolidated financial statements

(in thousands of dollars, except per share amounts)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, consisting of the condensed consolidated balance sheets as of September 30, 2006 and June 30, 2006, the condensed consolidated statements of operations for the three months ended September 30, 2006 and 2005 and the condensed consolidated statements of cash flows for the three months ended September 30, 2006 and 2005, have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in complete financial statements have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2006.

In management’s opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for interim periods are not necessarily indicative of the results of operations to be expected for the entire year or for any future period.

2. Summary of Significant Accounting Policy Update

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 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 condensed consolidated financial statements include, among others, revenue recognition, allowances for doubtful accounts and product returns, provisions for obsolete inventory, valuation of long-lived assets including goodwill, and deferred income tax asset valuation allowances. Actual results could differ materially from these estimates.

Revenue Recognition - The Company evaluates, at each quarter-end, the inventory in the channel through information provided by certain of its distributors. The level of inventory in the channel will fluctuate up or down, each quarter, based upon these distributors’ individual operations. Accordingly, each quarter-end revenue deferral is calculated and recorded based upon the underlying, estimated channel inventory at quarter-end. 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 period end for the 21-month period ended September 30, 2006.

	Deferred Revenue	Deferred Cost of Goods Sold	Deferred Gross Profit
September 30, 2006	$ 5,249	$ 2,541	$ 2,708
June 30, 2006	5,871	2,817	3,054
March 31, 2006	5,355	2,443	2,912
December 31, 2005	4,936	2,199	2,737
September 30, 2005	4,848	2,373	2,475
June 30, 2005	5,055	2,297	2,758
March 31, 2005	5,456	2,321	3,135
December 31, 2004	4,742	1,765	2,977

Share-Based Payment In December 2004, the Financial Accounting Standards Board ("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.

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, cumulatively.

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 9 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

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on recognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of FIN 48 on our consolidated financial statements.

Inventory Costs

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - an Amendment of ARB No. 43," which is the result of its efforts to converge U.S. accounting standards for inventories with International Accounting Standards. SFAS No. 151 requires idle facility expenses, freight, handling costs, and wasted material (spoilage) costs to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 was effective beginning with the Company's fiscal 2006 financial statements. There was not a significant impact on the Company's business, results of operations, financial position, or liquidity from the adoption of this standard.

Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a Replacement of APB Opinion No. 20 and FASB Statement No. 3," in order to converge U.S. accounting standards with International Accounting Standards. SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition of a cumulative effect adjustment within net income of the period of the change. SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, it does not change the transition provisions of any existing accounting pronouncements. The Company does not believe that the adoption of SFAS No. 154 will have a material effect on its business, results of operations, financial position, or liquidity.

3. Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings (loss) per common share:

	Three Months Ended	
	September 30, 2006	September 30, 2005
	(in thousands of dollars, except per share amounts)	
Numerator:		
Income (loss) from continuing operations	$ 640	$ 975
Income (loss) from discontinued operations, net of tax	35	74
Gain (loss) on disposal of discontinued operations, net of tax	2	938
Net income (loss)	$ 677	$ 1,987
Denominator:		
Basic weighted average shares	12,184,849	11,284,244
Dilutive common stock equivalents using treasury stock method	46,895	994,420
Diluted weighted average shares	12,231,744	12,278,664
Basic earnings (loss) per common share:		
Continuing operations	$ 0.05	$ 0.09
Discontinued operations	0.00	0.01
Disposal of discontinued operations	0.00	0.08
Net income (loss)	0.06	0.18
Diluted earnings (loss) per common share:		
Continuing operations	$ 0.05	$ 0.08
Discontinued operations	0.00	0.01
Disposal of discontinued operations	0.00	0.08
Net income (loss)	0.06	0.16

Options that had an exercise price greater than the average market price of the common shares ("Out-of-the-Money Options") during the respective period were not included in the computation of diluted earnings per share as the effect would be anti-dilutive. An average total of 1,231,591 and 1,454,061 Out-of-the-Money Options were not included during the three months ended September 30, 2006 and 2005, respectively. Warrants to purchase 150,000 shares of common stock were outstanding as of September 30, 2006 and 2005, but were not included in the computation of diluted earnings per share as the effect would be anti-dilutive. The Company issued 228,000 shares in November 2004 and 920,494 shares in September 2005.

(in thousands of dollars, except per share amounts)

4. Discontinued Operations

During the first fiscal quarter of 2007, the Company completed the sales of its document and educational camera product line to Ken-A-Vision Manufacturing. Additionally, during fiscal 2005, the Company sold its Canadian audiovisual integration services, OM Video, to 6351352 Canada Inc, a Canada corporation (the “OM Purchaser”). Accordingly, the results of operations and the financial position have been reclassified in the accompanying condensed consolidated financial statements as discontinued operations. Finally, during fiscal 2001, the Company sold certain assets to Burk Technology, Inc. (“Burk”) whose sales proceeds are included with discontinued operations. Summary operating results of the discontinued operations are as follows:

	Three Months Ended	
	September 30, 2006	September 30, 2005
Income from discontinued operations:		
Ken-A-Vision	$ 55	$ 118
Gain on disposal of discontinued operations:		
Ken-A-Vision	$ 3	$ -
OM Video	-	150
Burk	-	1,346
Total gain on disposal of discontinued operations	3	1,496
Income tax (provision) benefit:		
Ken-A-Vision	$ (21)	$ (44)
OM Video	-	(56)
Burk	-	(502)
Total income tax (provision) benefit	(21)	(602)
Total income from discontinued operations, net of income taxes:		
Ken-A-Vision	$ 37	$ 74
OM Video	-	94
Burk	-	844
Total income from discontinued operations, net of income taxes	$ 37	$ 1,012

Document and Camera Product Line

On August 23, 2006, the Company entered into an Asset Purchase Agreement with Ken-A-Vision Manufacturing Company, Inc. (“KAV”), a privately held manufacturer of camera solutions for education, audio visual, research, and manufacturing applications, to sell inventory, equipment, tools, and certain intellectual property pertaining to its document and education camera product line. KAV also agreed to assume certain warranty obligations with respect to historical Company camera product sales. The purchase price, which was subject to adjustment based upon the quantities of a mix of finished good inventory to be delivered to KAV, as defined in the agreement, was $635, payable in cash and a 24-month note receivable. The sale closed on August 30, 2006.

(in thousands of dollars, except per share amounts)

OM Video

On March 4, 2005, the Company sold all of the issued and outstanding stock of its Canadian subsidiary, ClearOne Communications of Canada, Inc. (“ClearOne Canada”) to 6351352 Canada Inc., a Canada corporation. ClearOne Canada owned all the issued and outstanding stock of Stechyson Electronics, Ltd., which conducts business under the name OM Video. The Company agreed to sell the stock of ClearOne Canada for $200 in cash; a $1,256 note receivable over a 15-month period, with interest accruing on the unpaid balance at the rate of 5.3 percent per year; and contingent consideration ranging from 3.0 percent to 4.0 percent of related gross revenues over a five-year period. In June 2005, the Company was advised that the OM Purchaser had settled an action brought by the former employer of certain of OM Purchaser’s owners and employees alleging violation of non-competition agreements. The settlement reportedly involved a cash payment and an agreement not to sell certain products for a period of one year. Based on an analysis of the facts and circumstances that existed at the end of fiscal 2005, and considering the guidance from Topic 5U of the SEC Rules and Regulations, “Gain Recognition on the Sale of a Business or Operating Assets to a Highly Leveraged Entity,” the gain is being recognized as cash is collected (as collection was not reasonably assured). OM Video pre-tax income (loss), reported in discontinued operations, for the three months ended September 30, 2005 was $150. Through December 31, 2005, all payments required through such date had been received and $854 of the promissory note remained outstanding; however, 6351352 Canada Inc. failed to make any subsequent, required payments under the note receivable until June 30, 2006, when we received a payment of $50. The note receivable is in default and we are currently considering our collection options.

Burk

On August 22, 2005, the Company entered into a Mutual Release and Waiver Agreement with Burk pursuant to which Burk paid the Company $1,346 in full satisfaction of the promissory note, which included a discount of $119. As part of the Mutual Release and Waiver Agreement, the Company waived any right to future commission payments from Burk. Additionally, Burk and the Company granted mutual releases to one another with respect to future claims and liabilities. Accordingly, the total pre-tax gain on the disposal of discontinued operations, related to Burk, was approximately $2,419. The gain was recognized beginning in fiscal 2001. The Company realized pre-tax gain on the disposal of discontinued operations of $1,346 during the three months ended September 30, 2005.

5. Income Taxes

During the three months ended September 30, 2006, the Company recorded a benefit for income taxes from continuing operations of $19. This compares to a benefit for income taxes of $222 during the three months ended September 30, 2005. Taxes are based on the estimated annual effective tax rate.

SFAS No. 109, *“Accounting for Income Taxes,”* requires that a valuation allowance be established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. As of September 30, 2006, the Company has recorded a valuation allowance against all of its net deferred tax assets due to the uncertainty of realization of the assets. Based on the Company’s lack of cumulative profitability in recent years it is more likely than not that all of the net deferred tax assets will not be realized.

6. Inventory

Inventories, net of reserves, consist of the following as of September 30, 2006 and June 30, 2006:

	September 30, 2006	June 30, 2006
Raw materials	$ 188	$ 513
Finished goods	3,450	3,284
Consigned inventory	2,541	2,817
Total inventory	$ 6,179	$ 6,614

(in thousands of dollars, except per share amounts)

Consigned inventory represents inventory at distributors and other customers where revenue recognition criteria have not been achieved.

7. Accrued Liabilities

Accrued liabilities consist of the following as of September 30, 2006 and June 30, 2006:

	September 30, 2006	June 30, 2006
Accrued salaries and other compensation	$ 800	$ 1,150
Other accrued liabilities	1,336	1,247
Total	$ 2,136	$ 2,397

8. Commitments and Contingencies

The Company establishes contingent liabilities when a particular contingency is both probable and estimable. For the contingencies noted below, the Company has 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 business, results of operations, financial position, or liquidity.

Outsource Manufacturer. On August 11, 2003, the Company entered into a manufacturing agreement with an international outsource manufacturer related to the outsourced manufacturing of certain of its products. The manufacturing agreement established annual volume commitments. In the event annual volume commitments are not met, the Company will be subject to a tooling amortization charge for the difference between the Company's volume commitment and its actual product purchases. For the calendar year ended December 31, 2004, the Company was also responsible for prepayment of $274 in certain raw material inventory related to the annual volume commitment. As of September 30, 2006, $30 of the prepayment remained outstanding. The Company is also obligated to repurchase all raw materials sold to the international outsource manufacturer.

On August 1, 2005, the Company entered into a manufacturing agreement with a domestic outsource manufacturer related to the outsourced manufacturing of certain of its products. The raw materials owned by the Company were consigned to the manufacturer at August 1, 2005 in the amount of $2,285. The consigned raw material balance at September 30, 2006 was $175. The agreement established annual volume commitments and forecasting requirements. When the manufacturer procures materials for the forecast and actual orders do not meet the forecast, the Company is responsible to advance to the manufacturer the value of the inventory greater than a 90 day supply. The amount advanced to the domestic manufacturer at September 30, 2006 was $657. The consigned raw material balance and the amount advanced to the domestic manufacturer, net of estimated reserves, is included in raw materials.

Legal Proceedings. In addition to the legal proceedings described below, the Company is also involved from time to time in various claims and other legal proceedings which arise in the normal course of business. Such matters are subject to many uncertainties and outcomes that are not predictable. However, based on the information available to the Company as of November 1, 2006 and after discussions with legal counsel, the Company does not believe any such other proceedings will have a material, adverse effect on its business, results of operations, financial position, or liquidity, except as described below.

The Shareholders' Class Action . On June 30, 2003, a consolidated complaint was filed against the Company, eight present or former officers and directors of the Company, and Ernst & Young LLP ("Ernst & Young"), the Company's former independent public accountants, by a class consisting of purchasers of the Company's common stock during the period from April 17, 2001 through January 15, 2003. The action followed the consolidation of several previously filed class action complaints and the appointment of lead counsel for the class. The allegations in the complaint were essentially the same as those contained in the SEC complaint described in the Company's Annual Report on Form 10-K for the year ended June 30, 2005. On December 4, 2003, the Company, on behalf of itself and all other defendants with the exception of Ernst & Young, entered into a settlement agreement with the class pursuant to which the Company agreed to pay the class $5,000 and to issue the class 1.2 million shares of its common stock. The cash payment was made in two equal installments, the first on November 10, 2003 and the second on January 14, 2005. On May 23, 2005, the court order was amended to require the Company to pay cash in lieu of stock to those members of the class who would otherwise have been entitled to receive fewer than 100 shares of stock. On September 29, 2005, the Company completed its obligations under the settlement agreement by issuing a total of 1,148,494 shares of the Company's common stock to the plaintiff class, including 228,000 shares previously issued in November 2004, and the Company paid an aggregate of $127 in cash in lieu of shares to those members of the class who would otherwise have been entitled to receive an odd-lot number of shares or who resided in states in which there was no exemption available for the issuance of shares. The cash payments were calculated on the basis of $2.46 per share which was equal to the higher of (i) the closing price for the Company's common stock as reported by the Pink Sheets on the business day prior to the date the shares were mailed, or (ii) the average closing price over the five trading days prior to such mailing date.

On a quarterly basis, the Company revalued the un-issued shares to the closing price of the stock on the later of the date the shares were mailed or the last day of the quarter. During fiscal 2006 and 2005, the Company received a benefit of approximately $1,205 and $2,046, respectively, while during fiscal 2004 the Company incurred an expense of approximately $4,080 related to the revaluation of the 1.2 million shares of the Company's common stock that were issued in November 2004 and September 2005.

The Shareholder Derivative Actions. Between March and August 2003, four shareholder derivative actions were filed by certain shareholders of the Company against various present and past officers and directors of the Company and against Ernst & Young. The complaints asserted allegations similar to those asserted in an SEC complaint described in the Company's Annual Report on Form 10-K for the year ended June 30, 2005 and the shareholders' class action described above and also alleged that the defendant directors and officers violated their fiduciary duties to the Company by causing or allowing the Company to recognize revenue in violation of generally accepted accounting principles ("GAAP") and to issue materially misstated financial statements and that Ernst & Young breached its professional responsibilities to the Company and acted in violation of GAAP by failing to identify or prevent the alleged revenue recognition violations and by issuing unqualified audit opinions with respect to the Company's fiscal 2002 and 2001 financial statements. One of these actions was dismissed without prejudice on June 13, 2003. As to the other three actions, the Company's Board of Directors appointed a special litigation committee of independent directors to evaluate the claims made by these shareholders. That committee determined that the maintenance of the derivative proceedings against the individual defendants was not in the best interest of the Company. Accordingly, on December 12, 2003, the Company moved to dismiss those claims. In March 2004, the Company's motions to dismiss those claims were granted and the derivative claims were dismissed with prejudice as to all defendants except Ernst & Young. The Company was substituted as the plaintiff in the action and is now pursuing in its own name the claims against Ernst & Young.

The Insurance Coverage Action. On February 9, 2004, the Company and Edward Dallin Bagley, the Chairman of the Board of Directors and a significant shareholder of the Company, jointly filed an action against National Union Fire Insurance Company of Pittsburgh, Pennsylvania ("National Union") and Lumbermens Mutual Insurance Company of Berkeley Heights, New Jersey ("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 the Company's present and former directors and officers in connection with the SEC complaint, the shareholders' class action, 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 has been consolidated into a declaratory relief action filed by one of the insurance carriers on February 6, 2004 against the Company and certain of its current and former directors. In this action, the insurers assert that they are entitled to rescind insurance coverage under our directors and officers liability insurance policies, $3,000 of which was provided by National Union and $2,000 of which was provided by Lumbermens Mutual, based on alleged misstatements in the Company's insurance applications. In February 2005, the Company entered into a confidential settlement agreement with Lumbermens Mutual pursuant to which the Company and Mr. Bagley received a lump-sum cash amount and the plaintiffs agreed to dismiss their claims against Lumbermens Mutual with prejudice. The cash settlement is held in a segregated account until the claims involving National Union have been resolved, at which time the amounts received in the action will be allocated between the Company and Mr. Bagley. The amount distributed to the Company and Mr. Bagley will be determined based on future negotiations between the Company and Mr. Bagley. The Company cannot currently estimate the amount of the settlement which it will ultimately receive. Upon determining the amount of the settlement which the Company will ultimately receive, the Company will record this as a contingent gain. None of the cash held in the segregated account is recorded as an asset at September 30, 2006. On October 21, 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 the Company and Mr. Bagley. In connection with the summary judgment, the Company has been ordered to pay approximately $59 in expenses. However, due to the Lumbermans Mutual cash proceeds discussed above and the appeal to the summary judgment discussed below, this potential liability has not been recorded in the balance sheet as of September 30, 2006. On February 2, 2006, the Company and Mr. Bagley filed an appeal to the summary judgment granted on October 21, 2005 and intend to vigorously pursue the appeal and any follow-up proceedings regarding their claims against National Union, although no assurances can be given that they will be successful. The Company and Mr. Bagley have entered into a Joint Prosecution and Defense Agreement in connection with the action and the Company is paying all litigation expenses except litigation expenses which are solely related to Mr. Bagley's claims in the litigation. The Company has recognized and continues to recognize the expenses incurred related to this action at the dates incurred.

9. Share-Based Payment

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

On September 30, 2006, the Company had two share-based compensation plans, one which expired on December 15, 2005, and one which remains active, which are described below.

