

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

or

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

For the transition period _____ to _____

Commission file number: 001-33660

ClearOne.

CLEARONE COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Utah

(State or other jurisdiction of incorporation or organization)

87-0398877

(I.R.S. employer identification number)

5225 Wiley Post Way, Suite 500, Salt Lake City, Utah

(Address of principal executive offices)

84116

(Zip Code)

(801) 975-7200

(Registrant's telephone number, including area code)

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 No

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

See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Larger Accelerated Filer

Accelerated Filer

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

Smaller Reporting Company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 9,098,215 shares issued and outstanding as of May 11, 2012.

CLEARONE COMMUNICATIONS, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

INDEX

	<u>Page</u>
PART I – FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements	
Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011	1
Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011	2
Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011	3
Notes to Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Item 3. Quantitative and Qualitative Disclosures About Market Risk	17
Item 4. Controls and Procedures	17
PART II – OTHER INFORMATION	
Item 1. Legal Proceedings	17
Item 1A. Risk Factors	17
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	17
Item 3. Defaults Upon Senior Securities	17
Item 4. Mine Safety Disclosures	17
Item 5. Other Information	17
Item 6. Exhibits	17

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CLEARONE COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except par value)

	Unaudited	Audited
	As of March 31, 2012	As of December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,577	\$ 16,683
Receivables, net of allowance for doubtful accounts of \$68 and \$149, respectively	7,100	8,457
Inventories	14,475	12,565
Deferred income taxes	3,025	2,987
Prepaid expenses and other assets	1,846	740
Total current assets	37,023	41,432
Long-term inventories, net	2,449	1,905
Property and equipment, net	2,210	2,338
Intangibles, net	6,063	2,690
Goodwill	1,939	1,153
Other assets	67	41
Total assets	\$ 49,751	\$ 49,559
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	1,830	2,814
Accrued liabilities	2,753	2,534
Deferred product revenue	3,822	3,404
Total current liabilities	8,405	8,752
Deferred income taxes	129	101
Deferred rent	486	494
Other long-term liabilities	563	548
Total liabilities	9,583	9,895
Shareholders' equity:		
Common stock, par value \$0.001, 50,000,000 shares authorized, 9,098,152 shares issued and outstanding	9	9
Additional paid-in capital	40,124	40,073
Retained earnings (accumulated deficit)	35	(418)
Total shareholders' equity	40,168	39,664
Total liabilities and shareholders' equity	\$ 49,751	\$ 49,559

See accompanying notes

CLEARONE COMMUNICATIONS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)

	Three months ended March 31,	
	2012	2011
Revenue	\$ 10,154	\$ 10,701
Cost of goods sold	4,046	4,399
Gross profit	6,108	6,302
Operating expenses:		
Sales and marketing	2,134	1,983
Research and product development	2,008	1,637
General and administrative	1,505	1,472
Proceeds from litigation	(250)	-
Total operating expenses	5,397	5,092
Operating income	711	1,210
Other income, net	16	11
Income before income taxes	727	1,221
Provision for income taxes	274	409
Net income	\$ 453	\$ 812
Basic earnings per common share	\$ 0.05	\$ 0.09
Diluted earnings per common share	\$ 0.05	\$ 0.09
Basic weighted average shares outstanding	9,098,152	8,931,504
Diluted weighted average shares outstanding	9,246,310	9,122,671

See accompanying notes

CLEARONE COMMUNICATIONS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Three months ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 453	\$ 812
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation and amortization expense	337	295
Stock-based compensation	51	39
Provision for doubtful accounts	(59)	(58)
Increase (decrease) in reserves against inventory	90	(214)
Changes in operating assets and liabilities:		
Accounts receivable	1,416	1,396
Inventories	(2,224)	(379)
Deferred income taxes	(10)	117
Prepaid expenses and other assets	(1,132)	(54)
Accounts payable	(984)	1,082
Income taxes payable	(89)	121
Accrued liabilities	309	(1,269)
Deferred product revenue	418	258
Other long-term assets and liabilities	15	53
Net cash provided by (used in) operating activities	<u>(1,409)</u>	<u>2,199</u>
Cash flows from investing activities:		
Payment towards acquisition of VCON business	(4,632)	-
Purchase of property and equipment	(65)	(175)
Net cash used in investing activities	<u>(4,697)</u>	<u>(175)</u>
Cash flows from financing activities:		
Proceeds from the issuance of common stock - options	-	21
Net cash provided by financing activities	<u>-</u>	<u>21</u>
Net increase (decrease) in cash and cash equivalents	(6,106)	2,045
Cash and cash equivalents at the beginning of the period	16,683	11,431
Cash and cash equivalents at the end of the period	<u>\$ 10,577</u>	<u>\$ 13,476</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ 1,378	\$ -

See accompanying notes

CLEARONE COMMUNICATIONS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

The Company acquired the business of VCON Video Conferencing, Ltd. and recorded the following assets and liabilities:

Inventory	\$ 320
Property and equipment	34
Product warranty liability	(8)
Tradenam e	500
Patents and technological know-how	2,300
Proprietary software	500
In-process research and development	200
Goodwill	786
Cash paid	<u>\$ 4,632</u>

See accompanying notes

CLEARONE COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Dollars in thousands)

1. Basis of Presentation

The fiscal year for ClearOne Communications, Inc. and its subsidiaries (collectively, “ClearOne” or the “Company”) is the 12 months ending on December 31st. The consolidated financial statements include the accounts of ClearOne and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

The accompanying interim consolidated financial statements for the three months ended March 31, 2012 and 2011 respectively have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and are not audited. Certain information and footnote disclosures, that are usually included in financial statements prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) have been either condensed or omitted in accordance with SEC rules and regulations. The accompanying consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial position as of March 31, 2012 and December 31, 2011, the results of operations for the three months ended March 31, 2012 and 2011, and the statements of cash flows for the three months ended March 31, 2012 and 2011. The results of operations for the three months ended March 31, 2012 and 2011 are not necessarily indicative of the results for a full-year period. These interim consolidated financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC.

2. Business Combination

On February 16, 2012, the Company completed the acquisition of the video conferencing business of Israel based VCON Video Conferencing, Ltd. (“VCON”) through an asset purchase agreement. VCON is a pioneer in software based video conferencing solutions with product offerings that include group video conferencing endpoints, desktop video conferencing endpoints, video conferencing infrastructure solutions and software development kits. This acquisition and the combination of streaming and digital signage technologies will provide us with complimentary technology opportunities allowing us to enter new growth markets.

Pursuant to the asset purchase agreement, the Company paid initial consideration of \$4,632 in cash. This initial consideration is subject to a final working capital adjustment.

The estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. The Company believes that such information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is waiting for additional information necessary to finalize those fair values. The measurement period for purchase price allocation ends as soon as information on the facts and circumstances becomes available, but will not exceed twelve months from the date of acquisition. Adjustments in the purchase price allocation may require a recasting of the amounts allocated to intangible assets and possible allocation to goodwill, retroactive to the period in which the acquisition occurred. Therefore, the provisional measurements of fair value reflected are subject to change and such changes could be significant.

The fair value of identified assets and liabilities acquired and goodwill was as follows:

Inventory	\$ 320
Property and equipment	34
Product warranty liability	(8)
Tradenname	500
Patents and technological know-how	2,300
Proprietary software	500
In-process research and development	200
Goodwill	786
	<u>\$ 4,632</u>

CLEARONE COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Dollars in thousands)

The Company incurred \$187 towards acquisition related expenses, all of which are categorized under General and administrative expenses in the Consolidated Statement of Operations for the period ended March 31, 2012.

Supplemental Pro Forma information

- 1) Revenue and net loss from VCON business from February 16, 2012 to March 31, 2012 was \$77 and (\$152) respectively.
- 2) Revenue and earnings of the combined entity as though the business combination occurred as of January 1, 2011:

	Three months ended March 31,	
	2012	2011
Revenue	\$ 10,367	\$ 10,803
Earnings	409	647
Basic and diluted earnings per common share	0.04	0.07

- 3) There were no material, nonrecurring pro forma adjustments directly attributable to the acquisition included in this supplemental Pro Forma information.

3. Goodwill and Intangibles

Goodwill

The goodwill of \$786 related to the acquisition of VCON is composed of expected synergies in utilizing VCON technology in ClearOne product offerings, reduction in future combined research and development expenses, and intangible assets including acquired workforce that do not qualify for separate recognition.

The goodwill balance of \$786 related to the acquisition of VCON business is deductible for tax purposes.

Intangible Assets

Intangible assets as of March 31, 2012 and December 31, 2011 consisted of the following:

	Estimated useful lives	As of March 31, 2012	As of December 31, 2011
Tradename	7 years	\$ 935	\$ 435
Patents and technological Know-how	10 years	4,370	2,070
Proprietary software	3 to 5 years	894	394
In-process research and development	Indefinite	759	559
Other	5	49	49
		7,007	3,507
Accumulated Amortization		(944)	(817)
		\$ 6,063	\$ 2,690

During the three months ended March 31, 2012 and 2011, amortization of intangible assets were \$127 and \$88, respectively.

CLEARONE COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Dollars in thousands)

The estimated future amortization expense of intangible assets is as follows:

Years ending December 31,

2012	\$ 635
2013	799
2014	782
2015	598
2016	560
2017	508
Thereafter	1,422
	<u>\$ 5,304</u>

4. Inventories

Inventories, net of reserves, consisted of the following:

	As of March 31, 2012	As of December 31, 2011
Current:		
Raw materials	\$ 927	\$ 1,091
Finished goods	13,548	11,474
	<u>\$ 14,475</u>	<u>\$ 12,565</u>
Long-term:		
Raw materials	\$ 827	\$ 444
Finished goods	1,622	1,461
	<u>\$ 2,449</u>	<u>\$ 1,905</u>

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

Current finished goods include consigned inventory in the amounts of approximately \$1,441 and \$1,199 as of March 31, 2012 and December 31, 2011, respectively. Consigned inventory represents inventory at distributors and other customers where revenue recognition criteria have not been achieved.

During the three months ended March 31, 2012, losses amounting to \$90 were incurred on valuation of inventory at lower of cost or market value and write-off of obsolete inventory.

5. Share-based Compensation

Share-based compensation expense has been allocated as follows:

	Three months ended March 31,	
	2012	2011
Cost of goods sold	\$ 1	\$ -
Sales and marketing	13	4
Research and development	7	4
General and administrative	30	31
	<u>\$ 51</u>	<u>\$ 39</u>

CLEARONE COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Dollars in thousands)

As of March 31, 2012 the total remaining unrecognized compensation cost related to non-vested stock options, net of forfeitures, was approximately \$530.

During the three months ended March 31, 2012 and 2011, we granted 30,000 and 0 stock options respectively. 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 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. We use the Black-Scholes option pricing model to determine the fair value of share-based payments granted under ASC Topic 718.

6. Shareholders' Equity

The following table summarizes the change in shareholders' equity during the three months ended March 31, 2012 and 2011, respectively:

	Three months ended March 31,	
	2012	2011
Balance at the beginning of the period	\$ 39,664	\$ 31,735
Net income during the period	453	812
Stock based compensation	51	39
Exercise of stock options	-	21
Balance at end of the period	<u>\$ 40,168</u>	<u>\$ 32,607</u>

7. Proceeds from litigation

During the three months ended March 31, 2011, \$250 was received as a settlement of amounts due from a defendant in our litigation related to the "Theft of ClearOne's Intellectual Property and related cases" described in detail in Form 10-K for the year ended December 31, 2011.

8. Income Taxes

The total outstanding balance for liabilities related to unrecognized tax benefits at March 31, 2012 was approximately \$563, of which \$35 was associated with interest and penalties. We account for interest expense and penalties for unrecognized tax benefits as part of our income tax provision.

Accrued liabilities as of March 31, 2012 and December 31, 2011 include accrued income taxes payable of \$211 and \$300, respectively.

9. Commitments and Contingencies

The Company entered in to a consulting arrangement for a period of 12 months. The consulting arrangement provides for a fixed fee of approximately \$180 with additional maximum incentive-based fees of approximately \$20 associated with accomplishing specific milestones.

10. Subsequent Events

The Company evaluated its consolidated financial statements as of and for the three months ended March 31, 2012 for subsequent events through the date the financial statements were issued. The Company is not aware of any subsequent event which would require recognition or disclosure in the financial statements.

CLEARONE COMMUNICATIONS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

This report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements in this report, other than statements of historical fact, are forward-looking statements for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this report are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any forward-looking statement. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "intends," "believes," "estimates," "potential," or "continue," or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that any such expectations or any forward-looking statement will prove to be correct. Our actual results will vary, and may vary materially, from those projected or assumed in the forward-looking statements. Future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including, without limitation, product recalls and product liability claims; infringement of our technology or assertion that our technology infringes the rights of other parties; termination of supplier relationships, or failure of suppliers to perform; inability to successfully manage growth; delays in obtaining regulatory approvals or the failure to maintain such approvals; concentration of our revenue among a few customers, products or procedures; development of new products and technology that could render our products obsolete; market acceptance of new products; introduction of products in a timely fashion; price and product competition, availability of labor and materials, cost increases, and fluctuations in and obsolescence of inventory; volatility of the market price of our common stock; foreign currency fluctuations; changes in key personnel; work stoppage or transportation risks; and other factors referred to in our press releases and reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2011. All subsequent forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Additional factors that may have a direct bearing on our operating results are discussed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011.

Business Overview

We are a global communications solutions company that develops and sells conferencing, collaboration, and streaming multimedia systems for audio, video, and web applications. The reliability, flexibility and performance of our advanced and comprehensive solutions enhance the quality of life through better communication, education, and entertainment.

We develop, manufacture, market, and service a comprehensive line of high-quality audio conferencing products for personal use as well as traditional tabletop, mid-tier premium and higher end professional products for both large and small businesses. We occupy the number one global market share position, with nearly 50% market share in the professional audio conferencing market for professional products used by large businesses and organizations such as enterprise, healthcare, education and distance learning, government, legal and finance. Our conferencing solutions save organizations time and money by creating a natural environment for collaboration.

NetStreams® DigilinX, the ClearOne brand for residential multimedia streaming and control, and VIEW™, the ClearOne brand for commercial multimedia streaming and control, deliver a superior IP A/V experience by streaming high definition audio and video (multimedia) and control over TCP/IP LAN networks.

NetStreams' technology is used in a wide variety of applications including digital signage, corporate video streaming, network operations centers, distance education, and in venues for hospitality and entertainment as well as casinos.

CLEARONE COMMUNICATIONS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ClearOne's products, designed for commercial and residential use, offer outstanding levels of performance, functionality, simplicity, reliability, and scalability. By combining audio and or video content, meta-data and control signals into one stream, over existing Internet Protocol networks, in harmony with industry standards, ClearOne's newly patented StreamNet® solutions enable the *Power of AV over IP™* for burgeoning markets such as digital signage, enterprise multimedia streaming and home entertainment. Also sold under the NetStreams residential brand are non-IP multimedia distribution solutions for economical multimedia residential streaming applications.

On September 2, 2011, we acquired the business of Oregon based MagicBox, Inc., a developer and marketer of a variety of hardware and software solutions to deliver digital content and information to digital displays. This acquisition significantly broadens ClearOne's current StreamNet offerings and expands its digital signage product portfolio with tools for content and playlist creation and management. The MagicBox content management and its database integration software complement ClearOne's StreamNet systems. The StreamNet and MagicBox technologies are an excellent fit to deliver on the challenging requirements for any digital signage provider to distribute content over a local area network while maintaining content and scheduling alignment. As a result of this acquisition and the combination of StreamNet and Magicbox technologies we are the only company to offer complete end-to-end digital signage content management, IP streaming, and control solutions.

On February 16, 2012, we acquired the business of Israel based VCON Video Conferencing, Ltd ("VCON") for approximately \$4.6 million in cash. The acquisition presents us with new global market opportunities and will facilitate accelerated product development. VCON is a pioneer in software based video conferencing solutions with product offerings that include group video conferencing endpoints, desktop video conferencing endpoints, video conferencing infrastructure solutions and software development kits. This acquisition and the combination of streaming and digital signage technologies will provide us with complimentary technology opportunities allowing us to enter new growth markets.

Our business goals are to:

- Leverage on the streaming, digital signage and video conference technologies we acquired recently to enter new growth markets.
- Maintain our global market share leadership of professional audio conferencing products for large businesses and organizations;
- Focus on the small and medium business (SMB) market with scaled, lower cost and less complex products and solutions;
- Capitalize on the growing adoption of unified communications and introduce new products by entering Information Technology channels;
- Partner with large enterprise communications providers worldwide to bring value added products to their solution portfolios and channels;
- Capitalize on emerging market opportunities as audio video, information technology, unified communications and traditional digital signage converge to meet enterprise and commercial multimedia needs; and
- Expand and strengthen sales channels

We will continue to improve our existing high-quality products and develop new products for the burgeoning conferencing and collaboration, and multimedia streaming markets and focus on strategic initiatives to achieve our business goals.

Our revenues were \$10.2 million and \$10.7 million during the quarters ended March 31, 2012 and 2011, respectively. Our gross profit decreased by \$194,000 during the quarter ended March 31, 2012 compared to the quarter ended March 31, 2011. Net income decreased to \$453,000 during the quarter ended March 31, 2012 compared to net income of \$812,000 during the quarter ended March 31, 2011. The decrease in revenues was primarily due to a decline in revenue from EMEA and softer sales in the Americas. Net income declined due to reduced revenue, added costs due to acquisitions and higher research and development spending.

