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ClearOne Reports 2011 Third Quarter Financial Results

Strong Revenue, Earnings Momentum Continues

SALT LAKE CITY, Nov. 10, 2011 /PRNewswire/ -- ClearOne (NASDAQ: CLRO) today reported its financial results for the third quarter and nine months ended September 30, 2011.

For the third quarter ended September 30, 2011, revenue increased 11% to \$11.5 million from \$10.4 million for the 2010 third quarter. Gross profit rose 12% to \$7.0 million, or 61% of revenue, from \$6.3 million, or 60% of revenue, for the 2010 third quarter. Operating income climbed to \$5.4 million from \$781,000 for the prior year period. Net income increased to \$3.4 million, or \$0.36 per diluted share, from \$987,000, or \$0.11 per diluted share, for the 2010 third quarter. Financial results for the 2011 third quarter included a favorable judgment award of \$3.7 million related to litigation against Biamp Systems Corp. for theft of ClearOne trade secrets. Non-GAAP operating income, which excludes the \$3.7 million judgment, share based compensation, amortization of purchased intangibles, and certain legal expenses, was \$1.8 million, an increase of 93% over non-GAAP operating income of \$0.9 million for the same quarter last year. A reconciliation between GAAP and non-GAAP amounts can be found in the financial tables attached to this release.

"Our excellent operating performance continued into our 2011 third quarter, independent of the judgment award," said Zee Hakimoglu, President, Chief Executive Officer and Chairman of ClearOne. "The strong financial results were primarily driven by increased demand for our portfolio of products in North America and Asia-Pacific. Looking ahead, we have recently taken steps to further penetrate the markets we serve and add complementary products. During the quarter, we formed a strategic alliance to promote our full line of Professional AV and network-based StreamNet™ technology products to professional consultants involved in the design and installation of major audio-visual projects. In addition, we acquired MagicBox to form the only complete end-to-end digital signage content management, IP streaming and control solution."

For the first nine months of 2011, revenue increased 19% to \$34.1 million from \$28.7 million for the same period of 2009. Gross profit increased 19% to \$20.4 million, or 60% of revenue, from \$17.1 million, or 60% of revenue, for the comparable prior year period. Operating income rose to \$8.4 million from \$1.8 million during the same nine months of 2010. Non-GAAP operating income more than doubled to \$5.8 million from \$2.6 million for the comparable period last year. Net income grew to \$5.5 million, or \$0.59 per diluted share, compared with net income of \$1.6 million, or \$0.17 per diluted share, for the comparable prior-year period.

At September 30, 2011, the company had cash and cash equivalents of \$13.1 million, and no debt. The cash position as of September 30, 2011 reflects the payment of \$750,000 for the MagicBox acquisition.

Recent Highlights

ClearOne announced several significant developments during the quarter.

- In September, the company acquired MagicBox, Inc., a developer and marketer of a variety of hardware and software solutions to deliver digital content and information to digital displays. The acquisition is a part of the company's broader strategy to capitalize on emerging market opportunities as audio video, information technology, unified communications and traditional digital signage converge to meet enterprise and commercial multimedia needs.
- In August, the United States Court of Appeals for the Tenth Circuit issued an opinion, affirming a November 2008 jury verdict issued by a federal district court in favor of ClearOne against Biamp Systems Corp. for theft of ClearOne's trade secrets, including the federal district court's award of exemplary damages based upon the finding that Biamp's misappropriation was willful and malicious. The company is in the process of collecting its \$3.7 million judgment against Biamp.
- Also in August, the company announced a strategic relationship with The Eig Group to implement a comprehensive national program promoting ClearOne's full line of Professional AV and network-based StreamNet™ technology products to professional consultants involved in the design and installation of major audio-visual projects.

Non-GAAP Financial Measures

ClearOne provides non-GAAP financial information to investors to supplement GAAP financial information. ClearOne believes that excluding certain items from GAAP results allows ClearOne's management to better understand ClearOne's consolidated

financial performance from period to period as management does not believe that the excluded items are reflective of underlying operating performance. Non-GAAP operating income, net income and EPS exclude certain items, costs and expenses, the details of which are provided in the tables below containing the reconciliation between GAAP and Non-GAAP amounts. The exclusion of these items in the non-GAAP presentation should not be interpreted as implying that these items are non-recurring, infrequent, or unusual. ClearOne believes non-GAAP financial measures will provide investors with useful information to help them evaluate ClearOne's operating results and projections. This non-GAAP financial information is not meant to be considered in isolation or as a substitute for operating income, net income or other financial measures prepared in accordance with GAAP. There are limitations to the use of non-GAAP financial measures. Other companies, including companies in ClearOne's industry, may calculate non-GAAP financial measures differently than ClearOne does, limiting the usefulness of those measures for comparative purposes.