The Company's 1990 Incentive Plan (the "1990 Plan") had shares of common stock available for issuance to employees and directors. Provisions of the 1990 Plan included the granting of stock options. Generally, stock options vested over a five-year period at 10 percent, 15 percent, 20 percent, 25 percent, and 30 percent per year. Certain other stock options vested in full after eight years. As of September 30, 2006, there were no options outstanding under the 1990 Plan and no additional options were available for grant under such plan.

The Company also has a 1998 Stock Option Plan (the "1998 Plan"). Provisions of the 1998 Plan include the granting of 2,500,000 incentive and non-qualified stock options. Options may be granted to directors, officers, and key employees and may be granted upon such terms as the Board of Directors, in their sole discretion, determine. 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 September 30, 2006, 22,500 and 150,500 of these options that cliff vest after 9.8 and 6.0 years, respectively, remain outstanding.

(in thousands of dollars, except per share amounts)

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 all directors and officers' unvested options shall vest and become exercisable immediately prior to the event or closing of the transaction. All options outstanding as of September 30, 2006 had contractual lives of ten years. Under the 1998 Plan, 2,500,000 shares were authorized for grant. The 1998 Plan expires June 10, 2008, or when all the shares available under the plan have been issued if this occurs earlier. As of September 30, 2006, there were 1,251,921 options outstanding under the 1998 Plan, which includes the cliff vesting and 3 or 4-year vesting options discussed above, and 945,255 options available for grant in the future.

In addition to the two stock option plans, the Company 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 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 program was suspended during the period the Company failed to remain current in its filing of periodic reports with the SEC and reinstated in fiscal year 2007 after the Company became current.

Effective July 1, 2005, the Company adopted SFAS No. 123R, "Share-Based Payment." The Company adopted the fair value recognition provisions of SFAS No. 123R using the modified prospective transition method. Under this transition method, stock-based compensation cost recognized beginning July 1, 2005 includes the straight-line 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 in the pro-forma disclosures under the original SFAS No. 123 and (b) all share-based payments granted on or after July 1, 2005, in accordance with the provisions of SFAS No. 123R.

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 three months ended September 30, 2006 and 2005, the Company used the following assumptions:

	Three Months Ended	
	September 30, 2006	September 30, 2005
Risk-free interest rate, average	4.8%	4.1%
Expected option life, average	4.6 years	5.8 years
Expected price volatility, average	88.4%	88.3%
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. 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.

(in thousands of dollars, except per share amounts)

In the three months ended September 30, 2006, the adoption of SFAS No. 123R resulted in incremental, pre-tax, stock-based compensation cost of $230. For the three months ended September 30, 2006, the Company expensed $10 in cost of goods sold, $25 in marketing and selling, $167 in general and administrative, and $28 in research and product development expense related to the transition to SFAS No. 123R. The stock-based compensation cost associated with adoption of SFAS No. 123R reduced net operating income for the three months ended September 30, 2006 by $230, decreased net income by $144, and reduced basic and diluted earnings per share by $0.01 per share. The total income tax provision (benefit) related to share-based compensation for the three months ended September 30, 2006 was ($86).

	Three Months Ended September 30, 2006	
	As Reported	SFAS No. 123R Compensation Expense
Revenue	$ 9,411	$ -
Cost of goods sold	4,316	10
Gross profit	5,095	(10)
Operating expenses:		
Marketing and selling	1,918	25
General and administrative	809	167
Research and product development	2,079	28
Total operating expenses	4,806	220
Operating (loss) income	289	(230)
Other income (expense), net	332	-
Income (loss) from continuing operations before income taxes	621	(230)
Benefit for income taxes	19	86
Income (loss) from continuing operations	640	(144)
Income from discontinued operations, net of tax	37	-
Net income	$ 677	$ (144)
Basic earnings (loss) per common share:		
Continuing operations	$ 0.05	$ 0.01
Discontinued operations	-	-
Net income	0.06	0.01
Diluted earnings (loss) per common share:		
Continuing operations	$ 0.05	$ 0.01
Discontinued operations	-	-
Net income	0.06	0.01

As of September 30, 2006, the total compensation cost related to unvested stock options not yet recognized was $1,414 which is expected to be recognized over the next 4.0 years on a straight-line basis. The weighted-average estimated fair value of the stock options granted during the three months ended September 30, 2006 and 2005 was $3.57 and $2.91, per share, respectively.

(in thousands of dollars, except per share amounts)

The following table shows the stock option activity for the three months ended September 30, 2006.

Stock Options	Number of Shares	Weighted Average Exercise Price	Weighted Remaining Contractual Term (years)
Outstanding at June 30, 2006	1,237,920	$ 6.12	
Granted	321,000	3.57	
Expired and canceled	(275,720)	6.91	
Forfeited prior to vesting	(30,579)	3.90	
Exercised	(700)	2.88	
Outstanding at September 30, 2006	1,251,921	5.35	7.3 years
Exercisable	712,238	5.73	6.2 years

Non-vested Shares	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at June 30, 2006	320,124	$ 4.39
Granted	321,000	2.47
Vested	(70,862)	3.33
Forfeited prior to vesting	(30,579)	2.95
Non-vested at September 30, 2006	539,683	$ 3.47

Due to the Company's failure to remain current in its filing of periodic reports with the SEC during fiscal 2004, 2005, and most of 2006, employees, executive officers, and directors were not allowed to exercise options under the 1998 Plan. Since December 2003, individual grants that had been affected by this situation were modified to extend the exercise period of the option through the date the Company became current in its filings with the SEC and options again became exercisable. Since July 1, 2003, modifications of stock option grants included (i) the extension of the post-service exercise period of vested options held by persons who have ceased to remain employed by the Company; (ii) the extension of the option exercise period for maturing options that were fully vested and unexercised; (iii) the acceleration of vesting schedule for certain key employees whose employment terminated due to the sale of the conferencing services business to Premiere; and (iv) the acceleration of vesting schedule for one former officer at termination. For the fiscal years ended June 30, 2006, 2005, and 2004, the Company modified stock options related to 8, 32, and 20 employees, respectively. Compensation cost is recognized immediately for options that are fully vested on the date of modification. During the fiscal years ended June 30, 2006, 2005, and 2004, the Company expensed $16, $41, and $200, respectively, in compensation cost associated with these modifications.

(in thousands of dollars, except per share amounts)

10. Segment and Geographic Information

During the three months ended September 30, 2006 and 2005, all revenue and income (loss) from continuing operations was included in the product segment. Additionally, 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:

	Three Months Ended	
	September 30, 2006	September 30, 2005
United States	$ 6,938	$ 6,824
All other countries	2,473	1,954
Total	$ 9,411	$ 8,778

11. Manufacturing Transition

In May 2005, the Company approved an impairment action and a restructuring action in connection with its decision to outsource its Salt Lake City manufacturing operations. These actions were intended to improve the overall cost structure for the product segment by focusing resources on other strategic areas of the business. The Company recorded an impairment charge of $180 and a restructuring charge of $110 during the fiscal year ended June 30, 2005 as a result of these actions. These charges were disclosed separately in the consolidated statements of operations. The impairment charge consisted of an immediate impairment of certain property and equipment of $180 that had value to the Company while it manufactured product but that was not purchased by Third Party Manufacturer ("TPM") and at the time were not considered likely to be sold. These assets would have remained in service had the Company not outsourced its manufacturing operations. The restructuring charge also consisted of severance and other employee termination benefits of $70 related to a workforce reduction of approximately 20 employees who were transferred to an employment agency used by TPM to transition the workforce and a charge of $40 related to the operating lease for the Company's manufacturing facilities that would no longer be used by the Company. All severance payments were paid by December 31, 2005.

The following table summarizes changes in the Company's restructuring charges for the three months ended September 30, 2006 and 2005.

	Severance	Manufacturing Facilities Lease	Total
Balance at June 30, 2005	$ 70	$ 40	$ 110
Utilized	(30)	(8)	(38)
Balance at September 30, 2005	$ 40	$ 32	$ 72
Balance at June 30, 2006	$ -	$ 43	$ 43
Utilized	0	(29)	(29)
Balance at September 30, 2006	$ -	$ 14	$ 14

12. Settlement Agreement and Release

The Company entered into a settlement agreement and release with its former Vice-President - Operations in connection with the cessation of his employment, which generally provided for his resignation from his position and employment with the Company, the payment of severance, and a general release of claims against the Company by him. On August 24, 2006, an agreement was entered into which generally provided for a severance payment of $9 and his surrender and delivery to the Company of 45,000 unexercised stock options in exchange for an additional $5 payment.

13. Subsequent Events

On October 30, 2006, the Company announced a self-tender offer through which it intends to repurchase at a price of $4.25 per share up to 2,353,000 of its shares. If the offer is fully subscribed, the Company's outstanding shares would be reduced by approximately 19% at an aggregate cost of approximately $10,000. The tender offer commenced on November 6, and is scheduled to expire on December 6, 2006, unless extended.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and related notes to condensed consolidated financial statements included in this Form 10-Q and our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended June 30, 2006 filed with the SEC and management's discussion and analysis contained therein. 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 Part II, Item 1A, as well as other information found in the documents we file from time to time with the SEC. Unless otherwise indicated, all references to a year reflect our fiscal year that ends on June 30.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our results of operations and financial condition are based upon our condensed 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 management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues 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. We believe the following critical accounting policies affect our more significant assumptions and estimates that we used to prepare our condensed consolidated financial statements.

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 distributors. Currently, we do not have sufficient historical return experience with our distributors that is predictive of future events given historical excess levels of inventory in the distribution channel. Accordingly, revenue from product sales to distributors is not recognized until 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. 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, estimated channel inventory at quarter-end. Although, certain distributors provide certain channel inventory amounts, we make judgments and estimates with regard to the amount of inventory in the entire channel, for all customers and for all channel inventory items, and the appropriate revenue and cost of goods sold associated with those channel products. Although these assumptions and judgments regarding total channel inventory revenue and cost of goods sold could differ from actual amounts, we believe that our calculations are indicative of actual levels of inventory in the distribution channel. As of September 30, 2006, the Company deferred $5.3 million in revenue and $2.5 million in cost of goods sold related to products sold where return rights had not lapsed. As of September 30, 2005, the Company deferred $4.8 million in revenue and $2.4 million in cost of goods sold related to products sold where return rights had not lapsed. 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 period end for the 21-month period ended September 30, 2006 (in thousands).

	Deferred Revenue	Deferred Cost of Goods Sold	Deferred Gross Profit
September 30, 2006	$ 5,249	$ 2,541	$ 2,708
June 30, 2006	5,871	2,817	3,054
March 31, 2006	5,355	2,443	2,912
December 31, 2005	4,936	2,199	2,737
September 30, 2005	4,848	2,373	2,475
June 30, 2005	5,055	2,297	2,758
March 31, 2005	5,456	2,321	3,135
December 31, 2004	4,742	1,765	2,977

We offer rebates and market development funds to certain of our distributors and direct dealers/resellers 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." Beginning January 1, 2002, we adopted EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." We continue to record rebates as a reduction of revenue in the period revenue is recognized.

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 collectibility 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 management 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 an expense for the allowance within the tax provision in the condensed consolidated statement of operations. The reversal of a previously established valuation allowance results in a benefit for income taxes.

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

We account for our inventory on a first-in, first-out ("FIFO") basis, and make appropriate adjustments on a quarterly basis to write down the value of inventory to the lower-of-cost or market.

In order to determine what, if any, inventory needs to be written down, we perform a quarterly analysis of obsolete and slow-moving inventory. 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, or market conditions. Those items that are found to have a supply in excess of our estimated demand are considered to be slow-moving or obsolete and the appropriate reserve is made to write down the value of that inventory to its realizable value. These charges are recorded in cost of goods sold. At the point of the loss recognition, a new, lower-cost basis for that inventory is established and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. 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 rapidly 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, 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.

SEASONALITY

Our audio conferencing products revenue has historically been strongest during our second and fourth quarters. 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.

BUSINESS OVERVIEW

We are an audio conferencing products company. We develop, manufacture, market, and service a comprehensive line of audio conferencing products, which range from personal speaker phones to tabletop conferencing phones to professionally installed audio systems. We believe we have a strong history of product innovation and plan to continue to apply our expertise in audio engineering to developing innovative new products. The performance and reliability of our high-quality solutions create a natural communication environment, which saves organizations of all sizes time and money by enabling more effective and efficient communication between geographically separated businesses, employees, and customers.

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DISCUSSION OF OPERATIONS

Results of Operations for the three months ended September 30, 2006 and 2005

The following is a discussion of our results of operations for the three months ended September 30, 2006 and 2005. All items are discussed on a consolidated basis.

The following table sets forth certain items from our unaudited condensed consolidated statements of operations (in thousands) for the three months ended September 30, 2006 and 2005, together with the percentage of total revenue which each such item represents:

	Three Months Ended (in thousands)			
	September 30, 2006	% of Revenue	September 30, 2005	% of Revenue
Product Revenue:	$ 9,411	100.0%	$ 8,778	100.0%
Cost of goods sold:				
Product	4,205	44.7%	3,921	44.7%
Product inventory write-offs	111	1.2%	93	1.1%
Total cost of goods sold	4,316	45.9%	4,014	45.7%
Gross profit	5,095	54.1%	4,764	54.3%
Operating expenses:				
Marketing and selling	1,918	20.4%	1,812	20.6%
General and administrative	809	8.6%	1,771	20.2%
Settlement in shareholders' class action	-	0.0%	(1,205)	-13.7%
Research and product development	2,079	22.1%	1,799	20.5%
Total operating expenses	4,806	51.1%	4,177	47.6%
Operating income (loss)	289	3.1%	587	6.7%
Other income (expense), net:				
Interest income	307	3.3%	159	1.8%
Other, net	25	0.3%	7	0.1%
Total other income (expense), net	332	3.5%	166	1.9%
Income (loss) from continuing operations before income taxes	621	6.6%	753	8.6%
(Provision) benefit from income taxes	19	0.2%	222	2.5%
Income (loss) from continuing operations	640	6.8%	975	11.1%
Discontinued operations:				
Income from discontinued operations	55	0.6%	118	1.3%
Gain on disposal of discontinued operations	3	0.0%	1,496	17.0%
Income tax provision	(21)	-0.2%	(602)	-6.9%
Income from discontinued operations	37	0.4%	1,012	11.5%
Net income	$ 677	7.2%	$ 1,987	22.6%

Three Months Ended September 30, 2006 (“First Quarter of Fiscal 2007”)
Compared to Three Months Ended September 30, 2005 (“First Quarter of Fiscal 2006”)

Revenue

Our revenues were $9.4 million for the three months ended September 30, 2006 compared to revenues of $8.8 million for the three months ended September 30, 2005. Total revenues increased approximately $633,000 or 7%, in the first quarter of fiscal 2006 compared to the same period of 2005. The increase in revenue was due mainly to continued growth in the Company’s professional audio and tabletop conferencing products which increased approximately $679,000. Additionally, the Company realized revenue increases in the first quarter of 2006 over 2005 with other products totaling approximately $106,000. These increases were partially offset by CLRO’s conferencing furniture and premium conferencing products which declined approximately $210,000.

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, estimated channel inventory at quarter-end. During the three months ended September 30, 2006 and 2005, the net change in deferred revenue based on the net movement of inventory in the channel was a net recognition of $622,000 and $207,000in revenue, respectively. Approximately $700,000 of the net (deferral) during fiscal 2006 related to the Company’s customers affected by the RoHS Directive ordering additional product during the fourth quarter of 2006 in anticipation of an inability to get product after June 30, 2006 until the Company’s product lines become compliant with the RoHS Directive.

Total revenues from sales outside of the United States accounted for 26.3% of total revenue for the three months ended September 30, 2006 and 22.3% of total revenue for the three months ended September 30, 2005.

Costs of Goods Sold and Gross Profit

Costs of goods sold (“COGS”) from the product segment 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.

The following table shows our COGS and gross profit together with each item’s amount as a percentage of total revenue:

	Three Months Ended September 30, (in thousands)			
	2006		2005	
		% of Revenue		% of Revenue
Cost of goods sold	$ 4,316	45.9%	$ 4,014	45.7%
Gross profit	$ 5,095	54.1%	$ 4,764	54.3%

COGS increased by $302,000, or 7.5%, to $4.3 million for the three months ended September 30, 2006 compared with $4 million for the three months ended September 30, 2005. The increase in COGS in the first quarter of fiscal 2006 from the same period of 2005 was due primarily to the $633,000 revenue increase discussed above. COGS for the three months ended September 30, 2006 and 2005, included a net decrease of $276,000 and net increase of $76,000 related to the deferral of product revenue from the respective deferral at June 30, 2006 and 2005 related to respective return rights.

Our gross profit from continuing operations was $5.1 million, or 54.1% of revenue, for the three months ended September 30, 2006 compared to $4.8 million, or 54.3% of revenue, for the three months ended September 30, 2005. The gross profit percentages were nearly identically in each comparative period as a result of the net revenue increase being nearly proportional on a product mix basis in each respective period. The sale of our lower margin camera business in August, 2006 had a favorable impact on our gross profit as a percent of revenues.

Operating Expenses

Our operating expenses were $4.8 million for the three months ended September 30, 2006, an increase of $629,000, or 15%, from $4.2 million for the three months ended September, 2005. The increase in the first quarter of fiscal 2006 is primarily related to an increase in research and development and marketing and selling of $280,000 and $106,000, respectfully in addition to the approximately $1.2 million settlement (benefit) in the shareholders' class action realized in the first quarter of fiscal 2005. Each of these increases in the first three months ending September 30, 2006 were offset by a $962,000 decrease in general and administrative expenses. The following is a more detailed discussion of expenses related to marketing and selling, research and product development, general and administrative.