CLEARONE COMMUNICATIONS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We expect the recent acquisitions and new product introductions to start contributing to revenue in the near future. The prospects of growth in both revenues and profits in the near future would depend on the strength of the global economy, especially the recovery of European markets. We continue to monitor closely the global economic events and continue our existing measures to control costs and invest in strategic products and initiatives.

A detailed discussion of our results of operations follows below.

Analysis of Results of Operations

Results of Operations for the quarter ended March 31, 2012 and 2011

The following table sets forth certain items from our unaudited condensed consolidated statements of operations (dollars in thousands) for the quarters ended March 31, 2012 and 2011 respectively, together with the percentage of total revenue which each such item represents:

	Quarter ended March 31,				Variance	
	2012		2011		Favorable (Unfavorable)	
	Amount	% of Revenue	Amount	% of Revenue	Amount	
Revenue	\$ 10,154	100.0%	\$ 10,701	100.0%	\$ (547)	-5.1%
Cost of goods sold	4,046	39.8%	4,399	41.1%	353	8.0%
Gross profit	6,108	60.2%	6,302	58.9%	(194)	-3.1%
Sales and marketing	2,134	21.0%	1,983	18.5%	(151)	-7.6%
Research and product development	2,008	19.8%	1,637	15.3%	(371)	-22.7%
General and administrative	1,505	14.8%	1,472	13.8%	(33)	-2.2%
Proceeds from litigation	(250)	-2.5%	-	-	250	100.0%
Operating income	711	7.0%	1,210	11.3%	(499)	-41.2%
Other income, net	16	0.2%	11	0.1%	5	45.5%
Income before income taxes	727	7.2%	1,221	11.4%	(494)	-40.5%
Provision for income taxes	274	2.7%	409	3.8%	135	33.0%
Net income	<u>\$ 453</u>	<u>4.5%</u>	<u>\$ 812</u>	<u>7.6%</u>	<u>\$ (359)</u>	<u>-44.2%</u>

Revenue

Revenue for the quarter ended March 31, 2012 ("2012 Q1") decreased by approximately 5% over the quarter ended March 31, 2011 ("2011 Q1"). The decrease in revenue affected all product categories and was primarily caused by the economic uncertainty in the European markets due to debt crisis, lower demand from the government sector in North America and slowdown in Asian markets.

During 2012 Q1 and 2011 Q1, the net change in deferred revenue was a net deferral of revenue of \$418,000 and \$258,000 respectively. See "Critical Accounting Policies and Estimates" under "Revenue and Associated Allowance for Revenue Adjustments and Doubtful Accounts" below for a detailed discussion of deferred revenue.

Costs of Goods Sold and Gross Profit

Costs of goods sold include expenses associated with finished goods purchased from electronic manufacturing services (EMS) providers, in addition to other operating expenses, which include material and direct labor, our manufacturing and operations organization, property and equipment depreciation, warranty expenses, freight expenses, royalty payments, and the allocation of overhead expenses.

Our gross profit margin, which is gross profit as a percentage of revenue, was 60% and 59% in 2012 Q1 and 2011 Q1, respectively.

CLEARONE COMMUNICATIONS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Expenses

2012 Q1 operating expenses excluding litigation proceeds of \$250,000 were approximately \$5.6 million, an increase of approximately \$555,000 from \$5.1 million in 2011 Q1 or an increase of 11%. The litigation proceeds of \$250,000 represents a receipt of a settlement of amounts due from a defendant in our litigation related to the "Theft of ClearOne's Intellectual Property and related cases" described in detail in Form 10-K for the year ended December 31, 2011.

Sales and Marketing ("S&M") Expenses. S&M expenses include selling, customer service, and marketing expenses such as employee-related costs, allocations of overhead expenses, trade shows, and other advertising and selling expenses.

S&M expenses during 2012 Q1 increased by approximately \$151,000, or 8%, when compared to 2011 Q1. The increase in S&M expenses during 2012 Q1 was primarily due to increased employee-related costs due to added headcount consequent to recent acquisitions and increased marketing expenses partially offset by a reduction in commissions to independent sales agents.

Research and Development ("R&D") Expenses. R&D expenses include research and development and product line management, including employee-related costs, outside services, expensed materials and depreciation, and an allocation of overhead expenses.

R&D expenses during 2012 Q1 increased by \$371,000, or 23%, compared to R&D expenses during 2011 Q1. The increase was primarily due to increases in employee-related costs due to recent acquisitions and project related costs.

General and Administrative ("G&A") Expenses. G&A expenses include employee-related costs, professional service fees, allocations of overhead expenses, litigation costs, and corporate administrative costs, including finance, information technology and human resources.

G&A expenses during 2012 Q1 increased by \$33,000, or 2%, compared to expenses during 2011 Q1. The increase was primarily due to increased legal costs related to the acquisition of the business of VCON, amortization of intangibles and bank fees partially offset by reduction in executive bonus, recruitment costs and consulting expenses.

We continue to incur high legal expenses due to various litigation issues explained in detail in Form 10-K for the year ended December 31, 2011.

Other income (expense), net

Other income (expense), net, includes interest income, interest expense, gain (loss) on the disposal of assets, and currency gain (loss).

Provision for income taxes

During 2012 Q1, we accrued income taxes at the expected annualized rate of 37.7% as compared to annualized rate of 33.5% in 2011 Q1. The increase in the expected annualized rate in 2012 Q1 was primarily due to the expiration of federal R&D credit on December 31, 2011.

Liquidity and Capital Resources

As of March 31, 2012, our cash and cash equivalents were approximately \$10.6 million, a decrease of \$6.1 million compared to cash and cash equivalents of approximately \$16.7 million as of December 31, 2011.

CLEARONE COMMUNICATIONS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net cash used in operating activities was \$1.4 million in 2012 Q1, a decrease of approximately \$3.6 million compared to \$2.2 million cash provided by operating activities in 2011 Q1. The decrease was primarily due to increases in inventories and prepaid expenses and a decrease in accounts payable partially offset by a decrease in accounts receivables.

Net cash used in investing activities in 2012 Q1 was approximately \$4.7 million, which consisted of the acquisition of the business of VCON for \$4.6 million and \$65,000 towards purchases of equipment. Net cash used in investing activities in 2011 Q1 consisted of the purchase of equipment of approximately \$175,000.

As of March 31, 2012 our working capital was \$28.6 million as compared to \$32.7 million as of December 31, 2011.

We believe that future income from operations and effective management of working capital will provide the liquidity needed to meet our short-term and long-term operating requirements and finance our growth plans. We also believe that our strong financial position and solid business model will help us raise additional capital when needed to meet our short and long-term financing needs. In addition to capital expenditures, we may use cash in the near future for selective investments in technological, marketing or product manufacturing capabilities to broaden our product offerings, and acquisitions that may strategically fit our business and are accretive to our business performance. However, no assurance can be given that changes will not occur that would consume available capital resources at a rate more rapidly than anticipated and we may need or want to raise additional capital through debt or equity financing to fund our operations within this period of time.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our results of operations and financial position are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We evaluate our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. We believe that the estimates we use are reasonable; however, actual results could differ from those estimates.

Our significant accounting policies are described in Note 2 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2011. We believe the policies described below identify our most critical accounting policies, which are the policies that are both important to the representation of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Revenue and Associated Allowances for Revenue Adjustments and Doubtful Accounts

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

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

CLEARONE COMMUNICATIONS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

The amounts of deferred cost of goods sold were included in consigned inventory. The following table details the amount of deferred revenue, cost of goods sold, and gross profit (dollars in thousands):

	<i>As of</i>	
	March 31, 2012	December 31, 2011
Deferred Revenue	\$ 3,822	\$ 3,404
Deferred Cost of Goods Sold	1,441	1,199
Deferred Gross Profit	<u>\$ 2,381</u>	<u>\$ 2,205</u>

We offer rebates and market development funds to certain of our distributors, dealers/resellers, and end-users based upon volume of product purchased by them. We record rebates as a reduction of revenue in accordance with GAAP.

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

Impairment of Goodwill and Intangible Assets

We allocated the purchase price of our acquisition of NetStreams, Inc. and the business of Magic Box, Inc. on the basis of well established valuation techniques performed by qualified experts. The purchase price towards the acquisition of the business of VCON Video Conferencing, Ltd. has been allocated on a provisional basis pending full expert valuation. Goodwill is measured as the excess of the fair value of acquisition consideration over the sum of the fair values of tangible and identifiable intangible assets acquired less liabilities assumed. We intend to perform impairment tests of goodwill and intangible assets with an indefinite useful life, on an annual basis in the fourth fiscal quarter, or sooner if a triggering event occurs suggesting possible impairment of the values of these assets. As of March 31, 2012, \$1.9 million and \$759,000 have been recorded as goodwill and intangible assets with an indefinite useful life, respectively.

In response to changes in industry, technology and competitive circumstances we might be required to exit or dispose of the acquired businesses, which could result in an impairment of goodwill and intangible assets.

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.

CLEARONE COMMUNICATIONS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or asset group to estimated future undiscounted net cash flows of the related asset or group of assets over their remaining lives. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent of other groups of assets. The impairment of long-lived assets requires judgments and estimates. If circumstances change, such estimates could also change. Assets held for sale are reported at the lower of the carrying amount or fair value, less the estimated costs to sell.

Accounting for Income Taxes

We are subject to income taxes in both the United States and in certain non-U.S. jurisdictions. We estimate our current tax position together with our future tax consequences attributable to temporary differences resulting from differing treatment of items, such as deferred revenue, depreciation, and other reserves for tax and accounting purposes. These temporary differences result in deferred tax assets and liabilities. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, prior year carryback, or future reversals of existing taxable temporary differences. To the extent we believe that recovery is not more likely than not, we establish a valuation allowance against these deferred tax assets. Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our deferred tax assets. To the extent we establish a valuation allowance in a period we must include and expense the allowance within the tax provision in the consolidated statement of operations. Our valuation allowance at March 31, 2012 is \$1.2 million.

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

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

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

Share-Based Payment

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

CLEARONE COMMUNICATIONS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In December 2004, the FASB issued guidelines now contained under FASB ASC Topic 718, *Compensation – Stock Compensation*. ASC Topic 718 establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. Primarily, this Topic 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 ASC Topic 718, 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 the guidelines contained in ASC Topic 718 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 ASC Topic 718.

Under ASC Topic 718, 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 ASC Topic 718 and its fair value recognition provisions in future periods, the stock-based compensation cost ultimately recorded under the guidelines of ASC Topic 718 may differ significantly from what was recorded in the current period.

CLEARONE COMMUNICATIONS, INC.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 4. CONTROLS AND PROCEDURES

An evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of March 31, 2012 was performed under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based on this evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures are effective as of March 31, 2012 to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported as specified in the SEC's rules and forms.

There was no change in our internal control over financial reporting during the quarter ended March 31, 2012 that materially affected, or that we believe is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The following is an update to the status of the legal proceedings and commitments and contingencies reported in our Form 10-K for the year ended December 31, 2011 under Part I, Item 3. Legal Proceedings and Note - 8 Commitments and Contingencies of the Notes to Consolidated Financial Statements (Part II, Item 8).

Former Officer Indemnification

On April 30, 2012, the Tenth Circuit denied ClearOne's writ of mandamus on the grounds that ClearOne's request for restitution should be reviewed on appeal after entry of a final order by the District Court.

Item 1A. RISK FACTORS

Not applicable.

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

Not applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

CLEARONE COMMUNICATIONS, INC.

Item 6. EXHIBITS

<u>Exhibit No.</u>	<u>Title of Document</u>
2.1	Asset purchase agreement between ClearOne Communications Hong Kong Limited, C-V Private (Israel) Ltd. and VCON Video Conferencing, Ltd.
31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Principal Financial Officer
32.1	Section 906 Certification of Chief Executive Officer
32.2	Section 906 Certification of Principal Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definitions Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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.,
(Registrant)

May 14, 2012

By: /s/ Zeynep Hakimoglu
Zeynep Hakimoglu
Chief Executive Officer
(Principal Executive Officer)

May 14, 2012

By: /s/ Narsi Narayanan
Narsi Narayanan
Vice President of Finance
(Principal Financial and Accounting Officer)

ASSET PURCHASE AGREEMENT

BETWEEN

CLEARONE COMMUNICATIONS HONG KONG LIMITED,

C-V PRIVATE (ISRAEL), LTD

AND

VCON VIDEO CONFERENCING, LTD.

ARTICLE I..... DEFINITIONS.....	1
1.1..... Certain Definitions.....	1
1.2..... Additional Defined Terms.....	6
1.3..... Interpretation.....	8
ARTICLE II..... PURCHASE AND SALE OF ASSETS AND ASSUMPTION OF LIABILITIES.....	8
2.1..... Purchase and Sale.....	8
2.2..... Payment of Purchase Price.....	11
2.3..... Closing Statement.....	13
2.4..... Escrow.....	13
2.5..... Resolution of Certain Disputes.....	13
2.6..... Consents and Approval; Failure to Obtain Third Party Consents.....	14
2.7..... Allocation of Purchase Price.....	14
2.8..... Closing.....	15
ARTICLE III..... REPRESENTATIONS AND WARRANTIES OF COMPANY.....	18
3.1..... Organization and Qualification.....	18
3.2..... Articles of Association; Minute Books.....	19
3.3..... Authorization.....	19
3.4..... Consents and Approvals; Authority Relative to this Agreement.....	19
3.5..... No Insolvency.....	20
3.6..... Financial Statements; No Undisclosed Liabilities.....	20
3.7..... [intentionally omitted].....	21
3.8..... Title to, Sufficiency and Condition of Assets.....	21
3.9..... Real Property.....	21
3.10..... Equipment.....	22
3.11..... Intellectual Property.....	22
3.12..... Software.....	24
3.13..... Contracts.....	25
3.14..... Permits.....	26
3.15..... Insurance.....	26
3.16..... Employee Benefit Plans and Employment Agreements.....	26
3.17..... Employment and Labor Matters.....	27
3.18..... Taxes.....	28
3.19..... Compliance with Laws.....	32
3.20..... Litigation; Governmental Orders.....	32
3.21..... Customers and Suppliers.....	32
3.22..... Domain Names.....	33
3.23..... Product Quality.....	33
3.24..... Certain Business Practices.....	33
3.25..... Brokers.....	34
3.26..... Environmental Matters.....	34
3.27..... Government Grant Programs.....	35
3.28..... No US Operations.....	35
3.29..... Disclosure.....	35
ARTICLE IV..... REPRESENTATIONS AND WARRANTIES OF PURCHASER.....	35
4.1..... Organization of Purchaser.....	35
4.2..... Authority of Purchaser.....	36
4.3..... No Conflicts; Consents.....	36
4.4..... Brokers.....	36
4.5..... Litigation.....	36

4.6.....	Investigation.....	36
ARTICLE V.....	COVENANTS.....	37
5.1.....	Preservation of Books and Records; Access.....	37
5.2.....	Employees; Employee Benefit Plans.....	37
5.3.....	Confidentiality.....	39
5.4.....	Covenant Not to Compete or Solicit Business.....	39
5.5.....	Change in Company Name.....	40
5.6.....	Assignment or Enforcement of Certain Agreements.....	40
5.7.....	Taxes.....	40
5.8.....	Guarantees.....	41
ARTICLE VI.....	INDEMNIFICATION.....	41
6.1.....	Survival.....	41
6.2.....	Indemnification of Purchaser.....	42
6.3.....	Limitations on Indemnification Obligations.....	42
6.4.....	Exclusive Remedy.....	43
6.5.....	Indemnification of the Company.....	43
6.6.....	Payment.....	44
6.7.....	Purchase Price Adjustments.....	44
ARTICLE VII.....	MISCELLANEOUS.....	44
7.1.....	No Third-Party Beneficiaries.....	44
7.2.....	Entire Agreement.....	44
7.3.....	Receivables.....	44
7.4.....	Further Assurances.....	44
7.5.....	Succession and Assignment.....	44
7.6.....	Counterparts.....	45
7.7.....	Headings.....	45
7.8.....	Notices.....	45
7.9.....	Governing Law; Jurisdiction; Service of Process.....	46
7.10.....	Amendments and Waivers.....	46
7.11.....	Severability.....	47
7.12.....	Expenses.....	47
7.13.....	Incorporation of Exhibits and Schedules.....	47

Exhibit A—Employee Waivers

Exhibit B—Joinder

Exhibit C— Escrow Agreement

Exhibit D— OCS Approval

Exhibit E—Bill of Sale

Exhibit F—Assignment and Assumption Agreement

Exhibit G—Assignment of Intellectual Property Registrations and Intellectual Property Assets

Exhibit H—Trademark Assignment Agreement

Exhibit I—Domain Name Assignment Agreement

Exhibit J—Copyright Assignment Agreement

Exhibit K—Legal Opinion

Exhibit L—Tax Returns

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (this "Agreement") is entered into _____, 2012, by and between C-V Private (Israel), Ltd., a private limited company established in Israel ("Pakshi Purchaser") and ClearOne Communications Hong Kong Limited, a private limited company established in Hong Kong ("HK Purchaser" and together with Pakshi Purchaser collectively referred to herein as the "Purchaser"), on the one hand, and VCON Video Conferencing, Ltd., a private limited company established in Israel (the "Company"), on the other. Purchaser and Company are referred to collectively herein as the "Parties" and individually as a "Party."

