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

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2003

OR

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

For the transition period from ________ to ________

Commission file number **0-17219**

CLEARONE COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

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

1825 Research Way, Salt Lake City, Utah	**84119**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number **(801) 975-7200**

Securities registered under Section 12(b) of the Act:
None

Securities registered under Section 12(g) of the Act:

Common Stock, $0.001 par value
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No x

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended). ☐

The aggregate market value of the 9,495,093 shares of voting common stock held by non-affiliates is approximately $37,505,617 at August 10, 2005, based on the $3.95 closing price for the Company's common stock on the Pink Sheets on August 10, 2005.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

The number of shares of ClearOne common stock outstanding as of June 30, 2003 and June 30, 2005, respectively were 11,086,733 and 11,264,233.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the part of the Form 10-K (*e.g.*, Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (*e.g.*, annual report to security holders for fiscal year ended December 24, 1980).

None.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

CAUTIONARY STATEMENT REGARDING THE FILING DATE OF THIS REPORT AND THE ANTICIPATED FUTURE FILINGS OF ADDITIONAL PAST-DUE REPORTS

Due to the re-audit of the Company's financial statements for its 2002 and 2001 fiscal years, this Annual Report on Form 10-K for the fiscal year ended June 30, 2003 is first being filed in August 2005. The Company is in the process of preparing its Annual Report on Form 10-K for the fiscal years ended June 30, 2004 and 2005, respectively, and plans to file such reports at the earliest practicable date. Shareholders and others are cautioned that the financial statements included in this report are two years old and are not indicative of the operating results that may be expected for the years ending June 30, 2004 and 2005. Shareholders are also cautioned that since the Company is not current in the filing of required reports with the Securities and Exchange Commission (SEC), the SEC could initiate proceedings against the Company at any time, including proceedings to suspend trading of the Company's securities.

PART I

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

ITEM 1. DESCRIPTION OF BUSINESS

Overview

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

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

We were incorporated in Utah on July 8, 1983 under the name "Insular, Inc." On March 26, 1985, we acquired all of the stock of Gentner Electronics Corporation ("Gentner") in a transaction treated as a reverse acquisition for accounting purposes. In connection with the acquisition of Gentner, we changed our name to Gentner Electronics Corporation. On July 1, 1991, we changed our name to Gentner Communications Corporation. On January 1, 2002, we changed our name to ClearOne Communications, Inc. Our principal executive offices are located at 1825 Research Way, Salt Lake City, Utah 84119, and our telephone number at this location is (801) 975-7200. Our Internet website address is www.clearone.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports are available, free of charge, on our Internet website under "ClearOne Info—Investor Relations—SEC," as soon as reasonably practicable after we file electronically such material with, or furnish it to, the SEC. Information on our website does not constitute a part of this Annual Report on Form 10-K or other periodic reports we file with the SEC. The public may also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington D.C. 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website (www.sec.gov) that contains reports, proxy and information statements and other information regarding ClearOne that we file electronically with the SEC.

For a discussion of certain risks applicable to our business, financial condition and results of operations, see the risk factors described in "Risk Factors" below.

Significant Events

Restatement of Previously Issued Financial Information

This report contains our audited consolidated financial statements for the fiscal year ended June 30, 2003 and our restated audited consolidated financial statements for the fiscal years ended June 30, 2002 and 2001. In connection with the restatement, we performed a comprehensive review of our previously issued consolidated financial statements for fiscal years 2002 and 2001 and identified a significant number of errors and adjustments. The restated consolidated financial statements include restatements of assets, liabilities, stockholders' equity, results of operations and cash flows, and resulted in cumulative net reductions to stockholders' equity as of June 30, 2002 and 2001 of approximately $17.4 million and approximately $3.8 million, respectively, and reductions in previously reported net income for the years ended June 30, 2002 and 2001 of approximately $14.1 million and $3.9 million, respectively. The restated 2002 and 2001 financial statements were audited by KPMG LLP (KPMG), who replaced Ernst & Young LLP (Ernst & Young) as our independent registered public accounting firm in December 2003. Certain restated quarterly financial information is included in this report in the section captioned "Item 6. Selected Financial Data."

We have not amended our prior filings to reflect the restatement. As a result, the information previously filed in our annual reports on Form 10-K for fiscal years 2002 and 2001, our quarterly reports on Form 10-Q for the quarterly periods included in those fiscal years and for the quarter ended September 30, 2002 and any current filings on Form 8-K, or other disclosures containing fiscal 2003, 2002 or 2001 information filed or made prior to the filing of this 2003 Form 10-K should not be relied upon and have been superceded by this Form 10-K.

Changes to Management and Board of Directors. Since January 2003, we have changed all but one member of our executive management team. Three of our former directors are no longer serving in such positions and we have appointed two new directors, both of whom are independent directors who serve on our audit committee. In January 2003, Frances Flood, our former chairman and chief executive officer, and Susie Strohm, our former chief financial officer, were placed on administrative leave and they subsequently resigned from their positions. Michael Keough was then appointed as our chief executive officer, Greg Rand was appointed as our president and chief operating officer and George Claffey was appointed as our chief financial officer. All three subsequently resigned for personal reasons at various times during 2004 and on July 8, 2004, Zeynep "Zee" Hakimoglu was appointed as our president and chief executive officer and Donald Frederick was appointed as our chief financial officer.

The SEC Action. ClearOne's previously filed financial statements were the subject of a civil action filed by the U.S. Securities and Exchange Commission on January 15, 2003 against ClearOne and the persons then acting as its chief executive and chief financial officers. The complaint generally alleged that the defendants had engaged in a program of inflating ClearOne's revenues, net income and accounts receivable by engaging in improper revenue recognition. On December 4, 2003, we settled the SEC action by entering into a consent decree in which, without admitting or denying the allegations of the complaint, we consented to the entry of a permanent injunction prohibiting future securities law violations. No fine or penalty was assessed against ClearOne as part of the settlement.

Securities Delisted from Nasdaq Stock Market. Our common stock was delisted from the Nasdaq National Market System on April 21, 2003 and since that time has been quoted on the National Quotation Bureau's Pink Sheets.

The Shareholder Class Action. On June 30, 2003, a consolidated complaint was filed against ClearOne, eight of our present or former officers and directors, and our former auditor, Ernst & Young, by a class consisting of purchasers of the Company's common stock during the period from April 17, 2001 through January 15, 2003. The allegations in the complaint were essentially the same as those contained in the SEC action described above. On December 4, 2003, we, on behalf of the Company and all other defendants with the exception of Ernst & Young, entered into a settlement agreement with the class pursuant to which we agreed to pay the class $5.0 million and issue the class 1.2 million shares of our common stock. The cash payment was made in two equal installments, the first on November 10, 2003 and the second on January 14, 2005. On May 23, 2005, the court order was amended to provide that odd-lot numbers of shares (99 or fewer shares) will not be issued from the settlement fund and claimants who would otherwise be entitled to receive 99 or fewer shares will be paid cash in lieu of such odd-lot number of shares. As of the date hereof, 228,000 shares of our common stock have been issued to the class and we plan to complete the issuance of the remaining shares in the near future in accordance with the terms of the court order, subject to the receipt of any required approvals from state regulatory authorities.

Changes in Type and Scope of Operations

Acquisitions of ClearOne, Inc. and Ivron Systems, Ltd. We have been manufacturing and marketing audio conferencing products since 1989, which has been our core competency. During fiscal 2001 and fiscal 2002, we attempted to expand our operations through the acquisitions of ClearOne, Inc. and Ivron Systems, Ltd., both of which were involved in the development and sale of video conferencing technology and products. Such acquisitions proved unsuccessful and, as discussed in more detail in Item 1. Description of Business. *Acquisitions and Dispositions*, we recorded impairment charges related to such acquisitions in the aggregate amount of approximately $7.1 million in fiscal 2002.

Acquisitions of E.mergent, Inc. and OM Video. During fiscal 2002 and fiscal 2003, we entered the audio visual integration services business through the acquisitions of E.mergent, Inc. and Stechyson Electronics, Ltd., doing business as OM Video. Our management at that time believed such acquisitions would complement our existing operations and our core competencies and allow us to acquire market share in this industry. However, our entry into the services business was perceived as a threat by our systems integrators and value-added resellers, many of whom we began competing against for sales. The acquisitions were not successful and the remaining operations were sold in fiscal 2004 and fiscal 2005. As discussed in more detail in Item 1. Description of Business. *Acquisitions and Dispositions*, we recorded impairment charges related to such acquisitions in the aggregate amount of approximately $26.0 million in fiscal 2003.

Sale of our U.S. Audiovisual Integration Services. On May 6, 2004, we sold certain assets of our U.S. audiovisual integration services operations to M:Space, Inc. (M:Space) for no cash compensation. M:Space is a privately held audiovisual integration services company. In exchange for M:Space assuming obligations for completion of certain customer contracts and satisfying maintenance contract obligations to existing customers, we transferred to M:Space certain assets including inventory valued at $569,000. We expect that the operations of the U.S. audiovisual integration services will be classified as discontinued operations in the fiscal year 2004. As of June 30, 2003 the assets of audiovisual integrations services were classified as held and used.

Sale of Conferencing Services Business. On July 1, 2004, we sold our conferencing services business segment to Clarinet, Inc., an affiliate of American Teleconferencing Services, Ltd. d/b/a Premier Conferencing for $21.3 million. Of the purchase price $1.0 million was placed into an 18-month Indemnity Escrow account and an additional $300,000 was placed into a working capital escrow account. We received the $300,000 working capital escrow funds approximately 90 days after the execution date of the contract. Additionally, $1.4 million of the proceeds was utilized to pay off equipment leases pertaining to assets being conveyed to Clarinet. We expect that the conferencing services operations will be classified as discontinued operations in the fiscal year 2005. As of June 30, 2003, the assets of conferencing services were classified as held and used.

***Sale of OM Video*.** On March 4, 2005, we sold all of the issued and outstanding stock of our Canadian subsidiary, ClearOne Communications of Canada, Inc. (ClearOne Canada) to 6351352 Canada Inc., a Canada corporation (the "OM Purchaser"). ClearOne Canada owned all the issued and outstanding stock of Stechyson Electronics Ltd., which conducts business under the name OM Video. We agreed to sell the stock of ClearOne Canada for $200,000 in cash; a $1.3 million note payable over a 15-month period, with interest accruing on the unpaid balance at the rate of 5.25% per year; and contingent consideration ranging from 3% to 4% of related gross revenues over a five-year period. We expect that the operations of the Canada audiovisual integration services will be classified as discontinued operations in fiscal year 2005. As of June 30, 2003, the assets of the Canada audiovisual integration business were classified as held and used. In June 2005, we were advised that the OM Purchaser had settled an action brought by the former employer of certain of OM Purchaser's owners and employees alleging violation of non-competition agreements. The settlement reportedly involved a cash payment and an agreement not to sell certain products for a period of one year. We are evaluating what impact, if any, this settlement may have on the OM Purchaser's ability to make the payment required under the note.

Following the disposition of operations in the video conferencing, business services and conferencing services businesses, we returned to our core competency of developing, manufacturing and marketing audio conferencing products, which is where we intend to keep our focus for the foreseeable future.

Business Strategy

Our goal is to achieve market leadership in group conferencing environments through the development of new, competitive products that offer superior quality and ease of use. The principal components of our strategy to achieve this goal are:

Provide a superior conferencing experience

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

Provide greater value to our customers

To provide our customers with conferencing products that deliver high value, we are leveraging advances in emerging technology trends and applying these advances specifically to group conferencing environments. By offering high quality products that are designed to solve ease-of-use issues and are easy to install, configure and maintain, we believe we can provide greater value to our customers and reduce their total cost of ownership.

Be a leader in audio conferencing innovation

We have sharpened our focus on developing cutting edge audio conferencing products and are committed to incorporating the latest technologies into our new and existing product lines. Key to this effort is adopting emerging technologies such as Voice over Internet Protocol (VoIP), international standards-based conferencing protocols, wireless connectivity and the convergence of voice, video and data networks.

Develop strong sales channels

We have made significant efforts to develop strong domestic and international sales channels through the addition of key distributors and dealers. We plan to continue to add new distribution partners, with specific emphasis on bolstering distribution to the information technology and telecommunications channels, where we see opportunity for our MAX® tabletop audio conferencing products; our new RAV™ audio conferencing systems; our conferencing peripherals, including the AccuMic® product line; and other products currently in development.

Broaden our product offerings

We offer a full range of audio conferencing products, from high-end, professionally installed audio conferencing systems to conferencing-specific telephones. We plan to continue to broaden our product offerings to meet the evolving needs of our customers, address changes in the markets we currently serve, and effectively target new markets for our products.

Develop strategic partnerships

To stay on the leading edge of product development, we plan to continue to identify partners with technology and expertise in areas strategic to our growth objectives. We will also work to develop partnerships with leaders in markets complimentary to conferencing who can benefit from our audio products and technologies, and through whom we can access new market growth opportunities.

Strengthen existing customer relationships through dedicated support

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

Markets and Products

We currently conduct all our operations in the conferencing products industry. We also previously operated in the conferencing services segment until July 1, 2004 when we sold our conferencing services business to American Teleconferencing Services, Ltd., and in the business services segment until March 4, 2005, when we sold the remaining operations in that area to 6351352 Canada Inc. For additional financial information about our segments see “Note 23. Segment, Geographic and Revenue Information” to our consolidated financial statements, which are included in this report.

Products Segment

The performance and reliability of our high-quality conferencing products enable effective and efficient communication between geographically separated businesses, employees and customers. We offer a full range of audio conferencing products, from high-end, professionally installed audio conferencing systems used in executive boardrooms, courtrooms, classrooms and auditoriums, to conferencing-specific telephones used in small conference rooms and offices. Our products feature our proprietary Gentner® Distributed Echo Cancellation® and noise cancellation technologies to enhance communication during a conference call by eliminating echo and background noise. They also feature proprietary audio processing technologies such as adaptive modeling, full duplex, first-microphone priority and microphone gating, which combine to enable natural communication between distant conferencing participants similar to that of being in the same room.

Principal drivers of demand for audio conferencing products are: the increasing availability of easy to use audio conferencing equipment; the improving voice quality of audio conferencing systems compared to desktop speakerphones; and the trend of global, regional and local corporate expansion. Other factors that we expect to have a significant impact on the demand for audio conferencing systems are the availability of a wider range of affordable audio conferencing products for small businesses and home offices; the growth of distance learning and corporate training programs, and the number of teleworkers; the decrease in the amount of travel within most enterprises for routine meetings; and the transition to the Internet Protocol (IP) network from the traditional public switched telephone network (PSTN). We expect these growth factors to be offset slightly by direct competition from high-end desktop speakerphones, the technological volatility of IP-based products and continued pressures on enterprises to reduce spending.

Professional Audio Conferencing Products

We have been developing high-end, professionally installed audio conferencing products since 1991 and believe we have established strong brand recognition for these Professional Audio Conferencing products.

Our Professional Audio Conferencing products include the XAP®, Audio Perfect® (AP) and PSR1212 product lines. The XAP® line includes our most powerful, feature-rich products, with the latest advances in technology and functionality. It has more processing power than our Audio Perfect® products and contains noise cancellation technology in addition to our Gentner® Distributed Echo Cancellation® technology found in the Audio Perfect® product line. The Audio Perfect® product line offers lower-cost products that still allow users to experience quality sound in a wide variety of conferencing venues. The PSR1212 is a digital matrix mixer that provides advanced audio processing, microphone mixing and routing for local sound reinforcement.

The XAP®, Audio Perfect® and PSR1212 products are comprehensive audio control systems designed to excel in the most demanding acoustical environments and routing configurations. These products are also used for integrating high-quality audio with videoconferencing systems.

Out-of-the-Box Premium Conferencing Systems

In fiscal 2004, we introduced our RAV™ audio conferencing system. RAV™ is a complete, out-of-the-box system that includes an audio mixer, loudspeakers, microphones and a wireless control device. It uniquely combines the sound quality of a professionally installed audio system with the simplicity of a conference phone, and can be easily connected to industry common rich-media devices, such as video or webconferencing systems, to deliver enhanced audio performance.

RAV™ offers many powerful audio processing technologies from our Professional Audio Conferencing products without the need for professional installation and programming. It features Gentner® Distributed Echo Cancellation®, noise cancellation, microphone gating and a drag-and-drop graphical user interface for easy system setup, control and management.

Table Top Conferencing Phone Systems

In fiscal 2003, we developed our MAX® line of tabletop conferencing phones. These phones incorporate the high-end echo cancellation, noise cancellation and audio processing technologies found in our industry leading professional audio conferencing products.

The MAX® product line is comprised of the MAX® EX, MAX® Wireless, MAXAttach and MAXAttach wireless tabletop conferencing phones. MAX® Wireless was the first wireless conferencing phone. Designed for use in executive offices or small conference rooms with up to eight participants, MAX® Wireless can be moved from room to room within 150 feet of its base station. MAXAttach is a wired conferencing phone with unique expansion capabilities. Instead of just adding extension microphones for use in larger rooms, MAXAttach links up to four complete phones together. This provides even distribution of microphones, loudspeakers and controls for better sound quality and improved user access in medium to large conference rooms. The MAXAttach wireless is the industry’s first dual unit wireless conference phone.

Other Products

We complement our audio conferencing products with microphones, document and education cameras and conferencing-specific furniture. Our microphones are designed to improve the audio quality in audio, video and webconferencing applications. They feature echo cancellation and audio processing technologies and can be used with personal computers, videoconferencing systems or installed audio conferencing systems. Our cameras can be used in professional conferencing or educational settings to enable presentation of materials and images such as full-color documents, 3-D objects and images from a variety of sources, including computers, microscopes, and multimedia devices such as VCR and DVD players. Our wide selection of wood, metal and laminate conferencing furniture features audiovisual carts, plasma screen carts and pedestals, videoconferencing carts, tables, cabinets and podiums. We also provide custom furniture design.

Marketing and Sales

We sell our products primarily through a worldwide network of audiovisual, information technology and telecommunications distributors, who in turn sell our products to dealers, systems integrators and value-added resellers. We also sell our products on a limited basis directly to dealers, systems integrators, value-added resellers and end users. We use a two-tier distribution model, in which we primarily sell our products directly to distributors, who then sell our products to independent systems integrators, dealers and value-added resellers, who in turn work directly with the end users of our products on product fulfillment and installation. In addition, we regularly participate in conferencing forums, trade shows and industry promotions.

In fiscal 2003, approximately $18.6 million, or 68%, of our total product sales were generated in the United States and product sales of approximately $8.9 million, or 32%, were generated outside the United States. Revenue from product and business services customers outside of the United States accounted for approximately 26% of our total sales from continuing operations for fiscal 2003, 10% for fiscal 2002 and 12% for fiscal 2001. We sell our products in more than 70 countries worldwide. We anticipate that the portion of our total revenue from international sales will continue to increase as we further enhance our focus on developing new products, establishing new channel partners, strengthening our presence in key growth areas, and improving product localization with country-specific product documentation and marketing materials.

Distributors

We sell our products directly to approximately 90 distributors throughout the world. Distributors buy our products at a discount to list price and resell them on a non-exclusive basis to independent systems integrators, dealers and value-added resellers. Our distributors maintain their own inventory and accounts receivable, and are required to provide technical and non-technical support for our products to the next level of distribution participants. We work with our distributors to establish appropriate inventory stocking levels. We also work with our distributors to maintain relationships with our existing systems integrators, dealers and value-added resellers and to establish new distribution participant relationships. We also sell our products on a limited basis to certain systems integrators, dealers and value-added resellers who buy our products at a discount to list and resell them on a non-exclusive basis to end users.

Independent Integrators and Resellers

Our distributors sell our products worldwide to approximately 750 independent systems integrators, dealers and value-added resellers on a non-exclusive basis. While dealers, resellers and systems integrators all sell our products directly to the end users, systems integrators typically add significant value to each sale by combining our products with products from other manufacturers as part of a complex audiovisual system installation. Dealers and value-added resellers usually buy our products in large volumes and may bundle our products with products from other manufacturers for resale to the end user. We maintain close working ties with our distribution participants and offer them education and training on our all of our products.

Trade Shows and Industry Forums

We regularly attend industry forums and exhibit our products at trade shows to ensure our products remain highly visible to distributors and dealers, and to keep abreast of market trends.

Customers

No customer accounted for more than 10% of our total revenue during fiscal 2003, 2002 or 2001. In fiscal 2003, revenues in our product segment included sales to three distributors that represented approximately 42% of the segment's revenues. We currently only report revenues in our product segment and revenues in that segment during fiscal 2005 include sales to three distributors that represent approximately 63% of our revenue. As discussed below, these distributors facilitate product sales to a large number of end users, none of which is known to account for more than 10% of our revenues from product sales. Nevertheless, the loss of one or more distributors could reduce revenues and have a material adverse effect on our business and results of operations.

Competition

The conferencing products market is characterized by intense competition and rapidly evolving technology. We have no single competitor for all of our product and service offerings, but we compete with various companies with respect to specific products and services. We believe we compete successfully as a result of the high quality of our products and technical support services as well as the strength of our brand.

With respect to our products, we believe the principal factors driving sales are product design, quality and functionality of products, establishment of brand name recognition, pricing, access to and penetration of distribution channels, quality of customer support, and a significant customer base.

In the audio conferencing systems market, our competitors include Polycom, Biamp Systems, Sony, Sound Control, Aethra, Cisco and other companies that offer conferencing systems. According to industry sources, during the 2003 calendar year, we had the largest share of the installed segment of the conferencing systems market, which we target with our Professional Audio Conferencing products. In the markets for our document cameras, competitors include Sony, Elmo, Ken-a-Vision, Samsung, Wolfvision and other manufacturers. Our microphones compete with the products of Shure, Audio Technica, Global Media and others. Our conferencing furniture products compete primarily with the products of Video Furniture International, Accuwood and Comlink.

In each of the markets in which we compete, most of our competitors may have access to greater financial, technical, manufacturing and marketing resources, and as a result they could respond more quickly or effectively to new technologies and changes in customer preferences. No assurances can be given that we can continue to compete effectively in the markets we serve.

Product Development

We are committed to research and development, and view our continued investment in research and development as a key ingredient to our long-term business success. Our research and development expenditures were approximately $3.0 million in fiscal 2003, $3.8 million in fiscal 2002 and $2.7 million in fiscal 2001.

Our core competencies in research and development include many audio technologies, including telephone echo cancellation, acoustic echo cancellation and noise cancellation. Our ability to use digital signal processing technology to perform audio processing operations is also a core competency. Our research and development efforts are supported by an internal computer aided design team that creates electrical schematics, printed circuit board designs, mechanical designs and manufacturing documentation. We believe the technology developed through this interactive process is critical to the performance of our products. We also believe that ongoing development of our core technological competencies is vital to maintaining and increasing future sales of our products and to enhancing new and existing products.

Manufacturing

Prior to June 2005, we manufactured and assembled most of our products in our manufacturing facility located at our corporate headquarters in Salt Lake City, Utah. We also subcontracted the manufacture of some products to a third-party contract manufacturer located in Southeast Asia. We also manufactured and continue to manufacture our furniture product line in our manufacturing facility located in Champlin, Minnesota.

We generally purchase our assembly components from distributors. We also buy a limited amount of components directly from fabricators located near our manufacturing facilities. Many of our suppliers are located in the United States.

While it is our policy to have a minimum of two vendor sources for components, certain electronic components used in the manufacture of our products can only be obtained from a single manufacturer and we are solely dependent upon these manufacturers to deliver such components to our suppliers so that they can meet our production needs. We do not have a written commitment from such suppliers to fulfill our future requirements. While our suppliers maintain an inventory of such components, no assurances can be given that such components will always be readily available, available at reasonable prices, available in sufficient quantities, or delivered in a timely fashion. If such components become unavailable, it is likely that we will experience delays, which could be significant, in the production and delivery of our products, unless and until we can otherwise procure the required component or components at competitive prices, if at all, or make product design changes. From time to time, we experience increased prices and increased lead times on certain of these key components that have limited availability. Any lack of availability of these components could have a material adverse effect on our ability to sell products and the related increase in prices would likely reduce our profit margins. Many of the components utilized by us in our manufacturing process are bonded by certain distributors and manufacturers, meaning that the component inventory will be kept “on-site” at vendor stock locations and managed by the vendors. The component inventory will then be sold to us on an as-required basis.

On August 1, 2005, we entered into a Manufacturing Agreement with Inovar, Inc., a Utah-based electronics manufacturing services provider (“Inovar”), pursuant to which we agreed to outsource our Salt Lake City manufacturing operations to Inovar. The agreement is for an initial term of three years, which shall automatically be extended for successive and additional terms of one year each unless terminated by either party upon 120 days’ advance notice at any time after the second anniversary of the agreement. The agreement generally provides, among other things, that Inovar shall: (i) furnish the necessary personnel, material, equipment, services and facilities to be the exclusive manufacturer of substantially all the products that were previously manufactured at our Salt Lake City, Utah manufacturing facility, and the non-exclusive manufacturer of a limited number of products, provided that the total cost to ClearOne (including price, quality, logistic cost and terms and conditions of purchase) is competitive; (ii) provide repair service and warranty support and proto-type services for new product introduction on terms to be agreed upon by the parties; (iii) purchase certain items of our manufacturing equipment; (iv) lease certain other items of our manufacturing equipment and have a one-year option to purchase such leased items; (v) have the right to lease our former manufacturing employees from a third party employee leasing company; and (vi) purchase the parts and materials on hand and in transit at our cost for such items with the purchase price payable on a monthly basis when and if such parts and materials are used by Inovar. The parties also entered into a one-year sublease for approximately 12,000 square feet of manufacturing space located in our headquarters in Salt Lake City, Utah, which sublease may be terminated by either party upon ninety days’ notice. The agreement provides that products shall be manufactured by Inovar pursuant to purchase orders submitted by us at purchase prices to be agreed upon by the parties, subject to adjustment based upon such factors as volume, long range forecasts, change orders etc. We also granted Inovar a right of first refusal to manufacture new products developed by us at a cost to ClearOne (including price, quality, logistic cost and terms and conditions of purchase) that is competitive.

For risks associated with our manufacturing strategy please see “Risk Factors” in Item 1.

Intellectual Property and Other Proprietary Rights

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

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

We currently have several patents issued or pending covering our conferencing products and technologies. The expiration dates of issued patents range from 2009 to 2010. We hold registered trademarks for ClearOne, XAP, MAX, AccuMic, Audio Perfect, Distributed Echo Cancellation, Gentner and others. We have also filed for trademarks for RAV and others.

Employees

As of July 31, 2005, we had 121 employees, 119 of whom were employed on a full-time basis, with 47 in sales, marketing and customer support, 40 in product development, 17 in manufacturing support and 17 in administration, including finance. None of our employees are subject to a collective bargaining agreement and we believe our relationship with our employees is good.

Acquisitions and Dispositions

During the fiscal year ended June 30, 2001, we completed the acquisition of ClearOne, Inc., a developer of video conferencing technology and audio conferencing products. We also completed the sale of the assets of the remote control portion of our RFM/Broadcast division to Burk Technology, Inc. During the fiscal year ended June 30, 2002, we completed the acquisitions of Ivron Systems, Ltd., a developer of videoconferencing technology and product, E.mergent, Inc., an integration services provider and manufacturer of cameras and conferencing furniture, and the sale of our court conferencing customer list and all contracts relating to our court conferencing services to CourtCall LLC. During the fiscal year ended June 30, 2003, we sold our broadcast telephone interface products, including the digital hybrid and TS-612 product lines, to Comrex Corporation and completed the acquisition of Stechyson Electronics Ltd., doing business as OM Video, an integration business services company. The total consideration for each acquisition was based on negotiations between ClearOne and the acquired company or its shareholders that took into account a number of factors of the business, including historical revenues, operating history, products, intellectual property and other factors. Each acquisition was accounted for under the purchase method of accounting. Each acquisition is summarized below and is discussed in more detail in the footnotes to the audited consolidated financial statements included in this report.

ClearOne, Inc. Acquisition. In May 2000, we entered into an agreement to purchase substantially all of the assets of ClearOne, Inc. for approximately $3.6 million consisting of $1.8 million of cash and 129,871 shares of our restricted common stock valued at $13.97 per share. The acquisition was consummated on July 5, 2000.

As of the acquisition date, we acquired tangible assets consisting of property and equipment of $473,000, deposits of $59,000, and inventory of $299,000. We recorded $924,000 of identifiable intangibles, $728,000 of in-process research and development, and $1.2 million in goodwill, resulting from the difference between the purchase price plus acquisition costs and the net assets acquired. We amortized goodwill of $1.2 million on a straight-line basis over four years until the adoption of SFAS No. 142 on July 1, 2002. Amortization of goodwill was $297,000 for each of the fiscal years ended June 30, 2002 and 2001.

We charged $728,000 to expense representing acquired in-process research and development that had not yet reached technological feasibility. We anticipated the technology would require an additional 18 to 20 months of development at a minimum cost of $1.2 million. The technology had no alternative future use. After the acquisition, we initially continued to develop the technology, however, we experienced significant difficulties in completing the development of the video conferencing technologies and subsequently determined that the technology was not viable and never brought the in-process video conferencing technology to market.

We continued to sell the acquired teleconferencing product until the fourth quarter of the fiscal year ended June 30, 2002. Due to declining sales, negative margins beginning in the fourth quarter of the year ended June 30, 2002, and management's decision to stop investing in the acquired teleconferencing product, we determined that a triggering event had occurred in the fourth quarter of the fiscal year ended June 30, 2002. We performed an impairment test and determined that an impairment loss on the ClearOne assets should be recognized.

Sale of Assets to Burk Technology. On April 12, 2001, we sold the assets of the remote control portion of our RFM/Broadcast division to Burk Technology, Inc. (Burk), a privately held developer and manufacturer of broadcast facility control systems products. We retained the accounts payable of the remote control portion of the RFM/Broadcast division and Burk assumed obligations for unfilled customer orders and satisfying warranty obligations to existing customers and for inventory sold to Burk. However, we retained certain warranty obligations to Burk to ensure that all of the assets sold to Burk were in good operating condition and repair.

Consideration for the sale consisted of $750,000 in cash at closing, $1.8 million in the form of a seven-year promissory note, with interest at the rate of nine percent per year, and up to $700,000 as a commission over a period of up to seven years. The payments on the promissory note may be deferred based upon Burk not meeting net quarterly sales levels established within the agreement. The promissory note is secured by a subordinate security interest in the personal property of Burk. The gain on the sale is being recognized as cash is collected (as collection was not reasonably assured from Burk). The commission is based upon future net sales of Burk over base sales established within the agreement. We realized a gain on the sale of $200,000 for the 2003 fiscal year, $176,000 for the 2002 fiscal year, and $123,000 for the 2001 fiscal year. As of June 30, 2003, $1.5 million of the promissory note remained outstanding and we had received $20,000 in commissions.

Ivron Systems, Ltd. Acquisition. On October 3, 2001, we purchased all of the issued and outstanding shares of Ivron Systems, Ltd., of Dublin, Ireland. Under the terms of the original agreement, the shareholders of Ivron received $6.0 million of cash at closing of the purchase. As part of the purchase, all outstanding options to purchase Ivron shares were cancelled in consideration for a cash payment of $650,000. Further, under that agreement, after June 30, 2002, each former Ivron shareholder would be entitled to receive approximately .08 shares of our common stock for each Ivron share previously held by such shareholder, provided that certain video product development contingencies were achieved. This represented approximately 429,000 shares of common stock. Thereafter, for the fiscal years ending June 30, 2003 and 2004, the former Ivron shareholders would be entitled to share in up to approximately $17.0 million of additional cash and stock consideration provided that certain agreed upon earnings per share targets were achieved by us. In addition, former optionees of Ivron who remained with us were eligible to participate in a cash bonus program paid by us, based on our combined performance with Ivron in the fiscal years ending June 30, 2003 and 2004. The maximum amount payable under this cash bonus program was approximately $1.0 million.

As of the acquisition date, we acquired tangible assets consisting primarily of cash of $297,000, accounts receivable of $92,000, inventory of $337,000, and property and equipment of $22,000. We assumed liabilities consisting primarily of trade accounts payable of $174,000, and accrued compensation and other accrued liabilities of $264,000.

On March 26, 2002, we entered into negotiations with the former shareholders of Ivron to modify the terms of the original purchase agreement because, upon further analysis, certain aspects of the acquired technology did not meet the intended product objectives established in our original purchase negotiations.

The amendment, which was finalized on April 8, 2002, revised the contingent consideration that the Ivron shareholders would have been entitled to receive in subsequent years so that upon meeting certain gross profit targets for the “V-There” and “Vu-Link” set-top videoconferencing products, technologies, and sub-elements thereof (including licensed products), the former Ivron shareholders had the opportunity to receive up to 109,000 shares of our common stock, issuable in four installments, on a quarterly basis, through July 15, 2003. No performance targets were met and accordingly no contingent consideration was or will be paid.

Based on the modified purchase price determined under the terms of the amendment, we recorded intangible assets of $5.3 million related to developed technology, $1.1 million related to intellectual property, and goodwill of $218,000. Amortization expense of $446,000 was recorded for the developed technology for the period from October 3, 2001 to June 30, 2002. No amortization expense was recorded for goodwill. After the acquisition, we experienced significant difficulties in selling the acquired video conferencing products. Due to the phasing out of a product line occasioned by technological difficulties and negative projected cash flows, we determined that a triggering event had occurred during the fourth quarter of the fiscal year ended June 30, 2002. We performed an impairment test and determined that an impairment loss on the Ivron assets should be recognized. Subsequent to June 30, 2003, we discontinued selling the “V-There” and “Vu-Link” set-top videoconferencing products.

Sale of Court Conferencing Assets. As part of our conferencing services segment, our court conferencing customers engaged in the audio and/or video conferencing of legal proceedings including remote appearances in state and federal courts and/or administrative tribunals within the United States. On October 26, 2001, we sold our court conferencing customer list, including all contracts relating to its court conferencing services to CourtCall LLC and recognized a gain of $250,000.

E.mergent Acquisition. On May 31, 2002, we completed our acquisition of E.mergent, Inc. pursuant to the terms of an Agreement and Plan of Merger dated January 21, 2002 pursuant to which we paid $7.3 million of cash and issued 868,691 shares of our common stock valued at $16.55 per share to the former E.mergent stockholders.

In addition to the shares of our common stock issued, we assumed all options to purchase E.mergent common stock that were vested and outstanding on the acquisition date. These options were converted into the right to acquire a total of 4,158 shares of our common stock at a weighted average exercise price of $8.48 per share. A value of approximately $49,000 was assigned to these options using the Black-Scholes option pricing model.

As of the acquisition date, we acquired tangible assets consisting primarily of cash of $68,000, accounts receivable of $2.2 million, inventory of $3.3 million, property and equipment of $475,000 and other assets of $1.3 million. We assumed liabilities consisting primarily of accounts payable of $1.3 million, line of credit borrowings of $484,000, unearned maintenance revenue of $873,000, accrued compensation (other than severance) and other accrued liabilities of $656,000. We incurred severance costs of approximately $468,000 related to the termination of four E.mergent executives and seven other E.mergent employees as a result of duplication of positions upon consummation of the acquisition. In June 2002, $52,000 was paid to such individuals. The severance accrual as of June 30, 2002 of $416,000 was paid during the fiscal year ended June 30, 2003.

We recorded intangible assets of $1.1 million related to patents, $392,000 related to customer relationships, $215,000 related to a non-compete agreement, and goodwill of $17.1 million. Amortization expense of $437,000 was recorded for the intangible assets for the period from June 1, 2002 to June 30, 2003. In accordance with SFAS No. 142, no amortization expense was recorded for goodwill.

Our management at the time believed the E.mergent acquisition would complement our existing operations and our core competencies would allow us to acquire market share in the audio visual integration industry. However, our entry into the services business was perceived as a threat by our systems integrators and value-added resellers, many of whom we began competing against for sales. In order to avoid this conflict and maintain good relationships with our systems integrators and value-added resellers, we decided to stop pursuing new services contracts in the fourth quarter of the fiscal year ended June 30, 2003 which was considered a triggering event for evaluation of impairment. We ultimately exited the U.S. audiovisual integration market and subsequently sold our U.S. audiovisual integration business to M:Space in May of 2004. Although we continue to sell camera and furniture products acquired from E.mergent, our decision to exit the U.S. integration services market adversely affected the future cash flows of the E.mergent business unit. We determined that a triggering event occurred in the fourth quarter of the fiscal year ended June 30, 2003. We performed an impairment test and determined that an impairment loss on certain E.mergent assets should be recognized.

Sale of Broadcast Telephone Interface Business to Comrex. On August 23, 2002, we entered into an agreement with Comrex Corporation (Comrex). In exchange for $1.3 million, Comrex received certain inventory associated with our broadcast telephone interface product line, a perpetual software license to use our technology related to broadcast telephone interface products along with one free year of maintenance and support, and transition services for 90 days following the effective date of the agreement. The transition services included training, engineering assistance, consultation, and development services. We recognized $1.1 million in revenue related to this transaction in the fiscal year ended June 30, 2003.

We also entered into a manufacturing agreement to continue to manufacture additional product for Comrex for one year following the agreement described above on a when-and-if needed basis. Comrex agreed to pay the Company for any additional product on a per item basis of cost plus 30%.

OM Video Acquisition. On August 27, 2002, we purchased all of the outstanding shares of Stechyson Electronics Ltd., doing business as OM Video, an audiovisual integration firm headquartered in Ottawa, Canada. Under the terms of the agreement, the shareholders of OM Video received $6.3 million in cash at closing. During the fiscal years ended June 30, 2003 and 2004, we paid an additional $500,000 of a potential $600,000 that was held pending verification of certain representations and warranties made in connection with the acquisition. During the second quarter of fiscal 2003, we also paid $750,000 of a potential $800,000 earn-out provision. No further payment related to the holdback or contingent consideration will be paid.

As of the acquisition date, we acquired tangible assets consisting primarily of cash of $193,000, accounts receivable of $470,000, inventory of $122,000, property and equipment of $145,000 and prepaid expenses of $6,000. We assumed liabilities consisting primarily of accrued liabilities of $378,000 and accrued tax liabilities of $221,000. We also obtained a non-competition agreement with a term of two years from the former owner of OM Video.

Our management at the time believed the OM Video acquisition would complement our existing operations and our core competencies would allow us to acquire market share in the audio visual integration industry. However, our entry into the services business was perceived as a threat by our systems integrators and value-added resellers, many of whom we began competing against for sales. In order to avoid this conflict and maintain good relationships with our systems integrators and value-added resellers, we deemphasized the audiovisual integration market serving the Ottawa Canada region beginning in the fourth quarter of the fiscal year ended June 30, 2003. This decision was considered a triggering event for evaluation of impairment. On March 4, 2005, we sold all of our Canadian audio visual integration business. On June 30, 2003, we performed an impairment test and determined that an impairment loss on the OM Video assets should be recognized.