Marketing and selling expenses. Marketing and selling 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 marketing and selling expenses increased $106,000, or 6%, to $1.9 million for the three months ended September 30, 2006 compared with expenses of $1.8 million for the three months ended September 30, 2005. As a percentage of revenues, marketing and selling expenses were about even for each the three months ended September 30, 2006 and 2005.

General and administrative expenses. General and administrative expenses ("G&A") include employee-related costs, professional service fees, litigation costs, including costs associated with the SEC investigation and subsequent litigation, and corporate administrative costs, including finance and human resources. Total G&A expenses decreased $962,000, or 54 percent, to $809,000 for the three months ended September 30, 2006 compared with the three months ended September 30, 2005 expenses of $1.8 million. As a percentage of revenues, G&A expenses were 8.6% for the three months ended September 30, 2006 and 20.2% for the three months ended September 30, 2005. A summary of our general and administrative expenses follows:

	Three Months Ended September 30, (in thousands)	
	2006	2005
Professional fees (SEC investigation and subsequent litigation)	$ 16	$ 267
Professional fees (Other)	134	672
Compensation cost related to SFAS No. 123R	167	229
Other general and administrative expense	492	603
Total G&A from continuing operations	$ 809	$ 1,771

The significant decrease in G&A expenses was due to a $250,000 decrease in SEC investigation and subsequent litigation related professional fees, $538,000 decrease in professional fees, primarily audit fees, and a $62,000 decrease in SFAS No. 123R compensation cost. Additionally, other G&A expenses decreased $111,000 mainly as a result of lower payroll and related expenses

Research and product development expenses. Research and product development expenses include research and development, product line management, and engineering services, and test and application expenses, including employee-related costs, outside services, expensed materials, depreciation, and an allocation of overhead expenses. Total research and product development expenses increased $280,000, or 16%, to $2.1 million for the three months ended September 30, 2006 compared with the three months ended September 30, 2005 expenses of $1.8 million. Research and product development expenses were 22% of revenues for the three months ended September 30, 2006 and 20.5% for the three months ended September 30, 2005. The increase in product development expenses for the three months ended September 30, 2006 from the three months ended September 30, 2005 was due to ongoing research and product development efforts.

Operating income (loss). Despite the $633,000 revenue increase in the first quarter of fiscal 2006, our operating income decreased $298,000, or 51%, to $289,000, from operating income of $587,000 in the first quarter of fiscal 2005. As discussed above, the most significant factors affecting the decrease in operating income were the first quarter of fiscal 2005 settlement in the shareholders' class action benefit of $1.2 million not realized in the same period of 2006, the increase in research and development expenses of $280,000 and marketing and selling of $106,000, offset by the $962,000 decrease in general and administrative expenses.

Other income (expense), net. Other income (expense), net, includes our interest income, interest expense, capital gains, gain (loss) on the disposal of assets, and currency gain (loss). Other income was $332,000 for the three months ended September 30, 2006, an increase of approximately $166,000, or 100% from income of $166,000 for the three months ended September 30, 2005. The increase in other income for the three months ended September 30, 2006 over the same period in fiscal 2005 was primarily due to an increase in interest income associated with our marketable securities.

Income (loss) from continuing operations before income taxes. Income from continuing operations decreased $132,000, or 18% to $621,000 for the three months ended September 30, 2006 compared with income from continuing operations of $753,000 for the same period in 2005. As a percentage of revenues, income from continuing operations was 7% for the three months ended September 30, 2006 and 9% for the three months ended September 30, 2005. We attribute the decrease to the results of operations described above.

Benefit (provision) for income taxes. Benefit from income taxes from continuing operations was $19,000 for the three months ended September 30, 2006 and $222,000 for the three months ended September 30, 2005. The decrease in the benefit is mainly due to the income from discontinued operations during the first quarter of fiscal 2005 being larger than the similar income during the first quarter of fiscal 2006. The Company was able to partially decrease a portion of the valuation allowance against deferred tax assets based upon this income from discontinued operations. Given the Company's history of consecutive years of losses from continuing operations, we followed the guidance of SFAS No. 109, " *Accounting for Income Taxes* ," and recorded a valuation allowance against certain deferred tax assets where it is not considered more likely than not that the deferred tax assets will be realized. As of September 30, 2006 and 2005, we have fully reserved against our net deferred tax assets.

Income from discontinued operations, net of tax. For the first three months ending September 30, 2006 and 2005 we recorded income from discontinued operations, net of tax of $37,000 and $74,000, respectively, related to the sale of our document and educational camera product line to Ken-A-Vision in August, 2006.

We received payments on our OM Video note receivable, net of tax, of $94,000 for the three months ended September 30, 2005 compared to $0 for the same period of 2006.

On August 22, 2005 we entered into a Mutual Release and Waiver with Burk pursuant to which Burk paid us $1.3 million in full satisfaction of the promissory note, which included a discount of $119,000. As part of the Mutual Release and Waiver Agreement, we waived any right to future commission payments from Burk and we granted mutual releases to one another with respect to claims and liabilities. We realized a gain, net of tax, of $844,000 for the three months ended September 30, 2005.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2006, our cash and cash equivalents were approximately $1.7 million and our marketable securities were approximately $20.6 million, which represented an overall increase of approximately $500,000 in our balances from June 30, 2006 which were cash and cash equivalents of approximately $1.2 million and marketable securities of approximately $20.6 million.

Net cash flows provided by operating activities were $56,000 for the three months ended September 30, 2006, a decrease of $524,000, from the net cash flows provided by operating activities of $580,000 for the three months ended September 30, 2005. The year-over-year decrease was attributable mainly to lower net income from continuing operations of $335,000 and a $492,000 decrease in cash provided by discontinued operations, offset by a decrease of $591,000 in cash used changes in working capital, $112,000 lower stock-based compensation and $58,000 lower depreciation and amortization expense.

Net cash flows provided by investing activities were $473,000 for the three months ended September 30, 2006, an increase of $756,000 from the net cash flows (used in) investing activities of ($283,000) for the three months ended September 30, 2005. The change was primarily attributable to a net purchase of marketable securities of $1.2 million partially offset by a decrease in net cash provided by discontinued investing operations of $371,000.

On October 30, 2006, the Company announced a self-tender offer through which it intends to repurchase at a price of $4.25 per share up to 2,353,000 of its shares. If the offer is fully subscribed, the Company's outstanding shares would be reduced by approximately 19% at an aggregate cost of approximately $10 million. The tender offer commenced on November 6, and is scheduled to expire on December 6, 2006, unless extended.

Net cash flows used in financing activities for the three months ended September 30, 2006, were $35,000 primarily related to the repurchase and retirement of common stock. We did not have any net cash flows used in financing activities for the three months ended September 30, 2005.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Contractual Obligations

	Payments Due by Period (in thousands of U.S. Dollars)				
Contractual Obligations	Total	Remainder of Fiscal 2007	Fiscal 2008 and 2009	Fiscal 2010 and 2011	Thereafter
Operating Leases	$ 4,974	$ 584	$ 1,469	$ 1,313	$ 1,608
Total Contractual Cash Obligations	$ 4,974	$ 584	$ 1,469	$ 1,313	$ 1,608

At September 30, 2006, we had open purchase orders related to our contract manufacturers and other contractual obligations of approximately $5.1 million primarily related to inventory purchases.

We have non-cancellable, non-returnable, and long-lead time commitments with our outsourced manufacturers and certain suppliers for inventory components that will be used in production. Our exposure associated with these commitments is approximately $1.6 million. We also have certain commitments with our outsourced manufacturers for raw material inventory that is used in production on an on-going basis. Our exposure associated with this inventory is approximately $700,000.

Through December 31, 2005, all payments due under the note receivable from the sale of OM Video through such date had been received and $854,000 of the promissory note remained outstanding; however, OM Purchaser has failed to make any subsequent, required payments until June 30, 2006 when it paid $50,000. OM Video is in default and we are currently considering our collection options.

Through September 30, 2006, all payments due under the note receivable related to the sale of our document and educational camera product line have been received and $319,000 of the promissory note remained outstanding.

Beginning in January 2003 and continuing through the date of this report, we have incurred significant costs with respect to the defense and settlement of legal proceedings and the audits of our consolidated financial statements. Restatement of fiscal 2002 and fiscal 2001 consolidated financial statements and the fiscal 2004 and fiscal 2003 audits were significantly more complex, time consuming, and expensive than we originally anticipated. The extended time commitment required to complete the restatement of financial information was costly and diverted our resources, as well as had a material effect on our results of operations. We paid $127,000 in fiscal 2006, $2.5 million in fiscal 2005, and $2.5 million in fiscal 2004 in cash to settle the shareholders' class action lawsuit. We have incurred legal fees in the amount of approximately $1.9 million from January 2003 through the date hereof and we have incurred audit and tax fees in the amount of approximately $3.7 million from January 2004 through the date hereof. Although we continue to incur expenses related to these issues in fiscal 2007, we do not anticipate they will be as significant as in prior years.

We did not exercise our five-year renewal option on our existing Company headquarters. On June 5, 2006, we entered into a new 86-month lease for our principal administrative, sales, marketing, customer support, and research and product development facility which will house our headquarters in Salt Lake City, Utah. Under the terms of the new lease we will occupy a 36,279 square-foot facility which will commence in November 2006. We believe the facility will be adequate to meet our needs for the current fiscal year and beyond. On September 20, 2006 we entered into a new 24 month lease for our warehouse. Under the terms of the lease we will occupy approximately 17,000 square-feet of warehousing space which commenced in October 2006. The warehouse will be used to accommodate our product fulfillment and related requirements.

Our principal source of funding for these and other expenses has been cash generated from operations and from the sale of discontinued operations. We believe that our working capital and cash flows from operating activities will be sufficient to satisfy our operating and capital expenditure requirements through fiscal 2007.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk has not changed materially since June 30, 2006.

Item 4. 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 Chief Financial Officer, of the effectiveness and the design and operation of our disclosure controls and procedures as of September 30, 2006.
Based upon this evaluation, our management, including the Chief Executive Officer and the Chief Financial Officer, has concluded that our disclosure controls and procedures were effective as of September 30, 2006.

In our Form 10-K for the fiscal year ending June 30, 2006, we reported and identified a material weakness in our internal controls as described below.

A material weakness is a control deficiency, or combination of control deficiencies, that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected in a timely basis by management or employees in the normal course of performing their assigned functions. As of June 30, 2006 we identified the following material weakness in our internal controls:

- *Ineffective financial statement close process*. We had a material weakness in the timeliness of the monthly close process to effect a timely and accurate financial statement close with the necessary level of review and supervision. Accounting personnel were not able to focus full attention to correcting this weakness due to their focus on the preparation, audit, and issuance for the restated fiscal 2001, restated fiscal 2002, and fiscal 2003, 2004, and 2005 consolidated financial statements as well as the interim fiscal 2006 condensed consolidated financial statements.

There were no changes to any reported financial results that have been released by us in this or any other filings as a result of the above-described material weakness. The following actions were taken in response to the timeliness of the closing process noted above:

- Evaluation of the staffing, organizational structure, systems, policies and procedures, and other reporting processes, to improve the timeliness of closing these accounts and to enhance the timely review and supervision.

These actions, in conjunction with the fact that we are now current with our required filings, has allowed us to timely and accurately close our financial statements on a monthly basis with the necessary level of review and supervision.

Other than as described above, since the evaluation date, 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.

PART II - OTHER INFORMATION

Item 1. 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 as of November 1, 2006 and after discussions with legal counsel, we do not believe any such other proceedings will have a material, adverse effect on our business, results of operations, financial position, or liquidity, except as described below.

The Shareholders' Class Action . On June 30, 2003, a consolidated complaint was filed against the Company, eight present or former officers and directors of the Company, and Ernst & Young LLP ("Ernst & Young"), the Company's former independent public accountants, by a class consisting of purchasers of the Company's common stock during the period from April 17, 2001 through January 15, 2003. The action followed the consolidation of several previously filed class action complaints and the appointment of lead counsel for the class. The allegations in the complaint were essentially the same as those contained in the SEC complaint described above. On December 4, 2003, the Company, on behalf of itself and all other defendants with the exception of Ernst & Young, entered into a settlement agreement with the class pursuant to which the Company agreed to pay the class $5 million and to issue the class 1.2 million shares of its common stock. The cash payment was made in two equal installments, the first on November 10, 2003 and the second on January 14, 2005. On May 23, 2005, the court order was amended to require the Company to pay cash in lieu of stock to those members of the class who would otherwise have been entitled to receive fewer than 100 shares of stock. On September 29, 2005, the Company completed its obligations under the settlement agreement by issuing a total of 1,148,494 shares of the Company's common stock to the plaintiff class, including 228,000 shares previously issued in November 2004, and the Company paid an aggregate of $127,000 in cash in lieu of shares to those members of the class who would otherwise have been entitled to receive an odd-lot number of shares or who resided in states in which there was no exemption available for the issuance of shares. The cash payments were calculated on the basis of $2.46 per share which was equal to the higher of (i) the closing price for the Company's common stock as reported by the Pink Sheets on the business day prior to the date the shares were mailed, or (ii) the average closing price over the five trading days prior to such mailing date.

On a quarterly basis, the Company revalued the un-issued shares to the closing price of the stock on the later of the date the shares were mailed or the last day of the quarter. During fiscal 2006 and 2005, the Company received a benefit of approximately $1.2 million and $2.1 million, respectively, while during fiscal 2004 the Company incurred an expense of approximately $4.1 million related to the revaluation of the 1.2 million shares of the Company's common stock that were issued in November 2004 and September 2005.

The Shareholder Derivative Actions . Between March and August 2003, four shareholder derivative actions were filed by certain shareholders of the Company against various present and past officers and directors of the Company and against Ernst & Young. The complaints asserted allegations similar to those asserted in the SEC complaint and shareholders' class action described above and also alleged that the defendant directors and officers violated their fiduciary duties to the Company by causing or allowing the Company to recognize revenue in violation of GAAP and to issue materially misstated financial statements and that Ernst & Young breached its professional responsibilities to the Company and acted in violation of GAAP by failing to identify or prevent the alleged revenue recognition violations and by issuing unqualified audit opinions with respect to the Company's fiscal 2002 and 2001 financial statements. One of these actions was dismissed without prejudice on June 13, 2003. As to the other three actions, the Company's Board of Directors appointed a special litigation committee of independent directors to evaluate the claims. That committee determined that the maintenance of the derivative proceedings against the individual defendants was not in the best interest of the Company. Accordingly, on December 12, 2003, the Company moved to dismiss those claims. In March 2004, the Company's motions were granted, and the derivative claims were dismissed with prejudice as to all defendants except Ernst & Young. The Company was substituted as the plaintiff in the action and is now pursuing in its own name the claims against Ernst & Young.

The Insurance Coverage Action. On February 9, 2004, the Company and Edward Dallin Bagley, the Chairman of the Board of Directors and a significant shareholder of the Company, jointly filed an action against National Union Fire Insurance Company of Pittsburgh, Pennsylvania ("National Union") and Lumbermens Mutual Insurance Company of Berkeley Heights, New Jersey ("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 the Company's present and former directors and officers in connection with the SEC complaint, the shareholders' class action, 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 has been consolidated into a declaratory relief action filed by one of the insurance carriers on February 6, 2004 against the Company and certain of its current and former directors. In this action, the insurers assert that they are entitled to rescind insurance coverage under our directors and officers liability insurance policies, $3 million of which was provided by National Union and $2 million of which was provided by Lumbermens Mutual, based on alleged misstatements in the Company's insurance applications. In February 2005, the Company entered into a confidential settlement agreement with Lumbermens Mutual pursuant to which the Company and Mr. Bagley received a lump-sum cash amount and the plaintiffs agreed to dismiss their claims against Lumbermens Mutual with prejudice. The cash settlement is held in a segregated account until the claims involving National Union have been resolved, at which time the amounts received in the action will be allocated between the Company and Mr. Bagley. The amount distributed to the Company and Mr. Bagley will be determined based on future negotiations between the Company and Mr. Bagley. The Company cannot currently estimate the amount of the settlement which it will ultimately receive. Upon determining the amount of the settlement which the Company will ultimately receive, the Company will record this as a contingent gain. None of the cash held in the segregated account is recorded as an asset at September 30, 2006. On October 21, 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 the Company and Mr. Bagley. In connection with the summary judgment, the Company has been ordered to pay approximately $59,000 in expenses. However, due to the Lumbermans Mutual cash proceeds discussed above and the appeal to the summary judgment discussed below, this potential liability has not been recorded in the balance sheet as of September 30, 2006. On February 2, 2006, the Company and Mr. Bagley filed an appeal to the summary judgment granted on October 21, 2005 and intend to vigorously pursue the appeal and any follow-up proceedings regarding their claims against National Union, although no assurances can be given that they will be successful. The Company and Mr. Bagley have entered into a Joint Prosecution and Defense Agreement in connection with the action and the Company is paying all litigation expenses except litigation expenses which are solely related to Mr. Bagley's claims in the litigation. The Company has recognized and continues to recognize the expenses incurred related to this action at the dates incurred.

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 Quarterly Report on Form 10-Q, including our September 30, 2006 unaudited condensed consolidated financial statements and related notes.