RECITALS

WHEREAS, Company is engaged, directly and through the Company Subsidiaries, in the research, development, manufacture, sale and distribution of videoconferencing systems, including custom hardware and software (the "Business");

WHEREAS, on the terms and subject to the conditions of this Agreement, Company desires to sell to HK Purchaser, and HK Purchaser desires to purchase from Company, all of the right, title and interest of Company in and to the Intellectual Property Assets and, in connection therewith, the HK Purchaser will assume the Assumed Liabilities, as related to the Intellectual Property Assets; and

WHEREAS, on the terms and subject to the conditions of this Agreement, Company desires to sell to Pakshi Purchaser, and Pakshi Purchaser desires to purchase from Company, all of the right, title and interest of Company in and to the Other Assets and, in connection therewith, the Pakshi Purchaser will assume the Assumed Liabilities, as related to the Other Assets.

Now, therefore, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows.

ARTICLE I

DEFINITIONS

1.1 Certain Definitions.

"Action" means any claim, action, cause of action, demand, lawsuit, arbitration, inquiry, audit, assessment, notice of violation, proceeding, litigation, citation, summons, subpoena or investigation of any nature, civil, criminal, administrative, regulatory or otherwise, whether at law or in equity.

"Affiliate" of a Person means any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. The term "control" (including the terms "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 a Person, whether through the ownership of voting securities, by contract or otherwise. Affiliate of a Person also includes a director, officer, partner, member, shareholder, investor, manager, executor or trustee of a Person.

"Applicable Law" means, with respect to any Person, any Law existing as of the date hereof or as of the Closing applicable to such Person or any of its respective properties, assets, officers, directors, employees, service providers, consultants or agents.

"Articles of Association" mean the Amended and Restated Articles of Association of the Company, adopted as of January 1, 2006.

"Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in both Israel and Utah between the hours of 8:00 a.m. and 5:00 p.m. local time.

"Company Subsidiary" means Emblaze VCON, Inc., a corporation organized under the laws of the State of Delaware in the country of the United States.

"Contracts" means all contracts, leases, deeds, mortgages, licenses, instruments, notes, commitments, undertakings, indentures, joint ventures and all other agreements, commitments and legally binding arrangements, whether written or oral.

"Disclosure Schedules" means the written set of the disclosures required by this Agreement and exceptions to representations and warranties made in this Agreement which, when mutually agreed to by the Parties, shall be incorporated herein by reference.

"Employees" means those Persons who are employed by Company or engaged by Company, or employed or engaged by any Company Subsidiary, including, employees, consultants, contractors or service providers of Company or any Company Subsidiary (including any such employee who is on leave of absence (including short- or long-term sick leave, parental leave, military leave or other administrative leave) from Company immediately prior to the Closing), including, if any, any individual who accepted an offer of employment/engagement with Company but his/her employment/engagement has not yet started.

"Employee Waiver" means written agreements and confirmations dated as of the Closing Date, substantially in the form attached hereto as Exhibit A, pursuant to which Employees will confirm receipt from the Company of all sums due pursuant to the employment with the Company up until December 31, 2011, and waive all claims against the Company and the Purchaser in respect of the cessation of their employment with the Company.

"Encumbrance" means any charge, claim, community property interest, pledge, condition, equitable interest, lien (statutory or other), option, security interest, mortgage, easement, encroachment, right of way, right of first refusal, or restriction of any kind, including any restriction on use, voting, transfer, receipt of income or exercise of any other attribute of ownership.

"Environmental, Health, and Safety Requirements" means all Laws and policies concerning public health and safety, worker health and safety, and pollution or protection of the environment, including all those relating to the presence, use, production, generation, handling, transportation, treatment,

storage, disposal, distribution, labeling, testing, processing, discharge, release, threatened release, control, or cleanup of any hazardous materials, substances or wastes, as such requirements are enacted and in effect on or prior to the Closing Date.

“GAAP” means United States generally accepted accounting principles in effect from time to time, consistently applied.

“IFRS” means International Financial Reporting Standards set by the International Accounting Standards Board, consistently applied.

“Governmental Authority” means any government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of Law), or any arbitrator, court or tribunal of competent jurisdiction.

“Governmental Order” means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

“Intellectual Property” means all of the following and similar intangible property and related proprietary rights, interests and protections, however arising, pursuant to the Laws of any jurisdiction throughout the world: (a) trademarks, service marks, trade names, brand names, logos, trade dress and other proprietary indicia of goods and services, whether registered, unregistered or arising by Law, and all registrations and applications for registration of such trademarks, including intent-to-use applications, and all issuances, extensions and renewals of such registrations and applications, all of the foregoing including associated goodwill; (b) internet domain names, whether or not trademarks, registered in any generic top level domain by any authorized private registrar or Governmental Authority; (c) original works of authorship in any medium of expression, whether or not published, all copyrights (whether registered, unregistered or arising by Law), all registrations and applications for registration of such copyrights, and all issuances, extensions and renewals of such registrations and applications; (d) confidential information, formulas, designs, devices, technology, know-how, research and development, inventions, methods, processes, compositions and other trade secrets, whether or not patentable; (e) patented and patentable designs and inventions, all design, plant and utility patents, letters patent, utility models, pending patent applications and provisional applications and all issuances, divisions, continuations, continuations-in-part, reissues, extensions, reexaminations and renewals of such patents and applications; (f) all Company-Owned Software and (g) all Company websites.

“Intellectual Property Assets” means all Intellectual Property that is owned by Company or any Company Subsidiary, and used in or necessary for the conduct of the Business as currently conducted, including all associated goodwill.

“Intellectual Property Licenses” means all licenses, sublicenses and other agreements by or through which other Persons, including Company’s Affiliates, grant Company exclusive or non-exclusive rights or interests in or to any Intellectual Property that is used in or necessary for the conduct of the Business as currently conducted.

“Intellectual Property Registrations” means all Intellectual Property Assets that are subject to any issuance, registration, application or other filing by, to or with any Governmental Authority or authorized private registrar in any jurisdiction, including registered trademarks, domain names and copyrights, issued and reissued patents and pending applications for any of the foregoing.

“Joinder” means any Joinder Agreement executed by a Company Subsidiary substantially in the form attached hereto as Exhibit B for the purpose of making such Company Subsidiary a party hereto.

“Knowledge” means the actual or constructive knowledge of Mr. Izik Ben-Ezra, after due inquiry.

“Law” means any statute, law, ordinance, regulation, rule, code, order, constitution, treaty, common law, judgment, decree, a Governmental Order or act, ordinance, regulation, rule, collective bargaining agreement, extension order or code promulgated or other requirement or rule of law of any Governmental Authority.

“Liabilities” means liabilities, debts, obligations or commitments of any nature whatsoever, asserted or unasserted, known or unknown, absolute or contingent, accrued or unaccrued, matured or unmatured or otherwise.

“Losses” means losses, damages, liabilities, deficiencies, Actions, judgments, interest, awards, penalties, fines, costs or expenses of whatever kind, including reasonable attorneys’ fees and the cost of enforcing any right to indemnification hereunder and the reasonable cost of pursuing any insurance providers.

“Made Available” means that the referenced item was provided in physical or electronic medium to Purchaser prior to the date of this Agreement.

“Material Adverse Effect” means any event, occurrence, fact, condition or change that is, or could reasonably be expected to become, individually or in the aggregate, materially adverse to (a) the business, results of operations, prospects, condition (financial or otherwise) or assets of the Business, (b) the value of the Acquired Assets or (c) the ability of any Party to consummate the transactions contemplated hereby on a timely basis; provided, however, that “Material Adverse Effect” shall not include (i) any event, occurrence, fact, condition, or change, directly or indirectly, arising out of or attributable to changes, conditions or effects that generally affect the industries in which the Business operates, and not affecting the Business in a disproportionate manner; (ii) changes in the Israeli or world financial markets or general economic conditions (including prevailing interest rates); (iii) effects or changes resulting from major acts of terrorism or war; or (iv) effects directly or primarily arising out of the execution or delivery of this Agreement or the public announcement or other publicity, leak or rumor with respect to any of the foregoing.

“Office Leases” means those certain leases for (i) the Company’s warehouse space at the “Lahadim” building at the industrial area “Mizpe Sapir”, commencing on February 1, 2011, between Lehadim Israel Ltd. and the Company and (ii) the Company’s office space in “Migdali Hasharon” in Hod Hasharon, in accordance with the lease agreement dated of January 16, 2011 by and between the Company and Migdali Hasharon Ltd.

“OCS” means The Office of the Chief Scientist of the Ministry of Industry, Trade and Labor of the State of Israel.

“Ordinary Course of Business” means the ordinary course of business consistent with past custom and practice (including with respect to quantity

and frequency).

“Open Source Code” means any software code that is distributed as “free software” or “open source software” or is otherwise distributed publicly in source code form under terms that permit modification and redistribution of such software. Open Source Code includes, inter alia, software code that is licensed under the GNU General Public License, GNU Lesser General Public License, Mozilla License, Common Public License, Apache License, BSD License, Artistic License, or Sun Community Source License.

“Permits” means all permits, licenses, franchises, approvals, authorizations, registrations, certificates, variances and similar rights obtained, or required to be obtained, from Governmental Authorities.

“Person” means an individual, a partnership, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or a governmental entity (or any department, agency, or political subdivision thereof).

“Representative” means, with respect to any Person, any and all directors, officers, employees, consultants, financial advisors, counsel, accountants and other agents of such Person.

“Software” means computer programs (including firmware and other software embedded in hardware devices and databases, compilations, tool sets, compilers, higher level or “proprietary” languages), including any and all software implementations of algorithms, models and methodologies, whether in source code or object code, design documents, flow-charts, user manuals and training materials relating thereto and any translations thereof, including any software that is part of, is distributed with, or is used in the design, development, manufacturing, production, distribution, testing, maintenance, or support of the Business.

“Straddle Period” means any Tax period that includes (but does not end on) the Closing Date.

“Tax” means any tax (including any income tax, capital gains tax, value-added tax, sales tax, payroll tax, excise tax, property tax, gift tax, estate tax, municipal tax, employment tax, or documentary stamp tax, premium tax or windfall profit tax), levy, assessment, tariff, duty (including any customs duty), deficiency, or other fee, and any related charge or amount (including any fine, penalty, interest, or addition to tax), imposed, assessed, or collected by or under the authority of any Governmental Authority or municipal authority or payable pursuant to any tax-sharing agreement or any other Contract relating to the sharing or payment of any such tax, levy, assessment, tariff, duty, deficiency, or fee, whether as a result of transferee Liability, of being a member of an affiliated, consolidated, combined, unitary or similar group for any period, or otherwise through operation of Law, and any Liability for the payment of amounts, all together with any interest, any inflation indexation, and any penalties, additions to tax or additional amounts with respect thereto.

“Tax Return” means any return (including any information return), report, statement, declaration, remittance, schedule, notice, form, or other document or information filed with or submitted to, or required to be filed with or submitted to, any Governmental Authority or municipal authority in connection with the determination, assessment, collection, or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any Law relating to any Tax.

“Taxing Authority” means any Governmental Authority having authority with respect to Taxes.

“Transaction Documents” means this Agreement, the Bill of Sale, the Assignment and Assumption Agreement, the Escrow Agreement, the Employment Offer Letters, Employee Waivers, the Intellectual Property Assignments, any Joinder, and the other agreements, instruments and documents required to be delivered at the Closing.

“Working Capital” means an amount calculated in accordance with Schedule 2.3.

“Working Capital Deficiency” means any amount which the Closing Working Capital, as determined pursuant to Section 2.3, is less than US\$ 250,000.

“Working Capital Excess” means any amount by which the Closing Working Capital, as determined pursuant to Section 2.3, is greater than US\$ 250,000.

1.2 Additional Defined Terms. The following terms have the meaning assigned to such terms in the Sections of the Agreement set forth below:

Term	Section
Accounting Firm	2.5
Acquired Assets	2.1(a)
Agreement	Preamble
Allocation Schedule	2.7
Assumed Contracts	2.1(a)(i)(D)
Assignment and Assumption Agreement	2.8(b)(vi)
Assumed Liabilities	2.1(c)
Bank	2.8(b)(xii)
Benefit Plans	3.16(b)
Bill of Sale	2.8(b)(iv)
Business	Recitals
Closing	2.8(a)
Closing Date	2.8(a)
Closing Statement	2.3
Closing Working Capital	2.3
Company	Preamble
Company Employment-Related Liabilities	5.2(d)
Company Owned Software	3.12(a)
Company’s Representations	ARTICLE III
Court Approval	2.8(a)
Domain Name	3.22(a)

Equipment	2.1(a)(i)(B)
Escrow Agent	2.4
Escrow Agreement	2.4
Escrow Amount	2.4
Excluded Assets	2.1(b)
Excluded Liability	2.1(d)
Financial Statements	3.6(a)
HK Purchaser	Preamble
Indemnification Period	6.1
Intellectual Property Assignments	2.8(b)(viii)
Intellectual Property Purchase Price	2.2(a)
Inventory	2.1(a)(i)(A)
ITA	2.2(d)(i)
ITA Tax Ruling	2.2(d)(i)
Leased Premises	3.9(b)
Material Contract	3.13(a)
Material Customers	3.21(a)
Material Suppliers	3.21(b)
OCS Approval	2.8(a)
Other Assets	2.1(a)(i)
Other Assets Purchase Price	2.2(a)
Overlapping Entity	3.11(c)
Overlapping Service Provider	3.11(c)
Pakshi Purchaser	Preamble
Party or Parties	Preamble
Purchase Price	2.2
Purchaser	Preamble
Purchaser Employee	5.2(a)
Purchaser Employment-Related Liabilities	5.2(e)
Qualified Withholding Certificate	2.2(d)(ii)
Records	2.1(a)(i)(H)
Statement of Objections	2.5
Tax Incentives	3.18(p)
Threshold	6.3(b)

1.3 **Interpretation.** For purposes of this Agreement: (a) the words “include,” “includes” and “including” shall be deemed to be followed by the words “without limitation”; (b) the word “or” is not exclusive; and (c) the words “herein,” “hereof,” “hereby,” “hereto” and “hereunder” refer to this Agreement as a whole. Unless the context otherwise requires, references herein: (x) to Articles, Sections, Disclosure Schedules and Exhibits mean the Articles and Sections of, and Disclosure Schedules and Exhibits attached to, this Agreement; (y) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and (z) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted. The Disclosure Schedules and Exhibits referred to herein shall be construed with, and as an integral part of, this Agreement to the same extent as if they were set forth verbatim herein.

ARTICLE II

PURCHASE AND SALE OF ASSETS AND ASSUMPTION OF LIABILITIES

2.1 **Purchase and Sale.**

(a) **Acquired Assets.** Subject to the terms and conditions set forth herein, at the Closing,

(i) Company shall sell, assign, transfer, convey and deliver to HK Purchaser, and HK Purchaser shall purchase and/or accept from Company, free and clear of any Encumbrances, all of Company’s right, title and interest in, to and under all of the Intellectual Property Assets, wherever located and whether now existing or acquired prior to the Closing; and Company, and each of the Company Subsidiaries, shall sell, assign, transfer, convey and deliver to Pakshi Purchaser, and Pakshi Purchaser shall purchase and/or accept from Company and each Company Subsidiary, free and clear of any Encumbrances, all of Company’s, and any Company Subsidiary’s, right, title and interest in, to and under all of the assets, properties and rights of every kind and nature, whether real, personal or mixed, tangible or intangible, wherever located and whether now existing or acquired prior to the Closing (other than the Excluded Assets and the Intellectual Property Assets), which relate to, or are used or held for use in connection with, the Business and to the extent they are accepted by the Purchaser on the day of Closing (collectively, the “Other Assets”), including, without limitation, the following:

(A) all inventory, finished goods, raw materials, work in progress, packaging, supplies, parts and other inventories, but excluding any inventory designated as obsolete on Schedule 2.1(a)(i)(A) of this Agreement (“Inventory”);

(B) all computers, telecommunications equipment, fixtures, machinery, installations, equipment (including, without limitation, all production equipment), hardware, software, furniture, tools, spare parts, supplies, materials, product lines, fixed assets, and other items of tangible personal property relating to, or used in connection with, the Business, including the items listed on Section 3.10 of the Disclosure Schedule (“Equipment”);

(C) all telephone numbers and all electronic mail addresses used in the Business;

(D) all rights under all Contracts, including Intellectual Property Licenses, customer orders, supplier orders, and other Contracts, to the extent as set forth or described on Schedule 2.1(a)(i)(D)(the “Assumed Contracts”);

(E) all Permits;

(F) all rights to any Actions of any nature available to or being pursued by Company, whether arising by way of counterclaim or otherwise;

(G) all of Company’s rights under warranties, indemnities and all similar rights against third parties to the extent related to any Acquired Assets;

(H) originals, or where not available, copies, of all machinery and equipment maintenance files, customer lists, customer purchasing histories, price lists, distribution lists, supplier lists, production data, quality control records and procedures, customer complaints and inquiry files, research and development files, records and data (including all correspondence with any Governmental Authority), sales material and records (including pricing history, total sales, terms and conditions of sale, sales and pricing policies and practices), strategic plans, internal financial statements, marketing and promotional surveys, material and research and intellectual property files relating to the Intellectual Property Assets and the Intellectual Property Licenses (“Records”);

(I) all insurance benefits, including rights and proceeds; and

(J) all goodwill and the going concern value of the Business.