Risk Factors

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

Risks Relating to Our Business

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

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

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

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

Revenues for any particular time period are difficult to predict with any degree of certainty. We usually ship products within a short time after we receive an order; so consequently, backlog has not been a good indicator of future revenues. We believe that the current level of backlog will fluctuate dependent in part on our ability to forecast revenue mix and plan our manufacturing accordingly. A significant portion of our customers' orders are received in the last month of the quarter. We budget the amount of our expenses based on our revenue estimates. If our estimates of sales are not accurate and we experience unforeseen variability in our revenues and operating results, we may be unable to adjust our expense levels accordingly and our profit margins will be adversely affected.

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

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

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

General economic conditions may have an adverse impact on our revenues.

General economic conditions have, in the past, and may continue to lead to reductions in capital expenditures on technology by end user customers of our products. While there have been indications of improvement in the global economy and its impact on technology spending, constraints still exist and may have an adverse impact on our future revenues.

We depend on a limited number of suppliers for components and the inability to obtain sufficient supplies of components could adversely affect our product sales.

While it is our policy to have a minimum of two vendor sources for components, certain components used in the manufacture of our products can only be obtained from a single manufacturer and we are solely dependent upon these manufacturers to deliver such components to our suppliers so that they can meet our delivery schedules. We do not have a written commitment from such suppliers to fulfill our future requirements. While our suppliers maintain an inventory of such components, no assurances can be given that such components will always be readily available, available at reasonable prices, available in sufficient quantities, or delivered in a timely fashion. If such components become unavailable, it is likely that we will experience delays, which could be significant, in the production and delivery of our products, unless and until we can otherwise procure the required component or components at competitive prices, if at all. We have experienced increased prices and increased lead times on certain of these key components that have limited availability. Any lack of availability of these components could have a material adverse effect on our ability to sell products and the related increase in prices would likely reduce our profit margins.

Furthermore, suppliers of some of these components may become our competitors, which might also affect the availability of key components to us. It is possible that other components required in the future may necessitate custom fabrication in accordance with specifications developed or to be developed by us. Also, in the event we, or any of the manufacturers whose products we expect to utilize in the manufacture of our products, are unable to develop or acquire components in a timely fashion, our ability to achieve production yields, revenues and net income may be adversely affected.

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

Our industry is subject to rapid and frequent technological innovations that could render existing technologies in our products obsolete and thereby decrease market demand for such products. If any of our products become slow-moving or obsolete and the recorded value of our inventory is greater than its market value, we will be required to write-down the value of our inventory to its fair market value, which would adversely affect our results of operations.

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

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

- meeting required specifications;
- hiring a sufficient number of developers;
- developing and testing products; and
- achieving necessary manufacturing efficiencies.

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

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

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

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

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

International sales represent a significant portion of our total sales from continuing operations. For example, international sales represented 26% of our total sales from continuing operations for fiscal 2003, 10% for fiscal 2002 and 12% for fiscal 2001. We anticipate that the portion of our total revenue from international sales will continue to increase as we further enhance our focus on developing new products, establishing new distribution partners, strengthening our presence in key growth areas, and improving product localization with country-specific product documentation and marketing materials. Our international business is subject to the financial and operating risks of conducting business internationally, including:

- unexpected changes in, or the imposition of, additional legislative or regulatory requirements;
- fluctuating exchange rates;
- tariffs and other barriers;
- difficulties in staffing and managing foreign subsidiary operations;
- export restrictions;
- greater difficulties in accounts receivable collection and longer payment cycles;
- potentially adverse tax consequences; and
- potential hostilities and changes in diplomatic and trade relationships.

Our sales in the international market are denominated in U.S. Dollars, with the exception of sales through our wholly owned subsidiary, ClearOne Communications of Canada, Inc. (ClearOne Canada d.b.a. OM Video), whose sales were denominated in Canadian Dollars until March 4, 2005, when the subsidiary was sold to a third party. Consolidation of ClearOne Canada's financial statements with ours, under U.S. generally accepted accounting principles, required remeasurement of the amounts stated in ClearOne Canada's financial statements to U.S. Dollars, which was subject to exchange rate fluctuations. We did not undertake hedging activities that might protect us against such risks.

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

We depend on highly skilled technical personnel to research and develop, market and service new and existing products. To succeed, we must hire and retain employees who are highly skilled in the rapidly changing communications and Internet technologies. Individuals who have the skills and can perform the services we need to provide our products and services are in great demand. Because the competition for qualified employees in our industry is intense, hiring and retaining employees with the skills we need is both time-consuming and expensive. We might not be able to hire enough skilled employees or retain the employees we do hire. Our inability to hire and retain employees with the skills we seek could hinder our ability to sell our existing products, systems, or services or to develop new products, systems, or services with a consequent adverse effect on our business.

Our reliance on third-party technology or license agreements.

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

Our reliance on international outsource manufacturing strategy.

We have an agreement with an international manufacturer for the manufacture of our MAX® product line. We use a facility in China. Should there be any disruption in services due to natural disaster, economic or political difficulties in China, quarantines or other restrictions associated with infectious diseases, or other similar events, or any other reason, such disruption would have a material adverse effect on our business. A delay in shipping these products due to an interruption in the manufacturer’s operations would have a negative impact on our revenues. Operating in the international environment exposes us to certain inherent risks, including unexpected changes in regulatory requirements and tariffs, and potentially adverse tax consequences, which could materially affect our results of operations.

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

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

We may have difficulty in collecting outstanding receivables.

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

Interruptions to our business could adversely affect our operations.

As with any company, our operations are at risk of being interrupted by earthquake, fire, flood, and other natural and human-caused disasters, including terrorist attacks and disease. Our operations are also at risk of power loss, telecommunications failure, and other infrastructure and technology based problems. To help guard against such risks, we carry business interruption loss insurance with coverage of up to $5.4 million to help compensate us for losses that may occur.

Risks Relating to Our Company

Many of our officers and key personnel have recently joined the company or have only worked together for a short period of time.

We have recently made several significant changes to our senior management. In July 2004 we named a new President and Chief Executive Officer, who had been serving as our Vice President of Product Development since December 2003. In addition we hired a new Chief Financial Officer in July 2004, a Vice President of Worldwide Sales and Marketing in November 2004, a Vice President of Operations in December 2004. In January 2005, we named a new Vice President of Product Line Management, who had been serving as our Director of Research and Development. As a result of these recent changes in senior management, many of our officers and other key personnel have only worked together for a short period of time. The failure to successfully integrate senior management could have an adverse impact on our business operations, including reduced sales, confusion with our channel partners and delays in new product introductions.

We are not current in the filing of reports with the SEC and the SEC could initiate enforcement proceedings against us at any time.

We are not current in the filing of reports with the SEC and the SEC could initiate enforcement proceedings against us at any time, including proceedings to suspend trading of our securities.

Our directors and officers own 19.6% of the Company and may exert control over us.

Our officers and directors together have beneficial ownership of approximately 19.6% of our common stock (including options that are currently exercisable or exercisable within 60 days of July 31, 2005). With this significant holding in the aggregate, the officers and directors, acting together, could exert control over us and may be able to delay or prevent a change in control.

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

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

- statements or changes in opinions, ratings or earnings estimates made by brokerage firms or industry analysts relating to the market in which we do business or relating to us specifically;
- disparity between our reported results and the projections of analysts;
- the announcement of new products or product enhancements by us or our competitors;
- technological innovations by us or our competitors;
- quarterly variations in our results of operations;
- general market conditions or market conditions specific to technology industries;
- domestic and international economic conditions;
- our ability to report financial information in a timely manner; and
- the markets in which our stock is traded.

ITEM 2. PROPERTIES

Our principal administrative, sales, marketing, customer support and research and development facility is located in our headquarters in Salt Lake City, Utah. Most of our product manufacturing and warehousing operations are also located in our Salt Lake City headquarters. We currently occupy a 51,760 square-foot facility under the terms of an operating lease expiring in October 2006. We believe the facility will be reasonably adequate to meet our needs for the next 12 months.

From July 1, 2004 through February 28, 2005, we sublet 5,416 square feet of space in our headquarters building to Premiere Conferencing, the purchaser of our conferencing services business. On August 1, 2005, we entered into a one-year sublease with Inovar, Inc. with respect to the 12,000 square foot manufacturing facility in our headquarters building in connection with the outsourcing of our manufacturing operations. Such space had been provided to Inovar on a rent-free basis from June 20 to July 31, 2005, pending execution of definitive agreements.

Our conference furniture manufacturing and warehousing operations are conducted from a facility totaling 17,520 square feet located in Champlin, Minnesota. We lease this facility under a lease agreement that expires in September 2007. We believe the facility will be reasonably adequate to meet our needs for the next 12 months.

Our wholly owned United Kingdom subsidiary, ClearOne Communications Limited, rents an office in Oxfordshire, England, consisting of 250 square feet. The office space is rented under a managed office arrangement which requires 90 days notice to terminate the agreement.

Our wholly owned subsidiary, ClearOne Communications of Canada, Inc. d/b/a OM Video, leased a facility in Ottawa, Canada consisting of 16,190 square feet. We leased this facility under a lease agreement that expires in July 2005. As discussed herein, we sold this subsidiary in March 2005.

Our wholly owned subsidiary, ClearOne Communications EuMEA, GmbH, leased an office in Nuremberg, Germany, consisting of 200 square meters. This office was closed in December 2004 and the lease was terminated.

We previously rented sales offices located in Des Moines, Iowa on a month-to-month basis but such leases were terminated in December 2002. We also leased a sales office in Westmont, Illinois pursuant to a lease that expired in July 2004.

Our U.S. business services operations were conducted from a facility totaling 25,523 square feet located in Golden Valley, Minnesota. We leased these facilities under a lease agreement that expired in December 2004. We negotiated an early buyout of the lease effective June 2004.

We leased an office in Woburn, Mass. that we initially acquired through the purchase of ClearOne, Inc. in July 2000. The facility consisted of 2,206 square feet. We negotiated an early buyout of the lease effective September 2003.

Our wholly owned subsidiary, Gentner Communications Limited, leased an office in Dublin, Ireland for research and development related to video conferencing. The facility consisted of 431 square meters, of which we sublet 129 square meters to a third party effective July 2002. We negotiated an early buyout of the lease effective November 2002.

ITEM 3. LEGAL PROCEEDINGS

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

The SEC Action. On January 15, 2003, the U.S. Securities and Exchange Commission filed a civil complaint against ClearOne, Frances Flood, then ClearOne's Chairman, Chief Executive Officer and President, and Susie Strohm, then ClearOne's Chief Financial Officer, in the U.S. District Court for the District of Utah, Central Division. The complaint alleged that from the quarter ended March 31, 2001, the defendants engaged in a program of inflating ClearOne's revenues, net income and accounts receivable by engaging in improper revenue recognition in violation of generally accepted accounting principles (GAAP), and Section 17(a) of the Securities Act of 1933 and Sections 10(b), 13(a) and 13(b) of the Securities Exchange Act of 1934, and various regulations promulgated thereunder. Following the filing of the complaint, we placed Ms. Flood and Ms. Strohm on administrative leave and they subsequently resigned from their positions with the Company. On December 4, 2003, we settled the SEC action by entering into a consent decree in which, without admitting or denying the allegations of the complaint, we consented to the entry of a permanent injunction prohibiting future securities law violations. No fine or penalty was assessed against the Company as part of the settlement.

On February 20, 2004, Ms. Flood and Ms. Strohm settled the SEC action by entering into consent decrees wherein, without admitting or denying the allegations of the complaint, they each consented to the entry of a permanent injunction prohibiting future violations of the antifraud, reporting, and issuer books and records requirements of the federal securities laws. The order against Ms. Flood also provided for disgorgement in the amount of $71,000 along with prejudgment interest of $2,882, a civil penalty in the amount of $71,000, and prohibited Flood from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act or that is required to file reports pursuant to Section 15(d) of the Exchange Act. The order against Ms. Strohm also provided for disgorgement in the amount of $25,000 together with prejudgment interest in the amount of $1,015 and a civil penalty in the amount of $25,000. The final settlement of the SEC action as to Ms. Flood and Ms. Strohm satisfied the condition precedent contained in the employment separation agreements entered into by the Company with each of such persons on December 5, 2003 (See Item 11. Executive Compensation: Employment Contracts and Termination of Employment and Change-in-Control Agreements).

The Whistleblower Action. On February 11, 2003, our former vice president of sales filed a whistleblower claim with the Occupational Safety and Health Administration (OSHA) under the employee protection provisions of the Sarbanes-Oxley Act alleging that the Company had wrongfully terminated his employment for reporting the Company's alleged improper revenue recognition practices to the SEC in December 2002, which precipitated the SEC action against the Company. In February 2004, OSHA issued a preliminary order in favor of the former officer, ordering that he be reinstated with back pay, lost benefits, and attorney's fees. The former officer had also filed a separate lawsuit against the Company in the United States District Court for the District of Utah, Central Division, alleging various employment discrimination claims. In May 2004, the Administrative Law Judge approved a settlement agreement with the former officer pursuant to which he released the Company from all claims asserted by him in the OSHA proceeding and the federal court action in exchange for a cash payment by the Company. The settlement did not have a material impact on the Company's results of operations or financial condition.

The Shareholders' Class Action. On June 30, 2003, a Consolidated Complaint was filed in the U.S. District Court for the District of Utah, Central Division, against the Company, eight present or former officers and directors of the Company, and Ernst & Young LLP (Ernst & Young), the Company's former independent registered public accountants, by a class consisting of purchasers of the Company's common stock during the period from April 17, 2001 through January 15, 2003. The action followed the consolidation of several previously filed class action complaints and the appointment of lead counsel for the class. The allegations in the complaint were essentially the same as those contained in the SEC complaint described above. On December 4, 2003, the Company, on behalf of itself and all other defendants with the exception of Ernst & Young, entered into a settlement agreement with the class pursuant to which we agreed to pay the class $5.0 million and issue the class 1.2 million shares of our common stock. The cash payment was made in two equal installments, the first on November 10, 2003 and the second on January 14, 2005. On May 23, 2005, the court order was amended to provide that odd-lot numbers of shares (99 or fewer shares) will not be issued from the settlement fund and claimants who would otherwise be entitled to receive 99 or fewer shares will be paid cash in lieu of such odd-lot number of shares. As of the date hereof, 228,000 shares of our common stock have been issued to the class and we plan to complete the issuance of the remaining shares in the near future in accordance with the terms of the court order, subject to the receipt of any required approvals from state regulatory authorities.

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

The Insurance Coverage Action. On February 9, 2004, ClearOne and Edward Dallin Bagley (Bagley), a director and significant shareholder of ClearOne, jointly filed an action in the United States District Court for the District of Utah, Central Division, against National Union Fire Insurance Company of Pittsburgh, Pennsylvania and Lumbermens Mutual Insurance Company, the carriers of certain prior period directors and officers liability insurance policies, to recover the costs of defending and resolving claims against certain of our present and former directors and officers in connection with the SEC action, the shareholders' class action and the shareholder derivative actions described above, and seeking other damages resulting from the refusal of such carriers to timely pay the amounts owing under such liability insurance policies. This action has been consolidated into a declaratory relief action filed by one of the insurance carriers on February 6, 2004 against ClearOne and certain of its current and former directors. In this action, the insurers assert that they are entitled to rescind insurance coverage under our directors and officers' liability insurance policies, $3.0 million of which was provided by National Union and $2.0 million which was provided by Lumbermens Mutual, based on alleged misstatements in our insurance applications. In February 2005, we entered into a confidential settlement agreement with Lumbermens Mutual pursuant to which ClearOne and Bagley received a lump sum cash amount and the plaintiffs agreed to dismiss their claims against Lumbermens Mutual with prejudice. The cash settlement will be held in a segregated account until the claims involving National Union have been resolved, at which time the amounts received in the action will be allocated among the Company and Bagley. The amount distributed to the Company and Bagley will be determined based on future negotiations between the Company and Bagley. We are vigorously pursuing our claims against National Union although no assurances can be given that we will be successful. ClearOne and Bagley have entered into a Joint Prosecution and Defense Agreement in connection with the action.

The Pacific Technology & Telecommunications Collection Action. On August 12, 2003, we initiated a commercial arbitration proceeding against Pacific Technology & Telecommunications (PT&T), a former distributor, seeking to collect approximately $1.8 million that PT&T owed ClearOne for inventory purchased but not paid for. PT&T denied our claim and asserted counterclaims. Subsequently, on April 20, 2004, PT&T filed for protection under Chapter 7 of the United States Bankruptcy Code, which had the effect of staying the proceeding. Following PT&T's bankruptcy filing, the Company successfully negotiated a settlement with the bankruptcy trustee. Under the settlement, which has been approved by the bankruptcy court, the Company paid $25,000 and obtained the right to recover all unsold ClearOne inventory held by PT&T and the right to pursue on the basis of an assignment any claims that PT&T may have against any of its own officers or directors, subject, however, to a maximum recovery of $800,000. The Company is currently in the process of investigating whether any such claims exist and, if so, whether it would be in the Company's best interest to pursue them given the anticipated legal expenses and the uncertainties of being able to collect any resulting favorable judgment. The settlement also resulted in the release and dismissal with prejudice of all of PT&T's claims against the Company. To date, the Company has not recovered any inventory held by PT&T.

U.S. Attorney's Investigation. As previously announced on January 28, 2003, the Company has been advised that the U.S. Attorney's Office for the District of Utah has begun an investigation stemming from the complaint in the SEC action described above. No pleadings have been filed to date and the Company is cooperating fully with the U.S. Attorney's Office.

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

No matter was submitted to a vote of our security holders during the fourth quarter ended June 30, 2003.

PART II

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

Market Information

Our common stock traded under the symbol CLRO on the Nasdaq National Market System ("NASDAQ") until April 21, 2003. Our shares were delisted from NASDAQ effective as of the opening of trading on April 21, 2003, due to our failure to timely file SEC reports and public interest concerns relating to the SEC complaint filed on January 15, 2003. Since April 21, 2003, our common stock has been traded on the National Quotation Bureau's Pink Sheets under the symbol "CLRO." The following table sets forth the high and low sales prices for the common stock for each quarter during the last three fiscal years. On August 10, 2005, the closing price for our common stock on the Pink Sheets was $3.95.

2001	Market	High	Low
First Quarter	NASDAQ	$ 17.13	$ 12.00
Second Quarter	NASDAQ	16.44	8.50
Third Quarter	NASDAQ	15.69	9.75
Fourth Quarter	NASDAQ	14.30	9.50
2002		High	Low
First Quarter	NASDAQ	$ 18.72	$ 9.80
Second Quarter	NASDAQ	22.94	15.03
Third Quarter	NASDAQ	18.99	12.30
Fourth Quarter	NASDAQ	18.80	13.25
2003		High	Low
First Quarter	NASDAQ	$ 14.69	$ 3.31
Second Quarter	NASDAQ	5.45	2.82
Third Quarter	NASDAQ/Pink Sheets	4.68	1.38
Fourth Quarter	Pink Sheets	3.05	0.09

Shareholders

As of July 29, 2005, there were 451 shareholders of record of our common stock, including broker dealers and clearing corporations who hold shares for their customers, each of which is counted as a single shareholder.

Dividends

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

Equity Compensation Plan Information

The following table sets forth information as of June 30, 2003 with respect to compensation plans under which equity securities of ClearOne are authorized for issuance.

	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	2,122,756	$6.89	496,668
Equity compensation plans not approved by security holders	0	0.00	0
Total	2,122,756	$6.89	496,668

Stock Repurchase program. During fiscal 2001, we repurchased 20,300 shares of our common stock on the open market at prices ranging from $10.58 to $14.16, for an aggregate purchase price of $244,000. All repurchased shares were retired. This stock repurchase program expired in October 2001.

During fiscal 2003, we repurchased 125,000 shares on the open market at prices ranging from $3.06 to $3.60, for an aggregate purchase price of $430,000. All repurchased shares were retired. This stock repurchase program expired in October 2003 and we have not repurchased any additional securities since that time.

Private Placement of Common Stock. On December 11, 2001, we completed a private placement of 1,500,000 shares of our common stock, from which we received net proceeds of approximately $23.8 million, after deducting costs and expenses associated with the private placement. In connection with the offering, we issued warrants to the placement agent entitling it to purchase up to 150,000 shares of our common stock at an exercise price of $17.00 per share through November 27, 2006.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data has been derived from our audited Consolidated Financial Statements. For the fiscal years ended June 30, 2002 and 2001, the data in the table below is restated to reflect the restatement of results for those years (see below and Note 3. Restatement and reclassifications of previously issued financial statements in Item 8 of this report). For the fiscal years ended June 30, 2000 and 1999, the selected financial data in the table below is presented on an unaudited basis, to reflect prior period adjustments resulting from the re-audit of subsequent fiscal years. The results presented below for the fiscal years ended June 30, 2000 and 1999 have not been re-audited and are unaudited. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes thereto included elsewhere in this Form 10-K.

SELECTED CONSOLIDATED FINANCIAL DATA
(in thousands, except share data)

	Years Ended June 30,				
	2003	2002 (restated)	2001 (restated)	2000 (unaudited)	1999 (unaudited)
Operating results:					
Net revenue	$ 57,585	$ 43,362	$ 34,137	$ 27,918	$ 20,268
Costs and expenses:					
Cost of goods sold	35,301	22,172	15,133	11,175	8,908
Marketing and selling	12,187	10,739	7,711	6,200	4,313
General and administrative	18,011	5,345	4,198	3,214	2,545
Product development	2,995	3,810	2,747	1,271	1,195
Impairment losses	26,001	7,115	-	-	-
Gain on sale of assets	-	(250)	-	-	-
Purchased in-process research and development	-	-	728	-	-
Operating income (loss)	(36,910)	(5,569)	3,620	6,058	3,307
Other income (expense)	(96)	132	188	153	(78)
Income (loss) from continuing operations before income taxes	(37,006)	(5,437)	3,808	6,211	3,229
Provision (benefit) for income taxes	(834)	1,400	1,050	2,229	1,209
Income (loss) from continuing operations	(36,172)	(6,837)	2,758	3,982	2,020
Income from discontinued operations, net of applicable income taxes	-	-	737	427	524
Gain on disposal of business segment, net of applicable income taxes	200	176	123	-	-
Net income (loss)	$ (35,972)	$ (6,661)	$ 3,618	$ 4,409	$ 2,544
Earnings (loss) per common share:					
Basic earnings (loss) from continuing operations	$ (3.23)	$ (0.71)	$ 0.32	$ 0.48	$ 0.25
Diluted earnings (loss) from continuing operations	$ (3.23)	$ (0.71)	$ 0.30	$ 0.46	$ 0.24
Basic earnings from discontinued operations	$ 0.02	$ 0.02	$ 0.10	$ 0.05	$ 0.06
Diluted earnings from discontinued operations	$ 0.02	$ 0.02	$ 0.09	$ 0.04	$ 0.06
Basic earnings (loss)	$ (3.21)	$ (0.69)	$ 0.42	$ 0.53	$ 0.31
Diluted earnings (loss)	$ (3.21)	$ (0.69)	$ 0.39	$ 0.50	$ 0.30
Weighted average shares outstanding:					
Basic	11,183,339	9,588,118	8,593,725	8,269,941	8,080,536
Diluted	11,183,339	9,588,118	9,194,009	8,740,209	8,468,884

	As of June 30,				
	2003	2002 (restated)	2001 (restated)	2000 (unaudited)	1999 (unaudited)
Financial data:					
Current assets	$ 26,917	$ 36,312	$ 17,604	$ 15,116	$ 9,282
Property, plant and equipment, net	6,768	8,123	5,681	3,050	2,126
Total assets	35,276	63,876	25,311	18,220	11,519
Long-term debt, net of current maturities	931	-	-	-	-
Capital leases, net of current maturities	1,215	2,016	1,680	230	455
Total stockholders' equity	18,743	53,892	20,728	15,073	8,352

Quarterly Financial Data (Unaudited)

The financial data in this Annual Report on Form 10-K for the quarter ended September 30, 2002, and for each of the quarters in the fiscal years ending June 30, 2002 and 2001 has been restated from amounts previously reported on Forms 10-Q and Forms 10-K. A discussion of the restatement in relation to the affected quarters is provided in Note 3 to our audited consolidated financial statements - Restatement and Reclassification of Previously Issued Consolidated Financial Statements. An overview of the restatement is provided in the introduction to Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations.

	Fiscal 2003 Quarters Ended (in thousands)				
	As of Sept. 30		As of Dec. 31	As of Mar. 31	As of June 30
	(as previously reported)	(restated)			
Net revenue	$ 12,998	$ 13,818	$ 14,184	$ 15,258	$ 14,325
Cost of goods sold	(7,440)	(11,922)	(6,357)	(10,169)	(6,853)
Operating expenses	(6,398)	(6,569)	(13,129)	(7,120)	(6,375)
One-time charges	(1,947)	-	-	-	-
Impairment charges	-	-	-	-	(26,001)
Other (income) expense	77	(11)	(40)	(12)	(34)
Gain on sale of product line	1,112	-	-	-	-
Loss from continuing operations before income taxes	(1,598)	(4,684)	(5,342)	(2,043)	(24,938)
Benefit for income taxes	(439)	(314)	(358)	(137)	(25)
Loss from continuing operations	(1,159)	(4,370)	(4,984)	(1,906)	(24,913)
Income from discontinued operations	-	59	59	24	58
Net loss	$ (1,159)	$ (4,311)	$ (4,925)	$ (1,882)	$ (24,855)
Basic (loss) per common share:					
Continuing operations	$ (0.10)	$ (0.39)	$ (0.44)	$ (0.17)	$ (2.23)
Discontinued operations	-	0.01	0.01	-	0.01
Basic (loss) per common share	$ (0.10)	$ (0.38)	$ (0.43)	$ (0.17)	$ (2.22)
Diluted (loss) per common share:					
Continuing operations	$ (0.10)	$ (0.39)	$ (0.44)	$ (0.17)	$ (2.23)
Discontinued operations	-	0.01	0.01	-	0.01
Diluted (loss) per common share	$ (0.10)	$ (0.38)	$ (0.43)	$ (0.17)	$ (2.22)

	Fiscal 2002 Quarters Ended (in thousands)			
	As of Sept. 30		As of Dec. 31	
	(as previously reported)	(restated)	(as previously reported)	(restated)
Net revenue	$ 11,220	$ 9,963	$ 12,582	$ 12,590
Cost of goods sold	(4,582)	(4,423)	(5,057)	(5,484)
Operating expenses	(4,501)	(4,304)	(5,211)	(4,487)
Impairment charges	-	-	-	-
Other (income) expense	145	71	66	(67)
Income from continuing operations before income taxes	2,282	1,307	2,380	2,552
Provision for income taxes	870	393	888	766
Income from continuing operations	1,412	914	1,492	1,786
Income from discontinued operations	-	-	-	-
Net income	$ 1,412	$ 914	$ 1,492	$ 1,786
Basic earnings per common share:				
Continuing operations	$ 0.16	$ 0.11	$ 0.17	$ 0.20
Discontinued operations	-	-	-	-
Basic earnings per common share	$ 0.16	$ 0.11	$ 0.17	$ 0.20
Diluted earnings per common share:				
Continuing operations	$ 0.16	$ 0.10	$ 0.16	$ 0.18
Discontinued operations	-	-	-	-
Diluted earnings per common share	$ 0.16	$ 0.10	$ 0.16	$ 0.18

	Fiscal 2002 Quarters Ended (in thousands)			
	As of Mar. 31		As of June 30	
	(as previously reported)	(restated)	(as previously reported)	(restated)
Net revenue	$ 14,171	$ 9,316	$ 16,569	$ 11,493
Cost of goods sold	(5,587)	(4,388)	(7,774)	(7,876)
Operating expenses	(5,430)	(4,971)	(5,667)	(5,884)
Impairment charges	-	-	-	(7,115)
Other (income) expense	(71)	32	369	97
Income (loss) from continuing operations before income taxes	3,083	(11)	3,497	(9,285)
Provision (benefit) for income taxes	1,012	(3)	1,061	244
Income (loss) from continuing operations	2,071	(8)	2,436	(9,529)
Income from discontinued operations	-	117	-	59
Net income (loss)	$ 2,071	$ 109	$ 2,436	$ (9,470)
Basic earnings (loss) per common share:				
Continuing operations	$ 0.20	$ -	$ 0.24	$ (0.90)
Discontinued operations	-	0.01	-	0.01
Basic earnings (loss) per common share	$ 0.20	$ 0.01	$ 0.24	$ (0.89)
Diluted earnings (loss) per common share:				
Continuing operations	$ 0.20	$ -	$ 0.22	$ (0.90)
Discontinued operations	-	0.01	-	0.01
Diluted earnings (loss) per common share	$ 0.20	$ 0.01	$ 0.22	$ (0.89)

	Fiscal 2001 Quarters Ended (in thousands)			
	As of Sept. 30		As of Dec. 31	
	(as previously reported)	(restated)	(as previously reported)	(restated)
Net revenue	$ 9,333	$ 5,567	$ 9,680	$ 9,585
Cost of goods sold	(3,766)	(2,804)	(3,971)	(3,944)
Operating expenses	(3,488)	(4,042)	(3,873)	(3,538)
Other expense	64	8	119	88
Income (loss) from continuing operations before income taxes	2,143	(1,271)	1,955	2,191
Provision (benefit) for income taxes	799	(350)	752	604
Income (loss) from continuing operations	1,344	(921)	1,203	1,587
Income from discontinued operations	186	95	337	245
Gain on disposal of business segment	-	-	-	-
Net income (loss)	$ 1,530	$ (826)	$ 1,540	$ 1,832
Basic earnings (loss) per common share:				
Continuing operations	$ 0.16	$ (0.11)	$ 0.14	$ 0.18
Discontinued operations	0.02	0.01	0.04	0.03
Basic earnings (loss) per common share	$ 0.18	$ (0.10)	$ 0.18	$ 0.21
Diluted earnings (loss) per common share:				
Continuing operations	$ 0.15	$ (0.11)	$ 0.13	$ 0.17
Discontinued operations	0.02	0.01	0.04	0.03
Diluted earnings (loss) per common share	$ 0.17	$ (0.10)	$ 0.17	$ 0.20

	Fiscal 2001 Quarters Ended (in thousands)			
	As of Mar. 31		As of June 30	
	(as previously reported)	(restated)	(as previously reported)	(restated)
Net revenue	$ 10,212	$ 9,589	$ 10,653	$ 9,396
Cost of goods sold	(4,328)	(4,168)	(4,438)	(4,217)
Operating expenses	(3,786)	(3,805)	(3,757)	(3,999)
Other expense	69	39	121	53
Income from continuing operations before income taxes	2,167	1,655	2,579	1,233
Provision for income taxes	808	456	959	340
Income from continuing operations	1,359	1,199	1,620	893
Income (loss) from discontinued operations	242	250	(28)	147
Gain on disposal of business segment	-	-	1,220	123
Net income	$ 1,601	$ 1,449	$ 2,812	$ 1,163
Basic earnings per common share:				
Continuing operations	$ 0.16	$ 0.14	$ 0.19	$ 0.10
Discontinued operations	0.03	0.03	0.14	0.03
Basic earnings per common share	$ 0.19	$ 0.17	$ 0.33	$ 0.13
Diluted earnings per common share:				
Continuing operations	$ 0.15	$ 0.13	$ 0.18	$ 0.10
Discontinued operations	0.03	0.03	0.13	0.03
Diluted earnings per common share	$ 0.18	$ 0.16	$ 0.31	$ 0.13

Discussion of Quarterly Financial Data (Unaudited)

We have restated our previously reported consolidated financial statements for the fiscal years ended June 30, 2002 and 2001. The discussion below relates to the changes in the consolidated statements of operations on a quarterly basis and are unaudited. Since we have not previously filed our quarterly reports on Form 10-Q for the quarters ended December 31, 2002 and March 31 and June 30, 2003, figures for those periods have not been restated.

Summary of restatement items

Errors in previously issued financial statements were identified in the following areas:

Revenue Recognition and Related Sales Returns, Credit Memos, and Allowances. We recognized revenue before the amounts charged to both distributors and non-distributors were considered fixed and determinable or reasonably collectible. Accordingly, revenue was inappropriately accelerated.

Beginning in 2001 and through 2002, we modified our sales channels to include distributors. These distributors were generally thinly capitalized with little or no financial resources and did not have the wherewithal to pay for these products when delivered by us. Furthermore, in a substantial number of cases, significant amounts of inventories were returned or never paid for and the payment for product sold (to both distributors and non-distributors) was regularly subject to final negotiation with our customers. As a result of such negotiations, we routinely agreed to significant concessions from the originally invoiced amounts to facilitate collection. Accordingly, amounts charged to both distributors and non-distributors were not considered fixed and determinable or reasonably collectible until cash was collected. Accordingly, product revenues to distributors and non-distributors were restated for the quarter ended September 30, 2002, and for each of the quarters in the fiscal years ending June 30, 2002 and 2001.

Related sales returns and allowances, rebates, and accounts receivables were revised appropriately given the revenue adjustments.

Cutoff and Period-End Close Adjustments Related to Accrued Liabilities and Prepaid Assets. We recorded accruals and amortized certain prepaid assets to operating expenses during the quarter ended September 30, 2002, and during each of the quarters in the fiscal years ending June 30, 2002 and 2001in the improper periods. Accordingly, adjustments to accrued liabilities, prepaid assets, and operating expenses were recorded to properly account for these errors.

Tracking and Valuation of Inventory, Including Controls to Identify and Properly Account for Obsolete Inventory. As part of the restatement process, we discovered that we made errors in the recording and presentation of inventories, including consigned inventory, obsolete and slow-moving inventories, errors in the capitalization of overhead expenses, errors in recording inventories at the lower of cost or market, and errors for inventory shrinkage. As a result, we made adjustments to reflect consigned inventory, to properly capitalize overhead expenses, physical inventory adjustments, adjustments to lower of cost or market, and adjustments to reserves for excess, obsolete and slow-moving inventory. Accordingly, inventories and cost of goods sold were restated to properly account for these errors.

Accounting for Leases, Including Classification as Operating or Capital. In evaluating the classification of leases, we did not consider all periods for which failure to renew the lease imposes a penalty on the lessee in such amount that a renewal appears, at the inception of the leases, to be reasonably assured. Accordingly, certain leases were classified as operating leases that should have been classified as capital leases. The effect of properly recording the capital leases on our previously reported financial statements is to record additional capital lease obligations, property and equipment, and depreciation expense and reduce rental expense for the quarter ended September 30, 2002, and for each of the quarters in the fiscal years ending June 30, 2002 and 2001.

We did not consider escalating rent payments and rent holidays for certain operating leases. Accordingly, rent expense was inappropriately understated. The effect of straight-lining rent payments on our previously reported financial statements is to record an accrued liability for future rent payments and record additional rent expense.

Accounting for Acquisitions. During the restatement process, we determined that the valuations and purchase price allocations in connection with its acquisitions of ClearOne, Ivron, and E.mergent were not performed properly. We engaged independent third-party valuation specialists to provide valuations and purchase price allocations on these acquisitions. We re-examined the purchase price allocations and adjusted for items that should have been recorded previously.

- In our previously issued consolidated financial statements, we valued the 129,871 shares of common stock issued in conjunction with the acquisition of ClearOne at $15.40 per share. We determined that the shares should have been valued at $13.97 per share based on the market prices a few days before and after the measurement date.
- We recorded adjustments to the amounts allocated to certain acquired intangible assets, including developed technologies, patents and trademarks, and distribution agreements. We also recorded adjustments to the amounts allocated to in-process research and development related to the ClearOne acquisition.
- We recorded adjustments to the amounts allocated to certain acquired tangible assets and assumed liabilities, including cash, accounts receivable, inventory, property, plant and equipment, deferred tax assets, and deferred tax liabilities.
- The adjustments to purchase price, as well as the adjustments to the amounts allocated to acquired intangible assets, acquired tangible assets, and assumed liabilities, resulted in corresponding adjustments to the amount allocated to goodwill.

Accounting for Equity and Other Significant Non-Routine Transactions.

- During the quarter ended June 30, 2001, we sold our remote control product line to Burk Technology. In previously issued consolidated financial statements, we recognized a gain on the sale of our remote control product line that included a significant note receivable from the buyer at the time of the sale, and recognized interest income associated with the note receivable in periods subsequent to the sale. Based on an analysis of the facts and circumstances that existed at the date of the sale, the recognition of this gain was inappropriate as the buyer did not have the wherewithal to pay this note receivable, the operations of the remote control product line had not historically generated cash flows sufficient to fund the required payments, and there were contingent liabilities we had to the buyer. Accordingly, we concluded that the gain should be recognized as cash is received from the buyer. As a result, we have reduced the gain on sale and eliminated the note receivable at the time of the sale, and recognized additional gain on the sale of the product line when-and-as cash payments on the note receivable are obtained.
- During the quarter ended June 30, 2002, we experienced certain triggering events that indicated that certain long-lived assets related to ClearOne and Ivron were impaired. Accordingly, we performed an impairment analysis in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 121. As a result of this analysis, we determined that goodwill, intangible assets, and certain property, plant, and equipment related to the ClearOne and Ivron acquisitions were fully impaired as of June 30, 2002. As a result, we recognized an impairment loss equal to the carrying value of these assets. In previously issued consolidated financial statements, we failed to recognize that a triggering event had occurred and did not record an impairment loss for these assets.
- During the quarter ended March 31, 2001, the terms of certain outstanding stock options were modified to allow for their acceleration in the event we met certain EPS targets. During the quarter ended June 30, 2001 we cancelled certain outstanding stock options and issued a replacement award with a lower exercise price, resulting in variable accounting. In previously issued consolidated financial statements, we did not record compensation expense in connection with these modifications in accordance with Accounting Principles Board (APB) No. 25 and Financial Accounting Standards Board (FASB) Interpretation Number 44, “Accounting for Certain Transactions involving Stock Compensation” (an interpretation of APB No. 25).
- On June 29, 2001, we repurchased 5,000 shares of our previously issued and outstanding common shares. In previously issued consolidated financial statements, we did not record the effects of this transaction until fiscal year 2002.

Accounting for Income Taxes. During each of the quarters in the fiscal years ending June 30, 2002 and 2001, and in the quarter ended September 30, 2002, our income before income taxes was restated to correct for certain accounting errors, resulting in less pre tax book income and correspondingly less income tax expense. In conjunction with the restatement, we evaluated the realizability of deferred tax assets. In the quarter ended June 30, 2002, we recorded an increased domestic valuation allowance to reflect our determination that not all of our deferred tax assets were more likely than not realizable pursuant to the provisions of SFAS 109, “Accounting for Income Taxes”.