Risks Relating to Our Business

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

As described in more detail in the section entitled "Competition," in our Annual Report on Form 10-K for the year ended June 30, 2006, 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 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, 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 revenues in 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.

Revenues for any particular time period are difficult to predict with any degree of certainty. We usually ship products within a short time after we receive an order; so consequently, unshipped backlog has not been a good indicator of future revenues. We believe that the current level of backlog will fluctuate dependent in part on our ability to forecast revenue mix and plan our manufacturing accordingly. A significant portion of our customers' orders are received in 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 revenues 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 revenues generated from sales of our audio conferencing products for distance learning and courtroom facilities are dependent 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

New regulations regarding the materials used in manufacturing, the process of disposing of electronic equipment, and the efficient use of energy have emerged in the last few years. The first implementations of these regulations have taken place in Europe and have required significant effort from ClearOne to comply. Other countries and U.S. states are currently considering similar regulations, which could require additional resources and effort from ClearOne to comply.

The European Parliament has published the RoHS Directive, which restricts the use of certain hazardous substances in electrical and electronic equipment beginning July 1, 2006. In order to comply with this directive, it has become necessary to re-design the majority of our products and switch over to components that do not contain the restricted substances, such as lead, mercury, and cadmium. This process involves procurement of the new compliant components, engineering effort to design, develop, test, and validate them, and re-submitting these re-designed products for multiple country emissions, safety, and telephone line interface compliance testing and approvals. This effort has consumed resources and time that would otherwise have been spent on new product development, which will continue until the products have been updated.

To date, we have completed the re-design of our products and begun shipping the majority to the European market. Certain of the re-designed product have yet to launch into the European market although we anticipate that most of these products will be ready for launch during the first half of fiscal 2007. Additionally, certain of our products will not be re-designed. Accordingly, sales into the European market may be negatively impacted and our results of operations could suffer. Our outsourced manufacturers may hold us responsible for the cost of purchased components that have become obsolete as a result of our re-design efforts. To the extent that we cannot manage these potential exposures to our current estimates, our results of operations could be negatively impacted. In addition, because this has essentially become a worldwide issue for all electronics manufacturers who wish to sell into the European market, we have seen increased lead times for compliant components because of the increased demand. This is an issue that is not unique to ClearOne, but also applies to many manufacturers exporting products to the European Union.

The European Parliament has also published the WEEE Directive, which makes producers of certain electrical and electronic equipment financially responsible for collection, reuse, recycling, treatment, and disposal of equipment placed on the European Union market after August 13, 2005. We are currently compliant in terms of the labeling requirements and have finalized the recycling processes with the appropriate entities within Europe. According to our understanding of the directive, distributors of our product are deemed producers and must comply with this directive by contracting with a recycler for the recovery, recycling, and reuse of product.

The California law regarding efficient use of energy goes into effect in July 2007 and will require re-design of power supplies in order to comply. ClearOne has already begun this effort.

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

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 and components, and utilize manufacturing techniques involving new technologies. Potential difficulties in the development process that could be experienced by us include difficulty in:

- 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 revenues could adversely affect our net revenues 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 most 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 revenues and profit margins may be adversely affected.

Reporting of channel inventory by certain 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 certain of our distributors. We use this information along with our judgment and estimates to determine the amount of inventory in the entire channel, for all customers and for all inventory items, 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 depend on an outsourced manufacturing strategy.

In August 2005, we entered into a manufacturing agreement with a manufacturing services provider, to be the exclusive manufacturer of substantially all the products that were previously manufactured at our Salt Lake City, Utah manufacturing facility. This manufacturer is currently the primary manufacturer of many of our products. We also have an agreement with an offshore manufacturer for the manufacture of other product lines. Additionally, in July 2006, we outsourced the manufacturing of our furniture product lines to two manufacturers. If 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 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 substantially all 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 revenues and our results of operations.

Our industry is subject to rapid and frequent 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 thereunder 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 management’s attention, regardless of their merit. 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 sales. 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 distribution partners, strengthening our presence in key growth areas, 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:

- 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;
- 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 might 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.

Our reliance on third-party technology or 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 without requiring collateral to substantially all of our customers. 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 Our Company

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:

- 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;
- the adoption of the new accounting standard, SFAS No. 123R, “Share-Based Payments,” which requires us to record compensation expense for certain options issued before July 1, 2005 and for all options issued or modified after June 30, 2005;
- our ability to report financial information in a timely manner; and
- the markets in which our stock is traded.

We have previously identified material weaknesses in our internal controls.

In our Form 10-K for the fiscal year ending June 30, 2006, we reported and identified a material weakness in our internal controls. Although we believe we have remedied this weakness through the committment 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 service providers 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.

Our directors and officer own a significant percentage of the Company,and may exert significant influence over us.

Our officers and directors together have beneficial ownership of approximately 19 percent of our common stock (including options that are currently exercisable or exercisable within 60 days of October 27, 2006). Further, at the conclusion of our self tender offer discussed in the subsequent events section of this filing could own approximately 23 percent of our common stock. With this significant holding in the aggregate, the officers and directors, acting together, could exert a significant degree of influence over us and may be able to delay or prevent a change in control.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not Applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.

Item 5. OTHER INFORMATION

Not Applicable.

Item 6. EXHIBITS

Exhibit No.	SEC Ref. No.	Title of Document	Location
3.1	3	Articles of Incorporation and amendments thereto	Incorp, by reference[1]
3.2	3	Bylaws	Incorp. by reference[1]
10.1	10	Asset Purchase Agreement between Ken-A-Vision Manufacturing Company and ClearOne Communications, Inc., dated August 30, 2006	This filing
10.2	10	Memorandum of Asset Purchase Agreement between Ken-A-Vision Manufacturing Company and ClearOne Communications, Inc., dated August 30, 2006	This filing
10.3	10	Warehouse Lease Agreement between Alder Construction Company and ClearOne Communications, Inc. dated September 20, 2006	This filing
10.4	10	Settlement Agreement and Release between ClearOne Communications, Inc. and Werner Pekarek dated August 11, 2006*	This filing
31.1	31	Section 302 Certification of Chief Executive Officer	This filing
31.2	31	Section 302 Certification of Chief Financial Officer	This filing
32.1	32	Section 906 Certification of Chief Executive Officer	This filing
32.2	32	Section 906 Certification of Chief Financial Officer	This filing

*Constitutes a management contract or compensatory plan or arrangement.

[1] Incorporated by reference to the Registrant's Form S-3/A filed on November 1, 2002

SIGNATURES

Pursuant to the requirements of the Securities and 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.

November 13, 2006	By:	/s/ Zeynep Hakimoglu Zeynep Hakimoglu President and Chief Executive Officer *(Principal Executive Officer)*
November 13, 2006	By:	/s/ Greg A. LeClaire Greg A. LeClaire Chief Financial Officer *(Principal Financial and Accounting Officer)*

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT ("Agreement") is made as of the Effective Date provided for below between **CLEARONE COMMUNICATIONS, INC.**, a Utah corporation (the "Company"), and **KEN-A-VISION MFG. CO., INC.**, a Missouri corporation (the "Buyer"), who agree as follows:

1. Sale of Assets.

a. Subject to the representations, warranties and agreements of the parties hereto and the terms and conditions herein set forth, the Company agrees that, at the Closing (as herein defined), the Company shall sell, transfer and deliver to the Buyer, for the consideration hereinafter provided, the following assets and property owned by Company and used by it in the conduct, as presently operated, of its Camera Business (as defined in Section 15 below) (excluding, however, the "Excluded Assets" described below) (collectively, the "Assets"):

1. All of the Company's machinery, equipment, tools and other tangible personal property described on Schedule 1.a.1 attached hereto ("Equipment");

2. All of the Company's rights, benefit, interest and obligations (collectively, the "Warranty Obligations") with respect to the warranties ("Warranties") issued by the Company with respect to the Products (as such term is defined immediately below). The obligations of the Buyer with respect to the Warranties are subject to the terms of Section 2.b. below.

3. All of the Company's (i) customer lists, records and files, (ii) production records, (iii) technical drawings, specifications and manuals and other information related to the production of the products ("Product" or "Products") produced and sold as a part of the Camera Business, (iv) marketing plans and reports, (v) supplier and vendor lists, contacts and information (vi) sales records, (vii) pricing sheets, (viii) customer proposals and bids, (ix) records pertaining to product warranty inquiries concerning Warrantied Products (as defined in Section 2.b.i. below) and (x) other pertinent and material sales information and records, insofar as the items referenced in clauses (i) - (x) relate solely to the Camera Business (such items referenced in clauses (i) - (x) being hereinafter collectively referred to as the "Camera Business Records");

4. Subject to Section 1.d below, all of the Company's inventories (raw and finished), work in process and sub-assemblies held for sale, consumption or otherwise used in the operation of the Camera Business, as selected by the Buyer in its sole discretion, provided that there shall be no adjustment to the Purchase Price hereunder in respect of any available inventories not so selected by the Buyer; and

5. All of the Company's computer software utilized solely in the Camera Business ("Software"), including but not limited to, drivers for the Products, and the Intellectual Property, all as listed on Schedule 1.a.5, but subject to the provisions of Section 1.e. below (as so qualified and together with the Software, the "Conveyed Intellectual Property").

b. To avoid doubt, the following assets of the Company (collectively, the "Excluded Assets"), among others, shall be retained by the Company, and are not being sold or assigned to the Buyer hereunder:

1. All corporate names and trade names, trademarks or service marks that are used in connection with any of the Company's businesses other than the Camera Business;

2. All taxpayer and other identification numbers and minute books, stock transfer books, tax returns, corporate seals and all other documents relating to the organization, maintenance and existence of the Company as a corporation;

3. The Company's rights under this Agreement, the agreements to be executed by the Company in connection herewith and any agreements relating to the Camera Business, including any rights with respect to rebates and market development funds under certain agreements between the Company and its customers;

4. All cash and cash equivalents of the Company;

5. The name and mark "ClearOne" and all combinations or derivations thereof;

6. The Company's accounts receivable as of the Closing Date, but including in all events any amount owing on account of Products shipped by the Company prior to Closing or in connection with Open Purchase Orders (as defined in Section 1.d.);

7. Copies of such Camera Business related records as it deems appropriate;

8. Any telephone numbers; and

9. Any websites.

c. The sale of the Assets shall be made free and clear of all liabilities, obligations, security interests, and other encumbrances or liens of any and every kind and nature whatsoever except (i) the Security Interest referenced in Section 2.a.2. below, (ii) the Assumed Liability referenced in Section 2.b. below, (iii) the Permitted Encumbrances, and (iv) Buyer's Assumed Tax Liability (as referenced below).

d. The Buyer acknowledges that the Company, to the extent possible, is depleting raw inventory and finished goods relating to the Camera Business. Accordingly, the Company has been and will be seeking to obtain purchase orders from its customers for the Products up to the date of Closing. In regard to all such purchase orders that are obtained prior to the Closing and not filled as of the Closing ("Open Purchase Orders"), the Buyer agrees that (i) inventory required to fill such purchase orders (but only so much inventory as is so required) will comprise part of the Excluded Assets and will be retained by the Company and not sold to the Buyer, and (ii) inventory on order and in process required to fill such purchase orders will be completed and delivered to the Company. The Company agrees to fill such purchase orders and deliver the Products required thereunder within a commercially reasonable time. If the Company receives a cancellation of an Open Purchase Order subsequent to Closing, the Company shall promptly deliver the Products subject to such Open Purchase Orders to the Buyer F.O.B. Buyer's facility in Raytown, Missouri.

e. The Company shall continue to use its best efforts to obtain the consent of ArcSoft, Inc. ("ArcSoft") to the assignment to the Buyer of the License Agreement (the "ArcSoft Agreement") between the Company and ArcSoft pertaining to the ArcSoft Software (as defined in Schedule 1.a.5. hereto). The Company maintains the position that the ArcSoft Agreement is valid and in force, but has been notified by ArcSoft that ArcSoft considers the agreement to be expired. Buyer acknowledges that the Company may be unable to obtain ArcSoft's consent to the assignment of the ArcSoft Agreement and that ArcSoft may insist that the Buyer enter into a new license agreement with respect to the ArcSoft Software and that, in either case, any rights of the Company to the ArcSoft Software will not comprise part of the Assets being sold and conveyed hereunder.

2. Purchase Price.

a. Payment of Purchase Price. The purchase price which the Buyer shall pay to the Company for the assets to be sold and transferred to the Buyer hereunder ("Purchase Price") shall be Seven Hundred and Fifty Thousand Dollars ($750,000.00), subject to being adjusted as provided in Schedule 2.a attached hereto (the "Price Adjustment"), to be paid as follows, plus the assumption of the Assumed Liability and Buyer's Assumed Tax Liability:

1. Delivery at the Closing of the sum of Three Hundred Seventy-Five Thousand Dollars ($375,000.00), subject to the Price Adjustment, by immediately available funds payable to the Company (the "Down Payment"); and

2. Delivery at the Closing of the Buyer's promissory note (the "Note") in the form attached as Exhibit "A", in the principal amount of Thousand Dollars ($375,000.00), subject to the Price Adjustment, bearing interest at the rate of eight percent (8%) per annum and, subject to the Price Adjustment, payable in twenty-four (24) monthly installments of $16,960.23 to be secured by a first lien security interest in all of the Assets (the "Security Interest"), as provided in that certain Security Agreement in the form attached as Exhibit "B," to also be delivered to the Company at Closing.

b. Assumed Liability.

i. At the Closing, the Buyer will assume and perform the Company's Warranty Obligations under the Warranties issued by the Company with respect to Products sold within two (2) years prior to the Closing Date, along with any Products sold pursuant to Open Purchase Orders (all of which Products are collectively referred to hereinafter as "Warrantied Products"), provided that the cost of such performance (as the term "cost" is referenced below) shall not exceed $100,000 in the 730-day period following the Closing Date, the Company hereby agreeing to be responsible, to pay or reimburse the Buyer and to indemnify and hold the Buyer harmless to the extent that all costs of performing the Company's obligations under the Warranties with respect to the Warrantied Products exceed $100,000 in the 730-day period following the Closing Date (the obligation of the Buyer under this Section 2.b being referred to herein as the "Assumed Liability"). For the absence of doubt, the Company will only reimburse for costs that exceed One Hundred Thousand Dollars ($100,000.00) during the 730-day period, which costs shall be strictly limited to the sum of a) repair costs at the Buyer's normal and customary labor charges and b) reasonable cost of material that need to be purchased subsequent to the Closing Date in order to permit the Buyer to perform the referenced Warranty obligations hereunder. A description of the Company's standard warranty terms is set forth in Schedule 2.b. From the date hereof until Closing, the Company will continue to process warranty claims and inquiries in accordance with its historical practice and in the normal course of its business. At the Closing, the Company will deliver, as part of the Camera Business Records, records pertaining to inquiries received by the Company pertaining to Warrantied Products. Within ten (10) days of the Closing Date, the Company will deliver to the Buyer a list of Warrantied Products sold within the two years prior to and including the Closing Date to which the Warranty provisions of this paragraph shall apply; and so long as any Open Purchase Orders remain to be filled, the Company will update the Buyer on a weekly basis with information pertaining to Products shipped pursuant to such Open Purchase Orders.

ii. The foregoing notwithstanding, to the extent that the cost of the Buyer's performance pursuant to this Section 2.b. in the 365-day period following the Closing Date (see "First Year") exceeds $50,000, the Buyer shall be entitled to set-off such excess against the monthly payments next due to the Company under the Note until the full amount of such excess has been set-off or the First Year shall have elapsed, whichever is the first to occur, and interest shall cease to accrue under the Note with respect to all such amounts so offset onto the end of the First Year. In the event of any such set-off, the unpaid balance of the Note shall be reamortized effective with the thirteenth (13$^{th)}$ monthly payment due thereunder so as to be repaid in full in twelve (12) monthly installments with interest thereon at the rate of eight percent (8%) per annum from and after the first to day the following the end of the First Year.

iii. The Company agrees to use its reasonable best efforts, without spending money or making any binding agreements or commitments, to forward all customer contacts concerning Warranty Obligations to the Buyer. Without limiting the generality of the foregoing, the Company shall use its reasonable best efforts to cause all telephone contacts received by it concerning the Warrantied Products to be forwarded and referred to the Buyer at (800) 627-1953 and shall, within ten (10) business days of Closing, alter its website to include hot links from the sale and warranty sections of the website to the Buyer's website with respect to such Warrantied Products.

c. Assumed Tax Liability. The Company will pay all personal property taxes due and payable with respect to the Assets as of the Closing. At the Closing, the Buyer shall assume and be liable to timely pay the pro-rated portion of personal property taxes not yet due and payable with respect to Assets acquired by it hereunder. All personal property taxes with respect to Assets acquired hereunder shall be pro-rated as of the Closing Date between the Company and the Buyer ("Buyer's Assumed Tax Liability").

d. Allocation of Purchase Price. One Hundred Fifty Thousand Dollars ($150,000.00) of the purchase price for the Assets shall be allocated to the non-compete agreement set forth below and the balance of the purchase price shall be allocated among the Assets in accordance with the Form 8594 attached hereto as Exhibit "C", and the parties will report the same accordingly for tax purposes.

e. Escrow Agreement. Following Closing, if the Buyer reasonably believes in good faith that there has been a misrepresentation or breach of a warranty, agreement or covenant under this Agreement, other than with respect to the warranties ("Product Warranties") set forth in the first sentence of Section 3.e. (a "Breach"), having a Material Adverse Effect (as defined in Section 15.e.), then in addition to all other rights and remedies of the Buyer hereunder, but subject to the terms of Section 12, (i) if the amount of all losses, damages, costs and expenses reasonably anticipated to be incurred by the Buyer as a result of the Breach ("Loss Estimate Amount") is $5000.00 or less, the Buyer shall be entitled, upon written notice to the Company of such Breach (a "Set-Off Notice") to retain and set-off such Loss Estimate Amount (the "Set-Off Remedy") against any of the amounts owed by the Buyer under the Note, provided, however, that if the Breach resulting in a Set-Off Remedy is subsequently cured by the Company, then the Buyer shall promptly pay to the Company any amount by which a Set-Off Remedy amount exceeds any loss, damages, costs or expenses actually incurred by the Buyer with respect to the Breach; and provided further that, upon receipt of a Set-Off Notice, the Company may give written notice that it disputes such Set-Off Remedy ("Dispute Notice"), in which case the Buyer shall pay the relevant Loss Estimate Amount in respect of such Set-Off Remedy into the Escrow Account under the Escrow Agreement; and (ii) if the Loss Estimate Amount is more than $5000.00 (alone or in the aggregate with all prior Loss Estimate Amounts not previously claimed in a Set-Off Remedy under this section), the Buyer may elect to (a) give written notice (an "Escrow Notice") to Company of such Breach and of the amount of the Loss Estimate Amount reasonably anticipated to be incurred by the Buyer as a result of such Breach and (b) thereafter pay into the Escrow Account referenced in the Escrow Agreement attached as Exhibit "D" and to be executed simultaneously herewith, amounts otherwise falling due under the Note, but in no event to exceed the Loss Estimate Amount. Thereafter, any dispute between the parties with respect to any Loss Estimate Amount paid into the Escrow Account shall be resolved as provided in the Escrow Agreement and Section 13 below (collectively, the "Escrow Agreement Remedy"). As to Product Warranties, the Buyer shall be liable, notwithstanding any breach by Company of the first sentence of Section 3.e., or anything herein to the contrary, to honor the Warranties as set forth in Section 2.b., and the Company shall have no further liability in connection therewith except as provided in Section 2.b.

f. The Company shall indemnify and save and hold the Buyer harmless from and against, and shall pay upon demand, any damage, liability, loss, deficiency, settlement, fees, penalties, or expenses (including without limitation, reasonable attorneys' fees and other reasonable costs and expenses incident to any suit, action, proceeding, demand, assessment, judgment, penalty or investigation or defense of any claim) arising out of or resulting from any sales, use, withholding or other taxes other than the Assumed Tax Liability for which the Buyer may have successor liability based on the transaction.