Collectively, the Other Assets and the Intellectual Property Assets are referred to herein as the “Acquired Assets”).

(b) Excluded Assets. Notwithstanding the foregoing, the Acquired Assets shall not include the following assets (collectively, the “Excluded Assets”):

(i) all rights of Company under the Transaction Documents;

(ii) Contracts that are not Assumed Contracts;

(iii) the corporate seals, organizational documents, minute books, stock books, books and records compiled or maintained by Company related to the Company’s corporate existence as well as its financial and tax records, including, but not limited to, Tax Returns, books of account, ledgers and general, financial and accounting records or other records having to do with the corporate organization of Company (notwithstanding the foregoing, the Company agrees that Purchaser may keep copies of any such documents provided or Made Available);

(iv) the assets, properties and rights specifically set forth on Schedule 2.1(b)(iv).

(c) Assumed Liabilities. Subject to the terms and conditions set forth herein, Purchaser shall assume and agree to pay, perform and discharge the following, and only the following, Liabilities of Company (collectively, the “Assumed Liabilities”):

(i) all Liabilities in respect of the Assumed Contracts but only to the extent that such Liabilities thereunder are required to be first performed after the Closing Date, were incurred in the Ordinary Course of Business and do not relate to any failure to perform, improper performance, warranty or other breach, default, violation or tortious conduct by Company on or prior to the Closing Date;

(ii) all Liabilities for Taxes relating to the Acquired Assets and first arising in and solely with respect to the post-Closing period;

(iii) Liabilities arising out of the use by the Purchaser or its permitted licensees of the Intellectual Property Assets after the Closing Date; and

(iv) Without limiting the foregoing, those Liabilities of Company set forth on Schedule 2.1(c)(iv).

By way of clarification, HK Purchaser shall assume those Assumed Liabilities related to the Intellectual Property Assets and Pakshi Purchaser shall assume those Assumed Liabilities related to the Other Assets.

(d) Excluded Liabilities. Neither Pakshi Purchaser or HK Purchaser shall assume or be obligated to pay, perform, fulfill or discharge any Liability of Company, and Company will retain and remain responsible for all of Company’s Liabilities other than the Assumed Liabilities, regardless of when asserted (all such liabilities and obligations being herein called the “Excluded Liabilities”). Without limiting the foregoing, the Liabilities listed on Schedule 2.1(d) to this Agreement shall be Excluded Liabilities.

(e) Company Subsidiaries. Attached as Schedule 2.1(e) to this Agreement is a list of any Subsidiary Acquired Assets (as defined in the Joinder) owned by any Company Subsidiary, including identification of the Company Subsidiary or Subsidiaries that own such Subsidiary Acquired Asset(s). At the Closing, the Company will cause each Company Subsidiary transferring any Subsidiary Acquired Assets pursuant to this Agreement to execute and deliver a Joinder making certain representations and warranties regarding such Subsidiary Acquired Assets and joining in this Agreement as provided therein.

2.2 Payment of Purchase Price. The aggregate purchase price for the Acquired Assets (the “Purchase Price”) shall consist of the amounts set forth in this Section.

The Purchase Price is exclusive of VAT and VAT will be borne and paid by Purchaser in addition to the Purchase Price. Such VAT, for the entire amount of the Purchase Price, shall be paid by Purchaser to the VAT Authority directly on the 15th day of the calendar month following the Closing against receipt of a valid VAT invoice, unless prior to such payment, Purchaser shall provide Company with an approval from the Israeli VAT Authorities to act otherwise in

accordance with Section 20 of the Israeli VAT law. Company shall cooperate with Purchaser as may be reasonably required for obtaining such approval from the Israeli VAT Authorities. With respect to the Intellectual Property Assets Purchase Price, a zero-rating shall be applied for by HK Purchaser.

(a) Closing Payment.

(i) At the Closing, Purchaser shall pay to Company US\$ 4.5 million dollars (the "Purchase Price"), as adjusted pursuant to subparagraph (ii) below, in accordance with this Section 2.2(a). Initially, the entire amount shall be paid by HK Purchaser, but once the Closing Statement has been finalized in accordance with Section 2.5, the Purchase Price shall be allocated by the two Purchaser entities with respect to the Other Assets (such allocated amount, the "Other Assets Purchase Price") and the Intellectual Property Assets (such allocated amount, the "Intellectual Property Assets Purchase Price"). Purchaser shall provide notice of such allocations to Company, and such allocations shall be used by the Parties in any bookkeeping or Tax Returns.

(ii) At Closing, the Purchase Price will be increased or decreased by the amount that the "Estimated Closing Working Capital" is greater or less than US\$ 250,000. At least 3 Business Days prior to the anticipated Closing Date, Company will have prepared and delivered to Purchaser pursuant to the Parties' oral agreement an unaudited statement setting forth Company's good faith estimate of the Working Capital of Company as of immediately prior to the Closing (the "Estimated Closing Working Capital"), as determined in accordance with Schedule 2.3, together with reasonable supporting detail. If Purchaser objects to the calculations within 48 hours of receipt, the Parties have agreed to negotiate in good faith to resolve their differences respecting this calculation.

(iii) A portion of the Purchase Price payable to Company shall be allocated and paid to the Escrow Agent as the Escrow Amount, in accordance with Section 2.4 below and another portion shall be payable to satisfy applicable Tax withholding obligations as provided below, to the extent the Company has not provided a Qualified Withholding Certificate.

(iv) Pakshi Purchaser will reimburse HK Purchaser for any amounts HK Purchaser paid allocable to the Other Assets Purchase Price.

(b) Assumption of Liabilities. At the Closing, Pakshi Purchaser shall assume the Assumed Liabilities.

(c) Final Working Capital Adjustment. Within five days after the date on which the Closing Statement becomes final and binding in accordance with Section 2.5, (i) if there is a Working Capital Deficiency, then Company shall pay the amount of the Working Capital Deficiency to Purchaser (or such amount will be released and paid to Purchaser from the Escrow Account) and (ii) if there is a Working Capital Excess, then Pakshi Purchaser shall pay to Company the amount of the Working Capital Excess. The amount of the Working Capital Deficiency or the amount of the Working Capital Excess, as the case may be, shall be treated as an adjustment to the Purchase Price, to be allocated among the Other Asset Purchase Price and the Intellectual Property Purchase Price in the proportion which they bear to one another.

(d) Tax Withholding. Notwithstanding anything in this Agreement to the contrary, all amounts payable pursuant to the terms of this Agreement or the Joinder shall be subject to applicable Tax withholding requirements, and Purchaser and Escrow Agent shall be entitled to deduct or withhold or cause to be withheld from amounts payable pursuant to this Agreement any amount either Purchaser or Escrow Agent determines, in its sole discretion, is required to be deducted or withheld under Applicable Law with respect to Taxes; provided, however, that:

(i) if an applicable interim or final Israeli Tax ruling is obtained from the Israeli Tax Authority (the "ITA"), any withholding under the Israeli Tax Ordinance will be made in accordance with such Tax ruling (an "ITA Tax Ruling"), if Purchaser is provided with such ITA Tax Ruling at least three (3) Business Days prior to such payment being made pursuant to the terms of this Agreement;

(ii) if a Person entitled to receive a payment pursuant to the terms of this Agreement provides to Purchaser, Escrow Agent, and the Company, at least three (3) Business Days prior to the date of such payment, with an applicable exemption or confirmation of no or reduced-rate withholding issued by the ITA or other applicable Taxing Authority with respect to the payment of the Purchase Price setting forth, among other things, such Purchase Price (a "Qualified Withholding Certificate"), such payment shall be made subject to the withholding described in such Qualified Withholding Certificate;

(iii) to the extent that amounts are withheld, such amounts shall be paid to the ITA and a written proof of such payment shall be provided to the Company and such amounts shall be treated for all purposes of this Agreement as having been paid to the Persons with respect to whom such amounts were withheld.

2.3 Closing Statement. Within ninety (90) days from the Closing Date, Purchaser shall prepare and deliver to Company an unaudited statement (the "Closing Statement") of the Working Capital of Company as of immediately prior to the Closing (the "Closing Working Capital"), which shall be prepared in accordance with GAAP, regardless of any changes in GAAP following the date of this Agreement, as further described and modified by Schedule 2.3 hereto. Promptly upon Company's request, Purchaser shall make available to Company copies of the work papers and back-up materials used by Purchaser in preparing the Closing Statement and such other documents as Company may reasonably request in connection with its review thereof.

2.4 Escrow. At Closing, Purchaser shall deposit US\$ 2,225,065 (such amount comprised of US\$ 675,000 (15% of Purchase Price), US\$ 565,789 (amount payable to Bank), US\$ 488,700 (amount payable to OCS), US\$ 84,211 (amount payable to the landlord in connection with the Hod Hasharon Office Lease) and \$411,365 (amount payable to those licensors with regard to the Intellectual Property Licenses, as such parties are identified on Exhibit D to the Disclosure Schedules)) (the "Escrow Amount") (such amount to be paid by the HK Purchaser and then proportionately allocated between Pakshi Purchaser and HK Purchaser based on their portion of the overall Purchase Price, as determined by Purchaser) with an escrow agent jointly selected by Purchaser and the Company (the "Escrow Agent"), which amount shall be withheld from the Purchase Price. The Parties acknowledge and agree that the Escrow Amount shall be used (a) for securing the payment of certain Liabilities by the Company, as set forth in the Escrow Agreement, and (b) for the purpose of securing the Company's indemnification obligations pursuant to Article VI. The Escrow Amount shall be administered in accordance substantially with the provisions of an Escrow Agreement in the form attached hereto as Exhibit C (the "Escrow Agreement"), subject to negotiating terms acceptable to the Escrow Agent. The Escrow Amount shall be held as a trust fund and shall not be subject to any lien, attachment, trustee process or any other judicial process of any creditor of any Party and shall be held and disbursed solely for the purposes and in accordance with the respective terms of the Escrow Agreement.

2.5 Resolution of Certain Disputes. Within 30 days after Company's receipt of the Closing Statement, Company shall deliver to Purchaser a written statement either accepting the Closing Statement or specifying in reasonable detail, indicating each disputed item or amount and the basis for Company's disagreement therewith, any objections (a "Statement of Objections") thereto. If Company does not deliver a Statement of Objections within

such 30-day period, the Closing Statement shall become final and binding upon all parties. If Company does deliver a Statement of Objections within such 30-day period, and the parties cannot resolve such objections within 30 days after Purchaser's receipt thereof, any remaining disputes shall be resolved by an independent accounting firm in Israel mutually agreed upon by Company and Purchaser (the "Accounting Firm"). If the parties cannot agree on an Accounting Firm, then the matter will be submitted to arbitration and the arbitrator will pick the accountant in Israel, but there shall only be a one hour telephonic hearing before an American Arbitration Association qualified or appointed arbitrator with respect to this matter. The Accounting Firm shall be instructed to resolve such disputes within 45 days after its appointment, based solely on the presentations of Purchaser and Company as to whether such objections have been determined in a manner consistent with this Agreement. The Accounting Firm shall only decide the specific items under dispute by the parties and its decision for each disputed amount must be within the range of values assigned to each such item in the Closing Statement and the related Statement of Objections, respectively. The resolution of such disputes by the Accounting Firm shall be set forth in writing and shall be conclusive and binding upon all parties and the Closing Statement, as modified by such resolution, shall become final and binding upon the date of such resolution. The fees and expenses of the Accounting Firm shall be apportioned by the Accounting Firm between Company, on the one hand, and Purchaser, on the other hand, based on which party's claims were successful, and the parties shall pay the Accounting Firm in accordance with such determination. For example, if pursuant to this Section 2.5 Company submitted an objection affecting the Purchase Price in the amount of \$280,000 and prevailed as to \$70,000 of such amount, Purchaser will pay the entire fees and expenses of the Accounting Firm.

2.6 Consents and Approval: Failure to Obtain Third Party Consents. To the extent that Company's rights under any Contract or Permit constituting an Acquired Asset, or any other Acquired Asset, may not be assigned to Purchaser without the consent of another Person which has not been obtained, neither this Agreement nor the Assignment and Assumption Agreement shall constitute an agreement to assign the same if an attempted assignment would constitute a breach thereof or be unlawful. If any such consent shall not be obtained or if any attempted assignment would be ineffective or would impair Purchaser's rights under the Acquired Asset in question so that Purchaser would not in effect acquire the benefit of all such rights, Company, to the maximum extent permitted by law and the Acquired Asset, shall be deemed to be after the Closing as Purchaser's agent in order to obtain for it the benefits thereunder and shall cooperate, to the maximum extent permitted by Law and the Acquired Asset, with Purchaser in any other reasonable arrangement designed to provide such benefits to Purchaser.

2.7 Allocation of Purchase Price. The Purchase Price (including, for purposes of this Section 2.7, any other consideration paid to Company as well as the assumption of the Assumed Liabilities) shall be allocated among the Acquired Assets, including with respect to the Subsidiary Acquired Assets as defined in any Joinder, in the manner as agreed by the Parties (the "Allocation Schedule"). Within five days after the date on which the Closing Statement becomes final and binding in accordance with Section 2.5, the Parties will agree on the Allocation Schedule. Purchaser and Company all agree to file applicable Tax Returns in accordance with the Allocation Schedule.

2.8 Closing.

(a) Time and Place of Closing. The consummation of the transactions contemplated by this Agreement (the "Closing") shall take place at a virtual meeting (i.e., a meeting at which all deliveries may be effected by telephone, facsimile, email, PDF, wire transfer and/or similar means involving the exchange of electronic images of signed originals of documentation) to be held at the offices of the Company, on the date hereof at 8:00 a.m., Salt Lake City time and 5:00 p.m. Tel Aviv time, or at such other date as the parties may agree when all deliverables under subparagraph (b) and (c) of this Section have been delivered by the Parties (the "Closing Date") and at which meeting the various payments and deliveries contemplated by this Agreement to be made by the parties will be made. The Company has received approval of this transaction from the OCS, as attached hereto as Exhibit D (the "OCS Approval"), which approval is conditioned on approval by an appropriate court. Notwithstanding any other provision of this Agreement, the Closing shall not occur and the transactions contemplated by the provisions of this Agreement shall not occur until and unless (a) approval by the Central District Court, Petch Tikva, Israel (the "Court Approval") is obtained; and (b) such approval is on terms acceptable in the reasonable judgment of Purchaser, including terms to the effect that obligations of Company to the Bank and the OCS will be satisfied in full. All events which shall occur at the Closing shall be deemed to occur simultaneously with the execution and delivery of this Agreement.

(b) Company Closing Deliveries. At the Closing, and as a condition to Purchaser's payment of the Purchase Price, Company shall deliver to Purchaser:

(i) a true and correct copy of resolutions of Company's and Company Subsidiaries' Board of Directors approving this Agreement and the Transaction Documents (as applicable) and the transactions contemplated hereby and thereby;

(ii) a true and correct copy of resolutions of Company's and Companies' Subsidiaries' shareholders approving this Agreement and the Transaction Documents (as applicable) and the transactions contemplated hereby and thereby, to the extent such is required;

(iii) a counterpart of the Escrow Agreement duly executed by Company and by the Escrow Agent, which Exhibit B thereto must be in form satisfactory to the Parties;

(iv) bills of sale in the form attached hereto as Exhibit E (the "Bill of Sale") duly executed by Company;

(v) a Bill of Sale executed by each Company Subsidiary transferring any Acquired Assets owned by any such Company Subsidiary;

(vi) a counterpart of assignment and assumption agreements in the form attached hereto as Exhibit F (the "Assignment and Assumption Agreement") duly executed by Company;

(vii) a counterpart of an Assignment and Assumption Agreement duly executed by any Company Subsidiary transferring any rights pursuant to such an agreement;

(viii) a counterpart of all assignments and instruments necessary to transfer ownership of the registered Intellectual Property Assets, including (A) the Assignment of Intellectual Property Registrations and Intellectual Property Assets in the form attached hereto as Exhibit G, and (B) the Trademark Assignment Agreement in the form attached hereto as Exhibit H, (C) the Domain Name Assignment in the form attached hereto as Exhibit I; and (D) the Copyright Assignment in the form attached hereto as Exhibit J (collectively, the "Intellectual Property Assignments");

(ix) the consents listed in Section 3.4 of the Disclosure Schedule;

(x) signed opinion of Erdinast, Ben Nathan & Co., counsel to Company, in the form attached hereto as Exhibit K, dated as of the date of the Closing and addressed to Purchaser;

(xi) the Court Approval;

(xii) consent of Mizrahi Tefahot bank Ltd. (the "Bank") to the sale of the Acquired Assets contemplated hereunder and to release their charges from Acquired Assets;

(xiii) a duly executed Employee Waiver from each current Company Employee (which includes contractors);

(xiv) notice from the Company to the Registrar of Companies informing the registrar about its resolution to change its name to a different name, as contemplated by Section 5.5;

(xv) a copy of the Joinder, duly executed by each Company Subsidiary transferring any assets pursuant to this Agreement;

(xvi) duly executed petitions to revive the patents of the Company included in the Intellectual Property Assets, in form and substance to the reasonable satisfaction of Purchaser; and

(xvii) such other customary instruments of transfer, assumption, filings or documents, in form and substance reasonably satisfactory to Purchaser, as may be required to give effect to this Agreement, provided that such requirements shall not impose any unreasonable cost on or involve any unreasonable effort by the Company.