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

The following discussion should be read in conjunction with our Consolidated Financial Statements and related Notes included in Item 8 of this Annual Report on Form 10-K. This discussion contains forward-looking statements based on current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions, as set forth under “Special Note Regarding Forward-Looking Statement.” Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the following discussion and under the caption “Factors That Could Affect Our Future Results” of this Management’s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Annual Report on Form 10-K. Unless otherwise indicated, all references to a year reflect our fiscal year that ends on June 30.

Business Overview

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

Restatements and Reclassifications of Previously Issued Consolidated Financial Statements

We have restated our previously reported consolidated financial statements for the quarter ended September 30, 2002, and for fiscal years ended June 30, 2002 and 2001, and each of the quarters therein. The restatement adjustments (including impairment charges) resulted in a cumulative net reduction to shareholders' equity of approximately $17.4 million and $3.8 million as of June 30, 2002 and 2001, respectively, and a reduction in previously reported net income of approximately $14.1 million and $3.9 million for the years ended June 30, 2002 and 2001, respectively. We have also restated the July 1, 2000 opening retained earnings balance to reflect corrected items that relate to prior periods.

We have not amended our prior filings to reflect the restatement. As a result, information previously filed in our annual reports on Form 10-K for fiscal years ended June 30, 2002 and 2001, our quarterly reports on Form 10-Q for the quarterly periods included in those fiscal years and for the quarter ended September 30, 2002 and any current reports on Form 8-K, or other disclosures, containing fiscal 2003, 2002 and 2001 information filed or made prior to the filing of this 2003 Form 10-K should not be relied upon.

As discussed below, our previously issued consolidated balance sheets, consolidated statements of operations and comprehensive income (loss), consolidated statements of stockholders' equity and cash flows for the years ended June 30, 2002 and 2001 have been restated to correct for certain accounting errors.

Summary of restatement items

Errors in previously issued financial statements were identified in the following areas:

Revenue Recognition and Related Sales Returns, Credit Memos, and Allowances. We recognized revenue before the amounts charged to both distributors and non-distributors were considered fixed and determinable or reasonably collectible. Accordingly, revenue was inappropriately accelerated.

Beginning in 2001 and through 2002, we modified our sales channels to include distributors. These distributors were generally thinly capitalized with little or no financial resources and did not have the wherewithal to pay for these products when delivered by us. Furthermore, in a substantial number of cases, significant amounts of inventories were returned or never paid for and the payment for product sold (to both distributors and non-distributors) was regularly subject to final negotiation with our customers. As a result of such negotiations, we routinely agreed to significant concessions from the originally invoiced amounts to facilitate collection. Accordingly, amounts charged to both distributors and non-distributors were not considered fixed and determinable or reasonably collectible until cash was collected. Accordingly, product revenues to distributors and non-distributors were restated for the years ending June 30, 2002 and 2001.

Related sales returns and allowances, rebates, and accounts receivables were revised appropriately given revenue adjustments.

Cutoff and Period-End Close Adjustments Related to Accrued Liabilities and Prepaid Assets. We recorded accruals and amortized certain prepaid assets to operating expenses during the fiscal years ended June 30, 2002 and 2001 in the improper periods. Accordingly, adjustments to accrued liabilities, prepaid assets, and operating expenses were recorded for the years ending June 30, 2002 and 2001.

Tracking and Valuation of Inventory, Including Controls to Identify and Properly Account for Obsolete Inventory. As part of the restatement process, we discovered that we made errors in the recording and presentation of inventories, including consigned inventory, obsolete and slow-moving inventories, errors in the capitalization of overhead expenses, errors in recording inventories at the lower of cost or market, and errors for inventory shrinkage. As a result, we made adjustments to reflect consigned inventory, to properly capitalize overhead expenses, physical inventory adjustments, adjustments to lower of cost or market, and adjustments to reserves for excess, obsolete and slow-moving inventory. Accordingly, inventories and cost of goods sold were restated to properly account for these errors.

Accounting for Leases, Including Classification as Operating or Capital. In evaluating the classification of leases, we did not consider all periods for which failure to renew the lease imposes a penalty on the lessee in such amount that a renewal appears, at the inception of the leases, to be reasonably assured. Accordingly, certain leases were classified as operating leases that should have been classified as capital leases. The effect of properly recording the capital leases on our previously reported financial statements is to record additional capital lease obligations, property and equipment, and depreciation expense and reduce rental expense for fiscal periods ending June 30, 2002 and 2001.

We did not consider escalating rent payments and rent holidays for certain operating leases. Accordingly, rent expense was inappropriately understated. The effect of straight-lining rent payments on our previously reported financial statements is to record an accrued liability for future rent payments and record additional rent expense.

Classification of Cash and Marketable Securities. In previously issued consolidated financial statements, we classified municipal government auction rate notes and auction rate preferred stocks as cash instead of marketable securities. Accordingly, reclassifications were made to the 2002 cash balances to properly classify those as marketable securities instead of cash.

Accounting for Acquisitions. During the restatement process, we determined that the valuations and purchase price allocations in connection with our acquisitions of ClearOne, Ivron, and E.mergent were not performed properly. We engaged independent third-party valuation specialists to provide valuations and purchase price allocations on these acquisitions. We re-examined the purchase price allocations and adjusted for items that should have been recorded previously.

- In our previously issued consolidated financial statements, we valued the 129,871 shares of common stock issued in conjunction with the acquisition of ClearOne at $15.40 per share. We determined that the shares should have been valued at $13.97 per share based on the market prices a few days before and after the measurement date.
- We recorded adjustments to the amounts allocated to certain acquired intangible assets, including developed technologies, patents and trademarks, and distribution agreements. We also recorded adjustments to the amounts allocated to in-process research and development related to the ClearOne acquisition.
- We recorded adjustments to the amounts allocated to certain acquired tangible assets and assumed liabilities, including cash, accounts receivable, inventory, property and equipment, deferred tax assets, and deferred tax liabilities.
- The adjustments to purchase price, as well as the adjustments to the amounts allocated to acquired intangible assets, acquired tangible assets, and assumed liabilities, resulted in corresponding adjustments to the amount allocated to goodwill.

Accounting for Equity and Other Significant Non-Routine Transactions.

- During the year ended June 30, 2001 we sold our remote control product line to Burk Technology. In previously issued consolidated financial statements, we recognized a gain on the sale of our remote control product line that included a significant note receivable from the buyer at the time of the sale, and recognized interest income associated with the note receivable in periods subsequent to the sale. Based on an analysis of the facts and circumstances that existed at the date of the sale, the recognition of this gain was inappropriate as the buyer did not have the wherewithal to pay this note receivable, the operations of the remote control product line had not historically generated cash flows sufficient to fund the required payments, and there were contingent liabilities we had to the buyer. Accordingly, we concluded that the gain should be recognized as cash is received from the buyer. As a result, we have reduced the gain on sale and eliminated the note receivable at the time of the sale, and recognized additional gain on the sale of the business segment when-and-as cash payments on the note receivable are obtained.
- During the year ended June 30, 2002 we experienced certain triggering events that indicated that certain long-lived assets related to ClearOne and Ivron were impaired. Accordingly, we performed an impairment analysis in accordance with the provisions of SFAS No. 121. As a result of this analysis, we determined that goodwill, intangible assets, and certain property and equipment related to the ClearOne and Ivron acquisitions were fully impaired as of June 30, 2002. As a result, we recognized an impairment loss equal to the carrying value of these assets. In previously issued consolidated financial statements, we failed to recognize that a triggering event had occurred and did not record an impairment loss for these assets.
- During the year ended June 30, 2001 the terms of certain outstanding stock options were modified to allow for their acceleration in the event we met certain EPS targets. During the year ended June 30, 2001 we cancelled certain outstanding stock options and issued a replacement award with a lower exercise price, resulting in variable accounting. In previously issued consolidated financial statements, we did not record compensation expense in connection with these modifications in accordance with APB No. 25 and FASB Interpretation Number 44, “Accounting for Certain Transactions involving Stock Compensation” (an interpretation of APB No. 25).
- On June 29, 2001, we repurchased 5,000 shares of our previously issued and outstanding common shares. In previously issued consolidated financial statements, we did not record the effects of this transaction until fiscal year 2002.

Accounting for Income Taxes. During the fiscal periods ending June 30, 2002 and 2001, our income before income taxes was restated to correct for certain accounting errors, resulting in less pre tax book income and correspondingly less income tax expense. In conjunction with the restatement, we evaluated the realizability of deferred tax assets. In 2002, we recorded an increased domestic valuation allowance to reflect our determination that not all of our deferred tax assets were more likely than not realizable pursuant to the provisions of SFAS 109, “Accounting for Income Taxes”.

Restated Financial Statements

Statements of Operations Adjustments (in thousands)

	As of June 30, 2002		As of June 30, 2001	
	As Previously Reported	Restated	As Previously Reported	Restated
Revenue:				
Product	$ 37,215	$ 26,253	$ 28,190	$ 22,448
Conferencing services	17,328	15,583	11,689	11,689
Business services	-	1,526	-	-
Total revenue	54,543	43,362	39,879	34,137
Cost of goods sold:				
Product	15,057	10,939	10,634	8,789
Product inventory write-offs	-	2,945	-	416
Conferencing services	7,943	7,310	5,869	5,928
Business services	-	978	-	-
Total cost of goods sold	23,000	22,172	16,503	15,133
Gross profit	31,543	21,190	23,376	19,004
Operating expenses:				
Marketing and selling	10,705	10,739	7,753	7,711
General and administrative	6,051	5,345	4,649	4,198
Research and product development	4,053	3,810	2,502	2,747
Impairment losses	-	7,115	-	-
Gain on sale of court conferencing assets	-	(250)	-	-
Purchased in-process research and development	-	-	-	728
Total operating expenses	20,809	26,759	14,904	15,384
Operating income (loss)	10,734	(5,569)	8,472	3,620
Other income, net	509	132	373	188
Income (loss) from continuing operations before income taxes	11,243	(5,437)	8,845	3,808
Provision for income taxes	3,831	1,400	3,319	1,050
Income (loss) from continuing operations	7,412	(6,837)	5,526	2,758
Discontinued operations:				
Income from discontinued operations, net of income taxes	-	-	737	737
Gain on disposal of a component of our business, net of income taxes	-	176	1,220	123
Net income (loss)	$ 7,412	$ (6,661)	$ 7,483	$ 3,618
Basic earnings (loss) per common share from continuing operations	$ 0.77	$ (0.71)	$ 0.64	$ 0.32
Diluted earnings (loss) per common share from continuing operations	$ 0.74	$ (0.71)	$ 0.61	$ 0.30
Basic earnings per common share from discontinued operations	$ -	$ 0.02	$ 0.23	$ 0.10
Diluted earnings per common share from discontinued operations	$ -	$ 0.02	$ 0.22	$ 0.09
Basic earnings (loss) per common share	$ 0.77	$ (0.69)	$ 0.87	$ 0.42
Diluted earnings (loss) per common share	$ 0.74	$ (0.69)	$ 0.83	$ 0.39

Balance Sheet Adjustments (in thousands)

	As of June 30, 2002		As of June 30, 2001	
	As Previously Reported	As Restated	As Previously Reported	As Restated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 14,248	$ 1,744	$ 6,852	$ 6,851
Marketable securities	-	12,400	-	-
Accounts receivable, net	20,317	4,322	7,213	2,027
Inventories	8,606	12,516	4,132	6,459
Note Receivable, current portion	196	-	71	-
Deferred income tax assets	1,293	4,709	248	1,587
Prepaid expenses and other	610	621	780	680
Total current assets	45,270	36,312	19,296	17,604
Property and equipment, net	5,770	8,123	3,697	5,681
Goodwill, net	20,553	17,072	2,634	890
Intangibles, net	6,991	1,634	182	616
Deferred income tax assets	-	661	-	446
Note Receivable, net of current portion	1,490	-	1,716	
Other assets	73	74	73	74
Total assets	$ 80,147	$ 63,876	$ 27,598	$ 25,311
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Line of credit	$ 196	$ 196		$ -
Capital lease obligations	60	784	182	619
Accounts payable	3,053	3,056	568	652
Accrued liabilities	2,299	2,841	1,130	1,408
Deferred revenue	607	572	-	-
Income taxes payable	820	265	422	224
Total current liabilities	7,035	7,714	2,302	2,903
Capital lease obligations, net of current portion	41	2,016	48	1,680
Deferred revenue, net of current portion	277	254	-	-
Deferred income tax liabilities	1,458	-	746	-
Total liabilities	8,811	9,984	3,096	4,583
Commitments and contingencies				
Stockholders' equity:				
Common stock	11	11	9	9
Additional paid-in capital	48,384	48,704	8,963	8,856
Deferred compensation	-	(147)	-	(122)
Retained earnings	22,941	5,324	15,530	11,985
Total stockholders' equity	71,336	53,892	24,502	20,728
Total liabilities and stockholders' equity	$ 80,147	$ 63,876	$ 27,598	$ 25,311

Stockholders’ Equity Adjustments

The restatement adjustments resulted in a cumulative net reduction to stockholders’ equity of approximately $17.4 million and $3.8 million as of June 30, 2002 and 2001, respectively. We have also restated the June 30, 2000 retained earnings balance to reflect cumulative adjustments through that date.

Cash Flows Adjustments (in thousands)

The following table presents selected consolidated statements of cash flows information showing previously reported and restated cash flows, for the years ended June 30, 2002 and 2001:

	Years ended June 30, 2002		Years ended June 30, 2001	
	As previously reported	As restated	As previously reported	As restated
Net cash from operating activities	$ 105	$ 31	$ 3,708	$ 4,357
Net cash (used in) investing activities	(17,044)	(29,470)	(3,114)	(3,285)
Net cash from (used in) financing activities	24,335	24,156	(104)	(456)

Discussion of Operations

Results of Operations

The following table sets forth certain items from our consolidated statements of operations (in thousands) for the fiscal years ended June 30, 2003, 2002 and 2001, together with the percentage of total revenue which each such item represents:

	Year Ended June 30,					
	2003		2002 (Restated)		2001 (Restated)	
		% of Revenue		% of Revenue		% of Revenue
Revenues	$ 57,585		$ 43,362		$ 34,137	
Cost of goods sold	35,301	61.3%	22,172	51.1%	15,133	44.3%
Gross Profit	22,284	38.7%	21,190	48.9%	19,004	55.7%
Operating expenses:						
Marketing and selling	12,187	21.2%	10,739	24.8%	7,711	22.6%
General and administrative	18,011	31.3%	5,345	12.3%	4,198	12.3%
Research and product development	2,995	5.2%	3,810	8.8%	2,747	8.0%
Impairment losses	26,001	45.2%	7,115	16.4%	-	0.0%
Gain on sale of court conferencing assets	-	0.0%	(250)	-0.6%	-	0.0%
Purchased in-process research and development	-	0.0%	-	0.0%	728	2.1%
Total operating expenses	59,194	102.8%	26,759	61.7%	15,384	45.1%
Operating income (loss)	(36,910)	-64.1%	(5,569)	-12.8%	3,620	10.6%
Other income (expense), net:						
Interest income	85	0.1%	293	0.7%	334	1.0%
Interest expense	(236)	-0.4%	(179)	-0.4%	(164)	-0.5%
Other, net	55	0.1%	18	0.0%	18	0.1%
Income (loss) from continuing operations before income taxes	(37,006)	-64.3%	(5,437)	-12.5%	3,808	11.2%
Provision (benefit) for income taxes	(834)	-1.4%	1,400	3.2%	1,050	3.1%
Income (loss) from continuing operations	(36,172)	-62.8%	(6,837)	-15.8%	2,758	8.1%
Net gain from discontinued operations	200	0.3%	176	0.4%	860	2.5%
Net income (loss)	$ (35,972)	-62.5%	$ (6,661)	-15.4%	$ 3,618	10.6%

Our revenues increased 68.7% over the period from $34.1 million in fiscal 2001 to $57.6 million in fiscal 2003. During this period, we changed our business mix through four acquisitions and two dispositions.

The following is a discussion of our results of operations for our fiscal years ended June 30, 2003, June 30, 2002 and June 30, 2001. For each of our business segments, we discuss revenues. All other items are discussed on a consolidated basis.

Revenues

For the years ended June 30, 2003, 2002 and 2001, revenues by business segment were as follows (in thousands):

	Year Ended June 30, (in thousands)								
	2003			2002 (Restated)			2001 (Restated)		
			% of Revenue			% of Revenue			% of Revenue
Product	$	27,512	47.8%	$	26,253	60.5%	$	22,448	65.8%
Conferencing Services		15,268	26.5%		15,583	36.0%		11,689	34.2%
Business Services		14,805	25.7%		1,526	3.5%		-	0.0%
Total	$	57,585	100.0%	$	43,362	100.0%	$	34,137	100.0%

Total Revenue. Total revenue increased $14.2 million, or 32.8% in fiscal 2003 compared to fiscal 2002, and increased $9.2 million, or 27.0%, in fiscal 2002 compared to fiscal 2001. The overall increase in revenue during fiscal 2003 was primarily attributable to revenue from business services which increased $13.3 million year over year as a result of the acquisitions of E.mergent in late fiscal 2002 and OM Video in early fiscal 2003. The increase in revenue during fiscal 2002 over fiscal 2001 was attributable to increased revenue in all three segments of our business.

Product. Product revenue increased $1.3 million, or 4.8%, in fiscal 2003 compared to fiscal 2002, and increased $3.8 million, or 17.0%, in fiscal 2002 compared to fiscal 2001. The increase in revenue was primarily due to introducing new product lines, which include the XAP® product, sound reinforcement product and tabletop conferencing phones. We also introduced additional products lines through acquisitions, which include our camera and furniture product lines. Beginning in 2001, the Company moved from a dealer/sales representative customer model to a distributor model.

Conferencing Services. Conferencing services revenue decreased $0.3 million, or 2.0%, in fiscal 2003 compared to fiscal 2002, and increased $3.9 million, or 33.3%, in fiscal 2002 compared to fiscal 2001. The decrease in revenue in fiscal 2003 compared to fiscal 2002 reflects lower price per minute charges due to intense competition caused primarily by overcapacity in the industry. The increase in revenue in fiscal 2002 compared to fiscal 2001 was due primarily to an increased customer base, including an increase in the number of resellers who sold our services.

Business Services. Business services revenue increased $13.3 million, or 870.2%, in fiscal 2003 compared to fiscal 2002. The increase in revenue in fiscal 2003 compared to fiscal 2002 was primarily due to our acquisitions of E.mergent, Inc. on May 31, 2002 and OM Video on August 27, 2003. The increase in revenue in fiscal 2003 was also due to the sale of a software license to Comrex with a value of $1.1 million and was associated with our telephone interface product. Prior to fiscal 2002, we did not have operations in the business services segment.

Revenues from sales outside of the United States accounted for 26%, 10% and 12% of total revenues for fiscal 2003, fiscal 2002 and fiscal 2001, respectively.

No one customer accounted for more than 10% of our total net revenues during fiscal 2003, 2002 or 2001. In fiscal 2003, revenues in our product segment included sales to three distributors that represented approximately 42% of this segment’s revenues. No one customer accounted for more than 10% of our conferencing services or business services segment revenues for any fiscal year.

In fiscal 2003 and fiscal 2002, we introduced several new products in our products segment and our conferencing services segment. We also acquired two companies and entered into the business services segment of our business.

Costs of goods sold - gross profit margin

Costs of goods sold ("COGS") includes expenses associated with the manufacture of our products, including material and direct labor, our manufacturing organization, tooling depreciation, warranty expense, freight expense, royalty payments and the allocation of overhead expenses; operating and maintaining our conferencing services networks, including material and direct labor, depreciation, and an allocation of overhead expenses; and operating our installations services, including material and direct labor, depreciation, and an allocation of overhead expenses. COGS increased by approximately $13.1 million, or 59.2%, to $35.3 million in fiscal 2003 compared with fiscal 2002, and increased by $7.0 million, or 46.5%, to $22.2 million in fiscal 2002 compared with $15.1 million in fiscal 2001. As a percentage of revenues, COGS was 61.3%, 51.1% and 44.3% in fiscal 2003, fiscal 2002 and fiscal 2001, respectively.

Our gross profit margin from continuing operations was 38.7% in fiscal 2003 compared to 48.9% in fiscal 2002 and 55.7% in fiscal 2001. The decrease in gross margins from 48.9% in fiscal 2002 to 38.7% in fiscal 2003 is primarily due to the write down of excess, obsolete and slow moving inventory, proportionately higher integration business service revenues resulting from the E.mergent and OM Video acquisitions that carry a lower gross margin percentage, proportionally higher camera and furniture product revenues resulting from the E.mergent acquisition that carry a lower gross margin percentage, lower conferencing services gross margins as a result of increased price competition, and general pricing pressures resulting from difficult economic conditions. The decrease in gross margins from 55.7% in fiscal 2001 to 48.9% in fiscal 2002 is primarily due to the write down of excess, obsolete and slow moving inventory, and the addition of integration services revenues resulting from E.mergent acquisition that carry a lower gross margin percentage than our core products.

Operating Expenses

Our operating expenses increased $32.4 million, or 121.2%, to $59.2 million in fiscal 2003 compared with fiscal 2002 expenses of $26.8 million while fiscal 2002 expenses increased $11.4 million, or 73.9% from $15.4 million in fiscal 2001. As a percentage of revenues, operating expenses were 102.8%, 61.7% and 45.1% in fiscal 2003, 2002 and 2001, respectively.

Marketing and selling expenses. Marketing and selling expenses includes sales, customer service and marketing expenses. Total marketing and selling expenses increased $1.4 million, or 13.5%, to $12.2 million in fiscal 2003 compared with fiscal 2002 expenses of $10.7 million while fiscal 2002 expenses increased $3.0 million, or 39.3%, from $7.7 million in fiscal 2001. As a percentage of revenues, marketing and selling expenses were 21.2%, 24.8% and 22.6% in fiscal 2003, 2002 and 2001, respectively. Marketing and selling expenses as a percentage of revenues remained relatively flat from 2001 to 2003 except for a slight increase in 2002. The increase in absolute dollars in fiscal 2003 over fiscal 2002 was primarily due to the addition of our business services segment and the increased headcount and costs associated with the increased headcount. The increase in absolute dollars in fiscal 2002 over fiscal 2001 was primarily due to an increased headcount and associated headcount costs, along with an increase in commissions to our resellers in our conferencing services segment. Also contributing was an increase in our marketing budget to increase momentum in the markets for our new products in our products segment and conferencing services segment and to introduce our new business services segment.

General and administrative expenses. General and administrative (G&A) expenses include compensation costs, professional service fees, allocations of overhead expenses, litigation costs, including costs associated with the SEC investigation and subsequent litigation, bad debt expenses, and corporate administrative costs, including finance and human resources. Total general and administrative expenses increased $12.7 million, or 237.0%, to $18.0 million in fiscal 2003 compared with fiscal 2002 expenses of $5.3 million while fiscal 2002 expenses increased $1.1 million, or 27.3%, from $4.2 million in fiscal 2001. As a percentage of revenues, general and administrative expenses were 31.3%, 12.3% and 12.3% in fiscal 2003, 2002 and 2001, respectively. We attribute the increase in G&A as a percentage of revenues from 12.3% in 2002 to 31.3% in 2003 to the following: costs associated with the Securities and Exchange Commission investigation and subsequent lawsuits, including a settlement payment associated with the shareholders' class action lawsuit in the amount of $5.0 million in cash and $2.52 million in stock, legal and accounting fees associated with these lawsuits in the amount of $1.84 million, as well as writing off all costs associated with our shelf registration in the amount of $328,000, payments for the early buyout of our leases in Woburn, MA and Ireland in the total amount of $305,000, an increase in accounting fees over the previous year of $210,000, an increase in legal fees in the amount of $130,000, salary expense increased $459,000 over the previous fiscal year due primarily to the increase in the number of employees as a result of the E.mergent acquisition and an increase in overall general and administrative expense of $1.27 million due to the OM Video acquisition.

Research and product development expenses. Research and product development expenses include research and development, product line management, engineering services and test and application expenses, including compensation costs, outside services, expensed materials, depreciation and an allocation of overhead expenses. Total research and product development expenses decreased $0.8 million, or 21.4%, to $3.0 million in fiscal 2003 compared with fiscal 2002 expenses of $3.8 million while fiscal 2002 expenses increased $1.1 million, or 38.7%, from $2.7 million in fiscal 2001. As a percentage of revenues, research and product development expenses were 5.2%, 8.8% and 8.0% in fiscal 2003, 2002 and 2001, respectively. The decrease in research and product development expenses during fiscal 2003 was due to decreased salaries and expenses associated with a reduction in personnel related to the closing of the Dublin office. Also, as a percentage of revenue, research and product development dropped from 8.8% to 5.2% due to substantially higher business services revenues that require little or no additional product development. The increase in product development expenses from fiscal 2001 to fiscal 2002 was due to increased salaries and expenses associated with additional personnel and development costs associated with new product development.

Impairment charges. In fiscal 2002, impairment charges totaled $72,000 for property and equipment and approximately $7.0 million for goodwill and intangible assets. In fiscal 2003, impairment charges totaled $535,000 for property and equipment and $25.5 million for goodwill and intangible assets. See Item 1. Description of Business. *Acquisitions and Dispositions.*

Gain on sale of court conferencing assets. In fiscal 2002, we recognized a gain of $250,000 in connection with our sale of our court conferencing customer list to CourtCall LLC.

Purchased in-process research and development. In the first quarter of fiscal 2001, we wrote off $728,000 representing purchased in-process research and development that had not yet reached technological feasibility related to the ClearOne acquisition.

Operating income (loss). For fiscal 2003, our operating loss increased $31.3 million, or 562.8%, to $36.9 million on revenues of $57.6 million, from an operating loss of $5.6 million on revenues of $43.4 million in fiscal 2002. The factors affecting this increase in operating loss were an increase in impairment charges for goodwill and other intangible assets of $18.9 million, an increase in general and administrative expenses of $12.7 million, an increase in marketing and selling expenses of $1.4 million, and a decrease in the gain on sale of assets of $0.3 million, offset by a decrease in gross profit margin of $1.1 million and a reduction in product development expenses of $0.8 million.

For fiscal 2002, our operating loss increased $9.2 million, or 253.8%, to $5.6 million on revenues of $43.4 million, from an operating income of $3.6 million on revenues of $34.1 million in fiscal 2001. The principal factors affecting this increase in operating loss include an increase in impairment charges for goodwill and other intangible assets of $7.1 million, an increase in marketing and selling expenses of $3.0 million, an increase in general and administrative expenses of $1.1 million, and an increase in product development expenses of $1.1 million offset by a decrease in gross profit margins of $2.2 million, a decrease in purchased in-process research and development of $0.7 million and an increase in gain on sale of assets of $0.3 million.

Interest income. Interest income decreased $208,000, or 71.0%, to $85,000 in fiscal 2003 compared with fiscal 2002 income of $293,000 while fiscal 2002 income decreased $41,000, or 12.3%, from $334,000 in fiscal 2001. As a percentage of revenues, interest income was 0.1%, 0.7% and 1.0% in fiscal 2003, 2002 and 2001, respectively. The reduction in interest income was due to the use of cash and cash equivalents to complete acquisitions during fiscal 2003 and 2002. The decrease in interest income was also due to the general decrease in interest rates paid by financial institutions.

Interest expense. Interest expense increased $57,000, or 31.8%, to $236,000 in fiscal 2003 compared with fiscal 2002 expense of $179,000 while fiscal 2002 income increased $15,000, or 9.1%, from $164,000 in fiscal 2001. As a percentage of revenues, interest expense was (0.4)%, (0.4)% and (0.5)% in fiscal 2003, 2002 and 2001, respectively. The increase in interest expense is due to higher debt levels that resulted from new capital leases on bridging equipment for our conferencing services business and the loan associated with the implementation of our Oracle ERP system.

Net income (loss) from continuing operations. Net loss from continuing operations increased $31.6 million, or 580.6% to $37.0 million in fiscal 2003 compared with fiscal 2002 net loss from continuing operations of $5.4 million while fiscal 2002 income decreased $9.2 million, or 242.8%, from net income from continuing operations of $3.8 million in fiscal 2001. As a percentage of revenues, net income (loss) from continuing operations was (64.3)%, (12.5)% and 11.2% in fiscal 2003, 2002 and 2001, respectively. We attribute the increased loss to the results of operations as described above.

Provision (benefit) for income taxes. Provision (benefit) for income taxes was ($0.8) million, $1.4 million and $1.1 million for 2003, 2002 and 2001, respectively. Certain expenses in our consolidated statements of operations are not deductible for income tax purposes. These expenses include impairment charges, meals and entertainment expenses and goodwill amortization. In addition, we increased our deferred tax asset valuation allowance attributable to losses for which no tax benefit is recorded. The combined effects of the nondeductible expenses and the increased valuation allowance were the primary reasons for our tax expense (benefit) being different from the expected tax expense (benefit). The Company has recorded a valuation allowance against certain deferred tax assets where it is not considered more likely than not that the deferred tax assets will be realized.

Net gain from discontinued operations. Net gain from discontinued operations includes the sale of our remote control product line to Burk Technology. The gain from discontinued operation, net of income taxes, increased $24,000 in fiscal 2003 to $200,000 from $176,000 in fiscal 2002, and in fiscal 2002 decreased $684,000 from $860,000 in fiscal 2001. The income from discontinued operations during fiscal 2003 and fiscal 2002 consisted of payments from Burk on their note receivable. The income from discontinued operations during fiscal 2001 consisted of operating income from discontinued operations and the gain on the sale to Burk.

Net income (loss). For fiscal 2003, our net loss increased $29.3 million, or 440.0%, to $36.0 million from $6.7 million in fiscal 2002. The $29.3 million increase in net loss primarily resulted from an increase in operating loss of $31.3 million, a decrease in interest income of $208,000 and an increase in interest expense of $57,000 partially offset by an increase in benefit for income taxes of $2.2 million, an increase in gain from discontinued operations of $24,000, an increase in other income of $4,600 and gain on foreign currency transactions of $40,000.

For fiscal 2002, our net loss increased $10.3 million, or 284.1%, to $6.7 million from a net income of $3.6 million in fiscal 2001. The $10.3 million increase in net loss primarily resulted from an increase in operating loss of $9.2 million, a decrease in gain from discontinued operations of $684,000, a decrease in interest income of $41,000, an increase in interest expense of $15,000, a decrease in other income of $46,000, and an increase in the provision for income taxes of $350,000 partially offset by an increase in gain on foreign currency transactions of $46,000.

Effect on the Company from Acquisitions and Subsequent Related Dispositions

During the fiscal years ended June 30, 2003, 2002 and 2001, we acquired four different companies with the intention of expanding our operations to include the development, manufacture and distribution of video conferencing products as well as adding a business services segment to our business. See Item 1. Description of Business. *Acquisitions and Dispositions* for more details. Total consideration paid to acquire these companies was approximately $39.9 million in cash and the issuance of common stock.

As a result of the impairment tests performed effective as of the end of fiscal 2003 and fiscal 2002 according to SFAS No. 142 and 144, and 121, respectively, we recorded impairment charges for all goodwill, a portion of purchased intangibles, and substantially all property and equipment for each entity. Impairment charges totaled approximately $33.1 million on our statements of operations. Between the end of fiscal 2002 and the third quarter of fiscal 2005 we had disposed of substantially all the assets and operations of the four acquired companies due to technology issues and lack of market success. We experienced a significant decrease in revenue associated with the dispositions and related cost and expenses. See Item 1. Description of Business. *Subsequent Events* for more details.

We have refocused our organization on our original core competency, which is where we intend to keep our focus for the foreseeable future. Our current plans are to invest in research and development to release new products that are in line with our core competencies and that complement our existing product lines.

Private Placement

On December 11, 2001, we received net proceeds of $23.8 million from the private sale of 1.5 million shares of our common stock, after deducting costs and expenses associated with the private placement. The proceeds were used to pay the cash purchase price of the E.mergent acquisition and the OM Video acquisition described below, as well as for other corporate purposes. In connection with the offering, we also issued warrants to our placement agent entitling it to purchase up to 150,000 shares of our common stock at $17.00 per share through November 27, 2006. These warrants were valued at approximately $1.6 million using the Black Scholes method.

Discontinued Operations

On April 12, 2001, we sold the assets of the remote control portion of our RFM/Broadcast division to Burk Technology, Inc. (Burk), a privately held developer and manufacturer of broadcast facility control systems products. We retained the accounts payable of the remote control portion of the RFM/Broadcast division and Burk assumed obligations for unfilled customer orders and satisfying warranty obligations to existing customers and for inventory sold to Burk. However, we retained certain warranty obligations to Burk to ensure that all of the assets sold to Burk were in good operating condition and repair.

Consideration for the sale consisted of $750,000 in cash at closing, $1.8 million in the form of a seven-year promissory note, with interest at the rate of nine percent per year, and up to $700,000 as a commission over a period of up to seven years. The payments on the promissory note may be deferred based upon Burk not meeting net quarterly sales levels established within the agreement. The promissory note is secured by a subordinate security interest in the personal property of Burk. The gain on the sale is being recognized as cash is collected (as collection was not reasonably assured from Burk). The commission is based upon future net sales of Burk over base sales established within the agreement. We realized a gain on the sale of $200,000 for the 2003 fiscal year, $176,000 for the 2002 fiscal year, and $123,000 for the 2001 fiscal year. As of June 30, 2003, $1.5 million of the promissory note remained outstanding and we had received $20,000 in commissions.

Sale of Other Assets

Sale of Court Conferencing Assets

As part of our conferencing services segment, our court conferencing customers engaged in the audio and/or video conferencing of legal proceedings including remote appearances in state and federal courts and/or administrative tribunals within the United States. On October 26, 2001, we sold our court conferencing customer list, including all contracts relating to our court conferencing services to CourtCall LLC and recognized a gain of $250,000.

Sale of Broadcast Telephone Interface Product Line

On August 23, 2002, we entered into an agreement with Comrex Corporation (Comrex). In exchange for $1.3 million, Comrex received certain inventory associated with our broadcast telephone interface product line, a perpetual software license to use our technology related to broadcast telephone interface products along with one free year of maintenance and support, and transition services for 90 days following the effective date of the agreement. The transition services included training, engineering assistance, consultation, and development services. We recognized $1.1 million in revenue related to this transaction in the fiscal year ended June 30, 2003.

We also entered into a manufacturing agreement to continue to manufacture additional product for Comrex for one year following the agreement described above on a when-and-if needed basis. Comrex agreed to pay us for any additional product on a per item basis of cost plus 30%.

Subsequent Events

Sale of our U.S. Audiovisual Integration Services. On May 6, 2004, we sold certain assets of our U.S. audiovisual integration services operations to M:Space, Inc. (M:Space) for no cash compensation. M:Space is a privately held audiovisual integration services company. In exchange for M:Space assuming obligations for completion of certain customer contracts, and satisfying maintenance contract obligations to existing customers, we transferred to M:Space certain assets including inventory valued at $569,000. We expect that the operations of our U.S. audiovisual integration services will be classified as discontinued operations in the fiscal year 2004. As of June 30, 2003, the assets of audiovisual integration services were classified as held and used. We continue to manufacture and sell the camera and furniture lines acquired with the E.mergent acquisition.

Sale of Conferencing Services Business. On July 1, 2004, we sold our conferencing services business segment to Clarinet, Inc., an affiliate of American Teleconferencing Services, Ltd. d/b/a Premier Conferencing for $21.3 million. Of the purchase price $1.0 million was placed into an 18-month Indemnity Escrow account and an additional $300,000 was placed into a working capital account. We received the $300,000 working capital escrow funds approximately 90 days after the execution date of the contract. Additionally, $1.4 million of the proceeds was utilized to pay off equipment leases pertaining to assets being conveyed to Clarinet. We expect that the conferencing services operations will be classified as discontinued operations in the fiscal year 2005. As of June 30, 2003, the assets of conferencing services were classified as held and used.

Closing of Germany Office. During December 2004, we closed our Germany office and consolidated those activities with our United Kingdom office. Costs associated with closing the Germany office totaled $305,000 and included operating leases and severance payments.

Sale of OM Video. On March 4, 2005, we sold all of the issued and outstanding stock of our Canadian subsidiary, ClearOne Communications of Canada, Inc. (ClearOne Canada) to 6351352 Canada Inc., a Canada corporation (the “OM Purchaser”). ClearOne Canada owned all the issued and outstanding stock of Stechyson Electronics Ltd., which conducts business under the name OM Video. We agreed to sell the stock of ClearOne Canada for $200,000 in cash; a $1.3 million note payable over a 15-month period, with interest accruing on the unpaid balance at the rate of 5.25% per year; and contingent consideration ranging from 3% to 4% of related gross revenues over a five-year period. We expect that the operations of the Canada audiovisual integration services will be classified as discontinued operations in fiscal year 2005. As of June 30, 2003, the assets of the Canada audiovisual integration business were classified as held and used. In June 2005, we were advised that the OM Purchaser had settled an action brought by the former employer of certain of OM Purchaser’s owners and employees alleging violation of non-competition agreements. The settlement reportedly involved a cash payment and an agreement not to sell certain products for a period of one year. We are evaluating what impact, if any, this settlement may have on the OM Purchaser’s ability to make the payment required under the note.

Third-Party Manufacturing Agreement. On August 1, 2005, we entered into a Manufacturing Agreement with Inovar, Inc., a Utah-based electronics manufacturing services provider ("Inovar"), pursuant to which we agreed to outsource our Salt Lake City manufacturing operations to Inovar. The agreement is for an initial term of three years, which shall automatically be extended for successive and additional terms of one year each unless terminated by either party upon 120 days' advance notice at any time after the second anniversary of the agreement. The agreement generally provides, among other things, that Inovar shall: (i) furnish the necessary personnel, material, equipment, services and facilities to be the exclusive manufacturer of substantially all the products that were previously manufactured at our Salt Lake City, Utah manufacturing facility, and the non-exclusive manufacturer of a limited number of products, provided that the total cost to ClearOne (including price, quality, logistic cost and terms and conditions of purchase) is competitive; (ii) provide repair service and warranty support and proto-type services for new product introduction on terms to be agreed upon by the parties; (iii) purchase certain items of our manufacturing equipment; (iv) lease certain other items of our manufacturing equipment and have a one-year option to purchase such leased items; (v) have the right to lease our former manufacturing employees from a third party employee leasing company; and (vi) purchase the parts and materials on hand and in transit at our cost for such items with the purchase price payable on a monthly basis when and if such parts and materials are used by Inovar. The parties also entered into a one-year sublease for approximately 12,000 square feet of manufacturing space located in our headquarters in Salt Lake City, Utah, which sublease may be terminated by either party upon ninety days' notice. The agreement provides that products shall be manufactured by Inovar pursuant to purchase orders submitted by us at purchase prices to be agreed upon by the parties, subject to adjustment based upon such factors as volume, long range forecasts, change orders etc. We also granted Inovar a right of first refusal to manufacture new products developed by us at a cost to ClearOne (including price, quality, logistic cost and terms and conditions of purchase) that is competitive. Costs associated with outsourcing our manufacturing totaled approximately $429,000 including severance payments, facilities we no longer use and fixed assets that will be disposed of..