A detailed reconciliation of non-GAAP net income to GAAP net income is included with this news release.

About ClearOne

ClearOne is a global communications company that develops and sells audio and video solutions for conferencing, collaboration and multimedia streaming. The reliability, flexibility and performance of our advanced 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 under personal, tabletop, premium and professional categories. We occupy the number one position in the global professional audio conferencing market with nearly 50% of the global market share. Our conferencing solutions save organizations time and money by creating a natural environment for collaboration.

NetStreams, a ClearOne brand of residential products, delivers the ultimate IP A/V experience by distributing high definition audio and video over TCP/IP networks. NetStreams' products, designed for commercial and residential use, offer unprecedented levels of performance, functionality, simplicity, reliability, and expandability. By combining audio/video content, meta-data and control signals into one stream and incorporating industry standards, NetStreams' newly patented StreamNet® solutions are a smart investment, enabling the Power of AV over IP™ today.

NetStreams' StreamNet technology provides elegant solutions for streaming media & control applications such as digital signage, distribution of HD video and audio, LAN Cloud Matrix Switching™, and audio paging over data networks.

This release contains "forward-looking" statements that are based on present circumstances and on ClearOne's predictions with respect to events that have not occurred, that may not occur, or that may occur with different consequences and timing than those now assumed or anticipated. Such forward-looking statements, including statements regarding the successful commercialization of products through a strategic relationship and growth from the acquisition of MagicBox, and any statements of the plans and objectives of management for future operations, are not guarantees of future performance or results and involve risks and uncertainties that could cause actual events or results to differ materially from the events or results described in the forward-looking statements. Such forward-looking statements are made only as of the date of this release and ClearOne assumes no obligation to update forward-looking statements to reflect subsequent events or circumstances. Readers should not place undue reliance on these forward-looking statements.

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

	Quarter ended		Nine months ended	
	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Revenue	\$11,511	\$10,359	\$34,102	\$28,652
Cost of goods sold	4,534	4,105	13,666	11,542
Gross profit	6,977	6,254	20,436	17,110
Operating expenses:				
Sales and marketing	2,184	2,243	6,274	6,328
Research and product development	1,796	2,124	5,249	5,772

General and administrative	1,333	1,106	4,166	3,252
Proceeds from litigation	(3,702)	-	(3,702)	-
Total operating expenses	<u>1,611</u>	<u>5,473</u>	<u>11,987</u>	<u>15,352</u>
Operating income	5,366	781	8,449	1,758
Other income (expense), net	<u>(4)</u>	<u>12</u>	<u>15</u>	<u>(120)</u>
Income before income taxes	5,362	793	8,464	1,638
Provision for income taxes	<u>(1,987)</u>	<u>194</u>	<u>(2,956)</u>	<u>(81)</u>
Net income	<u>\$3,375</u>	<u>\$987</u>	<u>\$5,508</u>	<u>\$1,557</u>
Basic earnings per common share	\$0.37	\$0.11	\$0.61	\$0.17
Diluted earnings per common share	\$0.36	\$0.11	\$0.59	\$0.17
Basic weighted average shares outstanding	9,089,919	8,929,342	9,005,221	8,929,266
Diluted weighted average shares outstanding	9,358,292	9,108,102	9,276,619	9,095,879

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

	Unaudited	Audited
	As of	As of
	Sep 30,	Dec 31,
	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$13,138	\$11,431
Receivables, net of allowance for doubtful accounts of \$124 and \$206, respectively	12,174	9,951
Inventories	11,912	8,780
Deferred income taxes	2,962	3,389
Prepaid expenses and other assets	729	446
Total current assets	<u>40,915</u>	<u>33,997</u>
Long-term inventories, net	1,596	2,617
Property and equipment, net	2,521	2,965
Intangibles, net	3,247	2,745
Goodwill	726	726
Deferred income taxes	-	913
Other assets	28	18
Total assets	<u>\$49,033</u>	<u>\$43,981</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	2,357	2,362
Accrued liabilities	3,774	4,573
Deferred product revenue	3,704	4,306
Total current liabilities	<u>9,835</u>	<u>11,241</u>
Deferred rent	506	584
Other long-term liabilities	587	421
Total liabilities	<u>10,928</u>	<u>12,246</u>
Shareholders' equity:		
Common stock, par value \$0.001, 50,000,000 shares authorized, 9,092,925 and 8,929,439 shares issued and outstanding, respectively	9	9
Additional paid-in capital	39,935	39,073
Accumulated deficit	(1,839)	(7,347)
Total shareholders' equity	<u>38,105</u>	<u>31,735</u>
Total liabilities and shareholders' equity	<u>\$49,033</u>	<u>\$43,981</u>