(c) Purchaser Closing Deliveries. At the Closing each Purchaser shall deliver to Company:

(i) a true and correct copy of the resolutions of each Purchaser's Board of Directors, approving this Agreement and the Transaction documents and the transactions contemplated hereby and thereby;

(ii) the consideration required of them as referred to in Section 2.2(a)(after deduction of the Escrow Amount) hereof;

(iii) a counterpart of the Escrow Agreement duly executed by each Purchaser and the Escrow Agent, which Exhibit B thereto must be in form satisfactory to the Parties;

(iv) a counterpart of the Assignment and Assumption Agreement duly executed by each Purchaser; and

(v) such other customary instruments of transfer, assumption, filings or documents, in form and substance reasonably satisfactory to Company, as may be required to give effect to this Agreement.

(d) Closing Matters Respecting Intellectual Property Assets.

(i) Upon the Closing, Company hereby sells, assigns, transfers, and conveys to HK Purchaser all right, title, and interest in and to the Intellectual Property Registrations and Intellectual Property Assets. Company understands and acknowledges that, if any of the Intellectual Property Assets are assigned to Company's affiliates or subsidiaries, Company may be required prior to Closing to perform certain actions to establish that Company is the assignee and to record such assignments. On or before Closing, Company will execute and deliver to Purchaser the Intellectual Property Assignments.

(ii) Upon the Closing, Company hereby also sells, assigns, transfers, and conveys to Purchaser all right, title, and interest in and to all:

(A) Inventions, invention disclosures, and discoveries described in patents identified Section 3.11(a) that: (I) are included in any claim in the patents; (II) are subject matter capable of being reduced to a patent claim in a reissue or reexamination proceeding brought on any of the patents; and/or (III) could have been included as a claim in any of the patents;

(B) Rights to apply in any or all countries of the world for patents, certificates of invention, utility models, industrial design protections, design patent protections, or other governmental grants or issuances of any type related to any of the patents identified in Section 3.11(a) and the inventions, invention disclosures, and discoveries therein;

(C) Causes of action (whether known or unknown or whether currently pending, filed, or otherwise) and other enforcement rights under, or on account of, any of the patents identified in Section 3.11(a), including, without limitation, all causes of action and other enforcement rights for: (I) damages; (II) injunctive relief; (III) any other remedies of any kind for past, current, and future infringement; and (IV) rights to collect royalties or other payments under or on account of any of the patents and/or any of the foregoing.

(iii) At the reasonable request of Purchaser, Company will execute and deliver such other instruments and perform such other acts and things as may be necessary or desirable for effecting completely the consummation of the transactions contemplated hereby, including, without limitation, execution, acknowledgment, and recordation of other such papers, and using commercially reasonable efforts to obtain the same from the respective inventors, as necessary or desirable for fully perfecting and conveying unto Purchaser the benefit of the transactions contemplated hereby. To the extent any attorney-client privilege or the attorney work-product doctrine applies to any portion of the Patent prosecution history files, Company will ensure that, if any such portion of the prosecution history files remain under Company's possession or control after Closing, it is not disclosed to any third party unless: (I) disclosure is ordered by a court of competent jurisdiction, after all appropriate appeals to prevent disclosure have been exhausted; and (II) Company gives Purchaser prompt notice upon learning that any third party sought or intended to seek a court order requiring the disclosure of any such portion of the prosecution history file. Company will also, at the reasonable request of Purchaser after Closing, assist Purchaser in providing and obtaining, from the respective inventors, prompt production of pertinent facts and documents, otherwise giving of testimony, execution of petitions, oaths, powers of attorney, specifications, declarations, or other papers, and other assistance reasonably necessary for filing patent applications or for enforcement or other

actions and proceedings with respect to claims under the patents identified in Section 3.11(a).

(iv) To the extent the patents include non-United States patents and patent applications, Company will deliver to Purchaser's representatives executed documents in a form as may be required in a non-United States jurisdiction in order to perfect the assignment to Purchaser of the non-United States patents and patent applications.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF COMPANY

Except as set forth in the correspondingly numbered Section of the Disclosure Schedules, Company represents and warrants to Purchaser as follows (the "Company's Representations"):

3.1 Organization and Qualification.

(a) Company is a private company duly organized, validly existing under the Laws of Israel and has full corporate power and authority to own, operate or lease the Acquired Assets owned or held by it, and to carry on the Business as currently conducted. Section 3.1(a) of the Disclosure Schedule sets forth each jurisdiction in which Company is licensed or qualified to do business, and Company is duly licensed or qualified to do business and is in good standing (to the extent such concept or a comparable status is recognized) in each jurisdiction in which the ownership of the Acquired Assets or the operation of the Business as currently conducted makes such licensing or qualification necessary except to the extent there has been a failure to make any payments necessary for the Company to be licensed, qualified to do business or in good standing, with the consequences thereof as set forth on Section 3.1(a) of the Disclosure Schedule.

(b) Except for the Company Subsidiaries and as set forth on Section 3.1(b) of the Disclosure Schedule, (i) Company does not own any shares of capital stock or any other equity interest in or control any other Person and (ii) is not a participant in any joint venture, partnership or similar arrangement and does not currently own or control, directly or indirectly, any interest in any other corporation, partnership, trust, joint venture, limited liability company, association, or other business entity.

3.2 Articles of Association; Minute Books. The Company has Made Available to Purchaser a complete and correct copy of the Articles of Association. The Articles of Association are in full force and effect, and have not been amended, restated, or superseded. The Company is not in material violation of any of the provisions of the Articles of Association.

3.3 Authorization. Company has full corporate power and authority to enter into this Agreement and the other Transaction Documents to which Company is a party, to carry out its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Company of this Agreement and any other Transaction Document to which Company is a party, the performance by Company of its obligations hereunder and thereunder and the consummation by Company of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of Company. This Agreement has been duly executed and delivered by Company, and (assuming due authorization, execution and delivery by Purchaser) this Agreement constitutes a legal, valid and binding obligation of Company enforceable against Company in accordance with its terms. When each other Transaction Document to which Company is or will be a party has been duly executed and delivered by Company (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of Company enforceable against it in accordance with its terms.

3.4 Consents and Approvals; Authority Relative to this Agreement. Subject to obtaining the consents, approvals and actions, making the filings and giving the notices specified in Section 3.4 of the Disclosure Schedule, the execution, delivery and performance by Company of this Agreement and the other Transaction Documents to which it is a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (a) conflict with or result in a violation or breach of, or default under, any provision of the Articles of Association, as amended to date, or any other governing organizational documents of Company, including any shareholders' agreement; (b) materially conflict with or result in a material violation or breach of any provision of any Law or Governmental Order applicable to Company, the Business or the Acquired Assets; (c) except as set forth in Section 3.4 of the Disclosure Schedule, require the consent, notice or other action by any Person under, materially conflict with, result in a material violation or breach of, constitute a material default or an event that, with or without notice or lapse of time or both, would constitute a default under, result in the acceleration of or create in any party the right to accelerate, terminate, modify or cancel any Contract or Permit to which Company is a party or by which Company or the Business is bound or to which any of the Acquired Assets are subject (including any Assumed Contracts) or (d) result in the creation or imposition of any Encumbrance on the Acquired Assets. Except as set forth on Section 3.4 of the Disclosure Schedule, no material consent, approval, Permit, Governmental Order, declaration or filing with, or notice to, any Governmental Authority is required by or with respect to Company in connection with the execution and delivery of this Agreement or any of the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby and the performance by Company of its obligations thereunder.

3.5 No Insolvency.

(a) Except in connection with the proceeding seeking the Court Approval, no order has been made, petition presented or meeting convened for the bankruptcy or winding up of the Company or for the appointment of any liquidator or in relation to any other process whereby the assets of the Company are distributed among its creditors and/or shareholders or other contributors, and there are no actions under any applicable bankruptcy, insolvency, reorganization or similar Applicable Laws.

(b) Except as may be so determined in the Court Approval, no receiver or trustee has been appointed in respect of the whole or any part of any of the property or assets of the Company nor has any such order been made (including, in any relevant jurisdiction, any other order by which, during the period it is in force, the affairs and assets of the Company are managed by a Person appointed for the purpose by a Governmental Authority or similar body).

The Company has initiated a voluntary liquidation process in connection with seeking the Court Approval. Other than such proceeding, the Company represents, warrants and undertakes that the consummation of Closing and/or the Company's obligations and undertakings hereunder will not cause or accelerate, in any manner, directly or indirectly, any event which can reasonably be expected to result during the period commencing on the Closing Date and ending three (3) months thereafter in any bankruptcy, insolvency, reorganization or similar proceeding, including the appointment of a trustee or receiver

with respect to the Company or any of its assets. The Company further represents, warrants and undertakes that, to its Knowledge, the Purchase Price exceeds all of the Company's Indebtedness which is due and payable within three months from the Closing Date.

3.6 Financial Statements; No Undisclosed Liabilities.

(a) Company has Made Available to Purchaser (i) the non GAAP audited balance sheets of Company as of December 31, 2010 and 2009 and the related profits and loss statements (income statements), and cash flows for the years then ended (collectively all such financial statements are referred to as the "Financial Statements"). Except as set forth on Section 3.6(a) of the Disclosure Schedule, the Financial Statements are true, correct and complete and fairly present, in all material respects, the financial position and results of operation of the Business as of the applicable dates and for the periods indicated. No information has come to the attention of Company since such respective dates that would indicate that such financial statements are not true and correct in all material respects as of the dates thereof

(b) Section 3.6(b) of the Disclosure Schedule sets forth the Liabilities of the Company as of the date of this Agreement, including any disputed Liabilities subject to Actions and set forth in Section 3.20 of the Disclosure Schedule.

3.7 [intentionally omitted]

3.8 Title to, Sufficiency and Condition of Assets. Subject to the claims that certain of the Company's vendors and employees may have against the Company with respect to the fact that the Company did not make due payments to such vendors and employees, in the amounts as specifically set forth on Section 3.8 of the Disclosure Schedule, Company has good and valid title to, and is the lawful owner of, all of the Acquired Assets, free and clear of any Encumbrance. Upon delivery to Purchaser of each of the Bill(s) of Sale and Assignment and Assumption Agreement (s), Company will thereby transfer to Purchaser good and marketable title to the Acquired Assets, subject to no Encumbrances except as specified in Section 3.8 of the Disclosure Schedule. The Acquired Assets are sufficient for the continued conduct of the Business after the Closing in substantially the same manner as conducted prior to the Closing and, except as set forth in Section 3.8 of the Disclosure Schedule, constitute all of the assets, properties and rights currently used by Company in the conduct of the Business.

3.9 Real Property.

(a) Company does not own and has never owned any real property, nor does it hold any option to acquire any real property.

(b) The Company leases office and warehouse space (the "Leased Premises") pursuant to the Office Leases, which Office Leases are included in the Acquired Assets. With respect to each Office Lease, subject to the fact that the lessor may have claims due to unpaid rent as set forth on Section 3.9(b) of the Disclosure Schedule (i) such lease is valid, binding, enforceable and in full force and effect; (ii) Company has not received nor given any notice of any default or event that with notice or lapse of time, or both, would constitute a default by Company under the lease and, to the Knowledge of Company, no other party is in default thereof, and no party to the lease has exercised any termination rights with respect thereto; (iii) Company has not subleased, assigned or otherwise granted to any Person the right to use or occupy any Leased Premises or any portion thereof; and (iv) Company has not pledged, mortgaged or otherwise granted an Encumbrance on its leasehold interest in the Leased Premises. (v) to the Knowledge of the Company, no parcel of either Office Lease is subject to any Governmental Order to be sold or is being condemned, expropriated or otherwise taken by any Governmental Authority nor, to the Knowledge of the Company, has any such action been proposed. Subject to obtaining the consents specified in Section 3.4 of the Disclosure Schedule and Company paying and past due required amount with respect to each Office Lease, each such Office Lease will remain valid and binding in accordance with its terms following the Closing

3.10 Equipment. Section 3.10 of the Disclosure Schedule is a true, correct and complete list of all Equipment owned by Company and having an individual book value in excess of \$5,000 and of each lease of Equipment having aggregate minimum lease payments in excess of \$5,000 binding upon Company. Company has Made Available to Purchaser true, correct and complete copies of any and all such Equipment leases.

3.11 Intellectual Property.

(a) Section 3.11(a) of the Disclosure Schedule is a true, correct and complete list of all (i) Intellectual Property Registrations and (ii) Intellectual Property Assets that are not registered but that are material to the operation of the Business. Company has Made Available to Purchaser a true, correct and complete copy of the file histories, documents, certificates, office actions, correspondence and other materials related to all Intellectual Property Registrations. Other than the representations and warranties set forth in this Section 3.11 and in Sections 3.8 and 3.12, as applicable, the Company does not and shall not be deemed to give any representation or warranty with respect to the Intellectual Property Assets, and the Intellectual Property Assets are being sold and transferred on an "AS IS" basis.

(b) Except as set forth on Section 3.11(b) of the Disclosure Schedule, Company owns all right, title and interest in and to the Intellectual Property Assets, free and clear of Encumbrances. Without limiting the generality of the foregoing, except as set forth on Section 3.11(b) of the Disclosure Schedule, Company has entered into binding, written agreements with every current and former Employee of Company, and with every current and former consultant and independent contractor, whereby such Employees, consultants and independent contractors (i) assign to Company any ownership interest and right they may have in the Intellectual Property Assets; and (ii) acknowledge Company's exclusive ownership of all Intellectual Property Assets. Company has Made Available to Purchaser true, correct and complete copies of all such agreements.

(c) Subject to Section 3.11(c) and except as specified in Section 3.11(c) of the Disclosure Schedule, no funding from or facilities of any Governmental Authority or university, college, other academic institution or research center was used in the creation or development of any Company Intellectual Property. Section 3.11(c) of the Disclosure Schedule sets forth a list of all current or former founders, employees, contractors, consultants, or other service providers of the Company that have contributed, in any way, to the authorship, conception, design or development of any Company Intellectual Property and that have performed services for any Governmental Authority, university, college, other academic institution or research center, or any other Person during a period of time during which (or, in the case of any Governmental Authority, for the twelve (12) months prior to and during which) such person was also performing services used in such authorship, conception, design or development of Company Intellectual Property (each, an "Overlapping Service Provider"), including the full name of such person, such time period, and the applicable Governmental Authority, university, college, other academic institution or research center, or other Person (each, an "Overlapping Entity"). Each Overlapping Entity has expressly waived any and all ownership rights, licensing rights, royalty rights, or other beneficial interests in or to the Company Intellectual Property arising from such Overlapping Entity's relationship with the applicable Overlapping Service Provider, and the Company has Made Available to Purchaser copies of all such waivers. The foregoing representation does not apply to any restrictions on the transfer, license or alienability of the Company Intellectual Property rights

under export control Laws.

(d) Notwithstanding anything to the contrary in this Agreement, the Parties recognize that the sale of the Acquired Assets contemplated hereunder requires the OCS Approval and the Court Approval.

(e) None of the Company Software or any products or Intellectual Property under development by the Company, directly or indirectly, is based upon, uses or incorporates any Intellectual Property that was developed using funding provided by the European Commission nor does the European Commission, any other Governmental Authority (other than the OCS) or any academic institution have any ownership interest in or right to restrict the sale, licensing, distribution or transfer of any Intellectual Property of the Company, Company Software or Company products. Except as set forth on Section 3.11(e) of the Disclosure Schedule, each item of Intellectual Property of the Company is freely transferable, conveyable and/or assignable by the Company to any entity located in any jurisdiction in the world without any restriction, constraint, control, supervision or limitation that could be imposed by the EU Office, any other Governmental Authority or any academic institution.

(f) The Company does not use or develop, or engage in, encryption technology, technology with military applications, or other technology, the development, commercialization or export of which is restricted under any Applicable Law, and the Company's business does not require the Company to obtain a Permit from the Israeli Ministry of Defense or any other authorized body thereof pursuant to: Section 2(a) of the Control of Products and Services Declaration (Engagement in Encryption), 1974, the Israeli Defense Export Control Law, 5766-2007, the Import and Export Order (Control of Dual-Purpose Goods, Services and Technology Exports), 5766-2006 and the Declaration Regarding the Control of Commodities and Services (Engagement in Encryption Items) - 5734-1974 or any other similar Applicable Laws.

(g) Section 3.11(g) of the Disclosure Schedule sets forth a true, correct and complete list of all Intellectual Property Licenses. Company has Made Available to Purchaser true, correct and complete copies of all such Intellectual Property Licenses. Except as set forth on Section 3.11(g) of the Disclosure Schedule, all such Intellectual Property Licenses are valid, binding and enforceable between Company and the other parties thereto, and Company and such other parties are in full compliance with the terms and conditions of such Intellectual Property Licenses.

(h) The Intellectual Property Assets and Intellectual Property Licenses as currently owned, licensed or used by Company or proposed to be used by Company, and the conduct of the Business as currently and formerly conducted by Company and proposed to be conducted by Purchaser have not and do not infringe, violate or misappropriate the Intellectual Property of any Person. Company has not received any communication, and to Company's Knowledge no Action has been instituted, settled or threatened, that alleges any such infringement, violation or misappropriation, and none of the Intellectual Property Assets are subject to any outstanding Governmental Order.