Liquidity and Capital Resources

As of June 30, 2003, our cash and cash equivalents were approximately $6.1 million, restricted cash of approximately $200,000 and our marketable securities of approximately $1.9 million, which represents an overall decrease of $5.9 million in our balances at June 30, 2002 which were cash and cash equivalents of approximately $1.7 million and marketable securities totaling approximately $12.4 million. We had an overall increase of $7.3 million in our cash and cash equivalents and marketable securities from fiscal 2001 to fiscal 2002, with cash and cash equivalents of approximately $6.9 million and marketable securities of $0 at June 30, 2001. In addition, we previously had a $10.0 million line of credit with a bank which was unused at June 30, 2003, and had been frozen by our bank on May 16, 2003. The line of credit expired on December 22, 2003 and was not renewed.

We generated cash from operating activities totaling $2.5 million in fiscal 2003, $31,000 in fiscal 2002 and $4.4 million in fiscal 2001. The increase in cash provided from operating activities in fiscal 2003 over fiscal 2002 was due primarily to a decrease in inventory and accounts receivable coupled with an increase in deferred revenue and income taxes payable. These items were offset by an increase in accounts payable and a decrease in our income taxes. The decrease in cash provided from operating activities in fiscal 2002 over fiscal 2001 was due primarily to an increase in our net loss and an increase in our inventory.

The total net change in cash and cash equivalents for fiscal 2003 was an increase of $4.3 million. The primary uses of cash during this period were $7.4 million, net of cash received for the purchase of OM Video, $1.8 million for the purchases of property and equipment and the payment of the earn-out provision and $430,000 for the repurchase of common stock. The primary sources of cash were $2.5 million from operating activities, $10.5 million of net sales of investments, $1.3 million from proceeds of the sale to Comrex, $318,000 from proceeds of discontinued operations, and $95,000 associated with the exercise of stock options and the issuance of common stock under the employee stock purchase plan.

The total net change in cash and cash equivalents for fiscal 2002 was a decrease of $5.1 million. The primary uses of cash during this period were $14.4 million for the purchases of E.mergent and Ivron, $12.4 million of net purchases of investments, and $2.8 million for the purchases of property and equipment. The primary sources of cash were $1.0 million associated with the exercise of stock options and the issuance of common stock under the employee stock purchase plan, $23.8 million from the proceeds of a private placement, $250,000 from proceeds of the sale to CourtCall LLC, and $280,000 from proceeds of discontinued operations.

The total net change in cash and cash equivalents for fiscal 2001 was an increase of $1.5 million. The primary uses of cash during this period were $1.9 million for the purchase of ClearOne, $1.4 million for purchases of property and equipment and $244,000 for the repurchase of common stock. The primary sources of cash were $4.4 from operating activities, $340,000 associated with the exercise of stock options and the issuance of common stock under the employee stock purchase plan and $750,000 from the proceeds of discontinued operations.

The positive cash from operating activities was primarily the result of adjusted non-cash expenses (such as impairment, depreciation, amortization, the provision for doubtful accounts, inventory write-downs for excess for obsolescence, write off of in-process research and development), increases in income tax receivable and accrued liabilities. Offsetting the positive effect of these items were an increase in net loss, an increase in trade receivables, and a decrease in accounts payable.

As discussed herein, on April 12, 2001, we sold the assets of the remote control portion of our RFM/Broadcast division to Burk Technology, Inc. (Burk). Consideration for the sale consisted of $750,000 in cash at closing, $1.8 million in the form of a seven-year promissory note, with interest at the rate of nine percent per year, and up to $700,000 as a commission over a period of up to seven years. The payments on the promissory note may be deferred based upon Burk not meeting net quarterly sales levels established within the agreement. The promissory note is secured by a subordinate security interest in the personal property of Burk. The gain on the sale is being recognized as cash is collected (as collection was not reasonably assured from Burk). The commission is based upon future net sales of Burk over base sales established within the agreement. We realized a gain on the sale of $200,000 for the 2003 fiscal year, $176,000 for the 2002 fiscal year, and $123,000 for the 2001 fiscal year. We received payments totaling $187,000 for the 2005 fiscal year and $93,000 for the 2004 fiscal year. As of June 30, 2005, $1.5 million of the promissory note remained outstanding and we had received $20,000 in commissions.

At June 30, 2003, we had open purchase orders related to our contract manufacturers and other contractual obligations of approximately $1.4 million primarily related to inventory purchases.

We have no off-balance-sheet financing arrangements with related parties and no unconsolidated subsidiaries. Contractual obligations related to our capital leases and operating leases at June 30, 2003 are summarized below (in thousands):

	Payments Due by Period				
Contractual Obligations	Total	One year or less	Two to Three Years	Four to Five Years	After Five Years
Note Payable	$ 1,698	$ 728	$ 970	$ -	$ -
Capital Leases	2,318	961	1,357	-	-
Operating Leases	1,866	828	938	100	-
Total Contractual Cash Obligations	$ 5,882	$ 2,517	$ 3,265	$ 100	$ -

Beginning in January 2003 and continuing through the date of this report, we have incurred significant costs with respect to the defense and settlement of legal proceedings, and the audit of our consolidated financial statements. Restatement of fiscal 2002 and fiscal 2001 and the fiscal 2003 audit have been significantly more complex, time consuming and expensive than we originally anticipated. The extended time commitment required to complete the restatement of financial information continues to be costly and divert our resources, as well as have a material effect on our results of operations. We paid $5.0 million in cash and agreed to issue 1.2 million shares of our common stock to settle the class action lawsuit, we have incurred legal fees in the amount of approximately $1.5 million from January 2003 through the date hereof, and we have incurred audit and tax fees in the amount of approximately $2.1 million from January 2004 through the date hereof.

Notwithstanding the foregoing, as of June 30, 2005, we believe that our working capital and cash flows from operating activities will be sufficient to satisfy our operating and capital expenditure requirements for continuing operations for the next 12 months.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. We believe that the estimates we use are reasonable; however, actual results could differ from those estimates. Our significant accounting policies are described in Note 2 to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The following describes our most critical accounting policies:

Revenue and Associated Allowances for Revenue Adjustments and Doubtful Accounts

We currently have one source of revenue which is product revenue, primarily from product sales to independent distributors, dealers, systems integrators, value-added resellers and end users. Product revenue is recognized when (i) the products are shipped, (ii) persuasive evidence of an arrangement exists, (iii) the price is fixed and determinable, and (iv) collection is reasonably assured. Beginning in 2001, we modified our sales channels to include distributors. These distributors were generally thinly capitalized with little or no financial resources and did not have the wherewithal to pay for these products when delivered. Furthermore, in a substantial number of cases, significant amounts of inventories were returned or never paid for and the payment for product sold (to both distributors and non-distributors) was regularly subject to a final negotiation between us and our customers. As a result of such negotiations, we routinely agreed to significant concessions from the originally invoiced amounts to facilitate collection. These practices continued to exist through the end of fiscal year 2003.

Accordingly, amounts charged to both distributors and non-distributors were not considered fixed and determinable or reasonably collectible until cash was collected. As a result, the June 30, 2003, 2002, and 2001 balance sheets reflect no accounts receivable or deferred revenue related to product sales.

As part of the restatement process we identified certain deficiencies in our internal controls over revenue recognition where amounts charged to both distributors and non-distributors were not considered fixed and determinable or reasonably collectible until cash was collected. To address these internal control deficiencies we have implemented improved credit policies and procedures, improved the approval process for sales returns and credit memos, established processes for managing and monitoring of channel inventory levels, and provided training to our accounting staff. Based upon our implementation of these internal controls and improved experience with our customers, we expect to be able to meet the criteria for revenue recognition prior to cash collection in the near future.

We offer rebates to certain distributors based upon volume of product by such distributors. We record rebates as a reduction of revenue in accordance with Emerging Issues Task Force (EITF) Issue No. 00-22, “Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future.” Beginning January 1, 2002, we adopted EITF Issue No. 01-9, “Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor’s Products).” We continue to record rebates as a reduction of revenue.

We estimate future product returns based upon historical experience and maintain an allowance for estimated returns which has been reflected as a reduction to accounts receivable. The allowance for estimated returns was $107,000, $0, and $0 as of June 30, 2003, 2002, and 2001, respectively.

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 based upon our historical collection experience and expected collectibility of all accounts receivable. The allowance for doubtful accounts was $139,000, $190,000, and $0 as of June 30, 2003, 2002, and 2001, respectively; however, 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.

Goodwill and Purchased Intangibles

We assess the impairment of goodwill and other identifiable intangibles annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Some factors we consider important which could trigger an impairment review include the following:

- Significant underperformance relative to projected future operating results;
- Significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and
- Significant negative industry or economic trends.

If we determine that the carrying value of goodwill and other identified intangibles may not be recoverable based upon the existence of one or more of the above indicators of impairment, we would typically measure any impairment based on a projected discounted cash flow method using a discount rate determined by us to be commensurate with the risk inherent in our current business model. We evaluate goodwill for impairment at least annually.

On July 1, 2002, we completed our transitional goodwill and purchased intangibles impairment tests outlined under SFAS 142 which required the assessment of goodwill and purchased intangibles for impairment, and in the fourth quarter of fiscal 2003, we completed our annual impairment tests. As of June 30, 2003, we determined that our goodwill assets and purchased intangible assets were impaired and we recorded an impairment charge of $25.5 million related to these assets. We plan to conduct our annual impairment tests in the fourth quarter of every fiscal year, unless impairment indicators exist sooner. Screening for and assessing whether impairment indicators exist or if events or changes in circumstances have occurred, including market conditions, operating fundamentals, competition and general economic conditions, requires significant judgment. Additionally, changes in the high-technology industry occur frequently and quickly. Therefore, there can be no assurance that a charge to operations will not occur as a result of future purchased intangible impairment tests.

Accounting for Income Taxes

We estimate our actual current tax expense together with our temporary differences resulting from differing treatment of items, such as deferred revenue, 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 and to the extent we believe that recovery is not likely, we must establish a valuation allowance against these tax assets. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net 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.

Lower of Cost or Market Adjustments

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

In order to determine what, if any, inventory needs to be written down, we perform an analysis of obsolete and slow-moving inventory quarterly. 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 and market conditions. Those items that are found to have a supply in excess of demand are considered to be slow-moving or obsolete and the appropriate reserve is made to write-down the value of that inventory to its realizable value.

Issued but not yet Adopted Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities.” This interpretation establishes new guidelines for consolidating entities in which a parent company may not have majority voting control, but bears residual economic risks or is entitled to receive a majority of the entity’s residual returns, or both. As a result, certain subsidiaries that were previously not consolidated under the provisions of Accounting Research Bulletin No. 51 may now require consolidation with the parent company. This interpretation applies in the first year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. We have evaluated this interpretation but do not expect that it will have a material effect on our business, results of operations, financial position, or liquidity.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity” (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We have evaluated this statement but do not expect that it will have a material effect on our business, results of operations, financial position, or liquidity.

In December 2003, the FASB issued a revision to Interpretation No. 46, “Consolidation of Variable Interest Entities” (FIN46R). FIN46R clarifies the application of ARB No. 51, “Consolidated Financial Statements” to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN46R requires the consolidation of these entities, known as variable interest entities, by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

Among other changes, the revisions of FIN46R (a) clarified some requirements of the original FIN46, which had been issued in January 2003, (b) eased some implementation problems, and (c) added new scope exceptions. FIN46R deferred the effective date of the Interpretation for public companies, to the end of the first reporting period ending after March 15, 2004. The adoption of this interpretation did not have a material effect on our business, results of operations, financial position, or liquidity.

In March 2004, the FASB issued EITF No. 03-01, “The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments,” which provides new guidance for assessing impairment losses on debt and equity investments. The new impairment model applies to investments accounted for under the cost or equity method and investments accounted for under FAS 115, “Accounting for Certain Investments in Debt and Equity Securities.” EITF No. 03-01 also includes new disclosure requirements for cost method investments and for all investments that are in an unrealized loss position. In September 2004, the FASB delayed the accounting provisions of EITF No. 03-01; however the disclosure requirements remain effective. We will evaluate the effect, if any, of adopting EITF 03-01.

In November 2004, the FASB issued FASB Statement No. 151, “Inventory Costs—an amendment of ARB No. 43” (“FAS 151”), which is the result of its efforts to converge U.S. accounting standards for inventories with International Accounting Standards. FAS No. 151 requires idle facility expenses, freight, handling costs, and wasted material (spoilage) costs to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. FAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not anticipate that the implementation of this standard will have a significant impact on our consolidated results of operations, financial condition or cash flows.

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

SFAS 123R requires us to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award—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 recognized related to unvested options will be reversed.

In accordance with Staff Accounting Bulletin 107, SFAS 123R is effective as of the beginning of the annual reporting period that begins after June 15, 2005. Under these guidelines, we will adopt SFAS 123R as of the beginning of the first quarter of fiscal year 2006 starting July 1, 2005. We expect this statement to have an adverse impact on our future results of operations.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of changes in the value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates and equity prices. Changes in these factors could cause fluctuations in the results of our operations and cash flows. In the ordinary course of business, we are exposed to foreign currency and interest rate risks. These risks primarily relate to the sale of products and services to foreign customers and changes in interest rates on our note payable and capital leases.

We currently have limited market risk sensitive instruments related to interest rates. Our note payable and capital lease obligations totaled approximately $3.6 million at June 30, 2003. We do not have significant exposure to changing interest rates on the note payable and capital leases because interest rates for the majority of the capital leases are fixed. We have not undertaken any additional actions to cover market interest rate market risk and are not a party to any other interest rate market risk management activities. A hypothetical 10% change in market interest rates over the next year would not impact our earnings or cash flows as the interest rates on the note payable and the majority of the capital leases are fixed.

We do not purchase or hold any derivative financial instruments.

Although our subsidiaries enter into transactions in currencies other than their functional currency, foreign currency exposures arising from these transactions are not material. The greatest foreign currency exposure arises from the remeasurement of our net equity investment in our subsidiaries to U.S. dollars. The primary currency to which we have exposure is the Canadian Dollar. We sold our Canadian subsidiary on March 4, 2005 to a private investment group. The fair value of our net foreign investments would not be materially affected by a 10% adverse change in foreign currency exchange rates from June 30, 2003 levels.

Market Risk for Investment Securities

Investment securities consist of shares in triple-A rated short-term money market funds that typically invest in U.S. Treasury, U.S. government agency and highly rated corporate securities. Since these funds are managed in a manner designed to maintain a $1.00 per share market value, we do not expect any material changes in market values as a result of increase or decrease in interest rates.

ITEM 8. FINANCIAL STATEMENTS.

The following financial statements are included with this report and are located immediately following the signature page.

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

On July 21, 2003, Ernst & Young, LLP ("Ernst & Young") was dismissed as the Company's independent registered public accountants. The decision to dismiss Ernst & Young was recommended by the Audit Committee of the Board of Directors and was approved by the Board of Directors. The Company filed a current report on Form 8-K with respect to such event on July 25, 2003, which was subsequently amended on August 11, September 30, October 16, and November 7, 2003.

Ernst & Young's reports on the Company's financial statements for the two fiscal years ended June 30, 2002 and 2001 did not contain an adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. However, as discussed below, such reports were subsequently withdrawn and the Company engaged KPMG LLP (KPMG) to reaudit its financial statements for its 2002 and 2001 fiscal years.

On January 15, 2003, the Securities and Exchange Commission ("SEC") filed a complaint in the United States District Court against the Company and two of its former officers, which included allegations of improper revenue recognition from sales to distributors. The Company provided a copy of the complaint to Ernst & Young. The SEC complaint contained allegations that, if true, would materially impact the fairness or reliability of the Company's financial statements, and the validity of the allegations could not be determined without further investigation. The Company's representatives discussed with Ernst & Young the SEC complaint and the need to issue a press release. On January 21, 2003, the Company issued a press release and filed a current report on Form 8-K which included statements to the effect that the Company's financial statements for the fiscal years ended June 30, 2001, and June 30, 2002, and for the quarters ended March 31, 2001, through and including September 30, 2002, were under review and that investment decisions should not be made based on such financial statements, or on the auditors' report thereon included in the Company's Annual Report as filed on Form 10K. The Company's representatives discussed the text of the press release with Ernst & Young prior to its release.

In its letter to the Securities and Exchange Commission dated October 13, 2003, a copy of which is included as Exhibit 16.1 to the Company's 8-K/A report filed on November 7, 2003, Ernst & Young stated, among other things, that on or about January 21, 2003, it advised the Company's Audit Committee (through its designated representative) that the Securities and Exchange Commission's complaint dated January 15, 2003 and other information that had come to Ernst & Young's attention gave Ernst & Young concern regarding the fairness or reliability of the Company's financial statements for the two fiscal years ended June 30, 2002 and 2001, and that such financial statements and Ernst & Young's reports thereon should not be relied upon and needed to be withdrawn and that Ernst & Young was unwilling to be associated with the previously-issued financial statements until a sufficient investigation into those allegations had been performed and any matters noted in the investigation appropriately resolved. The Company has no written record of such advice and, except as described in its 8-K filings, has been unable to corroborate such statements by Ernst & Young.

On December 18, 2003, we engaged KPMG as our new independent registered public accountants to audit our financial statements for the 2003 fiscal year and to reaudit our financial statements for the 2002 and 2001 fiscal years. Those financial statements are included in this report.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized, and reported within the required time periods and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

We have restated our consolidated financial statements for the 2002 and 2001 fiscal years, and the individual restatement adjustments are discussed in “Item 8. Financial Statements - Note 3. Restatement and Reclassification of Previously Issued Financial Statements.”

As required by Rule 13a-15 under the Exchange Act, we have completed an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness and the design and operation of our disclosure controls and procedures. This evaluation has allowed us to make conclusions in 2005, as set forth below, regarding the state of our disclosure controls and procedures as of June 30, 2003. In conducting this evaluation, we considered matters relating to the restatement of our financial statements including actions taken by us within the past two years to identify and enhance the effectiveness of our disclosure controls and procedures and our internal controls over financial reporting. In connection with the restatement process, we also identified the internal controls over financial reporting that could or should have prevented or mitigated the errors.

We concluded that as of June 30, 2003, the following material weaknesses in our internal controls existed:

We have a material weakness with respect to accounting for revenue recognition and related sales returns, credit memos, and allowances. Our accounting policies and practices over revenue recognition and related sales returns, credit memos, and allowances were inconsistent with generally accepted accounting principles in the U.S. (GAAP). We also have ineffective controls to monitor compliance with existing policies and procedures, and have insufficient training of accounting personnel. As a result, we recognized revenue before the amounts charged to both distributors and non-distributors were considered fixed and determinable or reasonably collectible. Related sales returns and allowances, rebates, and accounts receivables were also misstated as a result of the errors in revenue recognition.

We have a material weakness related to accounting for cutoff and period-end close adjustments related to accrued liabilities and prepaid assets. Our accounting policies and practices over cutoff and period-end close adjustments related to accrued liabilities and prepaid assets were inconsistent with GAAP. This material weakness resulted in recording accruals and amortizing certain prepaid assets to operating expenses during the fiscal years ended June 30, 2003, 2002 and 2001 in the improper periods.

We have a material weakness related to the tracking and valuation of inventory, including controls to identify and properly account for obsolete inventory. Our accounting policies and practices over tracking and valuation of inventory, including controls to identify and properly account for slow moving, obsolete inventory were inconsistent with GAAP. This material weakness resulted in misstatements in the recording and presentation of inventories, including consigned inventory, obsolete and slow-moving inventories, errors in the capitalization of overhead expenses, errors in recording inventories at the lower of cost or market, and errors for inventory shrinkage.

We have a material weakness in accounting for leases, including classification as operating or capital. Our accounting policies and practices over accounting for leases, including proper classification as operating or capital, were inconsistent with GAAP. In evaluating the classification of leases, the Company did not consider all periods for which failure to renew the lease imposes a penalty on the lessee in such amount that a renewal appears, at the inception of the leases, to be reasonably assured. Accordingly, certain leases were classified as operating leases that should have been classified as capital leases.

We have a material weakness in accounting for non-routine transactions, which include business combinations, discontinued operations, sale of a business unit (other than discontinued operations), and evaluation and recognition of impairment charges. Our accounting policies and practices over accounting for such non-routine transactions were inconsistent with GAAP. This material weakness resulted in improper purchase price allocations in business combinations, improper amortization and depreciation of long-lived assets, improper identification and recording of activities related to discontinued operations, improper recording and reporting the sale of business units, improper evaluation of triggering events associated with impairment of long-lived assets (including annual impairment tests for goodwill), and; improper calculating and recording of impairment charges.

We have a material weakness in financial reporting. We lack personnel with adequate experience in preparing financial statements and related footnotes in accordance with GAAP.

The following actions have been commenced since December 2003 in response to the inadequacies noted above:

- Termination or resignation of company officers and various financial and accounting personnel.
- Implementation of policies imposing limits on shipments to distributors based on an evaluation of their credit and inventory stocking levels.
- Initiation of an evaluation and remediation process with respect to internal controls over financial reporting and related processes designed to identify internal controls that mitigate financial reporting risk and identify control gaps that may require further remediation.
- Reevaluation of prior policies and procedures and the establishment of new policies and procedures for such matters as complex transactions, account reconciliation procedures and contract management procedures.
- Ongoing training and monitoring by management to ensure operation of controls as designed.
- Adoption of a Code of Ethics.

We have committed considerable resources to date to the reviews and remedies described above, although certain of such items are ongoing and it will take time to realize all the benefits. Additional efforts will be required to remediate all of the deficiencies in our controls. In addition, the effectiveness of any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate improper conduct completely. As a result, there can be no assurance that our disclosure controls and procedures will detect all errors or fraud.

Other than as described above, since the evaluation date, there has been no change in our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers

Directors

The following individuals are directors of ClearOne as of the date of this report:

Name	Principal Occupation during Past Five Years	Age	Director Since
Edward Dallin Bagley	Edward Dallin Bagley joined our board of directors in April 1994 and was named chairman of the board in February 2004. Mr. Bagley also served as a director from April 1987 to July 1991. He also currently serves as a director of Tunex International. Mr. Bagley has been licensed to practice law in Utah since 1965 and holds a juris doctorate degree from the University of Utah College of Law. For in excess of the past five years, Mr. Bagley has managed his own investments and served as a consultant from time to time.	66	1994
Brad R. Baldwin	Brad R. Baldwin joined our board of directors in 1988. Mr. Baldwin is an attorney licensed to practice in Utah. Since April 2001, he has been engaged in the commercial real estate business with Commerce CRG in Salt Lake City. From February 2000 to March 2001, Mr. Baldwin was an executive with Idea Exchange Inc. From October 1994 to January 2000, he served as president and chief executive officer of Bank One, Utah, a commercial bank headquartered in Salt Lake City. Mr. Baldwin holds a degree in finance from the University of Utah and a juris doctorate degree from the University of Washington.	49	1988
Larry R. Hendricks	Larry R. Hendricks joined our board of directors in June 2003. Mr. Hendricks is a certified public accountant who retired in December 1992 after serving as vice president of finance and general manager of Daily Foods, Inc., a national meat processing company. During his 30-year career in accounting, he was also a self-employed CPA and worked for the international accounting firm Peat Marwick & Mitchell. Mr. Hendricks currently serves on the board of directors for Tunex International and has served on the boards of eight other organizations, including Habitat for Humanity, Daily Foods and Skin Care International. He earned a bachelor's degree in accounting from Utah State University and a master of business administration degree from the University of Utah. Mr. Hendricks is currently a member of the American Institute of Certified Public Accountants and the Utah Association of CPAs.	62	2003
Scott M. Huntsman	Scott M. Huntsman joined our board of directors in June 2003. Mr. Huntsman has served as president and chief executive officer of GlobalSim, a private technology and simulation company, since February 2003 and chief financial officer from April 2002 to February 2003. Prior to GlobalSim, he spent 11 years on Wall Street as an investment banker, where he focused on mergers, acquisitions and corporate finance transactions. From August 1996 to 2000, Mr. Huntsman served at Donaldson, Lufkin and Jenrette Securities Corporation until their merger with Credit Suisse First Boston where he served until January 2002. Mr. Huntsman earned a bachelor's degree from Columbia University and a master of business administration degree from The Wharton School at the University of Pennsylvania. He also studied at the London School of Economics as a Kohn Fellowship recipient.	39	2003

Harry Spielberg	Harry Spielberg joined us as a director in January 2001. Since January 1996, Mr. Spielberg has been the director of Cosentini Information Technologies' Audiovisual Group, a division of the consulting engineering firm Cosentini Associates. Prior to 1996, Mr. Spielberg served as vice president, engineering for Media Facilities Corp. and Barsky & Associates. Mr. Spielberg received a bachelor's degree in psychology from the State University of New York.	53	2001

Director Compensation

All of our directors serve until their successors are elected and have qualified to serve as directors. We pay the chairman of the board $4,000 per month and all other directors $2,000 per month for their services to us as directors.

Dal Bagley, a director, served as a consultant to the Company from November 2002 through January 2004 and was paid $5,000 per month for his services. He consulted with Company's management on mergers and financial matters on an as needed basis. Mr. Bagley's services were performed pursuant to an oral agreement, the terms of which were approved by the Board of Directors.

Director Committees

Our board of directors currently has two standing committees: the audit and compensation committees.

The Audit Committee. The audit committee assists the board in its general oversight of our financial reporting, internal controls and audit functions and is directly responsible for the appointment, retention, compensation and oversight of our independent auditor. The audit committee is currently composed of Brad R. Baldwin, Scott M. Huntsman and Larry R. Hendricks. The board has determined that Mr. Hendricks is a financial expert and is independent within the meaning of NASDAQ Rule 4200(a)(15).

The Compensation Committee. The compensation committee makes recommendations to the Board of Directors regarding remuneration of our executive officers and directors, and administers the incentive plans for our directors, officers and employees. The compensation committee is currently composed of Brad R. Baldwin, Scott M. Huntsman and Edward Dallin Bagley.

Meetings of the Board of Directors and Committees

The board of directors held nine meetings during fiscal 2003 and nine meetings during fiscal 2002. The audit committee held nineteen meetings during fiscal 2003 and two meetings during fiscal 2002. The compensation committee held three meetings during fiscal 2003 and one meeting during fiscal 2002. In 2003, each director attended at least 75% of the meetings of the board of directors and the committees on which they served, except for Frances Flood who did not attend any board meetings after she was placed on administrative leave.

Nomination of Director Candidates: Security holders may recommend candidates for nomination as directors. Any such recommendations should include the nominee's name, home and business addresses and other contact information, detailed biographical data, and qualifications for board membership, along with information regarding any relationships between the candidate and ClearOne within the last three fiscal years. Any such recommendations should be sent to:

ClearOne Communications, Inc.
1825 Research Way
Salt Lake City, Utah 84119
Attention: Corporate Secretary

Executive Officers

Our executive officers as of the date of this filing are as follows:

Name	Age	Position
Zee Hakimoglu	51	President and Chief Executive Officer
Donald Frederick	50	Chief Financial Officer
Tracy Bathurst	41	Vice President of Product Line Management
DeLonie Call	52	Vice President of Human Resources
Werner Pekarek	56	Vice President of Operations
Joseph Sorrentino	50	Vice President of Worldwide Sales and Marketing

Zee Hakimoglu joined us in December 2003 with more than 15 years of executive and senior-level, high-tech management experience. She served in a variety of executive business development, product marketing, and engineering roles including vice president of product line management for ClearOne from December 2003 to July 2004; vice president of product line management for Oplink Communications, a publicly traded developer of fiber optic subsystems and components from December 2001 to December 2002; president of OZ Optics USA, a manufacturer of fiber optic test equipment and components from August 2000 to November 2001; and various management positions including vice president of wireless engineering and wireless business unit vice president for Aydin Corp., a telecommunications equipment company, formerly traded on the New York Stock Exchange from May 1982 until it was acquired in September 1996. Her business unit at Aydin was the largest provider of digital microwave radios to the US Army, which used the radios in Desert Storm and a variety of NATO operations. She also was vice president of business development for Kaifa Technology from October 1998 to August 2000 and was instrumental in its acquisition by E-Tek Dynamics, then again acquired by JDS Uniphase. Through these acquisitions, she held the role of deputy general manager of the Kaifa business unit. Ms. Hakimoglu earned a bachelor's degree in physics from California State College, Sonoma, and a master's degree in physics from Drexel University.

Donald Frederick joined us in July 2004 with more than 25 years of financial management experience. From January 2000 to February 2004, Mr. Frederick was most recently chief financial officer of Datasweep, Inc., a privately held enterprise software company. From June 1997 to September 1999, he was chief financial officer of ADFlex Solutions, Inc., a publicly held manufacturer of high-tech circuitry for consumer electronic products with more than $200 million in revenue. He was also vice president of finance for publicly held Flextronics International from May 1995 to May 1997 and director of finance for Sony Electronics from May 1990 to May 1995. Mr. Frederick earned a master's degree in finance from San Jose State University and a bachelor's degree in accounting from Michigan Technological University.

Tracy Bathurst joined us in September 1988 and held several positions with us until he was named Vice President of Product Line Management in January 2005. He was most recently ClearOne's director of research and development and has nearly 20 years experience in defining and developing communications-related products and technology. Mr. Bathurst has lead the design and development of ClearOne's high performance audio and telecommunications equipment. He earned a Bachelor of Science degree in industrial technology from Southern Utah University.

DeLonie Call joined us in October 2001 with nearly 15 years experience in management and executive-level human resources positions. She currently serves as vice president of human resources. From April 2000 to September 2001, Ms. Call was director of human resources for Iomega Corp. and from June 1996 to November 2000 she was vice president of human resources for Vitrex Corp., a start-up technology company. Ms. Call graduated from Weber State University with a bachelor's degree in business management and economics.

Werner Pekarek joined us in January 2005 with more than 15 years of executive level operations experience, including responsibility for process development, production planning and implementation, purchasing, supply chain management and customer service. Mr. Pekarek held executive operations roles with Siemens Communications including vice president of operations for Siemens Communications Devices, Consumer Products from 1997 to 2000, vice president of operations for Siemens Information & Communications Networks, Networking Gear from 1992 to 1997, vice president of operations for Siemens Wireless, consumer products from 1989 to 1992, and various other management positions for Siemens from 1980 to 1989. His expertise includes low volume, high mix networking gear and high volume consumer wireless and cordless phone products. He was also Vice President of Operations for start-up high tech companies Break Points from July 2002 to December 2004 and Optical Micro Machines from November 2000 to June 2002. Mr. Pekarek earned a Bachelor of Science degree in electrical engineering from the University of Paderborn in Germany.

Joseph Sorrentino joined us in November 2004 with more than 25 years experience in various executive management and sales-related positions. From April 2002 to November 2004, Mr. Sorrentino was vice president of sales for Polycom's voice communications division. In that role, he was responsible for driving sales of Polycom's flagship voice products and launching its IP telephony, wireless and installed conferencing products. Prior to Polycom, he served as vice president of worldwide sales for 3Ware, a start-up storage company from July 1999 to August 2001, and for IBM's storage systems division from October 1997 to February 1999, where he managed the company's largest storage customers. He has also worked for Motorola, Seagate and Adaptec. Mr. Sorrentino earned a bachelor's degree from San Jose State University.

Compliance with Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities to file with the SEC initial reports of ownership on Form 3 and reports of changes of ownership of our equity securities on Forms 4 and 5. Officers, directors and greater than 10% shareholders are required to furnish us with copies of all Section 16(a) reports they file.

Based solely on a review of the reports and amendments to reports furnished to us, we believe that all reports required by Section 16(a) were filed on a timely basis, except that the following reports were filed late: (i) the Form 4 dated December 10, 2002 for Frances M. Flood; (ii) the Form 3 dated February 12, 2003 for Michael D. Keough; (iii) the Form 3 dated June 30, 2003 for Larry R. Hendricks; (iv) the Form 3 dated June 30, 2003 for Scott M. Huntsman; (v) the Form 3 dated November 14, 2003 for Charles A. Callis; (vi) the Form 3 dated July 27, 2004 for David Hubbard; and (vii) the Form 3 dated July 27, 2004 for Donald E. Frederick.

Code of Ethics

On November 18, 2004, the board of directors adopted a code of ethics that applies to our board of directors, executive officers and employees. A copy of our code of ethics is included as an exhibit to this report. Copies may also be requested, free of charge, from our Corporate Secretary at the following address:

ClearOne Communications, Inc.
1825 Research Way
Salt Lake City, Utah 84119
Attention: Corporate Secretary

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation

The following table sets forth for the periods indicated the compensation paid to or accrued for the benefit of each person who served as our Chief Executive Officer during fiscal 2003, our next four most highly compensated executive officers serving as of June 30, 2003 and one executive officer who served in such position during a portion of 2003 (collectively referred to herein as the "named executive officers"). The position identified in the table for each person is the position they held with us as of June 30, 2003. None of these persons is currently employed by us.

SUMMARY COMPENSATION TABLE

Name and Position	Fiscal Year	Annual Compensation: Salary	Annual Compensation: Bonus	Annual Compensation: Other Annual Compensation[1]	Long-Term Compensation Awards: Securities Underlying Options /SARS	Long-Term Compensation Payouts: All Other Compensation[2]
Executive Officers as of June 30, 2003						
Frances Flood President and Chief Executive Officer[3]	2003	$231,199	-	-	300,000	$1,095
	2002	$179,615	$76,006	-	100,000	$2,148
	2001	$160,000	$58,400	-	-	$2,056
Susie Strohm Vice President and Chief Financial Officer[4]	2003	$140,838	-	-	50,000	$1,050
	2002	$114,615	$30,505	-	-	$2,108
	2001	$110,000	$37,000	-	-	$2,316
Mike Keough Chief Executive Officer[5]	2003	$119,230	-	-	50,000	-
Greg Rand President and Chief Operating Officer[6]	2003	$130,256	-	-	50,000	-
Angelina Beitia Vice President[7]	2003	$116,226	-	$400	15,000	-
	2002	$118,462	$5,000	$2,005	-	$3,900
Former Executive Officers						
Timothy Morrison[8] Former Vice President	2003	$120,351	-	-	15,000	$735
	2002	$159,808	$24,500	-	60,000	$637

1 The Company did not pay or provide perquisites or other benefits during the periods indicated to any named executive officer in an aggregate amount exceeding $50,000.
2 These amounts reflect our contributions to our deferred compensation plan (401(k) plan) on behalf of the named executive officers.
3 Ms. Flood’s employment and position as an executive officer terminated on December 5, 2003.
4 Ms. Strohm’s employment and position as an executive officer terminated on December 5, 2003.
5 Mr. Keough was employed as an executive officer on from November 18, 2002 to June 24, 2004.
6 Mr. Rand was employed as an executive officer on from August 12, 2002 to February 25, 2004.
7 Ms. Beitia’s employment and position as an executive officer terminated on July 1, 2004.
8 Mr. Morrison’s employment and position as an executive officer terminated on February 4, 2003. The table does not include the amount paid to Mr. Morrison in May 2004 in settlement of the so-called “whistleblower action” described in Item 3. Legal Proceedings.”

Stock Options

The following table sets forth the stock option grants made to the named executive officers for fiscal 2003. We did not grant any stock appreciation rights, or SARs, to the named executive officers during fiscal 2003.

The exercise price per share of each option granted was equal to the closing price of our common stock on the date of grant.

OPTION GRANTS IN FISCAL YEAR ENDED JUNE 30, 2003
(INDIVIDUAL GRANTS)

Name and Position	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year[1]	Exercise or Base Price ($/Sh)	Expiration Date	Potential Realizable Value of Assumed Annual Rate of Stock Price Appreciation for Option Term[4] 5%($)	10%($)
Executive Officers as of June 30, 2003						
Frances Flood	300,000[2,5]	36%	$3.55	10/24/2012	$756,511	$1,973,569
Susie Strohm	50,000[3,6]	6%	$3.55	10/24/2012	$126,085	$328,928
Mike Keough	50,000[3]	6%	$3.75	11/18/2012	$133,189	$347,459
Gregory Rand	50,000[3]	6%	$3.55	10/24/2012	$126,085	$328,928
Angelina Beitia	15,000[3]	2%	$3.55	10/24/2012	$37,826	$98,678
DeLonie Call	15,000[3]	2%	$3.55	10/24/2012	$37,826	$98,678
Former Executive Officers						
Timothy J. Morrison	15,000[3]	2%	$3.55	10/24/2012	$37,826	$98,678

1. Based on an aggregate of 835,500 shares subject to options granted to our employees in 2003, including the named executive officers.

2. The options have a ten year term with one-third vesting on the day following the grant date and the remaining two-thirds vesting in equal installments on July 22, 2003 and July 22, 2004, respectively. The options vest immediately upon a change of control as defined in the plan or our board of directors has authority to accelerate vesting in the event of certain specified corporate transactions.

3. The options have a ten year term and vest over a four year period with one-fourth vesting on the first anniversary of the grant date and the remaining three-fourths vesting in equal monthly installments over the remaining 36 month period. The options vest immediately upon a change of control as defined in the plan or our board of directors has authority to accelerate vesting in the event of certain specified corporate transactions.

4. Potential realizable values are computed by (1) multiplying the number of shares of common stock subject to a given option by the per-share assumed stock value compounded at the annual 5% or 10% appreciation rate shown in the table for the entire ten-year term of the option and (2) subtracting from that result the aggregate option exercise price. The 5% and 10% assumed annual rates of stock price appreciation are mandated by the rules of the SEC and do not represent our estimate or projection of the future prices of our common stock. Actual gains, if any, on stock option exercises are dependent on our future financial performance, overall market conditions, and the named executive officer's continued employment through the vesting periods. The actual value realized may be greater or less than the potential realizable value set forth in the table.

5. Frances Flood subsequently surrendered and cancelled a total of 706,434 stock options, including the 300,000 options above, in accordance with the employment separation agreement between the Company and Ms. Flood.

6. Susie Strohm subsequently surrendered and cancelled a total of 268,464 stock options, including the 50,000 options above, in accordance with the employment separation agreement between the Company and Ms. Strohm.