3. Representations and Warranties. The Company represents and warrants as follows:

a. The Company is a corporation duly organized, validly existing and legally operating in the State of Utah and has all requisite power and authority to (1) own its properties, including the Assets; (2) make, execute and perform this Agreement and all documents to be executed in connection herewith; and (3) conduct the Camera Business as and where now being conducted; however, without limiting any other representation or warranty made by the Company in this Agreement, the Company does not hereby make any representation or warranty that it is not in violation of any third-party patents, trade secret or know-how in the production or manufacture of the Products.

b. The execution and delivery of this Agreement and the sale contemplated hereby have been duly authorized by the Company.

c. Except as otherwise described in Section 1.e. and Schedule 3.f, the Company has, and as of the Closing Date will have, good and marketable title to all of its properties and assets which are being sold, transferred, and conveyed hereunder, subject to no mortgage, pledge, lien, encumbrance, security interest, agreement, claim, covenant, easement, restriction, reservation, exceptions or charge, other than with respect to the Assumed Liability, the Security Interest, the Permitted Encumbrances and the Buyer's Assumed Tax Liability.

d. There has been no person employed or retained by the Company, or who is entitled to be paid under any agreement, express or implied, with it, as a finder or broker in connection with the transactions contemplated hereunder, and the Company will indemnify and hold harmless the Buyer from and against any liability for any claim, demand, or payment of any broker's or finder's commission, fee, or expenses in connection with this Agreement claimed under alleged agreement with the Company.

e. Other than with respect to repair or other work the Company is performing arising out of its obligations with respect to Product Warranties, each of the Products has been manufactured, sold or delivered by the Company in conformity with all applicable contractual commitments, all express and implied representations and warranties, all Product literature, all applicable laws, regulations and other governmental requirements, excluding any of the same governing patents, copyrights or trade secrets, and to the Company's Knowledge, all applicable laws, regulations and other governmental requirements governing patents, copyrights or trade secrets. With respect to contractual restrictions, the Products are subject only to the Warranties and the Company's standard terms and conditions of sale. The Company's standard terms and conditions of sale for each of the Products are as set forth in the attached Schedule 3.e.

f. Schedule 1.a.5. sets forth a complete and correct list of the Intellectual Property used or held for use in the Camera Business. Except as set forth in Section 1.e. and in Schedule 3.f. attached hereto, the Company owns and possesses all right, title and interest in and to, or has a valid, enforceable and transferable license to use the Intellectual Property. Except as set forth in Schedule 3.f. attached hereto, no claim by any third party contesting the validity, enforceability, use or ownership of any of the Intellectual Property has been made or is currently outstanding or, to Company's Knowledge, is threatened. Except as set forth in Schedule 3.f. attached hereto, the Company has not received any notices of and is not aware of any facts that indicate a likelihood of any infringement or misappropriation by, or conflict with, any Person with respect to the Intellectual Property, including any demand or request that Company license rights from, or make royalty payments to, any Person. Except as set forth in Schedule 3.f. attached hereto, to the Company's Knowledge, the Company has not infringed, misappropriated or otherwise conflicted with any proprietary rights of any third parties and the Company is not aware of any infringement, misappropriation or conflict that will occur as a result of the continued operation of the Camera Business or the Assets.

g. The Company is in compliance where it engages in the Camera Business, to the extent a failure to comply would have a Material Adverse Effect, with all applicable federal, state, local and international laws, ordinances and regulations relating to the Camera Business and the Assets, including, without limitation all environmental, labor, employment, health and safety and other laws, statutes and regulations, but excluding (i) Intellectual Property laws, rules and regulations which matters are the subject of a separate warranty hereunder, (ii) tax laws, rules and regulations, which matters are the subject of a separate warranty hereunder, (iii) the matters which are the subject of subsection 3.a., and (iv) current or planned ROHS environmental requirements imposed by the European Union. The Company will complete the process of updating existing compliance reports for FlexCam iCam and the DocCam Pro to the following reports: FCC Part 15, Subpart B; ICES-003; EN55022:1998; EN55024:1998; EN61000-3-2; EN61000-3-3; and IEC/EN 60950-1:2001 1st Edition.

h. To the Company's Knowledge and based on its understanding and interpretations of relevant law (the "Tax Qualification"), the Company has filed all tax returns, including, without limitation, estimated tax returns, withholding and quarterly sales/use tax returns required to be filed by it under the laws of the United States, the State of Utah and each other state or jurisdiction in which the Company is required to file tax returns. Subject to the Tax Qualification, the Company has paid and/or deposited all taxes for the periods covered by such returns and all taxes for which the laws of any state or other taxing jurisdiction impose successor liability. The Company's federal and state tax returns have not been audited by the Internal Revenue or any state department of revenue, no agreements are currently in effect by or on behalf of the Company for the extension of time for the assessment of any tax. There are no tax liens, whether imposed by any federal, state or local taxing authority, outstanding against any of the Assets.

4. Representations and Warranties of the Buyer. The Buyer represents and warrants as follows:

a. The Buyer is a corporation duly organized, validly existing and legally operating in the State of Missouri and has all requisite power and authority to make, execute and perform this Agreement and all documents to be executed in connection herewith; furthermore, neither the Buyer nor the Buyer's principals are party to or subject to any non-competition agreement that would preclude or prohibit the Buyer's operation of the Camera Business following Closing.

b. The execution and delivery of this Agreement and the sale contemplated hereby have been duly authorized by the Buyer.

c. There has been no person employed or retained by the Buyer or who is entitled to be paid under any agreement, express or implied, with it, as a finder or broker in connection with the transactions contemplated hereunder, and the Buyer will indemnify and hold harmless the Company from and against any liability for any claim, demand or payment of any broker's or finder's commission, fee or expenses in connection with this Agreement claimed under alleged agreement with the Buyer.

5. <u>Responsibility for Other Party's Liabilities</u>.

a. Except for the Assumed Liability, the Security Interest, the Permitted Encumbrances, the Buyer's Assumed Tax Liability and the Buyer's indemnification obligations hereunder, the Buyer does not have, and will not have after the Closing Date, any liability or responsibility whatsoever for any liability or obligation of any nature, whether accrued, absolute, contingent, or otherwise, including, without limitation, tax deficiencies or other tax liabilities of the Company existing or accrued as of the Closing Date or thereafter arising from any transactions or events which shall have occurred prior to Closing, whether or not disclosed to Buyer, including but not limited to any liability or responsibility for any liability or obligation of any nature arising out of the delivery of any of the Assets being sold hereunder.

b. Except as specifically set forth herein, the Company does not have, and will not have after the Closing Date, any liability or responsibility whatsoever for any liability or obligation of any nature, whether accrued, absolute, contingent, or otherwise, including, without limitation, tax deficiencies or other tax liabilities of the Buyer accruing after Closing, with respect to the Assets being conveyed hereunder. The Buyer furthermore specifically acknowledges that the Company is not assigning any contractual rights hereunder with respect to the Company's Camera Business suppliers, customers, dealers and distributors, and that, except as specifically set forth herein, the Buyer must negotiate its own contracts with any such suppliers, customers, dealers and distributors with respect to the Buyer's operation of the Camera Business following Closing. The Company covenants to use its best efforts to work with the Buyer in transitioning the Camera Business to the Buyer and introducing the Buyer to Company's suppliers, customers, dealers and distributors with respect to the Camera Business. In no event, however, shall the Company be required to expend money or otherwise incur financial obligations in connection with such transition.

c. Without limiting the generality of the foregoing, the Company and the Buyer acknowledge that certain items of inventory comprising part of the Assets being conveyed hereunder have the Company's logo affixed thereto (collectively, the "Logo Products"). With respect to the Logo Products, the Company and the Buyer agree as follows: (i) by conveying the Logo Products, the Company is not conveying a license to the Buyer to use the Company's name or logo, but merely granting the Buyer the right to use and sell the Logo Products in the normal course of the Buyer's operation of the Camera Business following Closing; and (ii) the Buyer agrees to indemnify the Company with respect to any product liability claim that may be brought against the Company as a result of use or sale by the Buyer of the Logo Products following Closing ("Logo Products Indemnity"), except as otherwise provided in Section 2.e. herein.

6. Access, Information and Inspection. The Company shall give to the Buyer and to the Buyer's counsel, accountants and other representatives full access, for review, inspection, and other purposes, during normal business hours throughout the period prior to the Closing Date, to all of the assets, properties, books, contracts, commitments and records, pertaining to the Camera Business, and shall furnish the Buyer during such period with all such information concerning the affairs pertaining to the Camera Business as the Buyer reasonably may request.

7. Transactions Prior to Closing. The Company agrees that, from the date hereof to the Closing Date, it will:

a. Maintain the Assets to be sold, transferred and conveyed which are listed in subsections 1, 4 and 5 of Section 1.a., in the same physical condition as exists as of the Effective Date, reasonable wear and use excepted; provided that the Company shall have no obligation to repair or replace any of such Assets damaged or destroyed by fire or other casualty prior to the Closing. Notwithstanding the foregoing, the Buyer acknowledges that pending Closing, the Company's inventories, work in process and sub-assemblies shall be dealt with by the Company in the ordinary course of business.

b. Use its best efforts without expending money or making any binding agreements or commitments except in the ordinary course of business, to preserve the Company's Camera Business intact, and to preserve its present relationships and goodwill with its suppliers, vendors, customers, and others having business relations with it related to the Camera Business;

c. Perform any and all covenants, terms and conditions of any and all contracts and agreements to which the Company is a party related to the Camera Business, not commit a breach of any such contract or agreement, or amend, modify or terminate any such contract or agreement except in the ordinary course of business;

d. Not engage in any sale, enter into any transaction, contract or commitment, or incur any liability or obligation related to the Camera Business not in the ordinary course of business; and

e. Maintain insurance coverage up to the Closing Date in such amounts and upon such terms as existed as of April 15, 2006.

8. Buyer's Conditions Precedent. The Buyer's obligation to consummate the transactions in this Agreement is subject to the fulfillment prior to or at the Closing of each of the following conditions:

a. The Company shall have delivered to the Buyer possession of the Assets through delivery of the bill of sale and assignment ("Bill of Sale and Assignment") in the form attached as Exhibit "E".

b. The representations and warranties of the Company contained in this Agreement shall be true at and as of the time of Closing as though such representations and warranties were made at and as of such time.

c. The Company shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it prior to or at the Closing.

d. The Buyer shall have executed a contract with each of NeoSCI, Starin Marketing, Review Video Services, Inc., Newcomm Distributing, VSO Marketing, and T2 Supply, LLC, each of which shall be substantially in the form of distributor agreement attached hereto as Exhibit "F," with the Buyer having the rights and obligations of the Company under such form of distributor agreement.

e. There having been no material adverse change in the physical condition of the Assets to be acquired by the Buyer since the Effective Date.

f. The Company shall have provided the Buyer with results of UCC lien searches from all applicable filing offices in the State of Utah showing that no liens or other encumbrances affect the Assets, other than Permitted Encumbrances.

g. No action, suit or proceeding before any court or any governmental or regulatory authority shall have been commenced or threatened, and no investigation by any governmental or regulatory authority shall have been commenced or threatened against the Company seeking to restrain, prevent or change the transactions contemplated hereby or questioning the validity or legality of any of such transactions or seeking damages in connection with any of such transactions.

h. None of the Assets shall have been materially damaged by any casualty.

9. Company's Conditions Precedent. The Company's obligation to consummate the transactions in this Agreement is subject to the fulfillment prior to or at the Closing of each of the following conditions:

a. The Buyer shall have performed and satisfied in all material respects each of its obligations hereunder required to be performed and satisfied by it at or prior to the Closing, each of the representations and warranties of the Buyer contained in this Agreement shall be true at and as of the Closing as though such representations and warranties were made at and as of such time, and the Company shall have received a certificate signed by a duly authorized officer or representative of the Buyer to the foregoing effect.

b. The Buyer shall have delivered to the Company the fully executed original of the Note, the Security Agreement, the Escrow Agreement and any ancillary documents ("Ancillary Documents") required to be delivered therewith or reasonably requested by the Company, and the Buyer shall have tendered payment of the amounts described in Section 2.a. to the Company.

c. No action suit or proceeding before any court or any governmental or regulatory authority shall have been commenced or threatened, and no investigation by any governmental or regulatory authority shall have been commenced or threatened against the Company or the Buyer seeking to restrain, prevent or change the transactions contemplated hereby or questioning the validity or legality of any of such transactions or seeking damages in connection with any of such transactions.

d. The Company shall have obtained the consent of its various dealers and distributors to the modification, upon terms acceptable to the Company, in its sole discretion, of existing agreements between the Company and such dealers and distributors in order to remove products related to the Camera Business from the scope of such agreements.

10. Closing.

a. The closing hereunder (the "Closing") shall take place at the offices of the Parsons Behle & Latimer at 10:00 a.m. on Wednesday, August 30, 2006 (the "Closing Date") and the provisions of Exhibit "G" shall be applicable thereto.

b. At the Closing, the Company shall deliver to the Buyer the following:

i. the Bill of Sale and Assignment;

ii. a certificate stating that all representations and warranties of the Company are true as of the Closing Date and that all conditions precedent or concurrent to Closing this transaction have been completed;

iii. the Camera Business Records;

iv. all other instruments, certificates and documents, with the exception of the Bills of Materials, required to be delivered by the Company prior to or at Closing under this Agreement; and

v. "bills of materials" with respect to the following Assets being conveyed hereunder (in respect of which the Company gives no warranty) ("Bills of Materials"):

(a) a list of finished goods inventory comprising part of the Assets that is on order or in process as at the Closing Date ("Finished Goods WIP"), together with a scheduled delivery date for such items, which list shall be acknowledged by Buyer; following the Closing, the Company shall cause such inventory to be completed and delivered to Buyer, F.O.B. Buyer's facility in Raytown, Missouri;

(b) a list of finished goods inventory comprising part of the Assets that is to be delivered at Closing, which list shall be acknowledged by Buyer; and

(c) a description of the following inventory comprising part of the Assets, which inventory shall be delivered by the Company to the Buyer in connection with Closing: (i) all raw materials inventory comprising part of the Assets, net of the Retained Raw Materials, as provided below; (ii) all work in process inventory comprising part of the Assets, net of the Retained WIP as provided below; and (iii) all sub-assemblies inventory comprising part of the Assets, net of the Retained Sub-assemblies, as provided below.

"Retained Raw Materials" means so much, and only so much, of the raw materials inventory as is required to complete the Finished Goods WIP, provided however, that the parties acknowledge that certain of the Retained Raw Materials is on spools or reels or other means of storage such that it is not reasonably possible to retain only so much thereof as required for the purpose as aforesaid and agree that the same (i) shall be listed at Closing and acknowledged by the Buyer and the Company and (ii) delivered by the Company to the Buyer, F.O.B. Buyer's facility in Raytown, Missouri, within 30 days after the Closing. "Retained WIP" means so much and only so much of the work in process inventory as is required to complete the Finished Goods WIP. "Retained Sub-Assemblies" means so much, and only so much of the sub-assemblies inventory as is required to complete the Finished Goods WIP.