(i) Section 3.11(i) of the Disclosure Schedule is a true, correct and complete list of all licenses, sublicenses and other agreements pursuant to which Company grants rights or authority to any Person with respect to any Intellectual Property Assets or Intellectual Property Licenses. Company has Made Available to Purchaser true, correct and complete copies of all such agreements. All such agreements are valid, binding and enforceable between Company and the other parties thereto, and Company and to Company's Knowledge such other parties are in full compliance with the terms and conditions of such agreements. To Company's Knowledge, no Person has infringed, violated or misappropriated, or is infringing, violating or misappropriating, any Intellectual Property Assets.

(j) To Company's Knowledge, there is no pending or, threatened Action challenging the registrability of any Intellectual Property owned by Company including Actions pursuant to Chapter 6, Article 1 of the Israel Patents Law (1967), as amended. Company has no notice of any, or Knowledge of any basis for any, claim that the operations, activities, Software, Equipment, machinery or processes of the Business infringe, misappropriate, or violate any Intellectual Property or any such rights of any other Person.

(k) To Company's Knowledge, there is no basis for any action with respect to infringement by, misappropriation of, dilution of, violation of or unauthorized use of the Intellectual Property Assets.

3.12 Software.

(a) Except as set forth on Section 3.12(a) of the Disclosure Schedule, the Software owned, or purported to be owned, by Company, including any Software making up the Company's website (the "Company Owned Software"), was either (i) developed by employees of Company within the scope of their employment thereby or (ii) developed by independent contractors who have assigned all of their right, title and interest therein to Company pursuant to written agreements. Except as set forth in Section 3.12(a) of the Disclosure Schedule, none of the Company Owned Software contains any code, documentation or other materials or development environments that embody Intellectual Property of any Person other than Company. Section 3.12(a) of the Disclosure Schedule is a true, correct and complete copy of the most recent "bug list" with respect to the Company's Software.

(b) Section 3.12(b) of the Disclosure Schedule is a true, correct and complete list of and description of all Software, other than Company Owned Software, licensed to or used by Company and with respect to each such item of Software the number or type of installations thereof and nature and physical location of proofs of purchase of the related license thereof to the extent the Software is not Company Owned Software.

(c) Company has no duty or obligation (whether present, contingent, or otherwise) to deliver, license, or make available the source code for any Company Owned Software, to any escrow agent or other Person.

(d) Section 3.12(d) of the Disclosure Schedule is a true, correct and complete list and description of: (i) each item of Open Source Code that is contained in, distributed with, or used in the development of the Software or from which any part of any Software is derived; (ii) the applicable license terms for each such item of Open Source Code and (iii) the product and services to which each such item of Open Source Code relates. Except as set forth in Section 3.12(d) of the Disclosure Schedule, to the Knowledge of the Company, no Company Owned Software contains, is derived from, is distributed with, or is being or was developed using Open Source Code that is licensed under any terms that (i) impose or could impose a requirement or condition that any Company Owned Software or part thereof: (A) be disclosed or distributed in source code form; (B) be licensed for the purpose of making modifications or derivative works or (C) be redistributable at no charge or (ii) otherwise impose or could impose any other limitation, restriction, or condition on the right or ability of Company to use or distribute such Company Owned Software.

3.13 Contracts.

(a) Section 3.13(a) of the Disclosure Schedule is a true, correct and complete list of all Contracts that are material to the Acquired

Assets or the operation of the Business to which any of the Acquired Assets are subject (together with the Contracts relating to Intellectual Property required to be listed on Section 3.11(a) of the Disclosure Schedule, the "Material Contracts").

(b) Company has Made Available to Purchaser a true, correct and complete copy of each Contract listed in Section 3.13(a) of the Disclosure Schedule.

(c) Subject to the fact that the Company did not make certain due payments under certain Material Contract, as set forth on Section 3.13(c) of the Disclosure Schedule, each Material Contract is valid and binding on Company in accordance with its terms and to the Company's Knowledge is in full force and effect.

3.14 Permits. Section 3.14 of the Disclosure Schedule is a true, correct and complete list of all Permits owned or held by Company including their dates of expiration. Except as set forth on Section 3.14 of the Disclosure Schedule, all fees and charges with respect to the Permits so listed have been paid in full and such are in full force and effect. Company has not received any notice that any such Permit will be revoked or canceled and Company has no Knowledge of any basis under which any such Permit may be revoked or cancelled. Except for the Permits listed on Section 3.14 of the Disclosure Schedule there are no Permits that are necessary to entitle Company to own or lease, operate and use the Acquired Assets or are otherwise necessary for the lawful operation of the Business as it is currently conducted or proposed to be conducted.

3.15 Insurance. Section 3.15 of the Disclosure Schedule is a true, correct and complete list of all policies of fire, liability, workers' compensation and other forms of insurance owned or held by Company and all claims made or notices given by Company thereunder since January 1, 2010. Company has Made Available to Purchaser true, correct and complete copies of all such policies.

3.16 Employee Benefit Plans and Employment Agreements.

(a) Section 3.16(a) of the Disclosure Schedule, sets forth an accurate and complete list of each employee benefit, employment, personal services, collective bargaining agreement, extension order, compensation, sick leave program, pension, managers insurance, continuing education fund or other provident fund, retirement, savings, thrift, deferred compensation, performance, incentive compensation, stock ownership, stock purchase, stock option, unemployment compensation, vacation or holiday pay, accelerated termination or severance entitlement, severance pay, change of control, retention, personnel policy, bonus, hospitalization or other medical, disability, life, incapacity or other insurance, fringe benefit arrangement or other welfare, retiree welfare or benefit plan, policy, trust, understanding or arrangement, custom or practice that may provide for payment or other benefits of any kind, whether written or oral which covers any current Employee of Company. It is hereby clarified that Section 3.16(a) of the Disclosure Schedule shall not include the Employees' protected personal information.

(b) A true, correct and complete copy of each of the plans, arrangements and agreements listed in Section 3.16(a) of the Disclosure Schedule (collectively, the "Benefit Plans"), each as in effect on the date hereof, has been Made Available to Purchaser. There are no loans or advances by Company to any of the Employees.

(c) Except for the Benefit Plans, Company is not subject to, nor do any of the Employees benefit from, any agreement, arrangement, understanding or custom, whether oral or written, between or among any of the Employees, on one hand, and Company, on the other hand.

3.17 Employment and Labor Matters.

(a) Section 3.17(a) of the Disclosure Schedule is a true, correct and complete list of all Persons who are Employees of the Business as of the date hereof, and sets forth for each such individual the following: (i) name; (ii) employment location; (iii) title or position (including whether full or part time); (iv) hire date; (v) current annual base compensation rate; (vi) commission, bonus or other incentive-based compensation; and (vii) a description of the fringe, social benefits and any bonus or commitment to pay any other amount or benefit in connection with termination of employment or engagement or otherwise (including all remuneration payable, vacation pay or paid time off balances, recuperation pay balances, illness pay balances, fringe benefits, balances in provident or pension funds, managers insurance, continuing education fund, any profit sharing commission, statutory and non-statutory severance pay, prior notice, compensation and damages rights regarding employment termination, the number of shares underlying any options or rights to acquire stock of Company, the vesting schedule and exercise price of such rights or options, the number of shares of stock of Company granted as compensation and the vesting schedule and value upon grant of such shares), if applicable, of all Employees with an indication whether any such Employees are on any type of leave of absence and its duration.

(b) Other than as set forth on Section 3.17(a) of the Disclosure Schedule, there is no Person that may be deemed to be an employee of Company employed in the Business.

(c) Except for such payments that have not been duly made and are listed in Section 3.17(c) of the Disclosure Schedule, as of the date hereof, all compensation, wages, salaries, benefits, commissions, bonuses, social and fringe benefits payable to or otherwise arising or due under any Law, plan, policy, practice, program, or agreement, whether oral or written to Employees have been paid in full and there are no outstanding agreements, understandings or commitments of Company with respect to any commissions, bonuses or increases in compensation. All amounts which Company is legally or contractually required to deduct from the Employees' salaries or compensation or transfer to such employees' pension or provident, life insurance, incapacity insurance, continuing education fund or otherwise, have been duly paid into the appropriate fund or funds, and Company has no outstanding obligation to make any such transfer or provision.

(d) Other than as set forth in Section 3.17(d), Company is not a party to, has any liability with respect to or otherwise bound by, any collective bargaining, extension order issued by the Israeli Ministry Industry, Trade and Labor or other Contract with a labor organization representing any of its Employees, and there are no labor organizations representing, purporting to represent or, to Company's Knowledge, attempting to represent any Employee. There has never been, nor has there been any threat of, any strike, slowdown, work stoppage, lockout, concerted refusal to work overtime or other similar labor activity or dispute affecting Company or any of its Employees.

(e) Except for such payments that have not been duly made and are listed in Section 3.17(c) of the Disclosure Schedule, Company is and has been in compliance with all applicable Laws pertaining to employment and employment practices to the extent they relate to the Employees, including all Laws relating to labor relations, equal employment opportunities, fair employment practices, employment discrimination, harassment, retaliation, reasonable accommodation, disability rights or benefits, immigration, wages, hours, overtime compensation, child labor, health and safety, workers' compensation, leaves of absence and unemployment insurance, terms and conditions of employment and engagement.

(f) To the Knowledge of Company none of its respective representatives or Employees have committed any unfair labor practices in connection with the operations of the Business.

(g) Other than as set forth in Section 3.17(g) of the Disclosure Schedule, there are no Actions against Company pending, or to the Company's Knowledge, threatened to be brought or filed, by or with any Governmental Authority or arbitrator in connection with the employment of any current or former Employee of the Business, including, without limitation, any claim relating to unfair labor practices, employment discrimination, harassment, retaliation, wrongful termination, workers compensation, disability, equal pay or any other employment related matter arising under applicable Laws.

(h) To Company's Knowledge, no Employee, officer, independent contractor, director or Affiliate of Company has any direct or indirect interests in the business of Company's competitors.

(i) Other than as set forth in Section 3.17(i), since January 1, 2010, there has been no labor dispute pending or, to Company's Knowledge, threatened, against Company.

(j) To Company's Knowledge, no Employee has violated the terms or conditions of any employment contract, proprietary invention assignment agreement, company confidentiality policy or any other similar contract or agreement to which such Employee is a party or bound.

3.18 Taxes.

(a) All Tax Returns required to be filed by Company for any pre-Closing Tax period have been, or will be, timely filed. Such Tax Returns are, or will be, true, complete and correct in all respects. Except as specified in Section 3.18(a) of the Disclosure Schedule, all Taxes due and owing by Company and its shareholders (whether or not shown on any Tax Return) have been, or will be, timely paid. Except as specified in Section 3.18(a) of the Disclosure Schedule, all deficiencies asserted, or assessments made, against Company or its shareholders as a result of any examinations by any taxing authority have been fully paid.

(b) The Company has not requested nor received an extension of time to file any Tax Return and has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(c) There is no Action pending or proposed or threatened with respect to Taxes and, to Company's Knowledge, no basis exists therefor, nor is there any basis for any of such action.

(d) All Taxes which Company is required by Law to withhold or collect and amounts required to be withheld for Taxes of employees and other withholding taxes, have been duly withheld or collected and, to the extent required, have been paid over to the proper Governmental Authorities or are held in separate bank accounts for such purpose. Company has complied with all information reporting and backup withholding requirements.

(e) Except as specified in Section 3.18(e) of the Disclosure Schedule, the Company has timely paid all Taxes that have become due and payable, and the Company has adequately provided in the Financial Statements (without regard to any footnotes) for all Taxes accrued through the date of such Financial Statements that were not yet due and payable as of the date thereof. All Taxes of the Company accrued following the end of the most recent period covered by the Financial Statements have been accrued in the ordinary course consistent with past practice and do not exceed comparable amounts incurred in similar periods (or partial periods, as applicable) in prior years (taking into account any changes in the Company's operating results). The Company has, in full compliance with Applicable Law, including any applicable double tax treaty requirements, withheld and paid all Taxes required to be withheld and paid in connection with any amounts paid, deemed paid, or owing to any Person.

(f) No item of income or gain reported by the Company for financial or statutory accounting purposes in any period prior to the Closing Date will be required to be included in the taxable income of the Company in any period following the Closing Date, and no item of loss or deduction of the Company required to be reported for financial or statutory accounting purposes in any period following the Closing Date was claimed as a deduction from taxable income in any period prior to the Closing Date. The Company has not taken any action other than in accordance with past practice that would have the effect of deferring a measure of Tax (including income, sales, gross receipts or payroll) from a period (or portion thereof) ending on or prior to the Closing Date to a period (or portion thereof) beginning after the Closing Date. The Company has not agreed to or will be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any change in method of accounting for Tax purposes for a taxable period or portion thereof ending on or prior to the Closing Date or any provision of Applicable Law that defers income realized or accelerated deductions otherwise accrued in accordance with Applicable Law prior to the Closing Date. No election has been made with respect to Taxes of the Company in any Tax Return that has not been Made Available to Purchaser. No Taxing Authority has operated or agreed to operate any special arrangement (being an arrangement which is not directly based on relevant legislation, even if based on any published practice, including rulings and agreements with such Taxing Authority) or has agreed on any compromise in relation to the affairs of the Company.

(g) The Company is not a party to or bound by any obligation under any Tax sharing, Tax allocation, Tax indemnity or similar agreement or arrangement.

(h) The Company has computed, reported, and utilized any losses to be carried forward, if applicable, in an accurate and timely manner. There is currently no limitation on the utilization of net operating losses, capital losses, built-in losses, Tax credits or similar items of the Company.

(i) Exhibit L to the Agreement sets forth a correct and complete list of all Tax Returns of the Company required to be filed following the Closing Date with respect to any period or portion thereof prior to the Closing Date.

(j) The Company has at all times been resident for Tax purposes in its place of organization and is not and has not at any time been treated as resident in any other jurisdiction for any Tax purpose (including any double taxation arrangement). The Company is not or has not been subject to Tax in any jurisdiction other than its place of organization by virtue of having a permanent establishment, a permanent representative or other place of business or taxable presence in the jurisdiction. No claim has been made by a Taxing Authority where the Company does not file a particular type of Tax Return that the Company is required to file such Tax Return or may be subject to Tax with respect to such Tax Return, nor is there any basis for any such

claim.

(k) For all applicable Tax purposes and during all relevant times, the Company has properly treated as an employee each person required to be treated as an employee of the Company.

(l) The Company is not a party to any joint venture, partnership or other Contract that would reasonably be expected to be treated as a partnership for any Tax purposes.

(m) No transaction in respect of which any consent or clearance was required or sought from any Taxing Authority has been entered into or carried out by the Company, without such consent or clearance having first been properly obtained and all information supplied to any Taxing Authority or other appropriate authority in connection with any such consent or clearance having fully and accurately disclosed all facts and circumstances relevant to the giving of such consent or clearance. Any transaction for which such consent or clearance was obtained has been carried out only in accordance with the terms of such consent or clearance and the application on which such consent or clearance was based and at a time when such consent or clearance was valid and effective. No facts or circumstances have arisen since any such consent or clearance was obtained which would cause the consent or clearance to become invalid or ineffective.

(n) The Company has not been involved in a business merger, share-for-share merger, legal merger, assets-for-shares transfer, or legal demerger (split).

(o) The Company has complied with all Laws concerning VAT, including with respect to the timely filing of complete and correct VAT Tax Returns and the timely making of payments and the maintenance of records, and the Company cannot be subjected to a revision of its VAT position, leading to a recapture of VAT deducted on or before the Closing Date. The Company has not made any exempt supplies in the current or preceding VAT year applicable to them and there are no circumstances by reason of which there might not be a full entitlement to credit for all VAT chargeable on supplies and acquisitions received and imports made (or agreed or deemed to be received or made) by them. In case any VAT payable has been offset against a VAT receivable (*i.e.*, recoverable VAT), the amount of the VAT receivable has been computed and reported in an accurate manner. The Company is only registered for VAT purposes in the jurisdiction in which it is incorporated.

(p) The Company has Made Available to Purchaser all documentation relating to, and the Company is in compliance with all terms and conditions of, any Tax exemption, Tax incentive, Tax holiday or other Tax reduction agreement or order, including the "Approved Enterprise," "Benefited Enterprise," or "Preferred Enterprise" status of the Company for purposes of Israeli Tax law, as defined in the Law for the Encouragement of Capital Investments 5719-1959 (a "Tax Incentive"). The Company states that: (a) no claim or challenge has been made by any Taxing Authority or Governmental Authority with respect to the Company's entitlement to any Tax Incentive; and (b) subject to receipt of any approvals required herein, consummation of the transactions contemplated by this Agreement will not adversely affect the continued qualification for the Tax Incentives or the terms or duration thereof or require any recapture of any previously claimed Tax Incentive. The Company further represents and warrants that as of the Closing Date, the benefits period under any applicable Tax Incentive has not commenced.

(q) The Company and the Company's shareholders (solely with respect to their holdings in the Company) are not subject to any restrictions or limitations pursuant to Part E2 of the Israeli Tax Ordinance, or pursuant to any Tax ruling made in connection with the provisions of said Part E2.