Aggregated Stock Option/SAR Exercises

The following table sets forth information concerning stock options exercised by the named executive officers during fiscal 2003 and the year-end value of in-the-money, unexercised options:

AGGREGATED OPTION EXERCISES IN FISCAL YEAR ENDED JUNE 30, 2003
AND FISCAL YEAR-END OPTION VALUES

			Number of Securities Underlying Unexercised Options at FY-End (#)	Value of Unexercised In-the-Money Options at FY-End ($)
Name and Position	Shares Acquired on Exercise (#)	Value Realized ($)[1]	Exercisable/ Unexercisable	Exercisable/ Unexercisable[2]
Executive Officers as of June 30, 2003				
Frances Flood	10,000	$36,600	377,333/329,101	$233,872/$0
Susie Strohm	0	$0	159,463/109,001	$94,810/$0
Mike Keough	0	$0	0/50,000	$0/$0
Gregory Rand	0	$0	0/50,000	$0/$0
Angelina Beitia	0	$0	4,375/140,625	$0/$0
DeLonie Call	0	$0	3,500/141,500	$0/$0
Former Executive Officers				
Timothy J. Morrison	0	$0	0/0	$0/$0

1 Based upon the market price of the purchased shares on the exercise date less the option exercise price paid for such shares.

2 Based on the market price of $2.15 per share, which was the closing selling price of our common stock on the Pink Sheets on the last business day of our 2003 fiscal year, less the option exercise price payable per share.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

Employment Agreement. On October 24, 2002, we entered into a three-year employment agreement with Frances Flood, which was terminated on December 5, 2003 as discussed below. Under the terms of the agreement, Ms. Flood agreed to serve as our Chairman of the Board, Chief Executive Officer and President. The agreement provided for the payment to Ms. Flood of a base salary of $250,000 per year from October 24, 2002 to October 23, 2003; $300,000 per year from October 24, 2003 to October 23, 2004; and $325,000 per year from October 24, 2004 to October 24, 2005, with an annual bonus of up to 50% of her base salary. She was also granted stock options.

The employment agreement provided that if Ms. Flood's employment were terminated without "cause," she would be entitled to her full monthly salary and health and life insurance premiums as provided in the agreement for three years from the date of termination. If Ms. Flood's employment were terminated upon death or for "cause," she would be entitled to receive her salary and other benefits earned but not yet paid through the date of termination, subject to any legal requirements. If Ms. Flood's employment were terminated for disability, she would continue to receive her full monthly salary and health and life insurance premiums as provided in the agreement for one year.

The agreement provided for a cash severance payment in the amount of $875,000 and accelerated vesting of all remaining stock options granted to Ms. Flood in the event of a change in control of the Company.

Employment Separation Agreements. On December 5, 2003, the Company entered into employment separation agreements with each of Frances Flood, the Company's former chairman, chief executive officer and president, and Susie Strohm, the Company's former chief financial officer, which generally provided that such persons would resign from their positions and employment with the Company, and the Company would make one-time, lump sum payments to such persons in consideration of their surrender and delivery to the Company of shares of the Company's common stock and Company stock options and their release of claims against the Company. Such persons also agreed to cooperate with the Company in the SEC action and related proceedings and the Company agreed to continue to indemnify such persons for attorneys fees incurred in the SEC action and related proceedings, subject to the limitations imposed by Utah law. The Company also released any existing claims against such persons except such claims as to which indemnification would not be permitted by Utah law. The agreement with Ms. Flood provided for a payment to her of $350,000 and her surrender and delivery to the Company of 35,000 shares of the Company's common stock and 706,434 stock options (461,433 of which were vested). The agreement with Ms. Strohm provided for a payment to her of $75,000 and her surrender and delivery to the Company of 15,500 shares of the Company's common stock and 268,464 stock options (171,963 of which were vested). This summary description of the employment separation agreements is qualified in its entirety by reference to the employment separation agreements, copies of which are included as exhibits to this report.

As of the end of fiscal 2003, no other named executive officer was party to an employment or severance agreement with us, and each named executive officer's employment was on an "at-will" basis.

Settlement Agreements and Releases. We entered into settlement agreements and releases with four former executive officers in connection with the cessation of their employment, which generally provided for their resignations from their positions and employment with the Company, the payment of severance in increments in accordance with the regular payroll schedule, and a general release of claims against the Company by each of such persons. On February 27, 2004, an agreement was entered into with Greg Rand, the Company's former president and chief operating officer, which generally provided for a severance payment of $75,000 and an accelerated vesting of 25,000 stock options. On April 6, 2004, an agreement was entered into with George Claffey, the Company's former chief financial officer, which generally provided for a severance payment of $61,192. On June 16, 2004, an agreement was entered into with Mike Keough, the Company's former chief executive officer, which generally provided for a severance payment of $46,154 and vested options totaling 18,749 stock options. On July 15, 2004, an agreement was entered into with Angelina Beitia, the Company's former vice president, which generally provided for a lump sum payment of $100,000. In addition Ms. Beitia surrendered and delivered to the Company all outstanding vested and unvested options. In accordance with the terms of our stock option plans, any unvested stock options terminated on the date of termination of such persons' employment with the Company. This summary description of the settlement agreement and releases are qualified in their entirety by reference to the settlement agreement and releases, copies of which are included as exhibits to this report.

Stock Option Plans. Under the 1998 Stock Option Plan, our board of directors has the authority to automatically accelerate the vesting of each outstanding option granted to a named executive officer in the event of specified corporate transactions, including a change in control whether or not the outstanding option is assumed or substituted in connection with the corporate transaction or change in control. All options outstanding under the 1990 Stock Option Plan are fully vested and there are no additional options available for grant.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding ownership of our common stock as of July 31, 2005 by (i) each person known to us to be the beneficial owner of more than 5% of our outstanding common stock, (ii) each director, (iii) the named executive officers, and (iv) all of our executive officers and directors as a group. Each person has sole investment and voting power with respect to the shares indicated, subject to community property laws where applicable, except as otherwise indicated below. The address for each director and officer is in care of ClearOne Communications, Inc., 1825 Research Way, Salt Lake City, Utah 84119.

Names of Beneficial Owners	Amount of Beneficial Ownership	Percentage of Class[1]
Directors and Executive Officers		
Edward Dallin Bagley[2]	1,804,601	15.3 %
Brad R. Baldwin[3]	181,666	1.5 %
DeLonie Call[4]	74,312	0.6 %
Zee Hakimoglu[5]	63,888	0.5 %
Harry Spielberg[6]	59,000	0.5 %
Tracy Bathurst[7]	56,017	0.5 %
Don Frederick[8]	29,166	0.2 %
Larry Hendricks[9]	25,500	0.2 %
Scott Huntsman[10]	25,500	0.2 %
Directors and Executive Officers as a Group (11 people)[11]	2,319,650	19.6 %

1 For each individual included in the table, the calculation of percentage of beneficial ownership is based on 11,264,233 shares of common stock outstanding as of July 31, 2005 and shares of common stock that could be acquired by the individual within 60 days of July 31, 2005, upon the exercise of options or otherwise.

2 Includes 126,166 shares held by Mr. Bagley's spouse with respect to which he disclaims beneficial ownership; and options to purchase 134,000 shares that are exercisable within 60 days after July 31, 2005.

3 Includes 88,666 shares held in the Baldwin Family Trust; 9,000 shares owned directly, which are held in an IRA under the name of Mr. Baldwin; and options to purchase 84,000 shares that are exercisable within 60 days after July 31, 2005.

4 Includes options to purchase 73,937 shares that are exercisable within 60 days after July 31, 2005.

5 Includes options to purchase 63,888 shares that are exercisable within 60 days after July 31, 2005.

6 Includes options to purchase 59,000 shares that are exercisable within 60 days after July 31, 2005.

7 Includes options to purchase 55,519 shares that are exercisable within 60 days after July 31, 2005.

8 Includes options to purchase 29,166 shares that are exercisable within 60 days after July 31, 2005.

9 Includes options to purchase 25,500 shares that are exercisable within 60 days after July 31, 2005.

10 Includes options to purchase 25,500 shares that are exercisable within 60 days after July 31, 2005.

11 Includes options to purchase a total of 550,510 shares that are exercisable within 60 days after July 31, 2005 by executive officers and directors.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Indemnification of Officers and Directors. The Company's by-laws and the Utah Revised Business Corporation Act provide for indemnification of directors and officers against reasonable expenses incurred by such persons in connection with civil or criminal actions or proceedings to which they have been made parties because they are or were directors or officers of the Company or its subsidiaries. Indemnification is permitted if the person satisfies the required standards of conduct. Certain of the litigation matters described in "Item 3. Legal Proceedings" involved certain of the Company's current and former directors and officers, all of whom are covered by the aforementioned indemnity and if applicable, certain prior period insurance policies. The Company has indemnified such persons for legal expenses incurred by them in such actions and has sought reimbursement from its insurance carriers. The Company cannot predict with certainty the extent to which the Company will recover the indemnification payments from its insurers. The Company has made payments to the law firms representing such current and former directors and officers in the aggregate amount of approximately $1.5 million during the period from January 2003 through June 30, 2005.

In connection with the Insurance Coverage Action described herein under the caption "Item 3. Legal Proceedings," the Company and its counsel entered into a Joint Prosecution and Defense Agreement dated as of April 1, 2004 with Edward Dallin Bagley, a director, and his counsel, which generally provides that ClearOne and Mr. Bagley will jointly prosecute their claims against the carriers of certain prior period directors and officers liability insurance policies and jointly defend the claims made by the insurance carriers in order to reduce litigation expenses. In the litigation, ClearOne is generally pursuing claims to recover the policy limits of certain officer and director liability insurance policies and Mr. Bagley is pursuing related claims to recover losses he incurred as a result of such carriers' refusal to pay the policy limits which refusals caused ClearOne to enter into a settlement agreement in the class action litigation that diluted Mr. Bagley's shareholdings in ClearOne. The agreement, as amended, provides that the two law firms shall jointly represent ClearOne and Mr. Bagley, the parties shall cooperate in connection with the conduct of the litigation and that ClearOne shall pay all litigation expenses, including attorneys' fees of its counsel and Bagley's counsel, except litigation expenses which are solely related to Mr. Bagley's claims in the litigation. In February 2005, we entered into a confidential settlement agreement with Lumbermens Mutual pursuant to which ClearOne and Bagley received a lump sum cash amount and the plaintiffs agreed to dismiss their claims against Lumbermens Mutual with prejudice. The cash settlement will be held in a segregated account until the claims involving National Union have been resolved, at which time the amounts received in the action will be allocated among the Company and Bagley.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

ClearOne engaged KPMG LLP (KPMG) in December 2003 to replace Ernst & Young LLP as its independent registered public accountants. ClearOne engaged KPMG to audit its financial statements for its 2003 fiscal year and to reaudit its financial statements for its 2002 and 2001 fiscal years, as well as to perform quarterly reviews on the quarters within each of these fiscal years.

The fees for the audits and quarterly reviews related to the June 30, 2003, 2002 and 2001 financial statements, taxes and audit related fees provided by KPMG were as follows:

Audit Fees	$	2,258,913
Audit-Related Fees		13,029
Tax Fees		126,106
Total	$	2,398,048

"Audit Fees" consisted of fees billed for services rendered for the audit of ClearOne's annual financial statements, as described above, reviews of quarterly financial information included herein, and other services normally provided in connection with statutory and regulatory filings. "Audit-Related Fees" consisted of fees billed for consents on audit opinions for acquirees of the Company. "Tax Fees" consisted of fees billed for tax payment planning and tax preparation services.

Our Audit Committee Charter provides for pre-approval of non-audit services performed by our independent registered public accountants. All of the services performed by KPMG described above under the captions "Audit-Related Fees" and "Tax Fees" were approved in advance by our Audit Committee.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

The following financial statements are filed as part of this report in a separate section of this Form 10-K beginning on page F-1.

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of June 30, 2003, 2002 and 2001
Consolidated Statements of Operations and Comprehensive Income (Loss) for fiscal years ended June 30, 2003, 2002 and 2001
Consolidated Statements of Stockholders' Equity for fiscal years ended June 30, 2003, 2002 and 2001
Consolidated Statements of Cash Flows for fiscal years ended June 30, 2003, 2002 and 2001
Notes to Consolidated Financial Statements

2. Financial Statement Schedules

All schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements and notes thereto.

3. Exhibits

The following documents are included as exhibits to this report.

Exhibit No.	SEC Ref. No.	Title of Document	Location
3.1	3	Articles of Incorporation and amendments thereto	Incorp. by reference[1]
3.2	3	Bylaws	Incorp. by reference[2]
10.1	10	Employment Separation Agreement between ClearOne Communications, Inc. and Frances Flood, dated December 5, 2003.*	This filing
10.2	10	Employment Separation Agreement between ClearOne Communications, Inc. and Susie Strohm, dated December 5, 2003.*	This filing
10.3	10	Share Purchase Agreement between ClearOne Communications, Inc. and ClearOne Communications of Canada, Inc. and 3814149 Canada, Inc., 3814157 Canada, Inc., Stechyson Family Trust, Jim Stechyson, Norm Stechyson, and Heather Stechyson Family Trust, dated as of August 16, 2002	This filing
10.4	10	Asset Purchase Agreement between ClearOne Communications, Inc. and Comrex Corp., dated as of August 23, 2002.	This filing
10.5	10	Agreement and Plan of Merger dated January 21, 2003, between ClearOne Communications, Inc., Tundra Acquisitions Corporation and E.mergent, Inc., and the related Voting Agreement with E.mergent shareholders	Incorp. by reference[3]
10.6	10	Share Purchase Agreement among ClearOne Communications, Inc. (then named Gentner Communications Corporation), Gentner Ventures, Inc. and the shareholders of Ivron Systems, Ltd. dated October 3, 2001, and amendment thereto	Incorp. by reference[4]
10.7	10	Joint Prosecution and Defense Agreement dated April 1, 2004 between ClearOne Communications, Inc., Parsons Behle & Latimer, Edward Dallin Bagley and Burbidge & Mitchell, and amendment thereto	This filing
10.8	10	Asset Purchase Agreement dated May 6, 2004 between ClearOne Communications, Inc. and M:SPACE, Inc.	This filing
10.9	10	Asset Purchase Agreement among Clarinet, Inc., American Teleconferencing Services, Ltd. d/b/a Premier Conferencing, and ClearOne Communications, Inc., dated July 1, 2004	Incorp. by reference[5]
10.10	10	Stock Purchase Agreement dated March 4, 2005 between 6351352 Canada Inc. and Gentner Ventures, Inc., a wholly owned subsidiary of ClearOne Communications, Inc.	This filing
10.11	10	1998 Stock Option Plan	Incorp. by reference[6]
10.12	10	1990 Stock Option Plan	Incorp. by reference[7]
10.13	10	Employment Settlement Agreement and Release between ClearOne Communications, Inc. and Gregory Rand dated February 27, 2004.*	This filing
10.14	10	Employment Settlement Agreement and Release between ClearOne Communications, Inc. and George Claffey dated April 6, 2004.*	This filing
10.15	10	Employment Settlement Agreement and Release between ClearOne Communications, Inc. and Michael Keough dated June 16, 2004.*	This filing
10.16	10	Employment Settlement Agreement and Release between ClearOne Communications, Inc. and Angelina Beitia dated July 15, 2004.*	This filing
14.1	14	Code of Ethics, approved by the Board of Directors on November 18, 2004	This filing
21.1	21	Subsidiaries of the registrant	This filing
31.1	31	Section 302 Certification of Chief Executive Officer	This filing
31.2	31	Section 302 Certification of Chief Financial Officer	This filing
32.1	32	Section 1350 Certification of Chief Executive Officer	This filing
32.2	32	Section 1350 Certification of Chief Financial Officer	This filing
99.1	99	Audit Committee Charter, adopted November 18, 2004	This filing

*Constitutes a management contract or compensatory plan or arrangement.

1 Incorporated by reference to the Registrant's Annual Reports on Form 10-K for the fiscal years ended June 30, 1989 and June 30, 1991.

2 Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1993.

3 Incorporated by reference to the Registrant's Current Report on Form 8-K filed February 6, 2002.

4 Incorporated by reference to the Registrant's Current Report on Form 8-K filed October 18, 2001 and the Current Report on Form 8-K filed April 10, 2002.

5 Incorporated by reference to the Registrant's Current Report on Form 8-K filed July 1, 2004.

6 Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1998.

7 Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1996.

SIGNATURES

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

CLEARONE COMMUNICATIONS, INC.

August 16, 2005

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

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

Signature	Title	Date
/s/ Zeynep Hakimoglu Zeynep Hakimoglu	President and Chief Executive Officer (Principal Executive Officer)	August 16, 2005
/s/ Donald E. Frederick Donald E. Frederick	Chief Financial Officer (Principal Financial and Accounting Officer)	August 16, 2005
/s/ Edward Dallin Bagley Edward Dallin Bagley	Director	August 16, 2005
/s/ Brad R. Baldwin Brad R. Baldwin	Director	August 16, 2005
/s/ Larry R. Hendricks Larry R. Hendricks	Director	August 16, 2005
/s/ Scott M. Huntsman Scott M. Huntsman	Director	August 16, 2005
/s/ Harry Spielberg Harry Spielberg	Director	August 16, 2005

ClearOne Communications, Inc.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
ClearOne Communications, Inc.:

We have audited the accompanying consolidated balance sheets of ClearOne Communications, Inc. and subsidiaries as of June 30, 2003, 2002, and 2001, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ClearOne Communications, Inc. and subsidiaries as of June 30, 2003, 2002, and 2001 and the results of their operations and their cash flows for each of the years then ended in conformity with U. S. generally accepted accounting principles.

As discussed in Note 3 to the accompanying consolidated financial statements, the consolidated balance sheets as of June 30, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years then ended, have been restated.

As discussed in Note 2 to the consolidated financial statements, the Company changed, effective July 1, 2002, its method of accounting for goodwill and other intangible assets as required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, Statement of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and Statement of Financial Accounting Standard No. 141, Business Combinations.

KPMG LLP
Salt Lake City, Utah
August 12, 2005

CLEARONE COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	June 30,		
	2003	**2002 (Restated)**	**2001 (Restated)**
ASSETS			
Current assets:			
Cash and cash equivalents	$ 6,124	$ 1,744	$ 6,851
Restricted cash	200	-	-
Marketable securities	1,900	12,400	-
Accounts receivable, net of allowances of $246, $190 and $0, respectively	4,208	4,322	2,027
Inventories, net	8,966	12,516	6,459
Income tax receivable	2,433	-	-
Deferred income tax assets	2,531	4,709	1,587
Prepaid expenses and other	555	621	680
Total current assets	26,917	36,312	17,604
Property and equipment, net	6,768	8,123	5,681
Goodwill, net	-	17,072	890
Intangibles, net	1,018	1,634	616
Deferred income tax assets, net	548	661	446
Other assets	25	74	74
Total assets	$ 35,276	$ 63,876	$ 25,311
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Line of credit	$ -	$ 196	$ -
Capital lease obligations	802	784	619
Note payable	652	-	-
Accounts payable	1,948	3,056	652
Accrued liabilities	9,576	2,841	1,408
Deferred revenue	550	572	-
Billings in excess of costs on uncompleted contracts	615	-	-
Income taxes payable	-	265	224
Total current liabilities	14,143	7,714	2,903
Capital lease obligations, net of current portion	1,215	2,016	1,680
Note payable, net of current portion	931	-	-
Deferred revenue, net of current portion	244	254	-
Total liabilities	16,533	9,984	4,583
Commitments and contingencies (see Notes 11 and 13)			
Stockholders' equity:			
Common stock, 50,000,000 shares authorized, par value $0.001, 11,086,733, 11,178,392 and 8,612,978 shares issued and outstanding, respectively	11	11	9
Additional paid-in capital	48,258	48,704	8,856
Deferred compensation	(75)	(147)	(122)
Accumulated other comprehensive income	1,197	-	-
Retained earnings (accumulated deficit)	(30,648)	5,324	11,985
Total stockholders' equity	18,743	53,892	20,728
Total liabilities and stockholders' equity	$ 35,276	$ 63,876	$ 25,311

See accompanying notes to consolidated financial statements.

CLEARONE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands, except share amounts)

	Years ended June 30,		
	2003	**2002** (Restated)	**2001** (Restated)
Revenue:			
Product	$ 27,512	$ 26,253	$ 22,448
Conferencing services	15,268	15,583	11,689
Business services	14,805	1,526	-
Total revenue	57,585	43,362	34,137
Cost of goods sold:			
Product	15,940	10,939	8,789
Product inventory write-offs	2,175	2,945	416
Conferencing services	7,904	7,310	5,928
Business services	9,282	978	-
Total cost of goods sold	35,301	22,172	15,133
Gross profit	22,284	21,190	19,004
Operating expenses:			
Marketing and selling	12,187	10,739	7,711
General and administrative	18,011	5,345	4,198
Research and product development	2,995	3,810	2,747
Impairment losses	26,001	7,115	-
Gain on sale of court conferencing assets	-	(250)	-
Purchased in-process research and development	-	-	728
Total operating expenses	59,194	26,759	15,384
Operating income (loss)	(36,910)	(5,569)	3,620
Other income (expense), net:			
Interest income	85	293	334
Interest expense	(236)	(179)	(164)
Other, net	55	18	18
Total other income (expense), net	(96)	132	188
Income (loss) from continuing operations before income taxes	(37,006)	(5,437)	3,808
Provision (benefit) for income taxes	(834)	1,400	1,050
Income (loss) from continuing operations	(36,172)	(6,837)	2,758
Discontinued operations:			
Income from discontinued operations, net of income taxes of $439 in 2001	-	-	737
Gain on disposal of discontinued operations, net of income taxes of $119, $104 and $72, respectively	200	176	123
Net income (loss)	$ (35,972)	$ (6,661)	$ 3,618

See accompanying notes to consolidated financial statements.

	Years ended June 30,		
	2003	2002	2001
		(Restated)	(Restated)
Basic earnings (loss) per common share from continuing operations	$ (3.23)	$ (0.71)	$ 0.32
Diluted earnings (loss) per common share from continuing operations	$ (3.23)	$ (0.71)	$ 0.30
Basic earnings per common share from discontinued operations	$ 0.02	$ 0.02	$ 0.10
Diluted earnings per common share from discontinued operations	$ 0.02	$ 0.02	$ 0.09
Basic earnings (loss) per common share	$ (3.21)	$ (0.69)	$ 0.42
Diluted earnings (loss) per common share	$ (3.21)	$ (0.69)	$ 0.39
Comprehensive Income (Loss):			
Net income (loss)	$ (35,972)	$ (6,661)	$ 3,618
Foreign currency translation adjustments	1,197	-	-
Comprehensive income (loss)	$ (34,775)	$ (6,661)	$ 3,618

See accompanying notes to consolidated financial statements.

CLEARONE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	Common Stock		Additional Paid-In	Deferred	Accumulated Other Comprehensive	Retained Earnings (Accumulated	Total Stockholders'
	Shares	Amount	Capital	Compensation	Income	Deficit)	Equity
Balances at June 30, 2000 (as previously reported)	8,427,145	$ 9	$ 6,697	$ -	$ -	$ 8,047	$ 14,753
Adjustments to opening retained earnings (Note 3)	-	-	-	-	-	320	320
Balances at June 30, 2000 (restated)	8,427,145	9	6,697	-	-	8,367	15,073
Exercises of employee stock options	75,125	-	325	-	-	-	325
Income tax benefits from stock option exercises	-	-	116	-	-	-	116
Issuances of common stock under employee stock purchase plan	1,137	-	15	-	-	-	15
Issuance of common stock in a purchase of business	129,871	-	1,814	-	-	-	1,814
Repurchase and retirement of common stock	(20,300)	-	(244)	-	-	-	(244)
Deferred compensation resulting from the modification of stock options	-	-	133	(133)	-	-	-
Amortization of deferred compensation	-	-	-	11	-	-	11
Net income	-	-	-	-	-	3,618	3,618
Balances at June 30, 2001 (restated)	8,612,978	9	8,856	(122)	-	11,985	20,728
Exercises of employee stock options	195,999	-	1,020	-	-	-	1,020
Income tax benefits from stock option exercises	-	-	452	-	-	-	452
Issuances of common stock under employee stock purchase plan	724	-	13	-	-	-	13
Issuance of common stock and warrants for cash	1,500,000	1	23,834	-	-	-	23,835
Issuance of common stock and options in a purchase of business	868,691	1	14,426	-	-	-	14,427
Deferred compensation resulting from the modification of stock options	-	-	103	(103)	-	-	-
Amortization of deferred compensation	-	-	-	78	-	-	78
Net loss	-	-	-	-	-	(6,661)	(6,661)
Balances at June 30, 2002 (restated)	11,178,392	11	48,704	(147)	-	5,324	53,892
Exercises of employee stock options	31,500	-	86	-	-	-	86
Issuances of common stock under employee stock purchase plan	1,841	-	8	-	-	-	8
Repurchase and retirement of common stock	(125,000)	-	(430)	-	-	-	(430)
Remeasurement of stock options	-	-	(110)	110	-	-	-
Net reversal of previously amortized deferred compensation	-	-	-	(38)	-	-	(38)
Foreign currency translation adjustments	-	-	-	-	1,197	-	1,197
Net loss	-	-	-	-	-	(35,972)	(35,972)
Balances at June 30, 2003	11,086,733	$ 11	$ 48,258	$ (75)	$ 1,197	$ (30,648)	$ 18,743

See accompanying notes to consolidated financial statements.

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

	Years ended June 30,		
	2003	**2002**	**2001**
		(Restated)	**(Restated)**
Cash flows from operating activities:			
Net income (loss)	$ (35,972)	$ (6,661)	$ 3,618
Results of discontinued operations, net of income taxes	(200)	(176)	(860)
Income from continuing operations	$ (36,172)	$ (6,837)	$ 2,758
Adjustments to reconcile net income (loss) to net cash provided by operations:			
Loss on impairment of long-lived assets, goodwill and intangibles	26,001	7,115	-
Depreciation and amortization expense	3,469	3,012	2,230
Stock-based compensation	(38)	78	11
Gain on sale of certain assets	-	(250)	-
Write-off of inventory	2,175	2,945	416
Write-off of in-process research and development	-	-	728
Income tax benefits from stock option exercises	-	452	116
Loss (gain) on disposal of assets and fixed assets write-offs	(2)	(4)	(23)
Provision for doubtful accounts	312	43	76
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	268	46	2,361
Inventories	1,516	(5,395)	(3,127)
Prepaid expenses and other assets	67	168	59
Accounts payable	(1,126)	946	(115)
Accrued liabilities	6,142	(457)	(464)
Income taxes	(669)	(1,783)	(650)
Deferred revenue	553	(48)	-
Net change in other assets/liabilities	47	-	(19)
Net cash provided by operating activities	2,543	31	4,357
Cash flows from investing activities:			
Restricted cash	(200)	-	-
Purchase of property and equipment	(1,823)	(2,805)	(1,429)
Proceeds from the sale of equipment	4	11	-
Proceeds from the sale of certain assets	80	160	-
Purchase of marketable securities	(18,500)	(30,600)	-
Sale of marketable securities	29,000	18,200	-
Cash paid for acquisitions, net of cash received	(7,444)	(14,436)	(1,856)
Net cash provided by (used in) investing activities	1,117	(29,470)	(3,285)
Cash flows from financing activities:			
Borrowings under note payable	1,998	-	-
Principal payments on capital lease obligation	(784)	(713)	(552)
Principal payments on note payable	(414)	-	-
Proceeds from sales of common stock	95	24,869	340
Purchase and retirement of stock	(430)	-	(244)
Net cash provided by financing activities	465	24,156	(456)
Cash provided by discontinued operations, net of income taxes	200	176	860
Net changes in cash and cash equivalents	4,325	(5,107)	1,476
Effect of foreign exchange rates on cash and cash equivalents	55	-	-
Cash and cash equivalents at the beginning of year	1,744	6,851	5,375
Cash and cash equivalents at the end of year	$ 6,124	$ 1,744	$ 6,851

See accompanying notes to consolidated financial statements.

Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 211	$ 170	$ 162
Cash paid (received) for income taxes	(79)	3,529	2,523
Tax benefits from stock option exercises	-	452	116
Supplemental disclosure of non-cash investing and financing activities:			
Equipment acquired under capital lease	$ -	$ 1,155	$ 1,021
Supplemental disclosure of acquisition activity:			
Fair value of assets acquired	$ 8,235	$ 33,712	$ 2,942
IPR&D acquired	-	-	728
Liabilities assumed	599	4,484	-
Value of common shares issued	-	14,427	1,814
Cash paid for acquisition	$ 7,636	$ 14,801	$ 1,856

See accompanying notes to consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization

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

The Company's customers include some of the world's largest and most prestigious companies and institutions, government organizations, educational institutions, and small and medium sized businesses. The Company sells its products to these customers directly and through a distribution network of independent distributors and dealers, including systems integrators and value-added resellers.

The Company has restated its consolidated financial statements as of June 30, 2002 and 2001, and for each of the years then ended, as discussed in more detail in Note 3. Certain adjustments impacting the Company's Consolidated Financial Statements for periods prior to 2001 were also identified, as the Company has recorded the cumulative effect of adjustments of $320 for 2000 to retained earnings as of June 30, 2000.

2. Summary of Significant Accounting Policies

Consolidation - These consolidated financial statements include the financial statements of ClearOne Communications, Inc. and its wholly-owned subsidiaries, E.mergent, Inc., ClearOne Communications EuMEA GmbH, ClearOne Communications of Canada, Inc., OM Video, ClearOne Communications Limited UK, and Gentner Communications Ltd. - Ireland. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and these accompanying notes. Actual results could differ from those estimates. Key estimates in the accompanying consolidated financial statements include, among others, allowances for doubtful accounts and product returns, provisions for obsolete inventory, valuation of long-lived assets including goodwill, and deferred income tax asset valuation allowances.

Cash Equivalents - The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. As of June 30, 2003, 2002, and 2001, cash equivalents totaled $5,049, $1,174, and $6,611, respectively, and consisted primarily of money market funds.

Restricted Cash - The Company's restricted cash relates to obligations from the acquisition of OM Video. The funds were held until OM Video met certain requirements as outlined in the purchase agreement. In February 2004, the restricted cash was paid to OM Video.

Marketable Securities - The Company's marketable securities are classified as available-for-sale securities and are comprised of municipal government auction rate notes and auction preferred stock that have original maturities of greater than one year. Management determines the appropriate classifications of investments at the time of purchase and reevaluates such designation as of each balance sheet date. Unrealized holding gains and losses, net of the related tax effect on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income until realized. Available-for-sale securities are carried at fair value which approximated cost.

The Company considers highly liquid marketable securities with an effective maturity to the Company of less than one year to be current assets. The Company defines effective maturity as the shorter of the original maturity to the Company or the effective maturity as a result of periodic auction or optional redemption features of certain of its investments. Such investments are expected to be realized in cash or sold or consumed during the normal operating cycles of the business. As of June 30, 2003 and 2002, all marketable securities were classified as current assets.

Marketable securities as of June 30, 2003 and 2002 were as follows:

	2003	2002
Municipal government auction rate notes	$ 1,900	$ 8,400
Auction preferred stock	-	4,000
	$ 1,900	$ 12,400

The Company regularly monitors and evaluates the value of its marketable securities. When assessing marketable securities for other-than-temporary declines in value, the Company considers such factors, among other things, as how significant the decline in value is as a percentage of the original cost, how long the market value of the investment has been less than its original cost, the collateral supporting the investments, insurance policies which protect the Company's investment position, the interval between auction periods, whether or not there have been any failed auctions, and the credit rating issued for the securities by one or more of the major credit rating agencies. A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established.

For each of the fiscal years ended June 30, 2003 and 2002 realized gains and losses upon the sale of available-for-sale securities were insignificant. Unrealized gains and losses on available-for-sale securities are insignificant for all periods and accordingly have not been recorded as a component of other comprehensive income. The specific identification method is used to compute the realized gains and losses.

Accounts Receivable - Accounts receivable are recorded at the invoiced amount. Credit is granted to customers without requiring collateral. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Management regularly analyzes accounts receivable including historical bad debts, customer concentrations, customer creditworthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts.

Inventories - Inventories are valued at the lower of cost or market computed on a first-in, first-out (FIFO) basis. Inventoried costs include material, direct engineering and production costs, and applicable overhead, not in excess of estimated realizable value. Consigned inventory includes product that has been delivered to customers for which revenue recognition criteria have not been met. Consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value. During the fiscal years ended June 30, 2003, 2002, and 2001, the Company recorded inventory write-offs of $2,175, $2,945, and $416, respectively.

Property and Equipment - Property and equipment are stated at cost. Costs associated with internally developed software are capitalized in accordance with Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Depreciation and amortization are calculated over the estimated useful lives of the respective assets using the straight-line method. Estimated useful lives are generally two to ten years. Leasehold improvement amortization is computed using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets. Repairs and maintenance costs are expensed as incurred.

Goodwill - The Company amortized goodwill related to the ClearOne, Inc. (ClearOne) acquisition from the acquisition date through June 30, 2002. During each of the fiscal years ended June 30, 2002 and 2001 goodwill amortization was $297, and was reported in general and administrative expense. In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 eliminates amortization of goodwill and intangible assets with indefinite lives and instead sets forth methods to periodically evaluate goodwill for impairment. The nonamortization and amortization provisions of SFAS No. 142 are effective immediately for goodwill and intangible assets acquired after June 30, 2001. The Company adopted the amortization provisions of SFAS No. 142 with respect to its fiscal year 2002 acquisitions of Ivron Systems, Ltd. (Ivron) and E.mergent, Inc. (E.mergent) and its fiscal year 2003 acquisition of OM Video. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company adopted this statement effective July 1, 2002.

The following unaudited pro forma results of operations data for the years ended June 30, 2003, 2002, and 2001 are presented as if the provisions of SFAS No. 142 had been in effect for all period presented:

	Years Ended June 30,		
	2003	2002 (restated)	2001 (restated)
Reported net income (loss)	$ (35,972)	$ (6,661)	$ 3,618
Goodwill amortization, net of income tax	-	186	186
Adjusted net income (loss)	$ (35,972)	$ (6,475)	$ 3,804
Basic earnings per share:			
As reported	$ (3.21)	$ (0.69)	$ 0.42
Goodwill amortization	-	0.02	0.02
As adjusted	$ (3.21)	$ (0.67)	$ 0.44
Diluted earnings per share:			
As reported	$ (3.21)	$ (0.69)	$ 0.39
Goodwill amortization	-	0.02	0.02
As adjusted	$ (3.21)	$ (0.67)	$ 0.41

As of July 1, 2002, the Company's gross goodwill balance was $17,072 from the E.mergent, Inc. acquisition on May 31, 2002. Upon adoption of SFAS No. 142, there was no impairment of goodwill. As of July 1, 2002, the Company adopted all remaining provisions of SFAS No. 142, including the annual impairment evaluation provisions, and established its annual review for impairment as June 30. Although goodwill will be tested at least annually for impairment, it is tested more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The impairment testing is performed at the reporting unit level in two steps: (i) the Company determines the fair value of a reporting unit and compares it to its carrying amount, and (ii) if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation in accordance with SFAS No. 141, Business Combinations.

Prior to the adoption of SFAS No. 142, the Company evaluated impairment of goodwill under the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of."

Impairment of Long-Lived Assets - Through June 30, 2002, the Company accounted for long-lived assets, including intangible assets with definite lives, in accordance with SFAS No. 121.

As of July 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," whereby long-lived assets, such as property, equipment and definite-lived intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or asset group to estimated future undiscounted net cash flows of the related asset or group of assets over their remaining lives. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent of other groups of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less the estimated costs to sell.

Fair Value of Financial Instruments - The carrying values of cash equivalents, accounts receivable, accounts payable, and accrued liabilities all approximate fair value due to the short-term maturities of these assets and liabilities. The carrying values of lines of credit also approximate fair value because applicable interest rates either fluctuate based on market conditions or approximate the Company's borrowing rate.

Foreign Currency - The functional currency for OM Video is the Canadian Dollar. The functional currency for the Company's other foreign subsidiaries is the U.S. Dollar. The results of operations for the Company's other subsidiaries are recorded by the subsidiaries in Euro and British Pound and remeasured in the U.S. Dollar. Assets and liabilities are translated or remeasured into U.S. dollars at the exchange rate prevailing on the balance sheet date or the historical rate, as appropriate. Revenue and expenses are translated or remeasured at average rates of exchange prevailing during the period. Adjustments resulting from the translation of OM Video amounts are recorded as accumulated other comprehensive income in the accompanying consolidated balance sheets. The impact from remeasurement of all other subsidiaries is recorded in the accompanying consolidated statements of operations.

Revenue Recognition - The Company has three sources of revenue: (i) product revenue, primarily from product sales to distributors, dealers and end users; (ii) conferencing services revenue, primarily from full-service conference calling and on-demand, reservationless conference calling; and (iii) business services revenue which include technical services such as designing, constructing and servicing of conference systems and maintenance contracts.

Product revenue is recognized when (i) the products are shipped, (ii) persuasive evidence of an arrangement exists, (iii) the price is fixed and determinable, and (iv) collection is reasonably assured. Beginning in 2001, the Company modified its sales channels to include distributors. These distributors were generally thinly capitalized with little or no financial resources and did not have the wherewithal to pay for these products when delivered by the Company. Furthermore, in a substantial number of cases, significant amounts of inventories were returned or never paid for and the payment for product sold (to both distributors and non-distributors) was regularly subject to a final negotiation between the Company and its customers. As a result of such negotiations, the Company routinely agreed to significant concessions from the originally invoiced amounts to facilitate collection. These practices continued to exist through the end of fiscal year 2003.

Accordingly, amounts charged to both distributors and non-distributors were not considered fixed and determinable or reasonably collectible until cash was collected. As a result, the June 30, 2003, 2002, and 2001 balance sheets reflect no accounts receivable or deferred revenue related to product sales.

Conferencing services revenue is recognized at the time of customer usage, and is based upon minutes used.

Business services activities involve designing and constructing conference systems under fixed-price contracts. Revenues from fixed-priced construction contracts are recognized on the completed-contract method. This method is used because the typical contract is completed in three months or less and financial position and results of operations do not vary significantly from those which would result from use of the percentage-of-completion method. A contract is considered complete when all costs except insignificant items have been incurred and the installation is operating according to specification or has been accepted by the customer. Contract costs include all direct material and labor costs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Revenue from maintenance contracts on conference systems is recognized on a straight-line basis over the maintenance period pursuant to Financial Accounting Standards Board Technical Bulletin No. 90-1, “Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts.”

The Company offers rebates to certain of its distributors based upon volume of product purchased by such distributors. The Company records rebates as a reduction of revenue in accordance with Emerging Issues Task Force (EITF) Issue No. 00-22, “Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future.” Beginning January 1, 2002, the Company adopted EITF Issue No. 01-9, “Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor’s Products).” The Company continues to record rebates as a reduction of revenue.