RECONCILIATION OF GAAP TO NON-GAAP NET INCOME
(in thousands of dollars, except per share amounts)

	Quarter ended September 30, 2011			Quarter ended September 30, 2010		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Revenue	\$11,511	\$-	\$11,511	\$10,359	\$-	\$10,359
Cost of goods sold	\$4,534	-	4,534	4,105	-	4,105
Gross profit	6,977	-	6,977	6,254	-	6,254
Operating expenses:						
Sales and marketing	2,184	(4)	2,180	2,243	(7)	2,236
Research and product development	1,796	(4)	1,792	2,124	(8)	2,116
General and administrative	1,333	(128)	1,205	1,106	(135)	971
Proceeds from litigation	(3,702)	3,702	-	-	-	-
Total operating expenses	1,611	3,566	5,177	5,473	(150)	5,323
Operating income	5,366	(3,566)	1,800	781	150	931
Other income (expense), net	(4)	-	(4)	12		12
Income before income taxes	5,362	(3,566)	1,796	793	150	943
Provision for income taxes	(1,987)	1,237	(750)	194	(73)	121
Net income	\$3,375	\$(2,329)	\$1,046	\$987	\$77	\$1,064
Basic earnings per common share	\$0.37		\$0.12	\$0.11		\$0.12
Diluted earnings per common share	\$0.36		\$0.11	\$0.11		\$0.12
Basic weighted average shares outstanding	9,089,919		9,089,919	8,929,342		8,929,342
Diluted weighted average shares outstanding	9,358,292		9,358,292	9,108,102		9,108,102

The adjustments consist of the following:

Proceeds from litigation related to theft of ClearOne's intellectual property	\$(3,702)	\$-
Share-based compensation	48	62
Amortization of purchased intangibles	88	88
Total of adjustments before taxes	(3,566)	150
Provision for income taxes affected by the above adjustments	1,237	(73)
	\$(2,329)	\$77

CLEARONE COMMUNICATIONS, INC. AND SUBSIDIARIES
RECONCILIATION OF GAAP TO NON-GAAP NET INCOME
(in thousands of dollars, except per share amounts)

	Nine months ended Sep 30, 2011			Nine months ended Sep 30, 2010		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Revenue	\$34,102	\$-	\$34,102	\$28,652	\$-	\$28,652
Cost of goods sold	\$13,666	-	13,666	11,542	-	11,542
Gross profit	20,436	-	20,436	17,110	-	17,110
Operating expenses:						
Sales and marketing	6,274	(14)	6,260	6,328	(31)	6,297
Research and product development	5,249	(12)	5,237	5,772	(22)	5,750
General and administrative	4,166	(1,070)	3,096	3,252	(828)	2,424
Proceeds from litigation	(3,702)	3,702	-	-	-	-
Total operating expenses	11,987	2,606	14,593	15,352	(881)	14,471
Operating income	8,449	(2,606)	5,843	1,758	881	2,639
Other income (expense), net	15	-	15	(120)	51	(69)
Income before income taxes	8,464	(2,606)	5,858	1,638	932	2,570
Provision for income taxes	(2,956)	943	(2,013)	(81)	(286)	(367)

Net income	\$5,508	\$(1,663)	\$3,845	\$1,557	\$646	\$2,203
Basic earnings per common share	\$0.61		\$0.43	\$0.17		\$0.25
Diluted earnings per common share	\$0.59		\$0.41	\$0.17		\$0.24
Basic weighted average shares outstanding	9,005,221		9,005,221	8,929,266		8,929,266
Diluted weighted average shares outstanding	9,276,619		9,276,619	9,095,879		9,095,879

The adjustments consist of the following:

Proceeds from litigation related to theft of ClearOne's intellectual property		\$(3,702)			\$-
Share-based compensation		131			222
Amortization of purchased intangibles		263			263
Legal expenses for litigation relating to indemnification of former officers, intellectual property claims and our claim for damages		702			396
Interest expense on debt assumed in acquisition of NetStreams		-			51
Total of adjustments before taxes		(2,606)			932
Provision for income taxes affected by the above adjustments		943			(286)
		\$(1,663)			\$646

<http://www.b2i.us/irpass.asp?BzID=509&to=ea&s=0>

SOURCE ClearOne