(r) The Company has not undertaken any transaction which will require special reporting or disclosure statements in any Tax Return or otherwise, related to any tax shelter, tax avoidance transaction or aggressive tax planning as identified by notice, regulation or other form of published guidance under any Applicable Law, including but not limited to Section 131(g) of the Israeli Tax Ordinance and the Israeli Income Tax Regulations (Tax Planning Requiring Reporting), 2006.

(s) There are no Tax liens (other than liens for Taxes not yet due and payable) upon the Acquired Assets.

(t) Company has not granted or been requested to grant any waiver of any statutes of limitations applicable to any claims for Taxes.

(u) The Company has Made Available to Purchaser complete and correct copies of any Tax ruling obtained from the ITA and applications therefor which may be applicable to the transactions contemplated hereunder or the Acquired Assets.

3.19 Compliance with Laws. Except for such payments that have not been duly made and are listed in Section 3.19 of the Disclosure Schedule, Company has complied and is in compliance with all Laws applicable to or binding on it, the operation of the Business or the ownership and use of the Acquired Assets (including any labor, environmental, occupational health, zoning or other law, regulation or ordinance). Company has not received written notice from any Governmental Authority claiming any violation by Company of any Law.

3.20 Litigation; Governmental Orders. Except as set forth in Section 3.20 of the Disclosure Schedule, there are no Actions pending or, to Company's Knowledge, threatened, against or by Company or any of its officers, directors, Employees, consultant, contractors or shareholders in their capacity as such (a) relating to or affecting the Business, the Acquired Assets or the Assumed Liabilities or (b) that challenge or seek to prevent, enjoin or otherwise delay the transactions contemplated by this Agreement. No event has occurred or circumstances exist that may give rise to, or serve as a basis for, any such Action. There are no outstanding Governmental Orders and no unsatisfied judgments, penalties or awards against, relating to or affecting the Business. For clarity, the Company warrants that with respect to the matters set forth in Section 3.20 of the Disclosure Schedule, no claim referenced therein asserts a right of lien or other Encumbrance against any of the Acquired Assets.

3.21 Customers and Suppliers.

(a) Section 3.21(a) of the Disclosure Schedule sets forth with respect to the Business (i) each customer who has paid aggregate consideration to Company for goods or services rendered in an amount greater than or equal to \$10,000 for each of the two most recent fiscal years (collectively, the "Material Customers"); and (ii) the amount of consideration paid by each Material Customer during such periods. To the Company's Knowledge, the Company has not received any notice, and has no reason to believe, that any of the Material Customers has ceased, or intends to cease after the Closing, to use the goods or services of the Business or to otherwise terminate or materially reduce its relationship with the Business.

(b) Section 3.21(b) of the Disclosure Schedule sets forth with respect to the Business each of the suppliers that the Company reasonably deems to be a material supplier with whom the continued engagement is necessary for the continuation of the business by the Purchaser (a "Material Supplier"). To the Company's Knowledge, Company has not received any notice, and has no reason to believe, that any of the Material Suppliers has ceased, or intends to cease, to supply goods or services to the Business or to otherwise terminate or materially reduce its relationship with the Business.

3.22 Domain Names.

(a) Section 3.22(a) of the Disclosure Schedule is a true, correct and complete list (by name, owner, Gtld or ccTLD, registrar and expiration date) of all domain names that are owned by Company (whether exclusively, jointly with another Person or otherwise) and are necessary for the operation of the Business as it is currently conducted or proposed to be conducted ("Domain Names"), together with user name, password and "whois" information for such domain name necessary to effect a revision of and to each registration record. Company owns the entire right, title and interest to all Domain Names, free and clear of all Encumbrances. Each Domain Name is validly and properly registered to Company and reflects "whois" information that is accurate, correct and up-to-date and was validly and legally obtained, including in compliance with the procedures or policies of, and were registered without fraud or misrepresentation to, ICANN or any other applicable domain name registry or registrar and without infringement or misappropriation of the Intellectual Property Rights of any Person.

(b) There have been no challenges to the ownership or use by Company of any Domain Name used, owned or purported to be owned by it and to the Knowledge of Company there are no facts which would constitute a basis for such a challenge.

3.23 Product Quality.

(a) Company's products perform on a consistent basis, in all respects, the functions described in the agreed specifications and end-user documentation and customer agreements, subject only to routine bugs and errors that can be corrected by Company in the course of providing customer support without further liability to Company. Company's products do not contain or make available any disabling codes or instructions, spyware, Trojan horses, worms, viruses, back doors, drop dead devices, time bombs (as such terms are commonly understood in the Software industry) or other Software routines that permit or cause unauthorized access to, or disruption, impairment, disablement, or destruction of, Software, data, systems or other materials.

(b) All development services, support services, training services, upgrade services and other services that have been performed by Company were performed properly and in all material respects in conformity with the applicable Laws and Contracts.

3.24 Certain Business Practices.

(a) Neither Company nor any director, officer, agent, employee, contractor or consultant of Company, or any other Person associated with or acting for or on behalf of Company, has directly or indirectly, including by corporate or other funds: (i) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person, private or public, including to U.S. or non-U.S. government officials or employees or to U.S. or non-U.S. political parties or campaigns regardless of form, whether in money, property, or services; (A) to obtain favorable treatment or an improper advantage in securing business; (B) to pay for favorable treatment for business secured or (C) to obtain special concessions or for special concessions already obtained, for or in respect of Company or any Affiliate of Company, all of which, including, but not only, by violating any provision of the Foreign Corrupt Practices Act of 1977, as amended, the United Kingdom Bribery Act 2010, Title 5 of the Israeli Penalty Law (Bribery Transactions), the Israeli Prohibition on Money Laundering Law, 2000, or any other comparable Applicable Law or (ii) established or maintained any fund or asset that has not been recorded in the books and records of Company. The Company has not entered into any transaction with any of its Affiliates that has provided to the Company revenues, earnings or assets that would not have been available to it in an arm's length transaction with an unaffiliated Person. The books, records and accounts of the Company have at all times accurately and fairly reflected, in reasonable detail, the transactions and dispositions of its funds and assets. Except as disclosed on Section 3.24 of the Disclosure Schedule, there have never been any false or fictitious entries made in the books, records or accounts of the Company relating to any illegal payment or secret or unrecorded fund, and the Company has not established or maintained a secret or unrecorded fund.

(b) Company has (i) not exported or transmitted Software or other material or items, including technological data, in connection with the Business to any country, or Made Available to non-United States citizens, with respect to which such export, transmission or availability is restricted by any Law, without first having obtained all legally required authorizations and (ii) except for noncompliance which does not have Material Adverse Effect on the Business or the Acquired Assets, maintained all records to the extent required by any Law.

3.25 Brokers. Except as set forth in Section 3.25 of the Disclosure Schedule, no agent, broker, finder, investment banker, financial advisor or other Person retained or engaged by Company or any of its Affiliates or any Person acting on its behalf is or will be entitled to any brokers' or finders' fee or any other commission or similar fee in respect of any of the transactions contemplated by this Agreement.

3.26 Environmental Matters. Company is in compliance with all applicable Environmental, Health, and Safety Requirements. Company has not received any written notice (or, to the Knowledge of Company, other communication), whether from a Governmental Authority, citizens group, Employee or otherwise, that alleges that Company is not in compliance with any Environmental, Health, and Safety Requirements and there are no circumstances that may prevent or interfere with Company's compliance with any Environmental, Health, and Safety Requirements in the future. To the Knowledge of Company, no current or prior owner of any property leased or controlled by Company has received any written notice (or, to the Knowledge of Company, other communication), whether from a Governmental Authority, citizens group, Employee or otherwise, that alleges that such current or prior owner or Company is not in compliance with any Environmental, Health, and Safety Requirements.

3.27 Government Grant Programs. Except as set forth on Section 3.27 of the Disclosure Schedule, Company has no Liability due to any pending or outstanding grants, tax benefits, incentives and/or subsidies from the Government of the State of Israel or any agency thereof related, including, without limitation, from the OCS.

3.28 No US Operations. Except as set forth on Section 3.28 of the Disclosure Schedule, Company does not conduct and has not conducted operations in, has no employees or contractors in, and does not receive and has not received any income from any source located within the United States of America.

3.29 Disclosure. No representation or warranty of Company in this Agreement, no statement in the Disclosure Schedule and no document delivered pursuant hereto by Company contains any untrue statement or omits to state a material fact necessary to make the statements herein or therein, in light of the circumstances in which they were made, not misleading. Except for those matters disclosed in this Agreement and the Disclosure Schedule, there are no facts not disclosed in this Agreement or the Disclosure Schedule which, if learned by Purchaser, might reasonably be expected to materially diminish Purchaser's evaluation of the value of the Acquired Assets or which, if learned by Purchaser or Company, might reasonably be expected to deter Purchaser from completing the transactions contemplated by this Agreement on the terms and conditions contemplated hereby.

The Company's Representations are the only representations and warranties made by the Company with respect to the Business, the Company, the Acquired Assets and the Assumed Liabilities. Except as specifically set forth in this Agreement or any other Transaction Agreement, (a) the Company's is selling the Acquired Assets "as is" and "where is" and with all faults and makes no warranty, express or implied, as to any matter whatsoever relating to the Business, the Acquired Assets or the Assumed Liabilities, and (b) none of the Company, or any of its officers, directors, employees or Representatives will have or will be subject to any liability or indemnification obligation to the Purchaser or any other person resulting from the distribution to the Purchaser, its Affiliates or representatives of, or the Purchaser's use of, any information relating to the Business including, without limitation, any descriptive memoranda, summary business descriptions or any information, documents or material Made Available to the Purchaser or its Representatives, whether orally or in writing, in certain "data rooms," management presentations, functional "break-out" discussions, responses to questions submitted on behalf of the purchaser or in any other form in expectation of the contemplated transactions.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PURCHASER

Each Purchaser represents and warrants to Company that the statements contained in this Article IV are true and correct as of the date hereof.

4.1 Organization of Purchaser. Pakshi Purchaser is a corporation duly incorporated and validly existing under the laws of the State of Israel. HK Purchaser is a private limited company duly and validly existing under the laws of Hong Kong.

4.2 Authority of Purchaser. Purchaser has full corporate power and authority to enter into this Agreement and the other Transaction Documents to which Purchaser is a party, to carry out its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Purchaser of this Agreement and any other Transaction Document to which Purchaser is a party, the performance by Purchaser of its obligations hereunder and thereunder and the consummation by Purchaser of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of Purchaser. This Agreement and the Transaction Documents has been duly executed and delivered by Purchaser, and (assuming due authorization, execution and delivery by Company) this Agreement constitutes a legal, valid and binding obligation of Purchaser enforceable against Purchaser in accordance with its terms. When each other Transaction Document to which Purchaser is or will be a party has been duly executed and delivered by Purchaser (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of Purchaser enforceable against it in accordance with its terms.

4.3 No Conflicts; Consents. The execution, delivery and performance by Purchaser of this Agreement and the other Transaction Documents to which it is a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (a) conflict with or result in a violation or breach of, or default under, any provision of the Articles of Association of Purchaser, as amended to date, or any other organizational documents of Purchaser; (b) conflict with or result in a violation or breach of any provision of any Law or Governmental Order applicable to Purchaser; or (c) require the consent, notice or other action by any Person under any Contract to which Purchaser is a party. No consent, approval, Permit, Governmental Order, declaration or filing with, or notice to, any Governmental Authority is required by or with respect to Purchaser in connection with the execution and delivery of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby, except for such consents, approvals, Permits, Governmental Orders, declarations, filings or notices which, in the aggregate, would not have a Material Adverse Effect.

4.4 Brokers. No agent, broker, finder, investment banker, financial advisor or other Person retained or engaged by Purchaser or any of its Affiliates or any Person acting on its behalf is or will be entitled to any brokers' or finders' fee or any other commission or similar fee in respect of any of the transactions contemplated by this Agreement.

4.5 Litigation. There is no legal proceeding pending or, to the Purchaser's Knowledge, threatened against the Purchaser which questions or challenges the validity of this Agreement or the ability of the Purchaser to consummate any of the contemplated transaction.

4.6 Investigation. The Purchaser has conducted its own independent investigation, review and analysis of the business, operations, assets, liabilities, results of operations, financial condition and prospects of the Business, which investigation, review and analysis was done by the Purchaser and its Representatives. The Purchaser is aware of the Company's financial condition and is aware of certain defaults in payments, to the extent as set forth in the Disclosure Schedules. The Purchaser acknowledges that it and its representatives have been provided adequate access to the personnel, properties, premises and records of the Business for such purpose. In entering into this Agreement, the Purchaser acknowledges that it has relied solely upon the aforementioned investigation, review and analysis and not on any factual representations or opinions of the Company or its Representatives (except the Company Representations). The Purchaser hereby acknowledges and agrees that (a) other than the Company Representations, the Company or any of its officers, directors, employees or Representatives did not make or have not made any representation or warranty, express or implied, at law or in equity, with respect to the Business, the Acquired Assets or the Assumed Liabilities including as to (i) merchantability or fitness for any particular use or purpose, (ii) the operation of the Business by the Purchaser after the Closing in any manner or (iii) the probable success or profitability of the Business after the Closing, and (b) the Company or any of its officers, directors, employees or Representatives will not have or will not be subject to any Liability or indemnification obligation to the Purchaser or any other person resulting from the distribution to the Purchaser (except as expressly set forth herein), its Affiliates or representatives of, or the Purchaser's use of, any information relating to the Business, including, without limitation, any descriptive memoranda, summary business descriptions or any information, documents or material made available to the Purchaser or its representatives, whether orally or in writing, in certain "data rooms," management presentations, functional "break-out" discussions, responses to questions submitted on behalf of the Purchaser or in any other form in expectation of the Contemplated Transactions.

ARTICLE V

COVENANTS

5.1 Preservation of Books and Records; Access. After the Closing Date, Purchaser shall retain for a period consistent with Purchaser's record-retention policies and practices those Records of Company delivered to Purchaser. Purchaser also shall provide Company reasonable access thereto, during

normal business hours and on at least five days' prior written notice, to enable representatives of the Company to prepare financial statements or tax returns or deal with tax audits. After the Closing Date, Company shall provide Purchaser reasonable access to records that are Excluded Assets, during normal business hours and on at least five days' prior written notice, for any reasonable business purpose specified by Purchaser in such notice.

5.2 Employees; Employee Benefit Plans.

(a) Commencing on the Closing Date and pursuant to the Closing only, Company shall terminate all Employees of the Business who are actively at work on the Closing Date, and, at Purchaser's sole discretion, Purchaser may offer employment, on an "at will" basis, to any or all of such Employees, effective upon the Closing, which offer shall provide for salary or wage and benefit levels that are no less favorable to the current Employees in the aggregate than the terms and conditions of employment of such employees in the aggregate as of the date hereof, without consideration of stock options, phantom stock, restricted stock, warrants or any other terms or conditions that relate to Company's stock and be conditioned upon, among other things, the execution by such Employee of a Confidential Information and Inventions Agreement. Each Employee who accepts Purchaser's offer of employment is referred to herein as a "Purchaser Employee". Notwithstanding the foregoing, nothing in this Agreement shall be construed as granting any of the Employees any rights under this Agreement, including the right to employment by any person.

(b) Each Purchaser Employee shall have also executed, immediately following the Closing Date the Employee Waiver.

(c) Company hereby agrees to use its best efforts to assist Purchaser in making offers to and hiring the Employees. In addition, Company will encourage each of the Employees to consent to the transfer of his/her employment relationship to, and accept an offer of employment from, Purchaser on the terms provided. Company has Made Available to Purchaser the employment and personnel records of the Employees (subject to compliance with all confidentiality and data protection obligations of Company), the opportunity to interview Employees and to discuss with them or their representatives terms and conditions of employment with Purchaser as of the Closing Date and to distribute to such Employees forms and documents relating to employment with Purchaser. Company shall not take, any action that would impede, hinder, interfere or otherwise compete with Purchaser's effort to hire any Employees

(d) No employment-related liabilities arising up to the Closing or at Closing as a result of this Agreement with respect to any Employee shall be assigned to or assumed by Purchaser. Company undertakes to pay each Employee, in a timely manner, any and all salary and other employment benefits due to him/her up to Closing as detailed in the Employee Waiver signed by each such Employee, including release of each Employee's managers insurance, pension fund and/or further education fund, as applicable. Employment-related liabilities arising prior to Closing for the purposes of this Section 5.2(d) include (1) all liabilities arising of or with respect to employment or performance of services or the termination of Employees by Company, (2) any payments due to any Employees or their respective beneficiaries at any time pursuant to any retention bonus arrangement or severance program or similar arrangement to which Company is a party that is in effect on or prior to the Closing, (3) any and all obligations and liabilities under the Benefit Plans, including any accrued vacation, contributions required to be made to managers insurance funds, pension funds and further education funds, as applicable and the amount required to be paid to the Employees or their beneficiaries under the Employee Waivers (4) any and all expense liabilities incurred by Employees or their respective beneficiaries up to Closing under the Benefit Plans, and (5) any and all workers' compensation and other similar statutory claims asserted by or with respect to any Employees or their respective beneficiaries in respect of any injury or other compensable event or occupational illness or disease that occurred or is attributable to any event, state of facts or conditions that existed or occurred in whole on or prior to the Closing (collectively, the "Company Employment-Related Liabilities"). All Company Employment-Related Liabilities are Excluded Liabilities.

(e) All employment-related liabilities arising after Closing with respect to any Purchaser Employees (the "Purchaser Employment-Related Liabilities") shall be the responsibility of Purchaser.