The Company estimates future product returns based upon historical experience and maintains an allowance for estimated returns which has been reflected as a reduction to accounts receivable. The allowance for estimated returns was $107, $0, and $0 as of June 30, 2003, 2002, and 2001, respectively.

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

Stock-Based Compensation - The Company accounts for stock-based compensation issued to directors, officers, and employees in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. Under APB No. 25, compensation expense is recognized if an option’s exercise price on the measurement date is below the fair market value of the Company’s common stock. The compensation, if any, is amortized to expense over the vesting period.

SFAS No. 123, “Accounting for Stock-Based Compensation,” required pro forma information regarding net income (loss) as if the Company had accounted for its stock options granted under fair value method prescribed by SFAS No. 123. The fair value of the options and employee stock purchase rights is estimated using the Black-Scholes option pricing model. For purposes of the pro forma disclosures, the estimated fair value of the stock options is amortized over the vesting periods of the respective stock options. The following is the pro forma disclosure and the related impact on the net income (loss) attributable to common stockholders and net income (loss) per common share for the years ended June 30, 2003, 2002, and 2001.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002.

	2003	2002 (restated)	2001 (restated)
Net income (loss):			
As reported	$ (35,972)	$ (6,661)	$ 3,618
Stock-based employee compensation expense included in reported net income (loss), net of income taxes	(24)	49	7
Stock-based employee compensation expense determined under the fair-value method for all awards, net of income taxes	(966)	(1,003)	(1,139)
Pro forma	$ (36,962)	$ (7,615)	$ 2,486
Basic earnings (loss) per common share:			
As reported	$ (3.21)	$ (0.69)	$ 0.42
Pro forma	(3.31)	(0.79)	0.29
Diluted earnings (loss) per common share:			
As reported	$ (3.21)	$ (0.69)	$ 0.39
Pro forma	(3.31)	(0.79)	0.27

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

Advertising - The Company expenses advertising costs as incurred. Advertising expenses consist of trade shows and magazine advertisements. Advertising expenses for the fiscal years ended June 30, 2003, 2002, and 2001 totaled $361, $693, and $358, respectively.

Income Taxes - The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets may not be realized.

Issued but not yet Adopted Accounting Pronouncements - In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities.” This interpretation establishes new guidelines for consolidating entities in which a parent company may not have majority voting control, but bears residual economic risks or is entitled to receive a majority of the entity’s residual returns, or both. As a result, certain subsidiaries that were previously not consolidated under the provisions of Accounting Research Bulletin No. 51 may now require consolidation with the parent company. This interpretation applies in the first year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company has evaluated this interpretation but does not expect that it will have a material effect on its business, results of operations, financial position, or liquidity.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity” (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has evaluated this statement but does not expect that it will have a material effect on its business, results of operations, financial position, or liquidity.

In December 2003, the FASB issued a revision to Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN46R). FIN46R clarifies the application of ARB No. 51, "Consolidated Financial Statements" to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN46R requires the consolidation of these entities, known as variable interest entities, by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

Among other changes, the revisions of FIN46R (a) clarified some requirements of the original FIN46, which had been issued in January 2003, (b) eased some implementation problems, and (c) added new scope exceptions. FIN46R deferred the effective date of the Interpretation for public companies, to the end of the first reporting period ending after March 15, 2004. The adoption of this interpretation did not have a material effect on the Company's business, results of operations, financial position, or liquidity.

In March 2004, the FASB issued EITF No. 03-01, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments," which provides new guidance for assessing impairment losses on debt and equity investments. The new impairment model applies to investments accounted for under the cost or equity method and investments accounted for under FAS 115, "Accounting for Certain Investments in Debt and Equity Securities." EITF No. 03-01 also includes new disclosure requirements for cost method investments and for all investments that are in an unrealized loss position. In September 2004, the FASB delayed the accounting provisions of EITF No. 03-01; however the disclosure requirements remain effective. The Company will evaluate the effect, if any, of adopting EITF 03-01.

In November 2004, the FASB issued FASB Statement No. 151, "Inventory Costs—an amendment of ARB No. 43" ("FAS 151"), which is the result of its efforts to converge U.S. accounting standards for inventories with International Accounting Standards. FAS No. 151 requires idle facility expenses, freight, handling costs, and wasted material (spoilage) costs to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. FAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not anticipate that the implementation of this standard will have a significant impact on its consolidated results of operations, financial condition or cash flows.

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

SFAS 123R requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award—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 recognized related to unvested options will be reversed.

In accordance with Staff Accounting Bulletin 107, SFAS 123R is effective as of the beginning of the annual reporting period that begins after June 15, 2005. Under these guidelines, the Company will adopt SFAS 123R as of the beginning of the first quarter of fiscal year 2006 starting July 1, 2005. The Company expects this statement to have an adverse impact on its future results of operations.

3. Restatement and Reclassifications of Previously Issued Financial Statements

The Company's previously issued consolidated balance sheets, consolidated statements of operations and comprehensive income (loss), consolidated statements of stockholders' equity and cash flows for the years ended June 30, 2002 and 2001 have been restated to correct for certain accounting errors.

Summary of restatement items

Errors in previously issued financial statements were identified in the following areas:

Revenue Recognition and Related Sales Returns, Credit Memos, and Allowances. The Company recognized revenue before the amounts charged to both distributors and non-distributors were considered fixed and determinable or reasonably collectible. Accordingly, revenue was inappropriately accelerated.

Beginning in 2001 and through 2002, the Company modified its sales channels to include distributors. These distributors were generally thinly capitalized with little or no financial resources and did not have the wherewithal to pay for these products when delivered by the Company. Furthermore, in a substantial number of cases, significant amounts of inventories were returned or never paid for and the payment for product sold (to both distributors and non-distributors) was regularly subject to final negotiation between the Company and its customers. As a result of such negotiations, the Company routinely agreed to significant concessions from the originally invoiced amounts to facilitate collection. Accordingly, amounts charged to both distributors and non-distributors were not considered fixed and determinable or reasonably collectible until cash was collected. Accordingly, product revenues to distributors and non-distributors were restated for the years ending June 30, 2002 and 2001.

Related sales returns and allowances, rebates, and accounts receivables were revised appropriately given the revenue adjustments.

Cutoff and Period-End Close Adjustments Related to Accrued Liabilities and Prepaid Assets. The Company recorded accruals and amortized certain prepaid assets to operating expenses during the fiscal years ended June 30, 2002 and 2001 in the improper periods. Accordingly, adjustments to accrued liabilities, prepaid assets, and operating expenses were recorded for the years ending June 30, 2002 and 2001.

Tracking and Valuation of Inventory, Including Controls to Identify and Properly Account for Obsolete Inventory. As part of the restatement process, the Company discovered that it made errors in the recording and presentation of inventories, including consigned inventory, obsolete and slow-moving inventories, errors in the capitalization of overhead expenses, errors in recording inventories at the lower of cost or market, and errors for inventory shrinkage. As a result, the Company made adjustments to reflect consigned inventory, to properly capitalize overhead expenses, physical inventory adjustments, adjustments to lower of cost or market, and adjustments to reserves for excess, obsolete and slow-moving inventory. Accordingly, inventories and cost of goods sold were restated to properly account for these errors.

Accounting for Leases, Including Classification as Operating or Capital. In evaluating the classification of leases, the Company did not consider all periods for which failure to renew the lease imposes a penalty on the lessee in such amount that a renewal appears, at the inception of the leases, to be reasonably assured. Accordingly, certain leases were classified as operating leases that should have been classified as capital leases. The effect of properly recording the capital leases on the Company's previously reported financial statements is to record additional capital lease obligations, property and equipment, and depreciation expense and reduce rental expense for fiscal periods ending June 30, 2002 and 2001.

The Company did not consider escalating rent payments and rent holidays for certain operating leases. Accordingly, rent expense was inappropriately understated. The effect of straight-lining rent payments on the Company's previously reported financial statements is to record an accrued liability for future rent payments and record additional rent expense.

Classification of Cash and Marketable Securities. In previously issued consolidated financial statements, the Company classified municipal government auction rate notes and auction rate preferred stocks as cash instead of marketable securities. Accordingly, reclassifications were made to the 2002 cash balances to properly classify those as marketable securities instead of cash.

Accounting for Acquisitions. During the restatement process, the Company determined that the valuations and purchase price allocations in connection with its acquisitions of ClearOne, Ivron, and E.mergent were not performed properly. The Company engaged independent third-party valuation specialists to provide valuations and purchase price allocations on these acquisitions. The Company re-examined the purchase price allocations and adjusted for items that should have been recorded previously.

- In the Company's previously issued consolidated financial statements, the Company valued the 129,871 shares of common stock issued in conjunction with the acquisition of ClearOne at $15.40 per share. The Company determined that the shares should have been valued at $13.97 per share based on the market prices a few days before and after the measurement date.
- The Company recorded adjustments to the amounts allocated to certain acquired intangible assets, including developed technologies, patents and trademarks, and distribution agreements. The Company also recorded adjustments to the amounts allocated to in-process research and development related to the ClearOne acquisition.
- The Company recorded adjustments to the amounts allocated to certain acquired tangible assets and assumed liabilities, including cash, accounts receivable, inventory, property and equipment, deferred tax assets, and deferred tax liabilities.
- The adjustments to purchase price, as well as the adjustments to the amounts allocated to acquired intangible assets, acquired tangible assets, and assumed liabilities, resulted in corresponding adjustments to the amount allocated to goodwill.

Accounting for Equity and Other Significant Non-Routine Transactions.

- During the year ended June 30, 2001, the Company sold its remote control product line to Burk Technology. In previously issued consolidated financial statements, the Company recognized a gain on the sale of its remote control product line that included a significant note receivable from the buyer at the time of the sale, and recognized interest income associated with the note receivable in periods subsequent to the sale. Based on an analysis of the facts and circumstances that existed at the date of the sale, the recognition of this gain was inappropriate as the buyer did not have the wherewithal to pay this note receivable, the operations of the remote control product line had not historically generated cash flows sufficient to fund the required payments, and there were contingent liabilities the Company had to the buyer. Accordingly, the Company concluded that the gain should be recognized as cash is received from the buyer. As a result, the Company has reduced the gain on sale and eliminated the note receivable at the time of the sale, and recognized additional gain on the sale of the product line when-and-as cash payments on the note receivable are obtained.
- During the year ended June 30, 2002, the Company experienced certain triggering events that indicated that certain long-lived assets related to ClearOne and Ivron were impaired. Accordingly, the Company performed an impairment analysis in accordance with the provisions of SFAS No. 121. As a result of this analysis, the Company determined that goodwill, intangible assets, and certain property and equipment related to the ClearOne and Ivron acquisitions were fully impaired as of June 30, 2002. As a result, the Company recognized an impairment loss equal to the carrying value of these assets. In previously issued consolidated financial statements, the Company failed to recognize that a triggering event had occurred and did not record an impairment loss for these assets.
- During the year ended June 30, 2001, the terms of certain outstanding stock options were modified to allow for their acceleration in the event the Company met certain EPS targets. During the year ended June 30, 2001 the Company cancelled certain outstanding stock options and issued a replacement award with a lower exercise price, resulting in variable accounting. In previously issued consolidated financial statements, the Company did not record compensation expense in connection with these modifications in accordance with APB No. 25 and FASB Interpretation Number 44, "Accounting for Certain Transactions involving Stock Compensation" (an interpretation of APB No. 25).

- On June 29, 2001, the Company repurchased 5,000 shares of its previously issued and outstanding common shares. In previously issued consolidated financial statements, the Company did not record the effects of this transaction until fiscal year 2002.

Accounting for Income Taxes. During the fiscal periods ending June 30, 2002 and 2001, the Company's income before income taxes was restated to correct for certain accounting errors, resulting in less pre tax book income and correspondingly less income tax expense. In conjunction with the restatement, the Company evaluated the realizability of deferred tax assets. In 2002, the Company recorded an increased domestic valuation allowance to reflect its determination that not all of its deferred tax assets were more likely than not realizable pursuant to the provisions of SFAS 109, "Accounting for Income Taxes".

Restated Financial Statements

Impact on Consolidated Statements of Operations

	As of June 30, 2002		As of June 30, 2001	
	As Previously Reported	Restated	As Previously Reported	Restated
Revenue:				
Product	$ 37,215	$ 26,253	$ 28,190	$ 22,448
Conferencing services	17,328	15,583	11,689	11,689
Business services	-	1,526	-	-
Total revenue	54,543	43,362	39,879	34,137
Cost of goods sold:				
Product	15,057	10,939	10,634	8,789
Product inventory write-offs	-	2,945	-	416
Conferencing services	7,943	7,310	5,869	5,928
Business services	-	978	-	-
Total cost of goods sold	23,000	22,172	16,503	15,133
Gross profit	31,543	21,190	23,376	19,004
Operating expenses:				
Marketing and selling	10,705	10,739	7,753	7,711
General and administrative	6,051	5,345	4,649	4,198
Research and product development	4,053	3,810	2,502	2,747
Impairment losses	-	7,115	-	-
Gain on sale of court conferencing assets	-	(250)	-	-
Purchased in-process research and development	-	-	-	728
Total operating expenses	20,809	26,759	14,904	15,384
Operating income (loss)	10,734	(5,569)	8,472	3,620
Other income, net	509	132	373	188
Income (loss) from continuing operations before income taxes	11,243	(5,437)	8,845	3,808
Provision for income taxes	3,831	1,400	3,319	1,050
Income (loss) from continuing operations	7,412	(6,837)	5,526	2,758
Discontinued operations:				
Income from discontinued operations, net of income taxes	-	-	737	737
Gain on disposal of a component of our business, net of income taxes	-	176	1,220	123
Net income (loss)	$ 7,412	$ (6,661)	$ 7,483	$ 3,618
Basic earnings (loss) per common share from continuing operations	$ 0.77	$ (0.71)	$ 0.64	$ 0.32
Diluted earnings (loss) per common share from continuing operations	$ 0.74	$ (0.71)	$ 0.61	$ 0.30
Basic earnings per common share from discontinued operations	$ -	$ 0.02	$ 0.23	$ 0.10
Diluted earnings per common share from discontinued operations	$ -	$ 0.02	$ 0.22	$ 0.09
Basic earnings (loss) per common share	$ 0.77	$ (0.69)	$ 0.87	$ 0.42
Diluted earnings (loss) per common share	$ 0.74	$ (0.69)	$ 0.83	$ 0.39

Impact on Consolidated Balance Sheets

	As of June 30, 2002		As of June 30, 2001	
	As Previously Reported	As Restated	As Previously Reported	As Restated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 14,248	$ 1,744	$ 6,852	$ 6,851
Marketable securities	-	12,400	-	-
Accounts receivable, net	20,317	4,322	7,213	2,027
Inventories	8,606	12,516	4,132	6,459
Note receivable, current portion	196	-	71	-
Deferred income tax assets	1,293	4,709	248	1,587
Prepaid expenses and other	610	621	780	680
Total current assets	45,270	36,312	19,296	17,604
Property and equipment, net	5,770	8,123	3,697	5,681
Goodwill, net	20,553	17,072	2,634	890
Intangibles, net	6,991	1,634	182	616
Deferred income tax assets	-	661	-	446
Note Receivable, net of current portion	1,490	-	1,716	
Other assets	73	74	73	74
Total assets	$ 80,147	$ 63,876	$ 27,598	$ 25,311
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Line of credit	$ 196	$ 196		$ -
Capital lease obligations	60	784	182	619
Accounts payable	3,053	3,056	568	652
Accrued liabilities	2,299	2,841	1,130	1,408
Deferred revenue	607	572	-	-
Income taxes payable	820	265	422	224
Total current liabilities	7,035	7,714	2,302	2,903
Capital lease obligations, net of current portion	41	2,016	48	1,680
Deferred revenue, net of current portion	277	254	-	-
Deferred income tax liabilities	1,458	-	746	-
Total liabilities	8,811	9,984	3,096	4,583
Commitments and contingencies				
Stockholders' equity:				
Common stock	11	11	9	9
Additional paid-in capital	48,384	48,704	8,963	8,856
Deferred compensation	-	(147)	-	(122)
Retained earnings	22,941	5,324	15,530	11,985
Total stockholders' equity	71,336	53,892	24,502	20,728
Total liabilities and stockholders' equity	$ 80,147	$ 63,876	$ 27,598	$ 25,311

Impact on Stockholders' Equity

The restatement adjustments resulted in a cumulative net reduction to stockholders' equity of $17,444 and $3,774 as of June 30, 2002 and 2001, respectively. The Company has also restated the June 30, 2000 retained earnings balance to reflect cumulative adjustments through that date of $320.

Impact on Cash Flows

The following table presents selected consolidated statements of cash flows information showing previously reported and restated cash flows, for the years ended June 30, 2002 and 2001:

	Years ended June 30, 2002		Years ended June 30, 2001	
	As previously reported	**As restated**	**As previously reported**	**As restated**
Net cash from (used in) operating activities	$ 105	$ 31	$ 3,708	$ 4,357
Net cash (used in) investing activities	(17,044)	(29,470)	(3,114)	(3,285)
Net cash from (used in) financing activities	24,335	24,156	(104)	(456)

4. Inventories

Inventories, net of reserves, consist of the following as of June 30, 2003, 2002 and 2001:

	June 30, 2003	June 30, 2002 (Restated)	June 30, 2001 (Restated)
Raw materials	$ 3,881	$ 2,159	$ 2,655
Finished goods	3,343	2,977	1,414
Consigned inventory	1,742	7,380	2,390
Total inventory	$ 8,966	$ 12,516	$ 6,459

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

5. Costs and Estimated Earnings on Uncompleted Contracts

Information with respect to uncompleted contracts is as follows as of June 30, 2003:

	2003
Costs incurred on uncompleted contracts	$ 416
Less billings on uncompleted contracts	(1,031)
	$ (615)

The above amounts are reported in the consolidated balance sheet in billings in excess of costs on uncompleted contracts.

6. Property and Equipment

Major classifications of property and equipment and estimated useful lives are as follows as of June 30, 2003, 2002 and 2001:

	Estimated useful lives	June 30, 2003	2002 (Restated)	2001 (Restated)
Office furniture and equipment	3 to 10 years	$ 7,309	$ 7,381	$ 4,904
Manufacturing and test equipment	2 to 10 years	3,276	2,622	2,305
Telephone bridging equipment	5 to 7 years	4,693	4,545	3,212
Vehicles	3 to 5 years	9	9	-
		15,287	14,557	10,421
Accumulated depreciation and amortization		(8,519)	(6,434)	(4,740)
Net property and equipment		$ 6,768	$ 8,123	$ 5,681

During 2003, the Company recorded impairment losses of $270 and $265 related to property and equipment associated with the E.mergent and the OM Video asset groupings, respectively. During 2002, the Company recorded impairment losses of $72 related to property and equipment associated with the Ivron asset grouping.

7. Acquisitions

During the fiscal year ended June 30, 2001, the Company completed the acquisition of ClearOne, a developer of video conferencing technology and audio conferencing products. During the fiscal year ended June 30, 2002, the Company completed the acquisitions of Ivron, a developer of videoconferencing technology and product, and E.mergent, a developer and manufacturer of document cameras, a manufacturer of conferencing furniture and an integration services business. During the fiscal year ended June 30, 2003, the Company completed the acquisition of Stechyson Electronics Ltd., doing business as OM Video, an integration business services company. The total consideration for each acquisition was based on negotiations between the Company and the acquired company's shareholders that took into account a number of factors of the business, including historical revenues, operating history, products, intellectual property and other factors. Each acquisition was accounted for under the purchase method of accounting. The operations of each acquisition are included in the accompanying statements of operations for the period since the date of each acquisition.

Accounting for the acquisition of a business requires an allocation of the purchase price to the assets acquired and the liabilities assumed in the transaction at their respective estimated fair values. The Company use information available at the date of the acquisitions to estimate the individual fair values of properties, equipment, identifiable intangible assets and liabilities to make these fair value determinations and, for significant business acquisitions, engaged third-party valuation firms to assist in the fair value determinations of the acquired net assets. The following summarizes the consideration and purchase price allocations of each acquisition:

	ClearOne	Ivron (Restated)	E.mergent (Restated)	OM Video (Restated)
Cash	$ 1,758	$ 6,650	$ 7,300	$ 6,276
Holdback account	-	-	-	600
Common stock and fully-vested options	1,814	-	14,427	-
Direct acquisition costs	98	248	603	110
Total consideration	$ 3,670	$ 6,898	$ 22,330	$ 6,986
Net tangible assets acquired	$ 831	$ 310	$ 3,591	$ 337
Intangible assets:				
In-process research and development	728	-	-	-
Developed technologies	680	5,260	-	-
Patents and trademarks	207	1,110	1,060	-
Customer relationships	37	-	392	-
Non-compete agreements	-	-	215	574
Goodwill	1,187	218	17,072	6,075
Total purchase price allocation	$ 3,670	$ 6,898	$ 22,330	$ 6,986

ClearOne, Inc.

In May 2000, the Company entered into an agreement to purchase substantially all of the assets of ClearOne, Inc. for $3,572 consisting of $1,758 of cash and 129,871 shares of restricted common stock valued at $13.97 per share. The acquisition was consummated on July 5, 2000.

As of the acquisition date, the Company acquired tangible assets consisting of property and equipment of $473, deposits of $59 and inventory of $299.

In conjunction with a third-party valuation firm, the Company determined the useful lives and amounts of the developed technologies, trademarks and distribution agreements. The developed technologies, trademarks and distribution agreement had estimated useful lives of three years. Goodwill was being amortized on a straight-line basis over four years until the adoption of SFAS No. 142 on July 1, 2002.

The Company charged $728 to expense representing acquired in-process research and development that had not yet reached technological feasibility. The Company anticipated the technology would require an additional 18 to 20 months of development at a minimum cost of $1,150. The technology had no alternative future use. After the acquisition, the Company initially continued to develop the technology; however, it experienced significant difficulties in completing the development of the videoconferencing technologies and subsequently determined that the technology was not viable and never brought the in-process videoconferencing technology to market.

The Company continued to sell the acquired teleconferencing product until the fourth quarter of the fiscal year ended June 30, 2002. Due to declining sales, negative margins beginning in the fourth quarter of the fiscal year ended June 30, 2002, and management's decision to stop investing in the acquired teleconferencing product, the Company determined that a triggering event had occurred in the fourth quarter of the fiscal year ended June 30, 2002. The Company performed an impairment test and determined that an impairment loss on the ClearOne assets should be recognized (see Note 9 below).

Ivron Systems, Ltd.

On October 3, 2001, the Company purchased all of the issued and outstanding shares of Ivron. Ivron was located in Dublin, Ireland. Under the terms of the original agreement, the shareholders of Ivron received $6,000 of cash at closing of the purchase. As part of the purchase, all outstanding options to purchase Ivron shares were cancelled in consideration for an aggregate cash payment of $650. Further, under that agreement, after June 30, 2002, each former Ivron shareholder would be entitled to receive approximately .08 shares of the Company's common stock for each Ivron share previously held by such shareholder, provided that certain video product development contingencies were achieved. This represented approximately 429,000 shares of common stock. Thereafter, for the fiscal years ending June 30, 2003 and 2004, the former Ivron shareholders would be entitled to share in up to approximately $17,000 of additional cash and stock consideration provided that certain agreed upon earnings per share targets for the Company were achieved. In addition, former optionees of Ivron who remained with the Company were eligible to participate in a cash bonus program paid by the Company, based on the combined performance of the Company and Ivron in the fiscal years ending June 30, 2003 and 2004. The maximum amount payable under this cash bonus program was approximately $1,000.

As of the acquisition date, the Company acquired tangible assets consisting of cash of $297, accounts receivable of $92, inventory of $337, and property and equipment of $22. The Company assumed liabilities consisting of trade accounts payable of $174 and accrued compensation and other accrued liabilities of $264.

On March 26, 2002, the Company entered into negotiations with the former shareholders of Ivron to modify the terms of the original purchase agreement because, upon further analysis, certain aspects of the acquired technology did not meet the intended product objectives established by the Company in its original purchase negotiations.

The amendment, which was finalized on April 8, 2002, revised the contingent consideration that the Ivron shareholders would have been entitled to receive in subsequent years such that upon meeting certain gross profit targets for the “V-There” and “Vu-Link” set-top videoconferencing products, technologies, and sub-elements thereof (including licensed products), the former Ivron shareholders had the opportunity to receive up to 109,000 shares of common stock, issuable in four installments, on a quarterly basis, through July 15, 2003. No performance targets were met and accordingly, no contingent consideration was or will be paid.

With the assistance of a third-party valuation firm and after considering the facts and circumstances surrounding the Company's intentions, the Company determined the useful lives and amounts of the developed technologies and patents. The developed technologies had estimated useful lives of three to fifteen years and the patents had an estimated useful life of fifteen years.

After the acquisition, the Company experienced significant difficulties in selling the acquired videoconferencing products. Due to the phasing out of a product line occasioned by technological difficulties and negative projected cash flows, the Company determined that a triggering event had occurred during the fourth quarter of the fiscal year ended June 30, 2002. The Company performed an impairment test and determined that an impairment loss on the Ivron assets should be recognized. Subsequent to June 30, 2003, the Company discontinued selling the "V-There" and "Vu-Link" set-top videoconferencing products.

E.mergent, Inc.

On May 31, 2002, the Company completed its acquisition of E.mergent pursuant to the terms of an Agreement and Plan of Merger dated January 21, 2002 where by the Company paid $7,300 of cash and issued 868,691 shares of common stock valued at $16.55 per share to former E.mergent stockholders.

In addition to the shares of the Company's common stock issued, the Company assumed all options to purchase E.mergent common stock that were vested and outstanding on the acquisition date. These options were converted into rights to acquire a total of 4,158 shares of the Company's common stock at a weighted average exercise price of $8.48 per share. A value of approximately $49 was assigned to these options using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, risk free interest rate of 2.9%, expected volatility of 81.8% and an expected life of two years.

As of the acquisition date, the Company acquired tangible assets consisting of cash of $68, accounts receivable of $2,201, inventory of $3,270, property and equipment of $475 and other assets of $1,341. The Company assumed liabilities consisting of accounts payable of $1,284, line of credit borrowings of $484, unearned maintenance revenue of $873, accrued compensation (other than severance) and other accrued liabilities of $656. The Company incurred severance costs of approximately $468 related to the termination of four E.mergent executives and seven other E.mergent employees as a result of duplication of positions upon consummation of the acquisition. In June 2002, $52 was paid to such individuals. The severance accrual of $416 as of June 30, 2002 was paid during the fiscal year ended June 30, 2003. With the assistance of a third-party valuation firm and after considering the facts and circumstances surrounding the acquisition, the Company recorded intangible assets related to customer relationships and patents. Customer relationships had estimated useful lives of 18 months to three years and patents had estimated useful lives of fifteen years. The term of the non-compete agreement was three years.

The Company's management at the time believed the E.mergent acquisition would complement its existing operations and its core competencies would allow the Company to acquire market share in this industry. However, the Company's entry into the services business was perceived as a threat by its systems integrators and value-added resellers, many of whom the Company began competing against for sales. In order to avoid this conflict and maintain good relationships with its systems integrators and value-added resellers, the Company decided to stop pursuing new services contracts in the fourth quarter of the fiscal year ended June 30, 2003 which was considered a triggering event for evaluation of impairment. Ultimately, the Company exited the U.S. audiovisual integration market and subsequently sold its U.S. audiovisual integration business to M:Space in May 2004 (see Note 24 - Subsequent Events). Although the Company continues to sell camera and furniture products acquired from E.mergent, its decision to exit the U.S. integration services market adversely affected future cash flows. The Company determined that a triggering event occurred in the fourth quarter of the fiscal year ended June 30, 2003. The Company performed an impairment test and determined that an impairment loss on certain E.mergent assets should be recognized.

OM Video

On August 27, 2002, the Company purchased all of the outstanding shares of Stechyson Electronics Ltd., doing business as OM Video, an audiovisual integration firm headquartered in Ottawa, Canada. Under the terms of the agreement, the shareholders of OM Video received $6,276 in cash at closing. During the fiscal years ended June 30, 2003 and 2004, the Company paid an additional $500 of a potential $600 that was held pending certain representations and warranties associated with the acquisition. During the second quarter of fiscal 2003, the Company also paid $750 of a potential $800 earn-out provision. The earn-out provision was recorded as additional consideration and booked to goodwill. No further payment related to the holdback or contingent consideration will be paid.

As of the acquisition date, the Company acquired tangible assets consisting of cash of $193, accounts receivable of $470, inventory of $122, property and equipment of $145 and prepaid expenses of $6. The Company assumed liabilities consisting of accrued liabilities of $378 and accrued tax liabilities of $221.

The Company obtained a non-compete agreement with a term of two years from the former owner of OM Video.

The Company's management believed the OM Video acquisition would complement its existing operations and its core competencies would allow the Company to acquire market share in this industry. However, the Company's entry into the services business was perceived as a threat by its systems integrators and value-added resellers, many of whom the Company began competing against for sales. In order to avoid this conflict and maintain good relationships with its systems integrators and value-added resellers, the Company deemphasized the audiovisual integration market serving the Ottawa Canada region beginning in the fourth quarter of the fiscal year ended June 30, 2003. This decision was considered a triggering event for evaluation of impairment. On March 4, 2005, the Company sold all of its Canadian audio visual integration business (see Note 24 - Subsequent Events). On June 30, 2003, the Company performed an impairment test and determined that an impairment loss on the OM Video assets should be recognized.

Pro forma financial information

The following unaudited pro forma combined financial information reflects operations as if the acquisitions of ClearOne, Ivron and E.mergent had occurred as of July 1, 2000 and as if the acquisition of OM Video had occurred as of July 1, 2001. The unaudited pro forma combined financial information is presented for illustrative purposes only and is not indicative of what the Company's actual results of operations may have been had the acquisitions been consummated on July 1, 2000 and 2001, respectively.

		June 30,	
	2003	2002	2001
		(restated)	(restated)
Revenue from continuing operations	$ 58,728	$ 72,327	$ 58,085
Loss from continuing operations	(36,234)	(9,022)	(4,396)
Net loss	(36,034)	(8,846)	(3,536)
Basic and diluted loss per common share from continuing operations	$ (3.24)	$ (0.94)	$ (0.51)
Basic and diluted loss per common share from net income	(3.22)	(0.92)	(0.41)

8. Goodwill and Other Intangible Assets

The Company had goodwill and definite-lived intangible assets related to the acquisition of ClearOne in 2001, the acquisitions of Ivron and E.mergent in 2002 and the acquisition of OM Video in 2003.

Goodwill

The following presents details of the Company's goodwill by reporting unit for the years ended June 30, 2003, 2002 and 2001:

	Products	Business Services	Total
Balances as of June 30, 2000	$ -	$ -	$ -
Acquisition of ClearOne	1,187	-	1,187
Amortization of ClearOne goodwill	(297)	-	(297)
Balances as of June 30, 2001	890	-	890
Acquisition of Ivron	218	-	218
Acquisition of E.mergent	5,026	12,046	17,072
Amortization of ClearOne goodwill	(297)	-	(297)
Impairment of ClearOne and Ivron goodwill	(811)	-	(811)
Balances as of June 30, 2002	5,026	12,046	17,072
E.mergent goodwill purchase price adjustment	-	20	20
Acquisition of OM Video	-	6,725	6,725
Foreign currency translation related to OM Video goodwill	-	1,049	1,049
Impairment of E.mergent and OM Video goodwill	(5,026)	(19,840)	(24,866)
Balances as of June 30, 2003	$ -	$ -	$ -

Acquired Intangibles

The following table presents the Company's intangible assets as of June 30, 2003, 2002, and 2001:

		2003		2002		2001	
	Useful Lives	**Gross Value**	**Accumulated Amortization**	**Gross Value**	**Accumulated Amortization**	**Gross Value**	**Accumulated Amortization**
Developed technologies	3 to 15 years	$ -	$ -	$ -	$ -	$ 680	$ (227)
Patents and trademarks	3 to 15 years	1,060	(75)	1,060	(6)	207	(69)
Customer relationships	18 months to 3 years	-	-	392	(22)	37	(12)
Non-compete agreements	2 to 3 years	52	(19)	215	(5)	-	-
Total		$ 1,112	$ (94)	$ 1,667	$ (33)	$ 924	$ (308)

Amortization of intangible assets was $680, $787, and $308 for the years ended June 30, 2003, 2002, and 2001, respectively. Amortization of costs related to developed technologies and patents was reported in product cost of goods sold. Amortization of costs related to trademarks, customer and partner relationships, and non-compete agreements was reported in general and administration expense and marketing and selling expense.

Estimated future amortization expense is as follows:

Years Ending June 30,		
2004	$	88
2005		87
2006		71
2007		71
2008		71
Thereafter		630
Total estimated amortization expense	$	1,018

9. Impairments

During the fiscal year ended June 30, 2002, the Company experienced declining sales from the teleconferencing products acquired in the ClearOne acquisition. Although sales declined throughout the year, through March 31, 2002, gross margins and cash flows remained positive. However, during the fourth quarter of the fiscal year ended June 30, 2002, the gross margins and cash flows became negative as sales continued to decline. Additionally, in the fourth quarter of fiscal 2002, the Company also made a decision to stop investing in the acquired teleconferencing products. Furthermore, during the fourth quarter of the fiscal year ended June 30, 2002, the Company experienced difficulties in selling the acquired videoconferencing products acquired in the Ivron acquisition. The difficulties were due to the phasing out of an older product line occasioned by technological difficulties of product implementation. Such triggering events required an impairment analysis to be performed in accordance with SFAS No. 121. The estimated undiscounted future cash flows generated by the long-lived asset groupings related to ClearOne and Ivron were less than their carrying values. The analysis resulted in an impairment loss of $7,115 for the fiscal year ended June 30, 2002. Management estimated the fair market value of the long-lived assets using the present value of expected future discounted cash flows.

During the fourth quarter of the fiscal year ended June 30, 2003, the Company decided to deemphasize the audiovisual integration services. The Company entered into the audiovisual integration services through the E.mergent and OM Video acquisitions. At the time of the acquisitions, management believed that the audiovisual integration services would complement existing core competencies and allow the Company to acquire market share in this market segment. However, the Company’s entry into the audiovisual integration services was perceived as a threat by its systems integrators and value-added resellers, many of whom the Company began competing against for sales. In order to avoid this conflict, the Company decided to deemphasize the audiovisual integration services beginning in the fourth quarter of the fiscal year ended June 30, 2003.

These changes in facts and circumstances as well as the change in our business environment constituted a triggering event requiring an impairment analysis to be performed in accordance with SFAS No. 142 and SFAS No. 144. The estimated fair value of the reporting units, for purposes of evaluating goodwill for impairment, was less than their carrying values. Additionally, the estimated undiscounted future cash flows generated by certain other long-lived assets, excluding goodwill, was less than their carrying values. The impairment analyses performed in accordance with SFAS No. 142 and SFAS No. 144, resulted in an impairment loss of $26,001 for the fiscal year ended June 30, 2003. Management estimated the fair value of reporting units using third-party appraisals. Management estimated the fair market value of the long-lived assets, excluding goodwill, using the present value of expected future discounted cash flows.

The impairment losses relate to the following:

	Year Ended June 30,	
	2003	2002
		(Restated)
Goodwill:		
ClearOne	$ -	$ 593
Ivron	-	218
E.mergent - Business Services	12,066	-
E.mergent - Products	5,026	-
OM Video	7,774	-
	24,866	811
Intangible assets:		
ClearOne	-	308
Ivron	-	5,924
E.mergent - Business Services	195	-
E.mergent - Products	18	-
OM Video	387	-
	600	6,232
Property and equipment:		
Ivron	-	72
E.mergent - Business Services	212	-
E.mergent - Products	58	-
OM Video	265	-
	535	72
Total	$ 26,001	$ 7,115

10. Lines of Credit

As of June 30, 2003, the Company maintained a revolving line of credit in the amount of $10,000 with a commercial bank. Prior to November 22, 2002, the line of credit was in the amount of $5,000. The line of credit was secured by the Company’s accounts receivable and inventory. The interest rate on the line of credit was a variable interest rate (250 basis points over the London Interbank Offered Rate (LIBOR) or prime less 0.25%, at the Company’s option). The borrowing rate was 3.62% as of June 30, 2003. The weighted average interest rate for the fiscal years ended June 30, 2003, 2002 and 2001, was 3.98%, 5.17% and 8.14%, respectively. The terms of the line of credit prohibited the payment of dividends and required the Company to maintain other defined financial ratios and restrictive covenants. The Company was not in compliance with the debt coverage ratio as of June 30, 2002 or June 30, 2003, however the Company obtained a waiver from the lender under the revolving credit facility. No compensating balance arrangements were required. Amounts outstanding under the line of credit were $0, $196 and $0 as of June 30, 2003, 2002 and 2001, respectively.

On May 16, 2003, the bank froze the line of credit as the Company had not provided the bank with financial statements for the quarter ended December 31, 2002. The line of credit expired on December 22, 2003 and was not renewed.

On October 14, 2002, the Company entered into a note payable in the amount of $2,000. The note payable encompassed previous expenditures related to our Oracle ERP implementation. The term of the note was 36 months with monthly payments of $60. The Company had $1,583 outstanding under the note payable as of June 30, 2003. The Company paid the balance of the note payable in October 2004.

11. Leases

The Company has capital leases with finance companies which facilitated the purchase of equipment. Additionally, the Company has noncancelable operating leases related to facilities and vehicles.

Future minimum lease payments under capital leases and noncancelable operating leases with initial terms of one year or more are as follows as of June 30, 2003:

	Capital	Operating
For years ending June 30:		
2004	$ 961	$ 828
2005	920	676
2006	437	262
2007	-	80
2008	-	20
Total minimum lease payments	2,318	$ 1,866
Less use taxes	(141)	
Net minimum lease payments	2,177	
Less amount representing interest	(160)	
Present value of net minimum lease payments	2,017	
Less current portion	(802)	
Long term capital lease obligation	$ 1,215	

Certain operating leases contain rent escalation clauses based on the consumer price index. Rental expense is recognized on a straight-line basis. Rental expense, which was composed of minimum payments under operating lease obligations, was $1,328, $755 and $720 for the years ended June 30, 2003, 2002 and 2001, respectively.

Property and equipment under capital leases are as follows:

	June 30,		
	2003	2002 (Restated)	2001 (Restated)
Office furniture and equipment	$ 1,051	$ 1,077	$ 983
Manufacturing and test equipment	471	471	479
Telephone bridging equipment	3,816	3,816	2,749
	5,338	5,364	4,211
Accumulated amortization	(3,099)	(2,270)	(1,558)
Net property and equipment under capital leases	$ 2,239	$ 3,094	$ 2,653

Depreciation expense for assets recorded under capital leases was $841, $739 and $569 for the years ended June 30, 2003, 2002 and 2001, respectively.