For greater certainty, in connection with the Closing, the Company shall physically deliver to the Buyer the Equipment, the Software and the inventory comprising part of the Assets in accordance with the provisions of this Section 10 and Exhibit G hereto.

c. At the Closing, the Buyer shall deliver to the Company (1) the Down Payment, (2) the Note, Security Agreement and any Ancillary Documents, (3) a certificate of the Buyer stating that all representations and warranties of the Buyer are true as of the Closing Date and that all conditions precedent or concurrent to Closing this transaction have been completed, and (4) all other instruments, certificates and documents required to be delivered by the Buyer prior to or at Closing under this Agreement.

11. Restrictive Covenants.

a. The Company. In consideration of the sum of $150,000.00 as hereinabove set forth, the Company agrees that for the period of five (5) years from the Closing Date (the "Restricted Period") it will not:

i. Directly or indirectly, either individually or as a principal, partner, agent, employee, employer, consultant, stockholder, joint venturer, or investor, or as a director or officer of any corporation or association, or in any other manner or capacity whatsoever, own or engage in a business located anywhere in the world that is directly competitive with any Product or service offered by the Camera Business as of the Closing Date, or advise any such business with respect to the Camera Business. Notwithstanding anything to the contrary in this Section 11, (a) the Company shall not be restricted from being, and shall be entitled to be a passive owner of not more than ten percent (10%) of the outstanding securities of any class of an entity, a component of which is engaged in a business which is competitive with the Camera Business, which entity is publicly traded, provided that the Company does not have any active participation in the business of such entity, (b) the Company shall be entitled to be acquired by, merged or otherwise consolidated or combined with a business or person, a component of which is engaged in a business which is competitive with the Camera Business, so long as the other business or person is not an affiliate of the Company, and (c) the Company shall be entitled to sell other products, not comprising part of the Camera Business, to customers that may be competitive with the Buyer. The term "affiliate" means any person controlling, controlled by, or under common control with any other person. For purposes of this definition, "control" (including "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities or otherwise. In addition to the representations and warranties set forth in Section 3 herein, the Company represents and warrants to the Buyer that as of the Effective Date it is not engaged in any negotiations with any third party to be acquired by, merged or otherwise consolidated or combined with such third party. The completion by the Company of Open Purchase Orders pursuant to Section 1.d shall not constitute a violation of this Section 11.a.

ii. Disclose or divulge any information, techniques, combinations of techniques, methods, systems or production matters (collectively, "Confidential Information") that the Camera Business uses in the conduct of its business constituting a trade secret under Utah law or which could otherwise be reasonably expected to result in economic harm to the Buyer if disclosed and utilized by competitors of the Camera Business, provided that the foregoing shall not apply to Confidential Information which (a) is or becomes generally available to the public other than as a result of disclosure by the Company, or (b) with respect to which disclosure is compelled by law or court order.

b. Buyer. In consideration for the Company's agreement to sell the Assets to the Buyer, the Buyer agrees for itself and for any of its affiliates that it will treat the Company's customer lists constituting part of the Assets ("Customer Lists") as confidential information; further, that it will not, during the Restricted Period, directly or indirectly, either individually or as a principal, partner, member, agent, employee, employer, consultant, stockholder, joint venturer, or investor, or as a director or officer of any corporation, entity or association, or in any other manner or capacity whatsoever, whether through use of the Customer Lists or otherwise, engage in a business that is directly or indirectly competitive with any product or service offered by the Company (excluding the Camera Business) as of the Closing Date that is listed or described in Schedule 11.b. attached hereto (the "Company's Business"). Notwithstanding anything to the contrary in this Section 11.b., (a) the Buyer shall not be restricted from being, and shall be entitled to be a passive owner of not more than ten percent (10%) of the outstanding securities of any class of an entity, a component of which is engaged in a business which is competitive with the Company's Business, which entity is publicly traded, provided that the Buyer does not have any active participation in the business of such entity and provided the Buyer does not provide such entity with the Customer Lists, and (b) the Buyer shall be entitled to be acquired by, merged or otherwise consolidated or combined with a business or person, a component of which is engaged in a business which is competitive with the Company's Business, so long as the other business or person is not an affiliate of the Buyer. The term "affiliate" means any person controlling, controlled by, or under common control with any other person. For purposes of this definition, "control" (including "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities or otherwise.

c. Remedies. Each party recognizes that irreparable damage will result to the other party in the event of the breach of this Section 11 and agrees that, in the event of such a breach, the other party shall be entitled, in addition to any other legal or equitable damages and remedies to which it may be entitled or which may be available, to specific performance with respect to the covenants and agreements of this paragraph and/or an injunction to restrain the violation of the provisions of this paragraph by the other party and/or all other persons acting for or with it. The parties further agrees that in the event that an action is brought for the enforcement of this section, and if the Court shall find on the basis of the evidence introduced in said action that any part of this section is unreasonable either as to time, area or activity covered therein, or violates any statute, judicial decision or other rule of law, then the Court shall make a finding as to what is reasonable or would not violate any such statute, judicial decision or other rule of law and shall enforce this Agreement by judgment or decree to the extent of such finding.

12. Indemnification.

a. Except with respect to the Assumed Liability (subject to the provisions of Section 2.b.) and Buyer's Assumed Tax Liability, the Company shall indemnify and save and hold the Buyer harmless from and against, and shall pay upon demand, any damage, liability, loss, deficiency, settlement, fees, penalties, or expenses (including without limitation, reasonable attorneys' fees and other reasonable costs and expenses incident to any suit, action, proceeding, demand, assessment, judgment, penalty or investigation or defense of any claim) (collectively "Losses") arising out of or resulting from, during the periods indicated below, the following:

i. during the Survival Period (as defined in Section 14.a.), any inaccuracy of any representation or warranty of any of the Company which is contained in or made pursuant to this Agreement, or in any certificate delivered pursuant to this Agreement;

ii. during the Survival Period, the breach by the Company of the performance of any of the covenants or obligations to be performed or observed by the Company pursuant to this Agreement, other than the covenants contained in Section 11 and other than with respect to the Company's obligations under Section 2.b;

iii. during the Restricted Period, the breach by the Company of the covenants contained in Section 11;

iv. during the 730 days following Closing, the breach by the Company of its obligations under Section 2.b;

v. during the Survival Period, noncompliance by the Company with any applicable Bulk Sales Act or any similar federal, state or local statute, rule, or regulation in connection with the transactions contemplated by this Agreement; or

vi. during the Survival Period, the operation of the Camera Business prior to the Closing.

Notwithstanding the foregoing, the Company shall have no indemnity obligation hereunder with respect to any claim of the Buyer for which the Buyer elects the Set-Off Remedy or the Escrow Agreement Remedy permitted under Section 2.e., except to the extent that (a) the Buyer is the prevailing party in any arbitration pursuant to the Escrow Agreement Remedy and (b) the Buyer is unable to fully recompense itself for losses it has suffered, as determined by the arbitrator, through the procedures permitted in the Escrow Agreement. Further, the ability to recover such losses shall in all events be subject to the terms of the penultimate sentence of Section 12.c.

b. The Buyer shall indemnify and save and hold the Company harmless from and against, and shall pay upon demand the Assumed Liability (subject to the provisions of Section 2.b., Buyer's Assumed Tax Liability, any Logo Products Indemnity (as defined in Section 5.c.) and any and all Losses (as defined in Section 12.a.) arising out of or resulting from (i) during the Survival Period, any inaccuracy of any representation or warranty of the Buyer which is contained in or made pursuant to this Agreement, or in any certificate delivered pursuant to this Agreement, (ii) during the term of the Note, the Buyer's breach of any covenants or obligations to be performed or observed by the Buyer pursuant to this Agreement, other than the covenants contained in Section 11, or the Security Agreement, (iii) the breach during the Restricted Period of the covenants contained in Section 11, and (iv) the operation of the Buyer's business after the Closing. A party entitled to indemnification hereunder shall only be entitled to indemnification after the aggregate amount of Losses with respect thereto exceeds fifteen thousand dollars ($15,000), at which point the indemnified party shall be entitled to recover the entire amount of such Losses from the first dollar (including the first fifteen thousand dollars ($15,000)). Further, subject to the last sentence of subsection 12.b., other than in respect of claims arising out of fraud, criminal conduct or a breach of the covenants contained in Section 11 (collectively, the "Exceptions"), in which case the Company and the Buyer shall have all remedies available at law or in equity, the Company's and the Buyer's sole remedy hereunder or at law for any Loss shall be to seek indemnification pursuant to this Section 12. Other than in respect of claims arising out of the Exceptions or which are attributable to the Company's negligent misrepresentations herein, no party hereunder shall be liable to pay any other party in connection with any claim for indemnification pursuant to this Section 12 for an amount in excess of (a) $750,000, plus (b) in the event of arbitration or litigation, the prevailing party's reasonable costs and attorney's fees, plus (c) with respect to any claim of the Company under the Note, any interest accruing on the principal due thereunder. Notwithstanding the foregoing, the Buyer may seek the Escrow Agreement Remedy, as provided in Section 2.e. and 12.a. above. In the event of a claim attributable to the Company's negligent misrepresentations, its liability shall not exceed $1,000,000 plus, in the event of arbitration or litigation, the Buyer's reasonable attorney's fees and costs.

c. Upon the receipt by a party of any notice of the commencement of any action, suit or proceeding, the assertion of any claim, or the notice of any event or the suffering or incurring of any Losses with respect to which such party may be entitled to claim indemnification here under (an "Indemnifiable Loss") (whether or not any Loss has then been incurred), the party seeking indemnification (the "Indemnified Party") shall promptly give written notice to any party from whom indemnification is sought (the "Indemnifying Party") describing to the extent reasonably possible the basis of such claim for indemnification, the amount thereof, and the method of computing such Indemnifiable Losses. The failure of the Indemnified Party to give prompt written notice shall not discharge the Indemnifying Party of its obligations hereunder except to the extent that the Indemnifying Party is prejudiced by reason of the failure of the Indemnified Party to give prompt notice.

d. The Indemnifying Party shall have the right to conduct and control, through counsel of its choosing, any third party claim, action, suit, or proceeding, except that (1) the Indemnifying Party shall permit the Indemnified Party to participate in the defense of any such claim, action, suit, or proceeding through counsel chosen by the Indemnified Party, provided that the fees and expenses of such counsel shall be borne by the Indemnified Party; and (2) if the Indemnified Party refuses to consent to a compromise or settlement approved by the Indemnifying Party, the Indemnifying Party's liability for Indemnifiable Losses shall not exceed the amount for which the claim, action, suit, or proceeding could have been so settled plus indemnifiable expenses incurred by the Indemnified Party up to the date of such refusal.

e. The Indemnified Party shall cooperate with the Indemnifying Party in the preparation for and prosecution of the defense of any claim, action, suit, or proceeding, including, without limitation, making available evidence within the control of the Indemnified Party and persons needed as witnesses who are employed by the Indemnified Party, in each case as reasonably needed for such defense, at cost, which costs, to the extent reasonably incurred, shall be paid by the Indemnifying Party.

f. In the event that the Indemnifying Party shall be obligated to indemnify the Indemnified Party hereunder, the Indemnifying Party shall, upon payment of such indemnity, be subrogated to all rights of the Indemnified Party with respect to claims to which such indemnification relates. The rights of the parties to injunctive and equitable relief and to relief under this paragraph hereof shall be cumulative and not exclusive of each other.

13. Dispute Resolution.

a. Agreement to Arbitrate. Except as may be specifically provided elsewhere in this Agreement, in the event of any dispute, claim, question, or disagreement arising out of or relating to the Agreement or the breach thereof, including the Security Agreement and the Note, the parties hereby agree that upon notice by either party to the other (the "Arbitration Notice"), such dispute, claim, question, or disagreement shall be finally settled by binding arbitration before a single arbitrator in accordance with the provisions of the Commercial Arbitration Rules (the "Arbitration Rules") of the American Arbitration Association ("AAA"). The Arbitration Notice delivered pursuant to this subsection (a) shall contain a detailed statement of the claim(s), including a description of the factual contentions which support said claim(s).

b. Selection of Arbitrator. The parties shall, by joint agreement, select a single arbitrator, but if they do not agree on the selection of an arbitrator within twenty (20) days after the date that the Arbitration Notice was received by the non-sending party, then selection shall be made in accordance with the Arbitration Rules.

c. Place of Arbitration. The arbitration shall be held in Salt Lake City, Utah, or such other place as the parties shall mutually agree.

d. Expedited Procedures. The parties agree that any claims that are submitted to arbitration pursuant to the provisions of this Section 13, and which seek, in the aggregate, damages or payment of Seventy-Five Thousand Dollars ($75,000) or less, shall be resolved through the application of the AAA's Expedited Procedures for commercial cases.

e. Interim Relief. Either party may, without inconsistency with this Agreement, seek from a court any interim or provisional relief that may be necessary to protect the rights or property of that party pending the selection of the arbitrator or pending the arbitrator's determination of the merits of the controversy.

f. Award. The arbitrator shall issue a written decision setting forth findings of fact and conclusions of law, and, if agreed upon by the parties, the arbitrator shall issue such written decision within thirty (30) days of the close of the hearing.

g. Enforcement of Arbitrator's Decision. Judgment on the award of the arbitrator may be entered in any court having jurisdiction over the party against which enforcement of the award is being sought.

14. General.

a. All of the representations and warranties of the respective parties hereto, as contained herein, shall survive Closing for the following periods (respectively, the "Survival Period"), notwithstanding any investigations heretofore or hereafter made by or on behalf of either of the parties hereto: (i) with respect to all representations and warranties other than that set forth in Section 3.h, eighteen (18) months; and (ii) with respect to the representation and warranty set forth in Section 3.h, until the thirtieth (30^{th}) day after expiration of the applicable statute of limitations.

b. This Agreement, the Note, the Security Agreement, the Bill of Sale, the Assignment and the Escrow Agreement, when executed, constitute the entire agreement among the parties hereto and supersedes all prior and contemporaneous agreements and understandings between them pertaining to the subject matter hereof.

c. Any of the provisions of this Agreement may be waived in writing at any time by the party which is entitled to the benefit hereof. The provisions of this Agreement may only be amended by written agreement of the parties hereof.

d. Whether or not the transactions contemplated by this Agreement are consummated, the Company and the Buyer each shall pay its own fees and expenses incident to the negotiation, preparation, execution and performance of this Agreement, including the fees and expenses of their attorneys and accountants.

e. Any notice which either party hereto may desire or may be required hereunder to give to the other party shall be in writing and shall be deemed to be duly given when mailed by registered or certified mail, postage prepaid, or delivered by reputable overnight messenger service addressed in case of a matter to the Company as follows:

1825 Research Way
Salt Lake City, Utah 84119
Attn: Zee Hakimoglu

With a mandatory copy to:

Geoffrey W. Mangum
Parsons Behle & Latimer
201 South Main Street
Salt Lake City, Utah 84111

and in the case of a notice to the Buyer to:

5615 Raytown Road
Raytown, Missouri 64133
Attn: Steven M. Dunn

or to such other address as either party or their counsel hereinafter may designate to the other party by written notice given in accordance with this subparagraph (e).

f. The headings of the paragraphs and Schedules of this Agreement are inserted for convenience only and do not constitute a part thereof.

g. This Agreement and all the provisions hereof shall be binding upon and shall inure to the benefit of, and be enforceable by, the parties hereto and their respective heirs, successors and assigns. No assignment by the Buyer shall relieve the Buyer of its obligations hereunder.

h. This Agreement is being delivered in the State of Missouri, and shall be construed and enforced in accordance with the laws of such state.

i. The parties agree to continue to be bound by and to abide by the terms of that certain Non-Disclosure Agreement dated January 11, 2006 executed by the Buyer and the Company. In addition, the parties agree to hold the existence and terms and conditions of this Agreement in strict confidence and not to disclose the same to any other party other than the Buyer's lender (s), legal counsel and other advisors), except as may otherwise be required by law, including with respect to filings with the U.S. Securities and Exchange Commission or as may be required by the rules and regulations of any applicable stock exchange. As to any such disclosure required by law, the Company agrees to provide the Buyer with prior notice that such a disclosure is being made (without being required to advise the Buyer of the content thereof) and the opportunity to review and correct any information therein concerning the Buyer.

j. On behalf of itself and its successors and assigns, the Buyer hereby promises and covenants not to sue the Company or its successors and assigns for any use of any of the Intellectual Property (except for any trademarks, service marks, trade dress, logos, trade names, URL domain names and corporate names) in any field outside of Camera Business unless such activity by Company is a violation of the Restrictive Covenants of Section 11 above. This is referred to as the "Covenant Not to Sue". The Covenant Not to Sue shall include an obligation on behalf of the Buyer not to sue for or pursue any claims, demands, obligations, liabilities, indebtedness, breaches of duty or any relationship, acts, omissions, misfeasance, causes of action, sums of money, accounts, controversies, promises, damages, costs, losses and expenses of every type, kind, nature, description or character.