5.3 Confidentiality. From and after the Closing, Company shall, and shall cause its Affiliates to, hold, and shall use its reasonable best efforts to cause its or their respective Representatives to hold, in confidence any and all information, whether written or oral, concerning the Business, except to the extent that Company can show that such information (a) is generally available to and known by the public through no fault of Company, any of its Affiliates or their respective Representatives; or (b) is lawfully acquired by Company, any of its Affiliates or their respective Representatives from and after the Closing from sources which are not prohibited from disclosing such information by a legal, contractual or fiduciary obligation. If Company or any of its Affiliates or their respective Representatives are compelled to disclose any information by judicial or administrative process or by other requirements of Law, Company shall promptly notify Purchaser in writing and shall disclose only that portion of such information which Company is advised by its counsel in writing is legally required to be disclosed, provided that Company shall use reasonable best efforts to obtain an appropriate protective order or other reasonable assurance that confidential treatment will be accorded such information.

5.4 Covenant Not to Compete or Solicit Business.

(a) In furtherance of the sale of the Acquired Assets and the Business to Purchaser hereunder by virtue of the transactions contemplated hereby and more effectively to protect the value and goodwill of the Acquired Assets and the Business so sold, Company agrees that, neither Company nor its parent, its subsidiaries and/or any entity under common control with the Company will

(i) for a period ending on the fourth anniversary of the Closing Date, directly or indirectly (whether as principal, agent, consultant, independent contractor, partner or otherwise) own, manage, operate, control, participate in, perform services for, or otherwise carry on, a business competitive with the Business anywhere in the world, it being understood and acknowledged by the Parties that the Business is global in nature and as such the restriction applying to the entire world is reasonable; or

(ii) employ, retain or hire any employee, contractor, consultant, agent or customer of the Business or induce or attempt to persuade, on behalf of any other business organization in competition with the Business, any employee, contractor, consultant, agent or customer of Purchaser to terminate such employment, consulting, agency or business relationship in order to enter into any such relationship with any such business organization; provided, however, that nothing set forth in this Section 5.4 shall prohibit Company or any Affiliate from owning as a passive investment not in excess of 5% in the aggregate of any class of capital stock of any corporation if such stock is publicly traded.

(b) If Company or any Affiliate violates any of its obligations under this Section 5.4, Purchaser may proceed against it in law or in equity for such damages or other relief as a court may deem appropriate. Company acknowledges that a violation of this Section 5.4 may cause Purchaser irreparable harm which may not be adequately compensated for by money damages. Company therefore agree that in the event of any actual or threatened violation of this Section 5.4, Purchaser shall be entitled, in addition to other remedies that it may have, to a temporary restraining order and to preliminary

and final injunctive relief against Company or its Affiliates to prevent any violations of this Section 5.4. The prevailing party in any action commenced under this Section 5.4 shall also be entitled to receive reasonable attorneys' fees and court costs. It is the intent and understanding of each party hereto that if, in any action before any court or agency legally empowered to enforce this Section 5.4, any term, restriction, covenant or promise in this Section 5.4 is found to be unreasonable and for that reason unenforceable, then such term, restriction, covenant or promise shall be deemed modified to the extent necessary to make it enforceable by such court or agency.

5.5 Change in Company Name. Company agrees immediately after the Closing Date to change its name to a name that does not include any trade name or trademark used or proposed to be used by Company or any variation thereof.

5.6 Assignment or Enforcement of Certain Agreements. In furtherance of the sale of the Acquired Assets and the Business to Purchaser hereunder by virtue of the transactions contemplated hereby and more effectively to protect the value and goodwill of the Acquired Assets and the Business so sold, Company covenants and agrees that, with respect to each employee, contractor or consultant of Company who is not a Purchaser Employee, Company shall either (a) assign to Purchaser all rights of Company pursuant to all agreements, covenants or other obligations of such employee relating to noncompetition and nonsolicitation of employees or customers or (b) if such agreements, covenants or obligations cannot be assigned to Purchaser, then, upon Purchaser's reasonable request and at Purchaser's sole expense, enforce such agreements, covenants and obligations to the maximum extent permitted by applicable law.

5.7 Taxes.

(a) Company shall be liable for and pay, and shall defend, indemnify and hold harmless Purchaser from and against, all Taxes (whether assessed or unassessed) applicable to the Business, the Acquired Assets and the Assumed Liabilities, in each case attributable to taxable years or periods ending on or prior to the Closing Date and, with respect to any Straddle Period, the portion of such Straddle Period ending on and including the Closing Date. Purchaser shall be liable for and shall pay all Taxes (whether assessed or unassessed) applicable to the Business, the Acquired Assets and the Assumed Liabilities that are attributable to taxable years or periods beginning after the Closing Date and, with respect to any Straddle Period, the portion of such Straddle Period beginning after the Closing Date; provided, that Purchaser shall not be liable for any Taxes for which Company is liable under this Agreement. For purposes of this Section, any Straddle Period shall be treated on a "closing of the books" basis as two partial periods, one ending at the close of the Closing Date and the other beginning on the day after the Closing Date, except that Taxes (such as property Taxes) imposed on a periodic basis shall be allocated on a daily basis.

(b) Notwithstanding Section 5.7(a), any Tax on income or capital gains attributable to the sale or transfer of the Business, the Acquired Assets or the Assumed Liabilities shall be paid by Company.

(c) Company and Purchaser shall cooperate in preparing any Tax Returns which such other party is responsible for preparing and filing and in preparing for any audits of, or disputes with taxing authorities regarding, any Tax Returns of the Business or the Acquired Assets.

(d) Company shall cooperate as reasonably required to assume any Tax Incentives elected by the Purchaser at Purchaser's sole discretion.

(e) Within thirty (30) days of filing any Tax Return listed on Exhibit K, Company shall provide Purchaser a copy of the same.

5.8 Guarantees. Prior to the transfer of any of the agreements, purchase orders or any other arrangements with any of the vendors of the Business, to the extent guaranties were provided by the Company under any such agreements, as set forth on Section 5.8 of the Disclosure Schedule, the Purchaser shall provide the Company, prior and as a condition to such transfer, copies of suitable guaranties acceptable to the applicable customer, which shall replace the guaranties provided by the Company concurrently with the transfer of the said agreement.

ARTICLE VI

INDEMNIFICATION

6.1 Survival. The representations and warranties of the Parties contained herein and in the Transaction Documents shall survive the Closing for a period of 18 months after the Closing (the "Indemnification Period"); except for (a) those representations and warranties in the Joinder which are identified therein as surviving for a longer period; (b) the representations and warranties set forth in Sections 3.1, 3.2, 3.8, 3.16, 3.18, 3.24 and 3.26 in the case of the Company, and Sections 4.1 and 4.2 in the case of the Purchaser, all of which shall survive the Closing and until the applicable statute of limitations has expired; and (c) any indemnification or right thereto arising out of any breach or alleged breach of which the indemnified Person has notified the indemnifying Person in writing on or prior to the date such representation or warranty would otherwise terminate in accordance with this Section 6.1, which shall not terminate until after the liability of the indemnifying Persons shall have been determined and the indemnifying Persons shall have paid the indemnified Persons the full amount of such liability, if any.

6.2 Indemnification of Purchaser. From and after the Closing, Company shall indemnify, hold harmless and defend Purchaser and its directors, officers, shareholders, and employees from and against any and all Losses incurred by or suffered by Purchaser arising out of any of the following:

(a) any breach or any inaccuracy in any representation or warranty made by Company or any Company Subsidiary in this Agreement or any Transaction Document or any certificate delivered by or on behalf of the Company or any Company Subsidiary pursuant hereto;

(b) any breach of or failure by the Company or any Company Subsidiary to perform, any of its covenants or obligations required to be performed by it pursuant to this Agreement or any Transaction Document;

(c) any liability or obligation of Company or any Company Subsidiary arising out of or in connection with the ownership of the Acquired Assets, Subsidiary Acquired Assets, or the operation of the Business (of Company or Company Subsidiary, as applicable) arising on or before the Closing; or

(d) any failure of the Company or any Company Subsidiary to perform or otherwise pay or discharge any Excluded Liability.

Notwithstanding anything contained herein to the contrary, the Company's aggregate indemnification obligation hereunder shall not exceed the Purchase Price unless and to the extent the Losses for which indemnification is being sought arise from any representation or warranty that was fraudulently provided, the Company's breach of the representations and warranties given in Sections 3.18, any statutory liens, or the Company's breach of the confidentiality obligations under Section 5.3.

6.3 Limitations on Indemnification Obligations. The right of Purchaser to indemnification pursuant to the provisions of Section 6.2 is subject to the following limitations:

(a) the amount of any and all Losses shall be determined net of any amounts actually recovered by Purchaser or by Purchaser indemnitees, as the case may be, under insurance policies with respect to such Losses;

(b) Purchaser shall not be entitled to recover Losses pursuant to Section 6.2 until the total amount which Purchaser would recover under Section 6.2 exceeds \$250,000 (the "Threshold"), in which case, Purchaser shall be entitled to recover for all Losses up to, including, and in excess of the Threshold; and

(c) In no event shall the definition of Knowledge impose any personal liability on the Person(s) included therein, except to the extent such Person(s) are found to have acted fraudulently, as determined by a court of competent jurisdiction.

Notwithstanding the foregoing, the right of Purchaser to indemnification pursuant to the provisions of Section 6.2 with respect to breaches of the representations and warranties in connection with amounts payable to licensors of Intellectual Property Licenses ("License Payable Warranties"), as set forth in Exhibit D to the Disclosure Schedule, shall not be subject to or otherwise limited by the Threshold. Purchaser shall be able to immediately seek indemnification from Company for any additional amount paid to a licensor, or a substitute licensor for equivalent technologies, in excess of the amount shown with respect to a licensor shown on Exhibit D in connection with Purchaser's efforts to secure a license with one or more such licensors, all in accordance with the Escrow Agreement. For clarity, while indemnity claims with respect to License Payable Warranties are not subject to the Threshold, they are to be taken into account in determining whether the threshold has been met with respect to indemnity claims not relating to License Payable Warranties.

6.4 Exclusive Remedy. Notwithstanding anything contained herein to the contrary, indemnification pursuant to the provisions of this ARTICLE VI and Section 6.2 shall be the exclusive remedy for Purchaser for any misrepresentation or breach of any warranty, covenant or other provision contained in this Agreement or in any certificate delivered pursuant hereto, other than in the case of fraud, provided, however, each Party acknowledges that a breach or threatened breach by such party of any of its obligations under this Agreement would give rise to irreparable harm to the other Party for which monetary damages would not be an adequate remedy and hereby agrees that in the event of a breach or a threatened breach by such Party of any such obligations, the other Party shall, in addition to any and all other rights and remedies that may be available to it in respect of such breach, be entitled to equitable relief, including a temporary restraining order, an injunction, specific performance and any other relief that may be available from a court of competent jurisdiction (without any requirement to post bond).

6.5 Indemnification of the Company. From and after the Closing, Purchaser shall indemnify, hold harmless and defend the Company and its directors, officers and shareholders from and against any and all Losses incurred by or suffered by the Company arising out of any of the following:

(a) any breach or any inaccuracy in any representation or warranty made by Purchaser in this Agreement or any Transaction Document or any certificate delivered by or on behalf of Purchaser pursuant hereto;

(b) any breach by Purchaser of, or any failure by Purchaser to perform, any covenant or obligation required to be performed by it pursuant to this Agreement or any Transaction Document, or

(c) any failure of the Purchaser to perform the Assumed Liabilities.

6.6 Payment. Until expiration of the Indemnification Period, the Purchaser may make a claim against the Escrow Amount for indemnification pursuant to this Article VI on the terms and conditions of the Escrow Agreement. If the Escrow Amount is insufficient to pay any indemnification claims, the Purchaser may make a claim directly against the Company.

6.7 Purchase Price Adjustments. To the extent permitted by Law, any amounts payable under Section 6.2 or Section 6.3 shall be treated by the Parties as an adjustment to the Purchase Price.

ARTICLE VII

MISCELLANEOUS

7.1 No Third-Party Beneficiaries. This Agreement is for the sole benefit of the Parties and shall not confer any legal or equitable, rights, benefits or remedies of any nature whatsoever upon any Person other than the Parties and their respective successors and permitted assigns.

7.2 Entire Agreement. This Agreement and the other Transaction Documents constitute the entire agreement among the Parties and supersedes all prior and contemporaneous understandings, agreements, or representations by or among the Parties, written or oral, to the extent they have related in any way to the subject matter hereof. In the event of any inconsistency between the statements in the body of this Agreement and (a) those in the other Transaction Documents or (b) the Exhibits and Schedules to this Agreement or the other Transaction Documents, the statements in the body of this Agreement will control.

7.3 Receivables. From and after the Closing, if Company or any of its Affiliates receives or collects any funds relating to any accounts receivable of Company or any other Purchased Asset, provided that the collected amounts arise from business conducted post the Closing date, Company or such Affiliate shall remit such funds to Purchaser within five days after its receipt thereof.

7.4 Further Assurances. Following the Closing, each of the Parties hereto shall, and shall cause their respective Affiliates to, execute and deliver such additional documents, instruments, conveyances and assurances and take such further actions as may be reasonably required to carry out the provisions hereof and give effect to the transactions contemplated by this Agreement and the other Transaction Documents.

7.5 Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. Company may not assign this Agreement or any of his or its rights, interests, or obligations hereunder without prior written approval of Purchaser.

7.6 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

7.7 Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

7.8 Notices. All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given: (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next business day if sent after normal business hours of the recipient or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses:

If to Company:	4 Hacharash Street Neve Ne'eman Industrial Zone Hod Hasharon 45240 Israel Tel: +972-9-7627800 Fax: +972-9-7627801 Email: Izik@vcon.com Attention: Izik Ben Ezra
with a copy to (which shall not constitute notice):	Erdinast, Ben – Nathan & Co. Facsimile: 972-37770101 E-mail: dankner@ebnlaw.co.il Attention: Yoav Dankner, Adv.
If to Purchaser:	C-V Private (Israel), Ltd. ClearOne Communications Hong Kong Limited 5225 Wiley Post Way, Suite 500 Salt Lake City, Utah 84116 Facsimile: [FAX NUMBER] Attention: Zee Hakimoglu, President and CEO
with a copy to (which shall not constitute notice):	Parsons Behle & Latimer PO Box 45898 Salt Lake City, Utah 84145-0898 Telephone: 801 532 1234 Facsimile: 801 536 6111 E-mail: gmangum@parsonsbehle.com Attention: Geoff Mangum
	Shibolet & Co. Museum Tower, 4 Berkowitz Street Tel-Aviv 64238 Facsimile +972-3-777-8444 Attention: Yaacov Yisraeli

Any Party may send any notice, request, demand, claim, or other communication hereunder to the intended recipient at the address set forth above using any other means (including personal delivery, expedited courier, messenger service, telecopy, telex, ordinary mail, or electronic mail), but no such notice, request, demand, claim, or other communication shall be deemed to have been duly given unless and until it actually is received by the intended recipient. Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Parties notice in the manner herein set forth.

7.9 Governing Law; Jurisdiction; Service of Process.

(a) This Agreement shall be governed by and construed in accordance with the domestic laws of the State of Israel without giving effect to any choice or conflict of law provision or rule (whether of the State of Israel or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Israel.

(b) The parties hereto irrevocably submit to the exclusive jurisdiction of the competent courts of the Central District, Israel over any dispute arising out of or relating to the Agreement or the transaction Documents or any agreement or instrument contemplated thereby or entered into in connection herewith or therewith or any of the transactions contemplated hereby or thereby. Each party hereby irrevocably agrees that all claims in respect of such dispute or proceeding will be heard and determined in such courts (and the courts hearing appeals from such courts). The parties hereby irrevocably waive, to the fullest extent permitted by applicable Law, any objection which they may now or hereafter have to the laying of venue of any such dispute brought in such court or any defense of inconvenient forum in connection therewith.

7.10 Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by all the Parties. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

7.11 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

7.12 Expenses. Each of the Parties will bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

7.13 Incorporation of Exhibits and Schedules. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

IN WITNESS WHEREOF, the Parties have executed this Agreement on as of the date first above written.

C-V Private (Israel), Ltd.
By: /s/ Narasimhan Narayanan
Name: Narasimhan Narayanan
Title: Director

ClearOne Communications Hong Kong Limited
By: /s/ Zeynep Hakimoglu
Name: Zeynep Hakimoglu
Title: Director

VCON Video Conferencing, Ltd.
By: /s/ Izik Ben-Ezra
Name: Izik Ben-Ezra
Title: Chief Executive Officer

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

May 14, 2012

By: /s/ Zeynep Hakimoglu
Zeynep Hakimoglu
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

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

May 14, 2012

By: /s/ Narsi Narayanan
Narsi Narayanan
Vice President of Finance
(Principal Financial and Accounting Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

I, Zeynep Hakimoglu, certify, to my best knowledge and belief, 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 quarter ended March 31, 2012, 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.

May 14, 2012

By: /s/ Zeynep Hakimoglu
Zeynep Hakimoglu
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

I, Narsi Narayanan, certify, to my best knowledge and belief, 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 quarter ended March 31, 2012, 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.

May 14, 2012

By: /s/ Narsi Narayanan
Narsi Narayanan
Vice President of Finance
(Principal Financial and Accounting Officer)