12. Accrued Liabilities

Accrued liabilities consist of the following as of June 30, 2003, 2002 and 2001:

	As of June 30,		
	2003	2002 (Restated)	2001 (Restated)
Accrued salaries and bonuses	$ 883	$ 759	$ 410
Legal contingencies	147	-	-
Class action settlement	7,326	-	-
Other accrued liabilities	1,220	2,082	998
Total	$ 9,576	$ 2,841	$ 1,408

13. Commitments and Contingencies

In addition to the legal proceedings described below, the Company is also involved from time to time in various claims and other legal proceedings which arise in the normal course of business. Such matters are subject to many uncertainties and outcomes that are not predictable. However, based on the information available to the Company today, the Company does not believe any such other proceedings will have a material, adverse effect on its financial condition or results of operations.

The SEC Action. On January 15, 2003, the U.S. Securities and Exchange Commission (SEC) filed a civil complaint against the Company, Frances Flood, then the Company's chairman, chief executive officer and president, and Susie Strohm, then the Company's chief financial officer. The complaint alleged that from the quarter ended March 31, 2001, the defendants engaged in a program of inflating the Company's revenues, net income and accounts receivable by engaging in improper revenue recognition in violation of generally accepted accounting principles (GAAP), and Section 17(a) of the Securities Act of 1933 and Sections 10(b), 13(a) and 13(b) of the Securities Exchange Act of 1934, and various regulations promulgated thereunder. Following the filing of the complaint, the Company placed Ms. Flood and Ms. Strohm on administrative leave and they subsequently resigned from their positions with the Company. On December 4, 2003, the Company settled the SEC action by entering into a consent decree in which, without admitting or denying the allegations of the complaint, it consented to the entry of a permanent injunction prohibiting future securities law violations. No fine or penalty was assessed against the Company as part of the settlement.

The Whistleblower Action. On February 11, 2003, the Company's former vice president of sales filed a whistleblower claim with the Occupational Safety and Health Administration (OSHA) under the employee protection provisions of the Sarbanes-Oxley Act alleging that the Company had wrongfully terminated his employment for reporting the Company's alleged improper revenue recognition practices to the SEC in December 2002, which precipitated the SEC action against the Company. In February 2004, OSHA issued a preliminary order in favor of the former officer, ordering that he be reinstated with back pay, lost benefits, and attorney's fees. The former officer had also filed a separate lawsuit against the Company in the United States District Court for the District of Utah, Central Division, alleging various employment discrimination claims. In May 2004, the Administrative Law Judge approved a settlement agreement with the former officer pursuant to which he released the Company from all claims asserted by him in the OSHA proceeding and the federal court action in exchange for a cash payment by the Company. The settlement did not have a material impact on the Company's results of operations or financial condition.

The Shareholders' Class Action. On June 30, 2003, a consolidated complaint was filed against the Company, eight present or former officers and directors of the Company, and Ernst & Young LLP (Ernst & Young), the Company's former independent accountants, by a class consisting of purchasers of the Company's common stock during the period from April 17, 2001 through January 15, 2003. The action followed the consolidation of several previously filed class action complaints and the appointment of lead counsel for the class. The allegations in the complaint were essentially the same as those contained in the SEC complaint described above. On December 4, 2003, the Company, on behalf of itself and all other defendants with the exception of Ernst & Young, entered into a settlement agreement with the class pursuant to which the Company agreed to pay the class $5,000 and issue the class 1,200,000 shares of its common stock. The cash payment was made in two equal installments, the first on November 10, 2003 and the second on January 14, 2005. On May 23, 2005, the court order was amended to require the Company to pay cash in lieu of stock to those members of the class who would otherwise have been entitled to receive fewer than 100 shares of stock. As of June 30, 2005, 228,000 shares of the Company's common stock had been issued to the class and the Company plans to issue the remaining shares in the near future, subject to the receipt of any required approvals from state regulatory authorities.

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

Employment Separation Agreements. On December 5, 2003, the Company entered into employment separation agreements with Frances Flood, the Company's former chairman, chief executive officer and president, and Susie Strohm, the Company's former chief financial officer, which generally provided that these individuals would resign from their positions and employment with the Company, and the Company would make one-time, lump sum payments in consideration of their surrender and delivery to the Company of shares of the Company's common stock and Company stock options and their release of claims against the Company. Ms. Flood and Ms. Strohm also agreed to cooperate with the Company in the SEC action and related proceedings and the Company agreed to continue to indemnify such persons for attorneys fees incurred in the SEC action and related proceedings, subject to the limitations imposed by Utah law. The Company also released any existing claims against such persons except such claims as to which indemnification would not be permitted by Utah law. The agreement with Ms. Flood provided for a payment to her of $350 and her surrender and delivery to the Company of 35,000 shares of the Company's common stock and 706,434 stock options (461,433 of which were vested). The agreement with Ms. Strohm provided for a payment to her of $75 and her surrender and delivery to the Company of 15,500 shares of the Company's common stock and 268,464 stock options (171,963 of which were vested).

Indemnification of Officers and Directors. The Company's by-laws and the Utah Revised Business Corporation Act provide for indemnification of directors and officers against reasonable expenses incurred by such persons in connection with civil or criminal actions or proceedings to which they have been made parties because they are or were directors or officers of the Company or its subsidiaries. Indemnification is permitted if the person satisfies the required standards of conduct. The litigation matters described above involved certain of the Company's current and former directors and officers, all of whom are covered by the aforementioned indemnity and if applicable, certain prior period insurance policies. The Company has indemnified such persons for legal expenses incurred by them in such actions and, as discussed below, has sought reimbursement from its insurance carriers. However, as also discussed below the Company cannot predict with certainty the extent to which the Company will recover the indemnification payments from its insurers. Pursuant to these agreements, the Company has made payments to the law firms representing such current and former directors and officers in the aggregate amount of approximately $1.5 million during the period from January 2003 through June 30, 2005.

The Insurance Coverage Action. On February 9, 2004, the Company and Edward Dallin Bagley (Bagley), the chairman of the board of directors and a principal shareholder of the Company, jointly filed an action against National Union Fire Insurance Company of Pittsburgh, Pennsylvania and Lumbermens Mutual Insurance Company, the carriers of certain prior period directors and officers liability insurance policies, to recover the costs of defending and resolving claims against certain of the Company's present and former directors and officers in connection with the SEC action, the shareholders' class action and the shareholder derivative actions described above, and seeking other damages resulting from the refusal of such carriers to timely pay the amounts owing under such liability insurance policies. This action has been consolidated into a declaratory relief action filed by one of the insurance carriers on February 6, 2004 against the Company and certain of its current and former directors. In this action, the insurers assert that they are entitled to rescind insurance coverage under our directors and officers liability insurance policies, $3,000 of which was provided by National Union and $2,000 of which was provided by Lumbermens Mutual, based on alleged misstatements in the Company's insurance applications. In February 2005, the Company entered into a confidential settlement agreement with Lumbermens Mutual pursuant to which the Company and Bagley received a lump sum cash amount and the plaintiffs agreed to dismiss their claims against Lumbermens Mutual with prejudice. The cash settlement will be held in a segregated account until the claims involving National Union have been resolved, at which time the amounts received in the action will be allocated among the Company and Bagley. The amount distributed to the Company and Bagley will be determined based on future negotiations between the Company and Bagley. The Company cannot currently estimate the amount of the settlement which it will ultimately receive. Upon determining the amount of the settlement which the Company will ultimately receive, the Company will record this as a contingent gain. The Company and Bagley are vigorously pursuing their claim against National Union although no assurances can be given that they will be successful. The Company and Bagley have entered into a Joint Prosecution and Defense Agreement in connection with the action.

The Pacific Technology & Telecommunications Collection Action. On August 12, 2003, the Company initiated a commercial arbitration proceeding against Pacific Technology & Telecommunications (PT&T), a former distributor, seeking to collect approximately $1,754 that PT&T owed the Company for inventory purchased but not paid for. PT&T denied the Company's claim and asserted counterclaims. Subsequently, on April 20, 2004, PT&T filed for protection under Chapter 7 of the United States Bankruptcy Code, which had the effect of staying the proceeding. Following PT&T's bankruptcy filing, the Company successfully negotiated a settlement with the bankruptcy trustee. Under the settlement, which has been approved by the bankruptcy court, the Company paid $25 and obtained the right to recover all unsold ClearOne inventory held by PT&T and the right to pursue on the basis of an assignment any claims that PT&T may have against any of its own officers or directors, subject, however, to a maximum recovery of $800. The Company is currently in the process of investigating whether any such claims exist and, if so, whether it would be in the Company's best interest to pursue them given the anticipated legal expenses and the uncertainties of being able to collect any resulting favorable judgment. The settlement also resulted in the release and dismissal with prejudice of all of PT&T's claims against the Company. To date, the Company has not recovered any inventory held by PT&T.

U.S. Attorney's Investigation. On January 28, 2003, the Company was advised that the U.S. Attorney's Office for the District of Utah has begun an investigation stemming from the complaint in the SEC action described above. No pleadings have been filed to date and the Company is cooperating fully with the U.S. Attorney's Office.

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

14. Stockholders' Equity

Private Placement

On December 11, 2001, the Company closed a private placement of 1,500,000 shares of common stock. Gross proceeds from the private placement were $25,500, before costs and expenses associated with this transaction, which totaled $1,665.

The Company also issued warrants to purchase 150,000 shares of its common stock at $17.00 per share to its financial advisor. Such warrants vested immediately and were valued at $1,556 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, risk-free interest rate of 4.4%, expected price volatility of 68.0% and contractual life of five years. The warrants expire on November 27, 2006.

Stock Repurchase Program

During April 2001, the Company's board of directors approved a stock repurchase program to purchase up to 500,000 shares of the Company's common stock over the following six months on the open market or in private transactions. During the fiscal year ended June 30, 2001, the Company repurchased 20,300 shares on the open market for $244. All repurchased shares were retired. During October 2002, the Company's board of directors approved a stock repurchase program to purchase up to 1,000,000 shares of the Company's common stock over the following 12 months on the open market or in private transactions. During the fiscal year ended June 30, 2003, the Company repurchased 125,000 shares on the open market for $430. All repurchased shares were retired. The stock repurchase program expired in October 2003 and no additional shares were repurchased.

Stock Options

The Company's 1990 Incentive Plan (the 1990 Plan) has shares of common stock available for issuance to employees and directors. Provisions of the 1990 Plan include the granting of stock options. Generally, stock options vest over a five-year period at 10%, 15%, 20%, 25% and 30% per year. Certain other stock options vest in full after eight years. As of June 30, 2003, there were 271,548 options outstanding under the 1990 Plan and no additional options were available for grant under such plan.

The Company also has a 1998 Stock Option Plan (the 1998 Plan). Provisions of the 1998 Plan include the granting of stock options. Of the options granted through December 1999, 1,066,000 will cliff vest after 9.75 years; however, such vesting may be accelerated if earnings per share goals through the fiscal year ended June 30, 2003 were met. Of the options granted subsequent to December 1999 through June 2002, 1,248,250 will cliff vest after six years; however, such vesting may be accelerated if earnings per share goals through the fiscal year ending June 30, 2005 are met. Under the 1998 Plan, 2,500,000 shares were authorized for grant. The 1998 Plan expires June 10, 2008, or when all the shares available under the plan have been issued if this occurs earlier. As of June 30, 2003, there were 1,701,208 options outstanding under the 1998 Plan and 496,668 options available for grant in the future.

Stock option information for the fiscal years ending June 30, 2003, 2002 and 2001 with respect to the Company's stock option plans is as follows:

Stock Options	Number of Shares	Weighted Average Exercise Price
Outstanding at June 30, 2000	1,508,548	$ 7.01
Options granted (as restated)	515,500	12.73
Options expired and canceled (as restated)	(198,125)	10.97
Options exercised	(75,125)	4.33
Outstanding at June 30, 2001	1,750,798	8.37
Options granted	366,908	13.24
Options expired and canceled	(402,751)	13.04
Options exercised	(195,999)	5.21
Outstanding at June 30, 2002	1,518,956	8.71
Options granted	835,500	3.57
Options expired and canceled	(350,200)	11.57
Options exercised	(31,500)	2.72
Outstanding at June 30, 2003	1,972,756	$ 6.12

The following table summarizes information about stock options outstanding as of June 30, 2003:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Options Outstanding	Weighted Average Contractual Remaining Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$0.00 to $2.04	271,548	0.5 years	$ 0.78	271,548	$ 0.78
$2.05 to $4.09	1,084,850	3.8 years	3.34	369,669	3.08
$4.10 to $8.18	3,081	8.9 years	7.15	3,081	7.15
$8.19 to $10.22	15,256	6.3 years	9.67	6,144	9.65
$10.23 to $12.26	204,000	3.2 years	11.33	45,235	11.34
$12.27 to $14.31	176,321	7.0 years	13.45	75,214	13.56
$14.32 to $16.35	180,200	3.2 years	15.25	62,387	15.25
$16.36 to $18.40	35,750	7.0years	17.15	5,005	17.15
$18.41 to $20.45	1,750	1.9 years	18.97	1,588	18.90
Total	1,972,756	3.6 years	$ 6.12	839,871	$ 4.80

The following are the options exercisable at the corresponding weighted average exercise price as of June 30, 2003, 2002 and 2001, respectively: 839,871 at $4.80, 793,965 at $6.10 and 741,219 at $5.44.

The grant date weighted average fair value of options granted during the years ended June 30, 2003, 2002 and 2001 was $2.50, $9.33 and $9.45, respectively. The fair value of options was determined using the Black-Scholes option pricing model with the following weighted average assumptions for the fiscal years ended June 30, 2003, 2002 and 2001: expected dividend yield, 0% for each year; risk-free interest rate was 2.46%, 4.09% and 4.85%, respectively; expected price volatility, 89.98%, 81.16%, and 82.75%; and expected life of options, 4.90, 5.54, and 6.25 years.

During fiscal 2001, the Company modified 25,000 options to reduce the exercise price of the award. The award is being accounted for as variable and the intrinsic value of the award is remeasured until the date the award is exercised, is forfeited, or expires unexercised. Compensation cost with respect to a variable award is being recognized on an accelerated basis in accordance with Financial Accounting Standards Board Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans.

Due to the Company’s failure to remain current in its filing of periodic reports with the SEC, employees, executive officers and directors are currently not allowed to exercise options under either the 1990 Plan or the 1998 Plan. In June 2004, individual grants that had been affected by this situation were modified to extend the life of the option through the date the Company becomes current in its filings with the SEC and options again become exercisable.

Employee Stock Purchase Program

The Company has an Employee Stock Purchase Plan (ESPP). A total of 500,000 shares of common stock were reserved for issuance under the ESPP. The Company’s board of directors or a committee established by the board of directors administers the ESPP and has authority to interpret the terms of the ESPP and determine eligibility. The ESPP is intended to qualify under Section 423 of the Internal Revenue Code. All employees were eligible after thirty days employment.

Employees can purchase common stock through payroll deductions of up to 10% of their base pay. Amounts deducted and accumulated by the employees are used to purchase shares of common stock on the last day of each month. The Company directs a participating broker to conduct open market purchases of the common stock and the purchase price is the price of the employee’s shares. The Company contributes to the account of the employee one share of common stock for every nine shares purchased by the employee under the ESPP. An employee may end participation at any time. Participation in the ESPP ends upon termination of employment. During the fiscal years ended June 30, 2003, 2002 and 2001, 1,841, 724 and 1,137 share of common stock were issued under the ESPP. The ESPP is compensatory under APB 25. Compensation expense from the ESPP was $8, $13, and $15 for the years ended June 30, 2003, 2002, and 2001, respectively. The program was suspended during 2003 due to the Company’s failure to remain current in its filing of periodic reports with the SEC.

15. Sale of Assets

Court Conferencing. As part of the Company's conferencing services segment, its court conferencing customers engaged in the audio and/or video conferencing of legal proceedings including remote appearances in state and federal courts and/or administrative tribunals within the United States. On October 26, 2001, the Company sold its court conferencing customer list, including all contracts relating to its court conferencing services to CourtCall LLC and recognized a gain of $250.

16. Income Taxes

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

	2003	2002 (restated)	2001 (restated)
Domestic	$ (28,583)	$ 956	$ 3,686
Foreign	(8,423)	(6,393)	122
	$ (37,006)	$ (5,437)	$ 3,808

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

	2003	2002 (restated)	2001 (restated)
Current:			
Federal	$ (3,055)	$ 3,390	$ 2,582
State	(50)	456	378
Foreign	47	22	67
Stock Option Benefit Credited to Paid in Capital	-	452	116
Total Current	(3,058)	4,320	3,143
Deferred:			
Federal	2,174	(3,180)	(1,751)
State	50	259	(341)
Foreign	-	1	(1)
Total Deferred	2,224	(2,920)	(2,093)
	$ (834)	$ 1,400	$ 1,050

The following table presents the principal reasons for the difference between the actual effective income tax rate and the expected U.S. federal statutory income tax rate of 34% on income from continuing operations:

	2003	2002 (restated)	2001 (restated)
U.S. federal statutory income tax rate	$ (12,582)	$ (1,849)	$ 1,295
State income tax rate, net of federal income tax effect	-	512	35
Extraterritorial income exclusion	-	(79)	(111)
Research and development credit	-	(46)	(144)
Foreign earnings or losses taxed at different rates	255	132	24
Impairment of investment in foreign subsidiary	2,596	2,112	-
Impairment of E.mergent goodwill	5,811	-	-
Change in federal valuation allowance attributable to operations	2,946	534	-
Non-deductible items and other	140	84	(49)
Total	$ (834)	$ 1,400	$ 1,050

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

	2003	2002 (restated)	2001 (restated)
Deferred income tax assets:	$ -	$ -	$ -
Net operating loss carryforwards	724	293	-
Accrued liabilities	2,980	253	25
Allowance for sales returns and doubtful accounts	155	141	-
Inventory reserve	1,939	1,380	101
Deferred revenue	1,796	4,046	1,218
Installment sale	128	149	149
Accumulated research and development credits	142	142	66
Basis difference in intangible assets	852	712	524
Other	162	381	196
Subtotal	8,878	7,497	2,279
Valuation allowance	(5,252)	(1,726)	-
Deferred income tax assets	3,626	5,771	2,279
Deferred income tax liabilities:			
Basis difference in fixed assets	(458)	(401)	(237)
Other	(89)	-	(9)
Deferred income tax liabilities	(547)	(401)	(246)
Net deferred income tax assets	$ 3,079	$ 5,370	$ 2,033

Deferred income tax assets and liabilities were netted by income tax jurisdiction and were reported in the consolidated balance sheets as of June 30 as follows:

	2003	2002	2001
		(restated)	(restated)
Current deferred income tax assets	$ 2,531	$ 4,709	$ 1,587
Non-current deferred income tax assets	548	661	446
Current deferred income tax liabilities	-	-	-
Non-current deferred income tax liabilities	-	-	-
Net deferred income tax assets	$ 3,079	$ 5,370	$ 2,033

The Company has not provided for U.S. deferred income taxes or foreign withholding taxes on the undistributed earnings of its non-U.S. subsidiaries since these earnings are intended to be reinvested indefinitely and therefore, the foreign currency translation adjustment included in other comprehensive income has not been tax effected. It is not practical to estimate the amount of additional taxes that might be payable on such undistributed earnings. Total undistributed earnings from foreign subsidiaries were $56, $152 and $205 for 2001, 2002 and 2003, respectively.

As of June 30, 2003, the Company has a net operating loss (“NOL”) and research credit carryforward for U.S. federal income tax reporting purposes of $697 and $121 respectively, which will expire in 2021. These carryforwards were generated by E.mergent before it was acquired by the Company and are subject to a full valuation allowance. When these carryforwards are subsequently recognized, the tax benefit will be credited to operations since the intangible assets of E.mergent were all impaired at June 30, 2003. The Company also has state NOL and research and development tax credit carryforwards of approximately $9,739 and $21, respectively, which expire depending on the rules of the various states to which the carryovers relate. The Company also has a NOL carryover in its Irish subsidiary. However, the Company is in the process of closing its Irish subsidiary and does not anticipate ever being able to use these losses and has not separately reported these amounts. The Company also has a small amount of deferred tax assets, subject to a full valuation allowance, at its Canadian subsidiary. As discussed in Footnote 24, the Company has sold its Canadian subsidiary and therefore has not separately reported these amounts.

The Internal Revenue Code contains provisions that reduce or limit the availability and utilization of NOL and credit carryforwards if certain changes in ownership have taken place. As a result of an ownership change associated with the acquisition of E.mergent, utilization of E.mergent’s NOL and research and development credit carryfowards, arising prior to the ownership change date, will be limited to an amount not to exceed the value of E.mergent on the ownership change date multiplied by the Federal long-term tax-exempt rate. If the annual limitation of $1,088 is not utilized in any particular year, it will remain available on a cumulative basis through the expiration date of the applicable NOL and credit carryforwards. Management does not believe that these rules will adversely impact the Company’s ability to utilize these losses. Certain states also have rules that could limit the Company’s ability to use its state NOL and research credit carryovers.

SFAS No. 109, *Accounting for Income Taxes*, requires that a valuation allowance be established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. For the year ended June 30, 2002, the NOL and research and development credit generated by E.mergent prior to acquisition are subject to a full valuation allowance recorded as part of E.mergent’s purchase price allocation. Additionally, for the years ended June 30, 2002 and 2003, the Company has also recorded a valuation allowance against a portion of its deferred tax assets due to the uncertainty of realization of the assets based upon a number of factors, including lack of profitability in 2002 and 2003 and the limited taxable income in carryback years as permitted by the tax law. No valuation allowance was recorded to the extent that the reversal of the deferred tax assets would generate a NOL that could be carried back to prior tax years.

The net change in the Company’s domestic valuation allowance was $0 for 2001, and an increase of $1,726 and $3,526, in 2002 and 2003 respectively.

17. Discontinued Operations

On April 12, 2001, the Company sold the assets of the remote control portion of the RFM/Broadcast division to Burk Technology, Inc. (Burk), a privately held developer and manufacturer of broadcast facility control systems products. The Company retained the accounts payable of the remote control portion of the RFM/Broadcast division. Burk assumed obligations for unfilled customer orders and satisfying warranty obligations to existing customers and for inventory sold to Burk. However, the Company retained certain warranty obligations to Burk to ensure that all of the assets sold to Burk were in good operating condition and repair.

Consideration for the sale consisted of $750 in cash at closing, $1,750 in the form of a seven-year promissory note, with interest at the rate of nine percent per year, and up to $700 as a commission over a period of up to seven years. The payments on the promissory note may be deferred based upon Burk not meeting net quarterly sales levels established within the agreement. The promissory note is secured by a subordinate security interest in the personal property of Burk. Based on an analysis of the facts and circumstances that existed on April 12, 2001, and considering the guidance from Topic 5U of the SEC Rules and Regulations, Gain Recognition on the Sale of a Business or Operating Assets to a Highly Leveraged Entity, the gain is being recognized as cash is collected (as collection was not reasonably assured, and the Company had contingent liabilities to Burk). The commission is based upon future net sales of Burk over base sales established within the agreement. The Company realized a gain on the sale of $200 (net of applicable income taxes of $119), $176 (net of applicable income taxes of $104) and $123 (net of applicable income taxes of $72) for the fiscal years ended June 30, 2003, 2002 and 2001, respectively. As of June 30, 2003, $1,505 of the promissory note remains outstanding and the Company has received $20 in commissions.

Summary operating results of the discontinued operations are as follows:

	Year Ended June 30, 2001 (restated)
Revenue - product	$ 2,369
Cost of goods sold - product	806
Marketing and selling expenses	282
Product development expenses	105
Income before income taxes	1,176
Provision for income taxes	(439)
Income from discontinued operations, net of income taxes	$ 737

18. Sale of Broadcast Telephone Interface

On August 23, 2002, the Company entered into an agreement with Comrex Corporation (Comrex). In exchange for $1,300, Comrex received certain inventory associated with the broadcast telephone interface product line, a perpetual software license to use the Company’s technology related to broadcast telephone interface products along with one free year of maintenance and support, and transition services for 90 days following the effective date of the agreement. The transition services included training, engineering assistance, consultation, and development services.

The software license included in the arrangement is more than incidental to the products and services as a whole. All products and services are considered software and software related. Consequently, the agreement has been accounted for pursuant to Statement of Position (SOP) 97-2, Software Revenue Recognition. As the software is essential to the functionality of other elements in the agreement and there is not vendor specific objective evidence for the fair value of the maintenance and support, the Company recognized the software license revenue, products, and services over time as services are performed, using the percentage-of-completion method of accounting based on a zero estimate of profit.

As this is the first time the Company has licensed software in this manner, it was impractical to estimate the final outcome of the agreement except to assure that no loss will be incurred. Consequently, the Company recognized revenue equal to cost until maintenance and support was the only undelivered element of the agreement. Once maintenance and support was the only undelivered element of the agreement, the remaining revenue was recognized ratably over the remaining maintenance and support period in accordance with SOP 97-2. The Company recognized $1,054 in revenue related to this transaction in the fiscal year ended June 30, 2003.

The Company has entered into a manufacturing agreement to continue to manufacture additional product for Comrex distribution one year following the agreement described above on a when-and-if needed basis. Comrex will pay the Company for any additional product on a per item basis of cost plus 30%. Given the future revenue stream associated with each unit produced, revenue will be recognized when-and-if received.

19. Earnings Per Share

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

	Year Ended June 30,		
	2003	2002	2001
		(restated)	(restated)
Numerator:			
Income (loss) from continuing operations	$ (36,172)	$ (6,837)	$ 2,758
Discontinued operations	200	176	860
Net income (loss)	$ (35,972)	$ (6,661)	$ 3,618
Denominator:			
Basic weighted average shares	11,183,339	9,588,118	8,593,725
Dilutive common stock equivalents using treasury stock method	-	-	600,284
Diluted weighted average shares	11,183,339	9,588,118	9,194,009
Basic earnings (loss) per common share:			
Continuing operations	$ (3.23)	$ (0.71)	$ 0.32
Discontinued operations	0.02	0.02	0.10
	$ (3.21)	$ (0.69)	$ 0.42
Diluted earnings (loss) per common share:			
Continuing operations	$ (3.23)	$ (0.71)	$ 0.30
Discontinued operations	0.02	0.02	0.09
	$ (3.21)	$ (0.69)	$ 0.39

Options to purchase 1,972,756, 1,518,956 and 663,250 shares of common stock were outstanding as of June 30, 2003, 2002 and 2001, respectively, but were not included in the computation of diluted earnings per share as the effect would be anti-dilutive. Warrants to purchase 150,000 shares of common stock were outstanding as of June 30, 2003 and 2002, but were not included in the computation of diluted earnings per share as the effect would be anti-dilutive.

20. Related Party Transactions

Edward Dallin Bagley, a director and significant shareholder of the Company, served as a consultant to the Company from November 2002 through January 2004 and was paid $5,000 per month for his services. He consulted with Company's management on mergers and financial matters on an as needed basis. Mr. Bagley's services were performed pursuant to an oral agreement, the terms of which were approved by the Board of Directors.

The Company and Edward Dallin Bagley jointly filed an action against National Union Fire Insurance Company and Lumbermens Mutual Insurance Company. See Note 13. Commitments and Contingencies. *The Insurance Coverage Action.*

The Company was a general partner in two limited partnerships, Gentner Research Ltd. (GRL) and Gentner Research II, Ltd. (GR2L). GRL owned rights to a proprietary interest in a remote control product. The Company obtained rights to utilize the proprietary interest under royalty agreements. Royalty expense under the agreements with GRL for the year ended June 30, 2001 was $4. GRL was dissolved in February 2001 after consent to dissolution and liquidation was received by a majority of the partners of GRL. The product line, which incorporated the proprietary interest, was deemed no longer integral to the Company's business.

GR2L owned rights to a proprietary interest in a new remote control product. The Company obtained rights to utilize the proprietary interest under a royalty agreement. Royalty expense under this agreement with GR2L for the year ended June 30, 2001 was $91. The Company paid $179 to GR2L in the year ended June 30, 2001, representing GR2L's royalty on the gain on the sale of the remote control product line. This amount is included in the determination of gain on disposal of discontinued operations in the year ended June 30, 2001.

21. Significant Customers

As of June 30, 2003, 2002 and 2001 and for the periods then ended, the Company did not have any customers that accounted for more than 10% of total revenue and/or accounts receivable balances.

22. Retirement Savings and Profit Sharing Plan

The Company has a 401(k) retirement savings and profit sharing plan to which it makes discretionary matching contributions, as authorized by the Board of Directors. All full-time employees who are at least 21 years of age and have a minimum of sixty days of service with the Company are eligible to participate in the plan. Matching contributions are 20% up to 6% of the employee's earnings, paid bi-weekly. Prior to the fiscal year ended June 30, 2003, the Company paid matching contributions at fiscal year end. The Company's retirement plan contribution expense for the fiscal years ended June 30, 2003, 2002 and 2001 totaled $0, $72 and $66, respectively.

23. Segment and Geographic Information

Operating Segments

The Company has three operating segments - products, conferencing services, and business services. The Company's Chief Executive Officer and senior management rely on internal management reports that provide financial and operational information by operating segment. The Company's management makes financial decisions and allocates resources based on the information it received from these internal management reports. The business services segment was established in 2002 as a result of the acquisition of E.mergent and includes certain operations of E.mergent and the operations of OM Video.

The products segment includes products for audio conferencing products, videoconferencing products, sound reinforcement products, broadcast telephone interface products and assistive listening system products. The conferencing services segment includes full-service conference calling; on-demand, reservationless conference calling; Web conferencing; audio and video streaming; and, customer training and education. The business services segment provided services in the United States and Canada, including technical services such as design, installation and services of systems, maintenance, and value added services such as proactive field support, training, system consulting and help desk.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

For operating segments, segment profit (loss) is measured based on income from continuing operations before provision (benefit) for income taxes. Other income (expense), net is unallocated.

The Company's segments are strategic business units that offer products and services to satisfy different customer needs. They are managed separately because each segment requires focus and attention on its market and distribution channel.

The United States was the only country to contribute more than 10% of total revenues in each fiscal year. Canada contributed more than 10% of total revenues in the fiscal year ended June 30, 2003. There were no significant long-lived assets held outside the United States.

The following tables summarize the segment and geographic information:

Operating Segment

	Fiscal Year	Products	Conferencing Services	Business Services	Corporate	Totals
Net revenue	2003	$ 27,512	$ 15,268	$ 14,805	$ -	$ 57,585
	2002	26,253	15,583	1,526	-	43,362
	2001	22,448	11,689	-	-	34,137
Operating income (loss)	2003	(13,099)	31	(23,842)	-	(36,910)
	2002	(8,666)	2,827	270	-	(5,569)
	2001	1,884	1,736	-	-	3,620
Discontinued operations, net of taxes	2003	200	-	-	-	200
	2002	176	-	-	-	176
	2001	860	-	-	-	860
Identifiable assets	2003	14,255	4,153	2,779	14,089	35,276
	2002	23,497	5,325	15,294	19,760	63,876
	2001	11,491	4,849	-	8,971	25,311
Depreciation and amortization	2003	2,192	999	278	-	3,469
	2002	2,176	802	34	-	3,012
	2001	1,697	533	-	-	2,230

Geographic

	Fiscal Year	United States	Canada	All Other Countries	Totals
Net revenue	2003	$ 42,591	$ 6,316	$ 8,678	$ 57,585
	2002	39,144	474	3,744	43,362
	2001	30,076	973	3,088	34,137
Long-Lived Assets	2003	7,747	-	39	7,786
	2002	26,788	-	41	26,829
	2001	7,161	-	26	7,187

24. Severance Charges

During the fiscal year ended June 30, 2003, the Company recorded a total of $362 in severance and other related costs associated with a reduction of 43 employees in the United States and Ireland. Such costs were included in operating expenses during the year ended June 30, 2003. The Company paid out this entire amount during the year ended June 30, 2003.

25. Subsequent Events

Early Buyout of Operating Lease Agreements. The Company leased an office in Woburn, Mass. that it initially acquired through the purchase of ClearOne, Inc. in July 2000. The facility consisted of 2,206 square feet. The Company negotiated an early buyout of the lease effective September 2003. The Company's U.S. business services operations were conducted from a facility totaling 25,523 square feet located in Golden Valley, Minnesota. The Company leased these facilities under a lease agreement the expired in December 2004. The Company negotiated an early buyout of the lease effective June 2004.

Settlement Agreements and Releases. We entered into settlement agreements and releases with four former executive officers in connection with the cessation of their employment, which generally provided for their resignations from their positions and employment with the Company, the payment of severance in increments in accordance with the regular payroll schedule, and a general release of claims against the Company by each of such persons. On February 27, 2004, an agreement was entered into with Greg Rand, the Company’s former president and chief operating officer, which generally provided for a severance payment of $75 and an accelerated vesting of 25,000 stock options. On April 6, 2004, an agreement was entered into with George Claffey, the Company’s former chief financial officer, which generally provided for a severance payment of $61. On June 16, 2004, an agreement was entered into with Mike Keough, the Company’s former chief executive officer, which generally provided for a severance payment of $46 and vested options totaling 18,749 stock options. On July 15, 2004, an agreement was entered into with Angelina Beitia, the Company’s former vice president, which generally provided for a lump sum payment of $100. In addition Ms. Beitia surrendered and delivered to the Company all outstanding vested and unvested options. In accordance with the terms of our stock option plans, any unvested stock options terminated on the date of termination of such persons’ employment with the Company. This summary description of the settlement agreement and releases are qualified in their entirety by reference to the settlement agreement and releases, copies of which are included as exhibits to this report.

Sale of U.S. Audiovisual Integration Services. On May 6, 2004, the Company sold certain assets of its U.S. audiovisual integration services operations to M:Space, Inc. (M:Space) for no cash compensation. M:Space is a privately held audiovisual integration services company. In exchange for M:Space assuming obligations for completion of certain customer contracts, and satisfying maintenance contract obligations to existing customers, the Company transferred to M:Space certain assets including inventory valued at $569. The Company expects that the operations of the U.S. audiovisual integration services will be classified as discontinued operations in the fiscal year 2004. As of June 30, 2003 the assets of audiovisual integration services were classified as held and used.

Sale of Conferencing Services Business. On July 1, 2004, the Company sold its conferencing services business segment to Clarinet, Inc., an affiliate of American Teleconferencing Services, Ltd. d/b/a Premier Conferencing for $21,300. Of the purchase price $1,000 was placed into an 18-month Indemnity Escrow account and an additional $300 was placed into a working capital escrow account. We received the $300 working capital escrow funds approximately 90 days after the execution date of the contract. Additionally, $1,365 of the proceeds was utilized to pay off equipment leases pertaining to assets being conveyed to Clarinet. The Company expects that the conferencing services operations will be classified as discontinued operations in the fiscal year 2005. As of June 30, 2003, the assets of conferencing services were classified as held and used.

Closing of Germany Office. During December 2004, the Company closed its Germany office and consolidated its activity with the United Kingdom office. Costs associated with closing the Germany office totaled $305 and included operating leases and severance payments.

Sale of OM Video. On March 4, 2005, the Company sold all of the issued and outstanding stock of its Canadian subsidiary, ClearOne Communications of Canada, Inc. (ClearOne Canada) to 6351352 Canada Inc., a Canada corporation. ClearOne Canada owned all the issued and outstanding stock of Stechyson Electronics Ltd., which conducts business under the name OM Video. The Company agreed to sell the stock of ClearOne Canada for $200 in cash; a $1,256 note payable over a 15-month period, with interest accruing on the unpaid balance at the rate of 5.25% per year; and contingent consideration ranging from 3% to 4% of related gross revenues over a five-year period. The Company expects that the operations of the Canada audiovisual integration services will be classified as discontinued operations in fiscal year 2005. As of June 30, 2003, the assets of the Canada audiovisual integration business were classified as held and used. In June 2005, we were advised that the OM Purchaser had settled an action brought by the former employer of certain of OM Purchaser's owners and employees alleging violation of non-competition agreements. The settlement reportedly involved a cash payment and an agreement not to sell certain products for a period of one year. We are evaluating what impact, if any, this settlement may have on the OM Purchaser's ability to make the payment required under the note.

Third-Party Manufacturing Agreement. On August 1, 2005, ClearOne Communications, Inc. (the "Company") entered into a Manufacturing Agreement with Inovar, Inc., a Utah-based electronics manufacturing services provider ("Inovar"), pursuant to which the Company agreed to outsource its Salt Lake City manufacturing operations to Inovar. The agreement is for an initial term of three years, which shall automatically be extended for successive and additional terms of one year each unless terminated by either party upon 120 days' advance notice at any time after the second anniversary of the agreement. The agreement generally provides, among other things, that Inovar shall: (i) furnish the necessary personnel, material, equipment, services and facilities to be the exclusive manufacturer of substantially all the Company's products that were previously manufactured at its Salt Lake City, Utah manufacturing facility, and the non-exclusive manufacturer of a limited number of products, provided that the total cost to the Company (including price, quality, logistic cost and terms and conditions of purchase) is competitive; (ii) provide repair service and warranty support and proto-type services for new product introduction on terms to be agreed upon by the parties; (iii) purchase certain items of the Company's manufacturing equipment; (iv) lease certain other items of the Company's manufacturing equipment and have a one-year option to purchase such leased items; (v) have the right to lease the Company's former manufacturing employees from a third party employee leasing company; and (vi) purchase the Company's parts and materials on hand and in transit at the Company's cost for such items with the purchase price payable on a monthly basis when and if such parts and materials are used by Inovar. The parties also entered into a one-year sublease for approximately 12,000 square feet of manufacturing space located in the Company's headquarters in Salt Lake City, Utah, which sublease may be terminated by either party upon ninety days' notice. The agreement provides that products shall be manufactured by Inovar pursuant to purchase orders submitted by the Company at purchase prices to be agreed upon by the parties, subject to adjustment based upon such factors as volume, long range forecasts, change orders etc. The Company also granted Inovar a right of first refusal to manufacture new products developed by the Company at cost to the Company (including price, quality, logistic cost and terms and conditions of purchase) that is competitive. Costs associated with outsourcing the Company's manufacturing totaled $429 including severance payments, facilities no longer used by the Company and fixed assets that will be disposed of.

Exhibit 10.1

EMPLOYMENT SEPARATION AGREEMENT

This Employment Separation Agreement ("Agreement") is entered into by and between ClearOne Communications, Inc. ("ClearOne" or the "Company") and Frances M. Flood ("Flood") (ClearOne and Flood shall sometimes be hereinafter referred to collectively as the "Parties").