15. Certain Definitions. The following terms, as used in this Agreement, have the following meanings:

a. "Buyer's Knowledge" shall mean the actual knowledge of Steven M. Dunn .

b. "Camera Business" shall mean the Company's document and educational camera manufacturing and sales business as presently carried on by it.

c. "The Company's Knowledge" shall mean the actual knowledge of Zee Hakimoglu, Craig Peeples and Tracy Bathurst.

d. "Intellectual Property" shall mean all of the following owned by or issued or licensed to or by Company and used or held for use primarily in connection with the Camera Business:

i. All inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereto and all patents, patent applications and patent disclosures, together with all reissuances, continuations, continuations—in—part, revisions, extensions and reexaminations thereof;

ii. All trademarks, service marks, trade dress, logos, trade names, URL domain names and corporate names, together with all translations, adaptations, derivations and combinations thereof and including all goodwill associated therewith, and all applications, registrations and renewals in connection therewith;

iii. All copyrights and all applications, registrations and renewals in connection therewith; and

iv. All trade secrets and confidential business information (including ideas, research and development, know-how, formulas, compositions, technical data, specifications, pricing and cost information, and business and marketing plans and proposals).

e. "Material Adverse Effect" shall mean a material adverse effect on, or a material adverse change in, the operations, affairs, prospects, conditions (financial or otherwise), results of operations, assets, liabilities, reserves or any other aspect of the Camera Business or the Assets.

f. <u>“Permitted Encumbrances”</u> shall mean liens for personal property taxes, assessments and governmental charges with respect to the Assets not yet due and payable.

g. <u>“Person”</u> shall mean any individual, corporation, partnership, limited liability company, association, trust or other entity or organization.

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IN WITNESS WHEREOF, the parties hereto have caused this Asset Purchase Agreement to be duly executed on the dates set forth below, the latter of such dates being the "Effective Date" of this Agreement.

"Buyer"	"Company"
KEN-A-VISION MFG. CO., INC.	CLEARONE COMMUNICATIONS, INC.
By: /s/Steven M. Dunn Steven M. Dunn, President	By:/s/Zee Hakimoglu Name: Zeynep Hakimoglu Title: President & CEO
Date:August 7, 2006	Date: August 23, 2006

EXHIBIT 10.2

MEMORANDUM OF AGREEMENT

This Memorandum of Agreement is dated the 30th day of August, 2006 and is entered into between **CLEARONE COMMUNICATIONS, INC.**, a Utah corporation (the "Company"), and **KEN-A-VISION MFG. CO., INC.**, a Missouri corporation (the "Buyer"), who agree as follows:

WHEREAS, the Company and the Buyer have entered into that certain Asset Purchase Agreement dated August 23, 2006 (the "APA"); and

WHEREAS, a dispute has arisen at the Closing contemplated in the APA as to the amount of the Purchase Price (as defined in the APA); and

WHEREAS, the Company and the Buyer wish to amend certain provisions of the APA as described below, capitalized terms not otherwise defined herein having the meanings ascribed thereto in the APA.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by each of the Company and the Buyer; the parties hereto agree as follows:

1. <u>Adjustment in Purchase Price.</u> The APA is hereby amended to change the Purchase price to $635,000.

2. <u>The Down Payment.</u> The APA is hereby amended to change the amount of the Down Payment to $317,500.

3. <u>The Note.</u> The APA is hereby amended to change the amount of the Note to $317,500, to change the amount of the monthly payment under the Note to $14,360.00 and the date of the first payment due under the Note is changed to October 1, 2006.

4. <u>Waiver of Conditions.</u> Buyer waives the assignment to Buyer of the NeoSci agreement and the T2 supply agreement. Furthermore, each party hereto agrees to cooperate in the preparation and delivery following Closing of a Form 8594 in respect of the sale and. purchase of the Assets.

5. The APA remains unamended except as set forth above.

IN WITNESS WHEREOF, the Company and the Buyer have each executed this Memorandum of Agreement this 30th day of August, 2006.

CLEARONE COMMUNICATIONS, INC.	KEN-A-VISION MFG. CO., INC.
Per: <u>/s/ Craig E. Peeples</u>	Per: <u>/s/ Steven M. Dunn</u>

EXHIBIT 10.3

LEASE AGREEMENT

This Lease made and entered into this ___ Day of SEPTEMBER, 2006 by and between ALDER CONSTRUCTION COMPANY, hereinafter referred to as Lessor, and CLEAR ONE INC hereinafter referred to as Lessee.

WITNESSETH:

Whereas Lessor desires to let and the Lessee desired to take and occupy those certain premises in Salt Lake County; State of Utah known as:

2740 W California Ave Suite#5
SLC UT 84104
Consisting of:
15,635 Sq. Ft. of Warehouse plus 1,420 Sq. Ft. of Office w/mezzanine above.

Lessor grants to Lessee an option to extend the lease for 2 years at $7,500.00/month.

Lessor agrees to warrant that all functions of the facility (i.e. power, light fixtures, HVAC system, unit heaters, etc.) are in proper working condition for one (1) year.

Lessor will sweep clean the warehouse and clean the office windows inside and outside.

Rent commences on December 1, 2006. September thru November Rent will be free to offset move in costs.

Security Deposit of $7,000.00 is due upon signing of lease agreement and is never to be considered as last months rent.

TERMS:

The parties hereby covenant and agree that this lease will become effective: **September 15, 2006 and continue for a period of 37 months through October 15, 2009. Tenant may cancel this lease after 18 months if Lessor receives a prior 6 months written notice. Lessor will keep the security deposit if this clause is exercised.**

RENTAL:

Lessee shall pay to Lessor, or its order, in Salt Lake City, Utah $7,000.00* per month, in Advance for each month. Payments received after the fifteenth day of the month shall include a 5% late charge. ***Year 2 is $7150.00/month & year 3 is $7300.00/month**

USE OF PREMISES:

It is understood and agreed that the premises herein let shall be used by the Lessee for the operation and conduct of warehouse and office use and any other lawful related respective interests are concerned, that business shall be conducted in accordance with all laws, rules, regulations, requirements and ordinances enacted or imposed by any governmental unit having jurisdiction over Tenant or Tenants' business and only for the Permitted Use. Tenant shall not use or occupy the Lease premises nor permit the use or occupancy for any unlawful use or purpose.

a) During the term of this Lease including all renewals or extensions thereto, both Landlord and Tenant agree to comply with all federal, state and local statutes, regulations, executive orders and ordinances concerned with the emission, spill, release, discharge or disposal of any hazardous or solid waste treatment, storage or disposal system servicing the Lease Premises (collectively Environmental Law") respectively applicable to each.

b) Landlord represents and warrants to Tenant that (1) it has not received any notice of any alleged violation of the Leased Premises of any Environmental Laws; and (2) to the best of Landlords' knowledge, information and belief with respect to the Leased Premises and the Building, there are no violation of any Environmental Laws, Landlord and Tenant shall promptly notify the other of any discussions between it or its agents, employees or attorneys and any federal, state or local officials concerning any alleged violation at the Leased Premises or the Building of any Environmental Laws.

c) In event either Landlord or Tenant fails to comply with any Environmental Laws applicable to it, or with any order or judgment issued against it for failure to comply with such right, but not the obligation, to enter the Leased Premises and take such actions as deemed reasonably necessary to comply with any statute, regulation, executive order, ordinance, order or judgment or protect the Leased Premises; provided, however, neither Landlord nor Tenant shall have the right to take any actions specified in this Section while the alleged violator is involved in good faith negotiations with any federal, state or local officials concerning any environmental obligation it may have at the Lease Premise.

d) Nothing in this Section shall be used to prevent Tenant from storing on or about, and transporting from the Lease Premises any Hazardous Substance utilized by Tenant in the conduct of its normal business activity. As used in this Section, "hazardous substance" shall be defined as any Environmental Response, Compensation and Liability Act, as amended, 42 W.S.C. Section 9601,et. Seq.; the Resource Conservation and Recovery Act, as amended 42U.S.C. Section 9601,et. Seq.; The Federal Water Pollution Control Act, as amended 33 U.S.C. Section 1251, et. Seq.; The Federal Air Pollution Prevention and Control Act (the "Clean Air Act"), as amended 42 U.S.C. Section 7410 et. Seq.; any rules or regulations promulgated thereunder; or any other applicable federal, state or local statute, regulation or commercial product which through its use becomes a hazardous substance.

e) Landlord and Tenant each agree to indemnify and hold harmless the other from and against any all liabilities, damages, judgments, causes of action, claims and expenses which may be incurred by Landlord or Tenant, as the case may be, relating to or arising out of any breach of the covenants set forth in the subsections (a) through (e) hereof.

UTILITIES:

Lessor **shall not** (shall, shall not) pay for Electric Power and Natural Gas Service. Lessor **shall** (shall, shall not) pay for Building Water and Sewer Charges.

TAXES:

Lessor **shall** (shall, shall not) be responsible for and pay all real property taxes presently levied upon said building. Lessee shall be responsible for any increases in property taxes assessed after **2006 Pro-Rated Basis**. Lessee shall be responsible for taxes levied upon the business and for any taxes levied upon personal property in or upon said premises belonging to Lessee.

MAINTENANCE:

Lessee shall promptly make all repairs necessary to maintain the premises and building in as good order and repair as when delivered to it. Allowing for reasonable use; provided that exterior and structural repairs and repairs to the roof, and skylights, repairs to asphalt parking and drives, repairs to all mechanical, electrical, and plumbing distribution components of the building, damage by fire, the elements, casualty or other cause or happening not due to the negligence of the Lessee shall be made by the Lessor. Lessee is responsible for and agrees to pay for any damage caused by the acts of its agents, customers, or employees.

Lessee (Lessor, Lessee) shall be responsible for janitorial and cleaning services, interior maintenance, and waste removal. Lessee agrees to promptly replace all broken window glass in the premises with like grade and quality, and shall remove snow and ice from the sidewalk in front of the premises. Lessor **shall** (shall, shall not) clear snow from parking lot area. Lessee or its agents will remove litter from parking lot and landscaped area. Routine maintenance and repair of heating and air conditioning, including bi-annual service checks and normal change of furnace filters, shall be the responsibility and be done at the cost of the **Lessee** (Lessor, Lessee). Lessee shall maintain a preventive maintenance contract to service the HVAC system including all evaporative cooling units, if any, on a bi-annual basis. Lessor will pay and assume all costs of major repairs in excess of Five Hundred Dollars ($500.00) per repair, and costs of replacement for HVAC equipment only.

Lessee agrees to leave the premises in “as delivered” condition upon vacating the facility at the conclusion of the lease; normal wear and tear excepted. “Reasonable use” does not included nail holes in walls, or damage to sheetrock walls or doors. Lessee agrees to clean the premises upon vacating and remove all accumulated dirt and debris from the Leased premises and site, and remove and or repair any racking fasteners and damage caused to the warehouse floor and walls.

Lessor does not agree to repair damage caused by Lessee in excess of its reasonable use of the premises.

ALTERATIONS AND IMPROVEMENTS:

No alterations, changes in, or improvements shall be made to the premises by Lessee without the prior consent of the Lessor thereto, which consent shall not be unreasonably withheld, conditioned or delayed.

The Lessor shall be responsible for improvements to the building or premises to comply with future building codes or legislation imposed against said facility. Lessee shall be responsible for their specific use of the facility and for accommodations required for their specific use of the facility and accommodations required for their customers or employees.

KEY:

Any changes of keys for their suite must be made only after notice and approval of Lessor. Changes made without Lessor approval will be re-keyed at Lessees expense. Lessee agrees to provide Lessor with two (2) copies of key for any lock re-keyed.

INSURANCE:

Lessor will carry fire insurance on the building, including insurance for glass damage caused by fire at Lessors' expense. Lessee is required to carry fire insurance on contents and also third party liability insurance to protect and save harmless Lessor from any and all liability arising from conduct of Lessees' business. Lessor is not responsible for fire rules, regulations and requirements of the Board of Fire Underwriters.

The Lessor and Lessee hereby waive any rights each may have against the other on account of any loss or damage covered by fire and extended coverage insurance and the Lessor and Lessee each, on behalf of their insurance companies, waive any right of subrogation that they may have against the Lessor or the Lessee. Lessee shall be responsible for any increase in the Lessors insurance cost incurred after 2006 and for the total cost of any additional insurance requested by the Lessee.

Increase in risk. The Tenant shall not do or permit to be done any act or thing as a result of which (1) Any policy of insurance of any kind covering either any or all of the Property or covering the Landlord may become void or suspended, or (2) the insurance risk under any such policy would (in the opinion of the insurer thereunder) be made greater. The Tenant shall pay as Additional Rent the amount of any increase in any premium for such insurance resulting from any breach of such covenant, within fifteen (15) days after the Landlord notifies the Tenant in writing of such increase.

The Tenant shall maintain at its expense, throughout the term, insurance against loss or liability in connection with bodily injury, death, property damage or destruction, occurring within the premises or arising out of the use thereof by the Tenant or its agents, employees, officers, subtenants, invitees, visitors and guests, under one or more policies of Commercial General Liability insurance having a combined single limit of not less than One Million Dollars ($1,000,000) per occurrence; Two Million Dollars ($2,000,000) aggregate, (which limit if such policy is carried on a "blanket" basis, shall be written on a per location basis).

Each such policy shall (a) name as additional insured with respect to this Lease only thereunder the Landlord and the Landlords' directors, officers, agents, and employees (b) by its terms, be considered primary and non-contributory with respect to any other insurance carried by the Landlord or its successors and assigns, (c) by its terms, be cancelable only on at least thirty (30) days prior written notice to the Landlord (and, at the Landlords request, any such Senior Holder), and (d) be issued by an insurer of recognized responsibility licensed to issue such policy in the state which the property is located.

The Tenant, at its sole cost and expense, shall also maintain throughout the Term a policy insuring against damage to or destruction of the Tenant's leasehold improvements, furniture, fixtures, equipment and other personal property installed in or otherwise located on the premises.

At least five (5) days before the Commencement Date, the Tenant shall deliver to the Landlord an original or a signed duplicate copy of each policy of insurance required to be maintained by the Tenant hereunder (certificate evidencing such insurance), and at least ten (10) days before any such policy expires, the Tenant shall deliver to the Landlord an original or a signed duplicate copy of a replacement policy therefore (or a certificate evidencing such replacement). Pursuant to the above, if a certificate only is presented, the Landlord retains the right to request and obtain copy of such policy.

Insurance to be maintained by Landlord. The Landlord shall maintain throughout the term, All-Risk or Fire and Extended Coverage Insurance upon the building in such amounts and with such insurers as the Landlord may elect in its reasonable judgment.

Waiver of subrogation. If either party hereto is entitled to be paid any proceeds under any policy or insurance naming such party as an insured, on account of any loss or damage, (or would be so entitled if such party had maintained the insurance coverage it agrees to maintain under this Lease, whether or not so maintained) then such party hereby releases the other party hereto, to and only to the extent of the amount of such proceeds, from any and all liability for such loss or damage, notwithstanding that such loss, damage or liability may arise out of the negligent or intentionally tortuous act or omission of the other party, its agents or employees/

Liability of parties. Except if and to the extent that such party is released from liability to the other party hereto pursuant to the provisions of the previous paragraph.

The Landlord (a) shall be responsible for, and shall defend, indemnify and hold harmless the Tenant against and from any and all liability or claim of liability arising out of, any injury to or death of any person or damage to any property, occurring anywhere upon the property, if, and only if and to the extent that such injury to or death of any person or damage is caused solely by the grossly negligent or intentionally tortuous act or omission of the Landlord or its agents, officers or employees, but (b) shall not be responsible for or be obligated to defend, indemnify or hold harmless the Tenant against or from any liability for any such injury, death or damage occurring anywhere upon the property (including the Premises), (1) by reason of the Tenants occupancy or use of the Premises or any other portion of the property, or (2) because of fire, windstorm, act of God or other cause unless caused by such grossly negligent or intentionally tortuous act or omission of the Landlord; and excluding those situations in which the Landlord is obligated to indemnify and hold harmless the Tenant under the provisions previously stated in this paragraph, the Tenant shall be responsible for, and shall defend, indemnify and hold harmless the Landlord against and from any and all liability, or claim of liability arising out of (a) the use or occupancy of, or the conduct, operation or management of the Tenants business in, the Premises during the Term, or (b) any breach or default by the Tenant in performing any of its obligations under the provisions of this Lease or applicable law, or (c) any negligent, intentionally tortuous or other act of omission of the Tenant or any of its agents, contractors, servants, employees, subtenants, licensees or invitees during the Term, or (d) any injury to or death of any person or damage to any property occurring on the Premises during the Term.

ABATEMENT OF RENT:

If said building, or any portion thereof, shall be damaged or destroyed by fire, rendering said leased portion reasonably unfit for use by Lessee, or if same is damaged to such extent by other elements or acts of God so that same cannot be repaired within ninety (90) days from the date of damage or destruction, then either party may cancel this agreement by giving written notice of cancellation, said cancellation to be effective from date of such damage or destruction. In the event any such damage or destruction can be repaired or replaced within the ninety-day period, Lessor shall promptly proceed to repair or replace same. Lessee’s rental and other herein specified charges to be paid to Lessor should permanently be abated during the period of replacement or repair. However, in the event Lessee deems a part of its premises to be reasonably usable for the conduct of its business, such abatement shall be proportional to the usable portion of the premises. It is understood that if any of said repair or replacement can be made within a ninety (90) day period and Lessor shall fail to commence said repair or replacement by thirty (30) days after such damage or destruction, the Lessee may commence and finish such replacement or repair and pay for same and apply such reasonable sum so paid as advance rental hereunder.

DEFAULT AND ABANDONMENT:

In the event of failure of payment of monthly rental herein reserved within the time specified, or failure to keep or perform any other covenants or agreements, after 15 days written notice to Lessee from Lessor, Lessor may re-inter and proceed with such legal remedies as it may desire, given it under the terms of this agreement Lessor may at its option make every reasonable effort to re-let the same for the best rent obtainable. If the total amount received by Lessor from such re-letting, after deducting the expenses of re-letting and necessary repairs does not equal or exceed the unpaid balance of the rent herein provided for, Lessee shall pay as damages all such deficiency, or Lessor may at its option, declare this agreement void and terminated. Lessor reserves and is accorded same rights in the event of abandonment by Lessee.

It is agreed however, that prior to the exercise by Lessor of any of its rights or remedies given for breach of this agreement, except failure to pay rental sums when due or within the provided grace period, the Lessor will, in writing, specify the breach complained of and accord to Lessee fifteen (15) days from date of notice to cure or rectified this agreement shall not be deemed in default.

OPTION TO RENEW:

Lessor hereby grants unto Lessee the first right and option to renew this agreement at the end of the term herein specified, subject to renegotiating of rent. Lessee shall notify Lessor in writing of its intention to renew or not to renew; said notice to be mailed ninety (90) days prior to expiration date, and a renewal lease shall be negotiated to become effective upon the expiration of this lease.

HOLDING OVER:

Unless Lessor and Lessee otherwise agree in writing, any holdover by Lessee after the expiration of this lease, or any written extension, shall constitute a tenancy from month to month. The lease rate during the hold over period will be at the then current rate, as determined by Lessor with sufficient information from commercial real estate agency, and in accordance with the terms and conditions of this lease.

SUB-LEASE:

Lessee shall not sub-lease or transfer any interest under this lease, or sub-let the premises or any part thereof, without prior written consent of Lessor, which consent will not be reasonably withheld.

ENFORCEMENT:

The acceptance by Lessor of partial payments of rent due shall not, under any circumstance, constitute a waiver of any rights of Lessor at law under this lease, nor affect any notice or legal proceedings, theretofore given or commenced.

INDEMNITY:

Landlord agrees to indemnify and hold tenant, its successors and assigns, harmless from any claim, obligation, liability, loss, damage, or expense including attorneys fees of whatever kind of nature, contingent or otherwise, known or unknown, incurred or imposed based upon any provision of federal, state or local law or regulations, or common law or pertaining to health, safety or environmental protection and arising out of the environmental condition of the premises existing as of the commencement of the Lease.

Tenant agrees to indemnify and hold Landlord, its successors and assigns, harmless from any claim, obligation, liability, loss, damage or expense, including attorneys fees of whatever kind or nature, contingent or otherwise, known or unknown, incurred or imposed based upon safety or environmental protection and arising out of environmental condition of the Premises arising subsequent to the commencement of this Lease and as the operation of Tenant on the lease Premises. The phrase “environmental condition” includes the surface or groundwater, drinking water supply, land, surface or sub-surface strata and the ambient air.

PROPERTY OF LEASE: TITLE

At all times during the term of this lease, Lessee shall retain title to all property stored or located in or on the Leased Premises.

ENTIRE AGREEMENT MODIFICATION AND SEVERABILITY:

This lease contains the entire agreement between the parties and shall not be modified in any manner except by an instrument in writing executed by the parties if any provision of this lease shall be declared invalid or unenforceable, the remainder of the lease shall continue in full force and effect.

SUCCESSORS IN INTEREST:

The covenants, terms, conditions, provisions and undertakings in this lease or any renewals thereof shall extend to and be binding upon the heirs, executors, administrators, successors, and assigns of the respective parties hereto, as if they were in every case named and expressed, and should be construed as covenants running with the land; wherever reference is made to either of the parties hereto, it shall be held to include and apply also to the heirs, executors, administrators, successors and assigns of such part, as if in each and every case so expressed.

NOTICE: The addresses given below shall be the addresses designated to receive any notice required under this lease. Any notice delivered to this address via U.S. Mail or a commercial delivery service or by facsimile shall be considered delivered under the terms of this lease. These addresses can be changed by written notification.

Lessor:	Alder Construction Company 3939 South 500 West Salt Lake City, UT 84123 Fax (801) 266-2947	Lessee:	ClearOne Communications, Inc. 5225 Wiley Post Way, Suite 500 Salt Lake City, UT 84116 Fax (801) 977-0087

ADDENDUM:

The following Addendums are incorporated into this lease: **NONE**

ACCEPTED FOR LESSEE

CLEAR ONE INC.
By: Marthes Solamuthu
Title: Vice President of Operations

ACCEPTED FOR LESSOR

ALDER CONSTRUCTION COMPANY
By: Greg Alder
Title: Property Management

Exhibit 10.4

SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement and Release (this “Agreement") is made and entered into as of the date it is executed by both parties, between Werner Pekarek (“Employee”) and ClearOne Communications, Inc. (“ClearOne”), who shall be referred to as the “Parties”, or individually as a “Party”.

DEFINITIONS

1. The term “Employee” shall mean Employee and his or her heirs, assigns, and legal representatives.

2. The phrase "ClearOne Released Parties" shall mean ClearOne and any and all business units, committees, groups, and their present, former or future parents, affiliates, subsidiaries, employees, agents, directors, owners, officers, attorneys, successors, predecessors, and assigns.

3. The "Released Claims" shall mean any type or manner of suits, claims, demands, allegations, charges, damages, or causes of action whatsoever in law or in equity under federal, state, municipal or local statute, law, ordinance, regulation, constitution, or common law, whether known or unknown, which Employee has ever had or now has against the ClearOne Released Parties. This includes but is not limited to any action for costs, interest or attorney's fees, which arise in whole or in part from Employee's employment relationship with ClearOne, from the ending of that relationship, and from any other conduct by or dealings of any kind between Employee and the ClearOne Released Parties, which occurred prior to the execution of this Agreement. This also includes but is not limited to any and all claims, rights, demands, allegations and causes of action for alleged wrongful discharge, breach of alleged employment contract, breach of the covenant of good faith and fair dealing, termination in violation of public policy, intentional or negligent infliction of emotional distress, fraud, misrepresentation, defamation, interference with prospective economic advantage, failure to pay wages due or other monies owed, failure to pay pension benefits, conversion, breach of duty, interference with existing economic relations, punitive damages, retaliation, discrimination on the basis of age in violation of the Age Discrimination and Employment Act of 1967, as amended ("ADEA"), negligent employment, negligent supervision, Claims under Title VII of the Civil Rights Act of 1964, claims under the Sarbanes-Oxley Act of 2002, harassment or discrimination on the basis of sex, race, color, citizenship, religion, age, national origin, or disability, or other protected classification under the federal, state, municipal or local laws of employment, including those arising under the common law, and any alleged violation of the Employee Retirement Income Security Act of 1974 ("ERISA"), the Fair Labor Standards Act ("FLSA"), the Occupational Safety and Health Act ("OSHA"), and any other law. Release Claims do not include any claims that arise in the future out of events that occur after the date of this Agreement.

RECITALS

A. WHEREAS, the Parties desire to settle and compromise the Released Claims and to enter into this Agreement.

COVENANTS

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in consideration of the mutual covenants set forth in this Agreement, the Parties agree as follows:

1. Employee's employment with ClearOne shall end effective August 11, 2006.

2. Notwithstanding the provisions of section 1, above, after his or her execution of this Agreement and upon the expiration of the revocation period described in paragraph 22, ClearOne will make a one-time severance payment to Employee in the net amount of $9,230.79.

3. In addition, the Employee must elect from one of the following two options. The election shall be made by circling either Option 1 or Option 2 and placing the Employee's initials next to the circle. The options are as follows:

A. Option 1. Employee retains Employee's vested stock options and upon the expiration of the presently existing employee, executive officer and director trading blackout (which trading blackout will expire when ClearOne becomes current in its periodic filings with the Securities and Exchange Commission), Employee will have 90 days in which to exercise said vested options; or

B. Option 2. Employee will receive an additional net cash payment of $5,000.00 payable upon the expiration of the revocation period described in paragraph 22. All unexercised stock options acquired by Employee during his employment with ClearOne, whether vested or unvested, shall immediately be deemed cancelled. Employee further agrees that all of his rights, entitlements, and benefits under the 1998 ClearOne Stock Option Plan, including any agreements entered into in relation to the foregoing plans, are hereby terminated and cancelled.

4. Employee acknowledges that the above sums constitute consideration for Employee's execution and adherence to the provisions of this Agreement. Employee understands and agrees that he or she would not receive the amounts specified herein except for his or her execution of this Agreement and the fulfillment of the promises contained herein. The ClearOne Released Parties make no representations whatsoever to Employee concerning the taxable status of the payment of the settlement amount. Employee assumes full and sole responsibility for any tax consequences related to the settlement amount. Employee understands and agrees to indemnify and hold harmless the ClearOne Released Parties from any taxes, assessments, withholding obligations, penalties or interest payments that they may incur at any time by reason of demand, suit or proceeding brought against them for any taxes or assessments or withholdings arising out of the payment of the settlement amount. Employee acknowledges he or she has been fully compensated by the terms of this Agreement for releasing the Released Claims.

5. Employee represents that he or she has not filed and there is not pending with any governmental agency or any state or federal court, any other claims, complaints, charges, or lawsuits of any kind against the ClearOne Released Parties.

6. Employee hereby waives and releases each and every one of the ClearOne Released Parties from liability with respect to the Released Claims. Employee acknowledges that he or she understands he or she is prohibited from any further relief on the Released Claims. Specifically and without limitation, Employee understands and agrees that he or she is waiving and forever discharging the ClearOne Released Parties from any and all claims, causes of action or complaints he or she may have or has ever had, which have or may have arisen prior to the execution of this Agreement, and Employee understands that the Release Claims specifically includes age discrimination claims under the Age Discrimination in Employment Act (ADEA). However, employee understands that he or she can bring a suit limited to challenging the enforceability of the waiver and release of any age discrimination claims under the ADEA.

7. Employee represents and warrants that he or she is the sole owner of the Released Claims, that the Released Claims have not been assigned, transferred, or disposed of in fact, by operation of law or in any manner whatsoever, and that he or she has the full right and power to grant, execute and deliver the full and complete releases, undertakings, and agreements herein contained.

8. Employee agrees that the existence and terms of this Agreement shall be and remain confidential. Employee acknowledges that this confidentiality provision is an essential element of the consideration he provides to ClearOne for entering into this Agreement. Therefore, Employee agrees not to discuss or describe any information concerning ClearOne, the circumstances of the ending of Employee's employment with ClearOne or the existence of the terms of this Agreement to anyone, except as required by law or permitted herein.

9. Employee reaffirms and agrees to observe and abide by the terms of the Confidentiality and Invention Assignment Agreement ("Confidentiality Agreement") he or she signed with ClearOne. Employee certifies and represents that he or she has fully complied with all terms of the Confidentiality Agreement to date and has returned to ClearOne all records or documents or other property of ClearOne within his or her possession. Employee understands that his or her receipt of the consideration provided under this Agreement is expressly conditioned on Employee's compliance with the obligations in this paragraph.

10. Employee agrees not to disparage, orally or in writing, ClearOne, its officers, employees, management, operations, products, designs, or any other aspects of ClearOne's affairs to any third person or entity.

11. Employee agrees that for one year following Employee's separation from employment with ClearOne, Employee shall not, directly or indirectly, in any capacity (including but not limited to, as an individual, a sole proprietor, a member of a partnership, a stockholder, investor, officer, or director of a corporation, an employee, agent, associate, or consultant of any person, firm or corporation or other entity) hire any person from, attempt to hire any person from, or solicit, induce, persuade, or otherwise cause any person to leave his or her employment with ClearOne.

12. Employee agrees that for one year following Employee's separation from employment with ClearOne, Employee shall not, directly or indirectly, in any capacity, solicit the business of any customer of ClearOne except on behalf of ClearOne, or attempt to induce any customer of ClearOne to cease or reduce its business with ClearOne; provided that following Employee's separation from employment with Company he or she may solicit a customer of ClearOne to purchase goods or services that do not compete directly or indirectly with those then offered by ClearOne.

13. Any breach of Employee's obligations under this Agreement shall, in addition to all other remedies available to ClearOne, result in the immediate release of ClearOne from any obligations it has to provide further payments under this Agreement. In addition, ClearOne may pursue such additional legal or equitable remedies as may be available to it.

14. This Agreement does not constitute and shall not be construed as an admission by ClearOne of any breach of any alleged agreements or duties, or of any wrongdoing toward Employee or any other person, including any alleged breach of contract or violation of any federal, state, or local law, regulation, or ordinance. ClearOne specifically disclaims any liability to Employee for wrongdoing of any kind.

15. The Parties agree that this Agreement may be used in evidence in a subsequent proceeding in which any of the Parties alleges a breach of this Agreement.

16. The parties shall attempt in good faith to resolve any dispute arising out of or relating to this Agreement by negotiation. The parties recognize that irreparable injury to ClearOne will result from a material breach of this Agreement, and that monetary damages will be inadequate to rectify such injury. Accordingly, notwithstanding anything to the contrary, ClearOne shall be entitled to one or more preliminary or permanent orders: (i) restraining or enjoining any act which would constitute a material breach of this Agreement, and (ii) compelling the performance of any obligation which, if not performed, would constitute a material breach of this Agreement, and to attorney's fees in connection with any such action

17. Employee affirms he or she is not relying on any representations or statements made by the ClearOne Released Parties which are not specifically included in this Agreement. Employee acknowledges he or she has been informed in writing by this Agreement that he or she has the right to consult with legal counsel regarding this release, that he or she has been advised by this Agreement that he or she should consult with legal counsel and confirms Employee has consulted with counsel to the extent desired concerning the meaning and consequences of this Agreement.

18. This Agreement constitutes the entire agreement between the Parties with relation to the subject matter hereof. Any prior negotiations or correspondence relating to the subject matter hereof shall be deemed to have merged into this Agreement and to the extent inconsistent herewith shall be deemed to be of no force or effect.

19. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be an original, but all of such counterparts shall constitute one and the same instrument.

20. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Utah, and/or when applicable, of the United States. By entering into this Agreement, the Parties submit themselves and their principals individually to personal jurisdiction in the courts in the State of Utah and agree that Utah is the only appropriate venue for any action brought to interpret or enforce any provision of this Agreement, or which may otherwise arise under or relate to the subject matter of this Agreement.

21. The provisions of this Agreement are severable, and if any part of it is found to be unenforceable, the other parts and/or paragraphs shall remain fully valid and enforceable. Should any provisions of this Agreement be determined by any court or administrative body to be invalid, the validity of the remaining provisions is not affected thereby and the invalidated part shall be deemed not a part of this Agreement. Any court or administrative body shall construe and interpret this Agreement as enforceable to the full extent available under applicable law. This Agreement shall survive the termination of any arrangements contained in it.

22. Employee acknowledges and understands this is a legal contract and that he or she signs this Agreement knowingly, freely and voluntarily and has not been threatened, coerced or intimidated into making the same. Employee acknowledges that he or she has had ample and reasonable time to consider this Agreement and the effects and import of it and that he or she has fully dwelt on it in his or her mind and has had such counsel and advice, legal or otherwise, as Employee desires in order to make this Agreement. EMPLOYEE, BY SIGNING THIS AGREEMENT, ACKNOWLEDGES IT CONTAINS A RELEASE OF KNOWN AND UNKNOWN CLAIMS. Employee has read and fully considered this Agreement and understands and desires to enter into it. The terms of this agreement were derived through mutual compromise and are fully understood. Employee acknowledges that he or she has been offered at least twenty one (21) days to consider the impact of this Agreement and its release of his or her rights to bring suit against the ClearOne Released Parties and after due consideration has decided to enter into this Agreement at this time. Employee further understands that he or she may revoke this Agreement for a period of up to seven (7) days following signature and execution of the same. This Agreement shall not become effective or enforceable until the revocation period has expired. Any revocation within this period must be signed and submitted in writing to the undersigned representative of ClearOne and must state, "I hereby revoke my acceptance of the Agreement." Employee understands that if he or she revokes this Agreement, he or she is not entitled to receive the consideration provided by this Agreement.

If Employee does not accept such terms and conditions within 21 days, this offer shall expire at that time.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the dates set forth below.

EMPLOYEE

/s/ Werner Pekarek
Werner Pekarek
Date: August 24, 2006

CLEARONE COMMUNICATIONS, INC.

/s/ Zee Hakimoglu
Zee Hakimoglu
President and Chief Executive Officer
Date: August 31, 2006

EXHIBIT 31.1

CERTIFICATION

I, Zeynep Hakimoglu, certify that:

1. I have reviewed this quarterly report of ClearOne Communications, Inc. on Form 10-Q;

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)) 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) 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

   c) 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 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: November 13, 2006

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

EXHIBIT 31.2

CERTIFICATION

I, Greg A. LeClaire, certify that:

1. I have reviewed this quarterly report of ClearOne Communications, Inc. on Form 10-Q;

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)) 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) 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

c) 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 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: November 13, 2006

By: /s/ Greg A. LeClaire
Greg A LeClaire
Chief Financial Officer

EXHIBIT 32.1

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, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ClearOne Communications, Inc. on Form 10-Q for the three months ended September 30, 2006, 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 Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ClearOne Communications, Inc.

Date: November 13, 2006	By:	/s/ Zeynep Hakimoglu
		Zeynep Hakimoglu
		President and Chief Executive Officer
		(Principal 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.

EXHIBIT 32.2

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, Craig E. Peeples, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ClearOne Communications, Inc. on Form 10-Q for the three months ended September 30, 2006, 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 Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ClearOne Communications, Inc.

Date: November 13, 2006	By:	/s/ Greg A. LeClaire
		Greg A. LeClaire
		Chief Financial Officer
		(Principal Financial and Accounting 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.