RECITALS

A. Flood has been employed by ClearOne in a variety of positions, most recently as the Company's Chief Executive Officer, President, and Chairman of the Board.

B. Flood has a written Employment Agreement with the Company, effective as of August 1, 2002 ("Employment Agreement"). The Employment Agreement, which is for a three-year term expiring July 31, 2005, specifies the compensation and benefits to which Flood is entitled to receive over the term of the contract. The Employment Agreement also provides that the Company may terminate Flood's employment for cause only if Flood commits "willful misconduct," with the term "willful" expressly defined as an act "done, or omitted to be done, by [Flood] not in good faith and without reasonable belief that [her] action or omission was in the best interest of the Company."

C. On January 15, 2003, the United States Securities and Exchange Commission filed a civil action against ClearOne, Flood, and Susie S. Strohm, who was then serving as the Company's Chief Financial Officer, alleging various improprieties and misstatements in connection with the Company's financial statements (the "SEC Action").

D. The filing of the SEC Action has spawned, and may continue to spawn, multiple related proceedings, including, but not limited to, multiple shareholder securities class actions, multiple shareholder derivative actions, a grand jury investigation being conducted by the United States Department of Justice, a dispute and potential litigation between the Company and its directors and officers liability insurers, and potential litigation between the Company and its former auditor, Ernst & Young (collectively, "Related Proceedings").

E. Soon after the filing of the SEC Action, the Company placed Flood on a paid administrative leave of absence, and this paid administrative leave has continued in effect at all times up to the execution of this Agreement.

F. Flood has employed separate counsel, Max D. Wheeler, Richard A. Van Wagoner, and the law firm of Snow Christensen & Martineau (collectively, "SC&M"), to defend her in the SEC Action and the Related Proceedings. SC&M has also represented Flood in connection with the negotiation and drafting of this Agreement.

G. Flood has made various demands on the Company for indemnification and for advancement of the attorneys' fees and costs she has incurred to date, as well as the attorneys' fees and costs she may subsequently incur, in connection with the SEC Action and the Related Proceedings and has provided the Company with a written undertaking, dated August 27, 2003, in conformity with the requirements of Utah Code Ann. § 16-10a-904.

H. ClearOne referred Flood's demand for indemnification to its Special Litigation Committee ("SLC") comprised of two independent directors. The SLC reviewed those demands, as well as similar demands for indemnification made by other present or former officers and directors of the Company, in conjunction with its investigation of the various claims asserted in the multiple shareholder derivative actions filed against certain of the Company's present and former officers and directors, including Flood. On October 13, 2003, the SLC completed its investigation concerning the derivative actions and the indemnification demands and issued its reports to the Company wherein it concluded, inter alia, that pursuing the derivative actions was not in the best interest of the Company and that the Company should attempt to negotiate a settlement of Flood's indemnification demand in the context of negotiating a global settlement of all potential claims and counterclaims between the Company and Flood. In reliance on the SLC's conclusions and recommendations, the Company has moved to dismiss the derivative actions pursuant to Utah Code Ann. § 16-10a-740(4)(a) and has negotiated this Agreement with Flood.

I. Flood and ClearOne desire to resolve any and all disputes that may exist between them, whether known or unknown, including, but not limited to, disputes regarding Flood's demand for indemnification, disputes relating to Flood's employment with ClearOne, and disputes relating to the dissolution of that employment relationship.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises, covenants, warranties, and agreements set forth herein, the Parties mutually agree as follows:

1. Effective Date. This Agreement is effective on the eighth day following Flood's signing of this Agreement, provided that Flood does not revoke her execution of this Agreement as provided in Paragraph 19 below.

2. Receipt of this Agreement. Flood acknowledges that she received a copy of this Agreement on December 2, 2003, and that she has 21 days from the receipt of this Agreement in which to consider and consult with an attorney regarding this Agreement. Flood further acknowledges that she has had an adequate amount of time in which to consult with SC&M, her counsel of choice, with respect to the contents of this Agreement prior to signing.

3. Payment to Flood. Upon the expiration of the revocation period described in Paragraph 19 below and the unrevoked signing of this Agreement by Flood, ClearOne shall pay Flood the sum of $350,000. The Parties acknowledge and agree that this payment is being made in consideration of, inter alia, the Company's purchase of Flood's shares of the Company's common stock, the Company's cancellation of Flood's options to purchase additional shares of the Company's common stock, and the release of all claims that Flood may have against the Company, all as more fully stated in Paragraphs 5, 6, and 9 below. The Parties also acknowledge and agree that the Company is not responsible for the withholding of any federal or state taxes from said payment and that Flood is responsible for paying any taxes that may become due and owing as a result of her receipt of said payment.

4. Separation of Employment and Dissolution of Employment Agreement. Flood hereby resigns her employment with ClearOne, as well as her membership on the Company's board of directors, effective December 5, 2003. Flood's Employment Agreement is dissolved and cancelled as of the effective date of this Agreement, except that Flood's post-termination obligations under Sections 8 and 9 of the Employment Agreement shall remain in effect to the full extent provided in the Employment Agreement.

5. Cancellation of Stock Options. As partial consideration for the payment specified in Paragraph 3 above, upon the expiration of the revocation period described in Paragraph 19 below and the unrevoked signing of this Agreement by Flood, all unexercised stock options acquired by Flood during her employment with the Company, whether vested or unvested, shall immediately be deemed cancelled. Flood represents and warrants that, immediately prior to the effective date of this Agreement, she holds vested and unvested stock options entitling her to purchase up to a total of 706,434 shares of the Company's common stock and that 461,433 of these options are vested. Flood further agrees that all of her rights, entitlements, and benefits under the 1990 Gentner Stock Option Plan and the 1998 ClearOne Stock Option Plan, including any agreements entered into in relation to the foregoing plans, are hereby terminated and cancelled.

6. Transfer of Stock. As partial consideration for the payment specified in Paragraph 3 above, upon the expiration of the revocation period described in Paragraph 19 below and the unrevoked signing of this Agreement by Flood, Flood shall transfer, assign, and sell to the Company 35,000 shares of the Company's common stock.

7. Cooperation in Related Proceedings. Flood shall cooperate with the Company and its counsel in the defense and/or prosecution of the SEC Action and the Related Proceedings. Flood's cooperation shall include, but shall not be limited to, voluntarily providing deposition and trial testimony, meeting with the Company and its counsel for the purpose of preparing for depositions or trial proceedings, and providing information and documents to the Company or its counsel in connection with the defense and/or prosecution of the SEC Action and the Related Proceedings. With respect to any request by the Company and/or its counsel for deposition or trial testimony, meetings, information, or documents, the Company shall give reasonable notice to Flood of its request, including the time and place of the deposition, trial, or meeting, and shall reimburse Flood for all reasonable expenses incurred by her, including reasonable attorneys' fees and costs, in providing the requested cooperation. Despite the foregoing, this Agreement does not require Flood to forego any constitutional rights.

8. Indemnification. Subject to the limitations imposed by Utah Code Ann. § 16-10a-902 and the Company's articles of incorporation and bylaws, and also subject to the undertaking referred to in Recital G above, ClearOne shall indemnify Flood for any liability and for all reasonable attorneys' fees and costs incurred by her in connection with the SEC Action or any Related Proceedings, whether incurred before or after the effective date of this Agreement. The Company's duty to indemnify Flood is further conditioned upon Flood's fulfillment of her duty under Paragraph 7 above to cooperate with the Company and its counsel in connection with the SEC Action and Related Proceedings. Subject to the foregoing limitation, ClearOne will continue to pay for the reasonable defense costs incurred by Flood in defending matters or future matters, if any, which may arise from or relate to her tenure as an officer or director of ClearOne.

9. Release of Claims by Flood. Flood, on behalf of herself and her heirs and assigns, hereby completely releases and discharges ClearOne and all of ClearOne's predecessors, successors, parents, subsidiaries, and affiliates, and all of their respective present and former directors, officers, employees, attorneys and agents (hereinafter collectively referred to as "Releasees") from any and all existing claims and causes of action of every kind and nature, whether presently known or unknown by the Parties, including but not limited to any claims or causes of action for breach of implied or express contract (including the Employment Agreement), libel, slander, wrongful discharge or termination, discrimination claims under the Age Discrimination in Employment Act and/or Older Workers Benefit Protection Act, Title VII of the Civil Rights Act of 1964, as amended, the Utah

Antidiscrimination Act, local laws prohibiting age, race, religion, sex, national origin, disability and other forms of discrimination, or any other federal or state law that may be applicable thereto, claims growing out of any legal restrictions on ClearOne's right to terminate its employees, any tort claim or other claim arising in any way out of the employment relationship between Flood and ClearOne or the termination of that relationship. Flood specifically waives any and all claims for back pay, front pay, or any other form of compensation for services, except as set forth herein.

Except as expressly stated in Paragraph 8 above, Flood hereby waives any right to recover damages, costs, attorneys' fees, and any other relief in any proceeding or action brought against ClearOne by any other party, including without limitation the Equal Employment Opportunity Commission and the Utah Antidiscrimination and Labor Division, on Flood's behalf asserting any claim, charge, demand, grievance, or cause of action released by Flood as stated above.

Notwithstanding the foregoing, Flood does not waive rights, if any, Flood may have to unemployment insurance benefits or workers' compensation benefits. Nothing in this Paragraph 9 prohibits Flood from paying COBRA premiums to maintain Flood's participation, if any, in ClearOne's group health plan to the extent allowed by law and by the terms, conditions, and limitations of the health plan.

10. Release of Claims by ClearOne. Except for any claim as to which indemnification is not allowed by Utah Code Ann. § 16-10a-902 and any claim that may accrue under the undertaking referenced in Recital G above, ClearOne, on behalf of itself and its successors and assigns, hereby completely releases and discharges Flood from all existing claims and causes of action of any kind and nature, whether presently known or unknown by the Parties, including but not limited to any claims or causes of action arising out of or relating to Flood's Employment Agreement or her employment with ClearOne.

11. No Assignment of Claims. Flood represents and warrants that she has not previously assigned or transferred, or attempted to assign or transfer, to any third party, any of the claims waived and released herein.

12. No Claim Filed. Flood represents that she has not filed any claim, complaint, charge, or lawsuit against ClearOne or any other Releasee with any governmental agency or any state or federal court, and covenants not to file any lawsuit at any time hereafter for any matter, claim, or incident known or unknown which occurred or arose out of occurrences prior to the date hereof.

13. No Admission of Liability. This Agreement does not constitute an admission of any fault, liability, or wrongdoing by any Releasee, nor an admission that Flood has any claim whatsoever against ClearOne or any other Releasee. ClearOne and all other Releasees specifically deny having any liability to Flood or having committed any wrongful acts against Flood. This Agreement does not constitute an admission of any fault, liability, or wrongdoing by Flood, nor an admission that ClearOne has any claim against Flood. Flood specifically denies having any liability to ClearOne or having committed any wrongful acts against ClearOne.

14. Additional Consideration. Flood acknowledges and agrees that as of the date she signs this Agreement, ClearOne has paid to Flood (a) all compensation for wages earned, less normal payroll deductions, (b) all amounts due for earned vacation pay less normal payroll deductions, and (c) all other amounts due and owing to Flood by ClearOne. Notwithstanding the foregoing, ClearOne will pay Flood her normal paycheck on December 12, 2003, which covers Flood's compensation through December 5, 2003, the effective date of her resignation. Flood agrees and acknowledges that the sums paid pursuant to this Agreement are in addition to any sums or payments to which Flood would be entitled but for the signing of this Agreement.

15. Conditions Subsequent. This Agreement is conditioned upon Flood signing settlement documents in the SEC Action by December 5, 2003, and upon the final approval of the settlement of the SEC Action, as it applies to Flood, by January 31, 2004. If for any reason Flood fails to satisfy either of these conditions, this Agreement will automatically become null and void, and the Parties shall forthwith return to each other any and all consideration received by them pursuant to this Agreement.

16. Integration Clause. This Agreement contains the entire agreement and understanding of ClearOne and Flood concerning the subject matter hereof, and except as expressly noted herein, this Agreement supersedes and replaces all prior negotiations, proposed agreements, agreements or representations whether written or oral concerning the subject matter hereof, including Flood's Employment Agreement. ClearOne and Flood agree and acknowledge that neither ClearOne or Flood, nor any agent or attorney of either, has made any representation, warranty, promise or covenant whatsoever, express or implied, not contained in this Agreement, to induce the other to execute this Agreement. No amendment, alteration, or modification of this Agreement shall be effective unless made in writing and signed by both Parties.

17. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Utah, without giving effect to Utah's choice of law rules.

18. Voluntary and Knowing Signing. Flood acknowledges that she has read this Agreement carefully and fully understands this Agreement and that she has consulted with her counsel, SC&M, prior to signing this Agreement. Flood

acknowledges that she has executed this Agreement voluntarily and of her own free will and that she is knowingly and voluntarily releasing and waiving all claims she may have against Releasees, including ClearOne.

19. Revocation Period. Flood has seven (7) days from the date on which she signs this Agreement to revoke this Agreement by providing written notice, by mail, hand delivery, or facsimile, of her revocation to:

Raymond J. Etcheverry
Parsons Behle & Latimer
Counsel for ClearOne
201 South Main Street
Suite 1800
Salt Lake City, Utah 84111
Facsimile: (801) 536-6111

Flood's revocation, to be effective, must be received by the above-named person by the end of the seventh day after Flood signs this Agreement. This Agreement becomes effective on the eighth day after Flood signs this Agreement, providing that Flood has not revoked this Agreement as provided above.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the dates indicated below.

CLEARONE COMMUNICATIONS, INC.

/s/ Mike Keough

Dated: December 5, 2003

By: Mike Keough

Its: CEO

/s/ Frances M. Flood

Dated: December 5, 2003

Frances M. Flood
FRANCES M. FLOOD

EMPLOYMENT TERMINATION AGREEMENT

This Employment Termination Agreement (“Agreement”) is entered into by and between ClearOne Communications, Inc. (“ClearOne” or the “Company”) and Susie S. Strohm (“Strohm”) (ClearOne and Strohm shall sometimes be hereinafter referred to collectively as the “Parties”).

RECITALS

A. Strohm has been employed by ClearOne in a variety of positions, most recently as the Company’s Chief Financial Officer.

B. On January 15, 2003, the United States Securities and Exchange Commission filed a civil action against ClearOne, Strohm, and Frances M. Flood, who was then serving as the Company’s Chief Executive Officer, alleging various improprieties and misstatements in connection with the Company’s financial statements (the “SEC Action”).

C. The filing of the SEC Action has spawned, and may continue to spawn, multiple related proceedings, including, but not limited to, multiple shareholder securities class actions, multiple shareholder derivative actions, a grand jury investigation being conducted by the United States Department of Justice, a dispute and potential litigation between the Company and its directors and officers liability insurers, and potential litigation between the Company and its former auditor, Ernst & Young (collectively, “Related Proceedings”).

D. Soon after the filing of the SEC Action, the Company placed Strohm on a paid administrative leave of absence, and this paid administrative leave has continued in effect at all times up to the execution of this Agreement.

E. Strohm has employed separate counsel, Milo Steven Marsden and the law firm of Bendinger, Crockett, Peterson & Casey, PC (collectively, “BCP&C”), to defend her in the SEC Action and the Related Proceedings. BCP&C has also represented Strohm in connection with the negotiation and drafting of this Agreement.

F. Strohm has made various demands on the Company for indemnification and for advancement of the attorneys’ fees and costs she has incurred to date, as well as the attorneys’ fees and costs she may subsequently incur, in connection with the SEC Action and the Related Proceedings and has provided the Company with written undertakings, dated August 29, 2003 and September 3, 2003, in conformity with the requirements of Utah Code Ann. § 16-10a-904.

G. ClearOne referred Strohm’s demands for indemnification to its Special Litigation Committee (“SLC”) comprised of two independent directors. The SLC reviewed those demands, as well as similar demands for indemnification made by other present or former officers and directors of the Company, in conjunction with its investigation of the various claims asserted in the multiple shareholder derivative actions filed against certain of the Company’s present and former officers and directors, including Strohm. On October 13, 2003, the SLC completed its investigation concerning the derivative actions and the indemnification demands and issued its reports to the Company wherein it concluded, inter alia, that pursuing the derivative actions was not in the best interest of the Company and that the Company should attempt to negotiate a settlement of Strohm’s indemnification demands in the context of negotiating a global settlement of all potential claims and counterclaims between the Company and Strohm. In reliance on the SLC’s conclusions and recommendations, the Company has moved to dismiss the derivative actions pursuant to Utah Code Ann. § 16-10a-740(4)(a) and has negotiated this Agreement with Strohm.

H. Strohm and ClearOne desire to resolve any and all disputes that may exist between them, whether known or unknown, including, but not limited to, disputes regarding Strohm's demand for indemnification, disputes relating to Strohm's employment with ClearOne, and disputes relating to the termination of that employment relationship.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises, covenants, warranties, and agreements set forth herein, the Parties mutually agree as follows:

1. Effective Date. This Agreement is effective on the eighth day following Strohm's signing of this Agreement, provided that Strohm does not revoke her execution of this Agreement as provided in Paragraph 19 below.

2. Receipt of this Agreement. Strohm acknowledges that she received a copy of this Agreement on December 2, 2003, and that she has 21 days from the receipt of this Agreement in which to consider and consult with an attorney regarding this Agreement. Strohm further acknowledges that she has had an adequate amount of time in which to consult with BCP&C, her counsel of choice, with respect to the contents of this Agreement prior to signing.

3. Payment to Strohm. Upon the expiration of the revocation period described in Paragraph 19 below and the unrevoked signing of this Agreement by Strohm, ClearOne shall pay Strohm the sum of $75,000. The Parties acknowledge and agree that this payment is being made in consideration of, inter alia, the Company's purchase of Strohm's shares of the Company's common stock, the Company's cancellation of Strohm's options to purchase additional shares of the Company's common stock, and the release of all claims that Strohm may have against the Company, all as more fully stated in Paragraphs 5, 6, and 9 below. The Parties also acknowledge and agree that the Company is not responsible for the withholding of any federal or state taxes from said payment and that Strohm is responsible for paying any taxes that may become due and owing as a result of her receipt of said payment.

4. Resignation of Employment. Strohm hereby resigns her employment with ClearOne effective December 5, 2003.

5. Cancellation of Stock Options. As partial consideration for the payment specified in Paragraph 3 above, upon the expiration of the revocation period described in Paragraph 19 below and the unrevoked signing of this Agreement by Strohm, all unexercised stock options acquired by Strohm during her employment with the Company, whether vested or unvested, shall immediately be deemed cancelled. Strohm represents and warrants that, immediately prior to the effective date of this Agreement, she holds vested and unvested stock options entitling her to purchase up to a total of 268,464 shares of the Company's common stock and that 171,963 of these options are vested. Strohm further agrees that all of her rights, entitlements, and benefits under the 1990 Gentner Stock Option Plan and the 1998 ClearOne Stock Option Plan, including any agreements entered into in relation to the foregoing plans, are hereby terminated and cancelled.

6. Transfer of Stock. As partial consideration for the payment specified in Paragraph 3 above, upon the expiration of the revocation period described in Paragraph 19 below and the unrevoked signing of this Agreement by Strohm, Strohm shall transfer, assign, and sell to the Company 15,500 shares of the Company's common stock.

7. Cooperation in Related Proceedings. Strohm shall cooperate with the Company and its counsel in the defense and/or prosecution of the SEC Action and the Related Proceedings. Strohm's cooperation shall include, but shall not be limited to, voluntarily providing deposition and trial testimony, meeting with the Company and its counsel for the purpose of preparing for depositions or trial proceedings, and providing information and documents to the Company or its counsel in connection with the defense and/or prosecution of the SEC Action and the Related Proceedings. With respect to any request by the Company and/or its counsel for deposition or trial testimony, meetings, information, or documents, the Company shall give reasonable notice to Strohm of its request, including the time and place of the deposition, trial, or meeting, and shall reimburse Strohm for all reasonable expenses incurred by her, including reasonable attorneys' fees and costs, in providing the requested cooperation.

8. Indemnification. Subject to the limitations imposed by Utah Code Ann. § 16-10a-902 and the Company's articles of incorporation and bylaws, and also subject to the undertakings referred to in Recital F above, ClearOne shall indemnify Strohm for any liability and for all reasonable attorneys' fees and costs incurred by her in connection with the SEC Action or any Related Proceedings, whether incurred before or after the effective date of this Agreement. The Company's duty to indemnify Strohm is further conditioned upon Strohm's fulfillment of her duty under Paragraph 7 above to cooperate with the Company and its counsel in connection with the SEC Action and Related Proceedings.

9. Release of Claims by Strohm. Strohm, on behalf of herself and her heirs and assigns, hereby completely releases and discharges ClearOne and all of ClearOne's predecessors, successors, parents, subsidiaries, and affiliates, and all of their respective present and former directors, officers, employees, attorneys and agents (hereinafter collectively referred to as "Releasees") from any and all existing claims and causes of action of every kind and nature, whether presently known or unknown by the Parties, including but not limited to any claims or causes of action for breach of implied or express contract, libel, slander, wrongful discharge or termination, discrimination claims under the Age Discrimination in Employment Act and/or Older Workers Benefit Protection Act, Title VII of the Civil Rights Act of 1964, as amended, the Utah Antidiscrimination Act, local laws prohibiting age, race, religion, sex, national origin, disability and other forms of discrimination, or any other federal or state law that may be applicable thereto, claims growing out of any legal restrictions on ClearOne's right to terminate its employees, any tort claim or other claim arising in any way out of the employment relationship between Strohm and ClearOne or the termination of that relationship. Strohm specifically waives any and all claims for back pay, front pay, or any other form of compensation for services, except as set forth herein.

Except as expressly stated in Paragraph 8 above, Strohm hereby waives any right to recover damages, costs, attorneys' fees, and any other relief in any proceeding or action brought against ClearOne by any other party, including without limitation the Equal Employment Opportunity Commission and the Utah Antidiscrimination and Labor Division, on Strohm's behalf asserting any claim, charge, demand, grievance, or cause of action released by Strohm as stated above.

Notwithstanding the foregoing, Strohm does not waive rights, if any, Strohm may have to unemployment insurance benefits or workers' compensation benefits. Nothing in this Paragraph 9 prohibits Strohm from paying COBRA premiums to maintain Strohm's participation, if any, in ClearOne's group health plan to the extent allowed by law and by the terms, conditions, and limitations of the health plan.

10. Release of Claims by ClearOne. Except for any claim as to which indemnification is not allowed by Utah Code Ann. § 16-10a-902 and any claim that may accrue under the undertakings referenced in Recital F above, ClearOne, on behalf of itself and its successors and assigns, hereby completely releases and discharges Strohm from all existing claims and causes of action of any kind and nature, whether presently known or unknown by the Parties, including but not limited to any claims or causes of action arising out of or relating to Strohm's employment with ClearOne.

11. No Assignment of Claims. Strohm represents and warrants that she has not previously assigned or transferred, or attempted to assign or transfer, to any third party, any of the claims waived and released herein.

12. No Claim Filed. Strohm represents that she has not filed any claim, complaint, charge, or lawsuit against ClearOne or any other Releasee with any governmental agency or any state or federal court, and covenants not to file any lawsuit at any time hereafter for any matter, claim, or incident known or unknown which occurred or arose out of occurrences prior to the date hereof.

13. No Admission of Liability. This Agreement does not constitute an admission of any fault, liability, or wrongdoing by any Releasee, nor an admission that Strohm has any claim whatsoever against ClearOne or any other Releasee. ClearOne and all other Releasees specifically deny having any liability to Strohm or having committed any wrongful acts against Strohm. This Agreement does not constitute an admission of any fault, liability, or wrongdoing by Strohm, nor an admission that ClearOne has any claim against Strohm. Strohm specifically denies having any liability to ClearOne or having committed any wrongful acts against ClearOne.

14. Additional Consideration. Strohm acknowledges and agrees that as of the date she signs this Agreement, ClearOne has paid to Strohm (a) all compensation for wages earned, less normal payroll deductions, (b) all amounts due for earned vacation pay less normal payroll deductions, and (c) all other amounts due and owing to Strohm by ClearOne. Strohm agrees and acknowledges that the sums paid pursuant to this Agreement are in addition to any sums or payments to which Strohm would be entitled but for the signing of this Agreement.

15. Conditions Subsequent. This Agreement is conditioned upon Strohm signing settlement documents in the SEC Action by December 5, 2003, and upon the final approval of the settlement of the SEC Action, as it applies to Strohm, by January 31, 2004. If for any reason Strohm fails to satisfy either of these conditions, this Agreement will automatically become null and void, and the Parties shall forthwith return to each other any and all consideration received by them pursuant to this Agreement.

16. Integration Clause. This Agreement contains the entire agreement and understanding of ClearOne and Strohm concerning the subject matter hereof, and except as expressly noted herein, this Agreement supersedes and replaces all prior negotiations, proposed agreements, agreements or representations whether written or oral concerning the subject matter hereof. ClearOne and Strohm agree and acknowledge that neither ClearOne or Strohm, nor any agent or attorney of either, has made any representation, warranty, promise or covenant whatsoever, express or implied, not contained in this Agreement, to induce the other to execute this Agreement. No amendment, alteration, or modification of this Agreement shall be effective unless made in writing and signed by both Parties.

17. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Utah, without giving effect to Utah's choice of law rules.

18. Voluntary and Knowing Signing. Strohm acknowledges that she has read this Agreement carefully and fully understands this Agreement and that she has consulted with her attorney, BCP&C, prior to signing this Agreement. Strohm acknowledges that she has executed this Agreement voluntarily and of her own free will and that she is knowingly and voluntarily releasing and waiving all claims she may have against Releasees, including ClearOne.

19. Revocation Period. Strohm has seven (7) days from the date on which she signs this Agreement to revoke this Agreement by providing written notice, by mail, hand delivery, or facsimile, of her revocation to:

Raymond J. Etcheverry
Parsons Behle & Latimer
Counsel for ClearOne
201 South Main Street
Suite 1800
Salt Lake City, Utah 84111
Facsimile: (801) 536-6111

Strohm's revocation, to be effective, must be received by the above-named person by the end of the seventh day after Strohm signs this Agreement. This Agreement becomes effective on the eighth day after Strohm signs this Agreement, providing that Strohm has not revoked this Agreement as provided above.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the dates indicated below.

CLEARONE COMMUNICATIONS, INC.

/s/ Mike Keough

Dated: December 5, 2003

By: Mike Keough

Its: CEO

/s/ Susie Strohm

Dated: December 2, 2003

Susie Strohm
SUSIE S. STROHM

Exhibit 10.3

ClearOne Communications, Inc.
-and -
ClearOne Communications of Canada, Inc.

- and -

3814149 Canada, Inc. , 3814157 Canada Inc, Stechyson Family Trust, Jim Stechyson, Norm Stechyson, and Heather Stechyson Family Trust

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SHARE PURCHASE AGREEMENT

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SHARE PURCHASE AGREEMENT

THIS AGREEMENT made as of the 16th day of August, 2002

B E T W E E N:

ClearOne Communications of Canada Inc.., a corporation incorporated under the laws of the Province of New Brunswick, Canada, and wholly owned by Gentner Ventures, Inc., a corporation organised under the laws of the State of Utah, United States;

(the "Purchaser")

- and -

ClearOne Communications, Inc., a corporation incorporated under the laws of the State of Utah, United States, and the sole shareholder of Gentner Ventures, Inc.

(the "Parent")

- and -

3814149 Canada, Inc. , 3814157 Canada Inc Stechyson Family Trust, Jim Stechyson, Norm Stechyson and Heather Stechyson Family Trust

(collectively, the "Vendors")

RECITALS:

1. The Vendors are the owners of all of the issued and outstanding shares in the capital of Stechyson Electronics Ltd., a corporation organised under the Canada Business Corporations Act (the "Corporation"); and

2. The Vendors wish to sell to the Purchaser and the Purchaser wishes to purchase from the Vendors all of the issued and outstanding shares in the capital of the Corporation.

NOW THEREFORE in consideration of the mutual covenants set out in this Agreement and for other good and valuable consideration (the receipt and sufficiency of which is hereby irrevocably acknowledged), the parties agree as follows:

ARTICLE 1 - INTERPRETATION

1.1 Definitions

Throughout this Agreement, except as otherwise expressly provided, the following words and expressions shall have the following meanings:

(a) "**Accredited Investor**" has the meaning set out in Regulation D, Rule 501(a) of the Securities Act of 1933, and

(b) "**Adverse Consequences**" means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, amounts paid in settlement, liabilities, obligations, taxes, liens, losses, damages of any kind, expenses and fees, including court costs and attorney fees and expenses

(c) "**Ordinary Course of Business**" means the ordinary course of business consistent with past custom and practice (including with respect to quantity and frequency).

(d) "**Accepting Party**" has the meaning attributed thereto in Section 7.18;

(e) "**Accounts Receivable**" has the meaning attributed thereto in Section 4.1(v);

(f) "**Act**" has the meaning attributed thereto in Section 7.15;

(g) "**Affiliate**" shall have the meaning given to it in the Business Corporations Act (Ontario);

(h) "**Agreement**", "**this Agreement**", "**the Agreement**", "**hereof**", "**herein**", "**hereto**", "**hereby**", "**hereunder**" and similar expressions mean this share purchase agreement, including all of its exhibits and all instruments supplementing, amending or confirming this Agreement. All references to "**Articles**" or "**Sections**" mean and refer to the specified Article or Section of this Agreement;

(i) "**Arm's Length**" has the meaning attributed thereto in the Tax Act and the related jurisprudence;

(j) "**Authority**" means any governmental authority, body, agency or department, whether federal, provincial or municipal and any court, tribunal or similar body;

(k) "**Balance Sheet**" means the audited balance sheet of the Corporation as at October 31, 2001 forming part of the Financial Statements;

(l) "**Business**" means the business presently carried on by the Corporation consisting of the distribution and sale of services, audio /video products and accessories;

(m) “**Business Day**” means any day which is not a Saturday, a Sunday or a day observed as a holiday under the laws of the Province of Ontario, the federal laws of Canada applicable to the Province of Ontario, or the State of Utah, United States;

(n) “**Cash**” shall mean Canadian dollars, which amounts shall be in the cash accounts of the Corporation as of the Time of Closing

(o) “**Claim**” has the meaning attributed thereto in Section 6.1;

(p) “**Closing**” means the completion of the transactions described in this Agreement and Closing shall be deemed to have occurred and shall be effective at such time that counsel for Vendors and counsel for Parent shall have each faxed to the other instructions to deliver all documents, certificates and instruments held in trust by such counsel to his respective client and funds required to wired at Closing shall have been received in the account designated by Vendors;

(q) “**Closing Date**” or “Date of Closing” means the date on which Close shall be deemed to have occurred;

(r) “**Closing Financial Statements**” means the unaudited balance sheet, income statement, and statement of cash flow as of the closing date, and the nine-month period ended on July 31, 2002 and an internal trial balance which shows shows all accounts of the Corporation including but not limited to assets, liabilities, equity, sales, expenses, and income as of the August 16, 2002 along with a bring-down certificate as of the Closing Date signed by Norm Stechyson e

(s) “**Corporation**” means Stechyson Electronics Ltd., a corporation incorporated under the Canada Business Corporations Act, and its successors;

(t) “**Cost of Goods Sold**” means the purchase price of products plus applicable exchange rate, duties, brokerage and freight, less any applicable discounts and rebates payable in relation to the products and less any wages paid in relation to the services provided.

(u) “**Debt**” means all current liabilities and long term debt of the Corporation;

(v) “**Deficiency**” shall have the meaning as defined in Section 2.2(ii)(b);

(w) “**EBITDA**” means earnings before interest, taxes, depreciation and amortization calculated in accordance with U.S. GAAP;

(x) “**Encumbrance**” means any mortgage, lien (including any construction lien or certificate of action filed with respect thereto), pledge, charge, security interest, restriction, claim, set-off or encumbrance of any nature whatsoever;

(y) “**Environmental Laws**” means all applicable Laws relating in whole or in part to the pollution or protection of the environment, occupational or public health and safety, Hazardous Substances.

(z) “**Holdback Funds**” has the meaning set forth in Section 3.3(e);

(aa) “**Holdback Account**” has the meaning set forth in Section 3.3(e).

(bb) “**ETA**” means the Excise Tax Act (Canada);

(cc) “**Financial Statements**” means the Closing Financial Statements, and the audited financial statements of the Corporation for the fiscal year ended October 31, 2001, consisting of balance sheet as of those dates, statement of income (loss) and retained earnings (deficit) and, for the fiscal years ended October 31, 1999 and October 31, 2000, unaudited financial statements consisting of balance sheets, statements of income (loss) and retained earnings (deficit), statements of cash flows and all notes thereto, copies of which are annexed as Exhibit 1.1(cc) hereto;

(dd) “**Future Products**” means products created, developed or distributed by the Corporation, as same may be further developed, modified or enhanced from time to time, after the date of this Agreement;

(ee) “**GAAP**” means Canadian generally accepted accounting principles applied on a consistent basis and which are in accordance with recommendations from time to time of the Canadian Institute of Chartered Accountants (as published in the CICA handbook) at the date on which such generally accepted accounting principles are applied;

(ff) “**Governmental Entity**” means Canadian federal and provincial regulatory and taxing authorities;

(gg) “**Gross Sales**” shall mean sales of all Products and services invoiced during the applicable period.

(hh) “**GST**” means all Taxes payable under the ETA or under any provincial legislation similar to the ETA and any reference to a specific provision of the ETA or any such provincial legislation shall refer to any successor provision thereto of like or similar effect;

(ii) “**Hazardous Substance**” means a Substance which is or is deemed to be alone, or in any combination, any pollutant, contaminant, waste, solid waste, liquid waste, industrial waste, hazardous waste, hazardous toxic, dangerous substance or dangerous good, a deleterious substance, a pollution or contamination or any other substance or material currently or hereafter prohibited, controlled or regulated under any Environmental Laws whether or not such substance is defined as hazardous under the Environmental Law.

(jj) “**Indemnified Party**” has the meaning attributed thereto in Section 6.5;

(kk) “**Indemnifying Party**” has the meaning attributed thereto in Section 6.5;

(ll) “**Intellectual Property**” means all intellectual property of any nature owned or used by the Corporation which is reasonably necessary in the operation of the Business, including, but not limited to, all trade names (including, for certainty, the trade names “OM Video “ and “Omvideo.ca”, domain names, business names, service marks, logos, trademarks, certification marks, distinguishing guises, industrial designs, copyrights, copyrightable works, formulae, processes, research data, technical expertise, know how, trade secrets, inventions and patents, whether domestic or foreign and whether registered or unregistered, whether in existence or now under development and all applications for registration in respect thereof, any rights to royalties, any claims for past infringements of such Intellectual Property (but only to the extent they exist and are legal) and including such intellectual property listed in Exhibit 1.1(ll) to this Agreement;

(mm) “**Inventories**” has the meaning attributed thereto in Section 4.1(u);

(nn) **"Laws**” means all applicable federal, provincial, municipal or local laws, statutes, regulations, ordinances, rules, guidelines, orders, directives or other requirements of any Authority.

(oo) “**Lease**” means the lease between Commercial Property Developments as landlord and the Corporation, dated August 1, 2000 and amended on February 1, 2002;

(pp) “**Liability**” means any direct or indirect indebtedness, liability, guaranty, endorsement, claim, loss, damage, deficiency, cost, expense, obligation or responsibility, fixed or unfixed, known or unknown, asserted or unasserted, liquidated or unliquidated, secured or unsecured.

(qq) “**Location**” means the premises leased by the Corporation pursuant to the Lease;

(rr) “**Material Adverse Effect**” means, where used in relation to the Corporation, a material adverse effect on the business, operations, assets, financial condition or prospects of the Corporation, as the case may be;

(ss) “**Material Change**” means a material adverse change in the condition, business, operations, prospects, affairs, assets and personnel of the Business;

(tt) “**Operating Profit Margin**” shall mean income (determined according to US GAAP) before interest and taxes and the items listed in Exhibit 2.2(ii)(b).

(uu) “**Net Working Capital**” shall mean an amount which shall be calculated as the net amount of current assets less current liabilities, specifically defined as [(Cash + short-term investments + accounts receivable + other receivables + inventory + prepaid expenses + GST credits + any other non-capital assets) less (accounts payable + accruals + unearned or deferred revenues + currency exchange premiums + payroll payable + commissions payable + payroll benefits payable + taxes payable + any other liabilities due to others within the period of the next 12 months)];

(vv) “**Offer**” means an attempt or solicitation to buy securities of the Corporation or an interest in its securities, or to acquire a substantial portion of its assets, for value;

(ww) “**Options**” has the meaning attributed thereto in Section 4.1(e);

(xx) “**Parent**” means ClearOne Communications, Inc., a corporation organised under the laws of the State of Utah, United States, Inc.;

(yy) “**Parties**” means, collectively, the Purchaser, the Parent and each of the Vendors, and “Party” means any of them;

(zz) “**Payment**” has the meaning attributed thereto in Section 6.8;

(aaa) “**Person**” means an individual, partnership, unincorporated association, organization, syndicate, corporation, trust and a trustee, executor, administrator or other legal or personal representative;

(bbb) “**Plans**” means all plans, arrangements, programs, policies, practices or undertakings, whether oral or written, formal or informal, funded or unfunded, registered or unregistered which the Corporation is a party to or bound by or under which the Corporation has any liability or which has any application to the employees of the Corporation relating to retirement savings, pensions or benefits, including any defined benefit pension plan, defined contribution pension plan, group registered retirement savings plan, or supplemental pension or retirement plan, or any bonus, profit sharing, stock option, share purchase, stock appreciation, deferred compensation, incentive compensation, supplemental unemployment benefits, hospitilization, health, dental, disability, life insurance, death or survivor’s benefit, employment insurance, vacation pay, severence or termination pay or other benefit plan with respect to any of its employees, retired employees or former employees and individuals working on contract with the Corporation or other individuals providing services to the Corporation of a kind normally provided by employees, or eligible dependents of any such person;

(ccc) “**Products**” means the audio products, video products, and audio/video accessories and services currently provided, distributed and sold by the Corporation;

(ddd) “**Pro Rata Portion**” and “**Pro Rata Portions**” have the meanings attributed thereto in Section 2.1;

(eee) “**Purchased Shares**” means the shares listed in Exhibit 4.1(f) which are all of the_ issued and outstanding common shares in the capital of the Corporation;

(fff) “**Purchase Price**” has the meaning attributed thereto in Section 2.2;

(ggg) “**Purchaser**” means ClearOne Communications of Canada Inc., a corporation incorporated under the laws of the Province of New Brunswick, Canada and wholly owned by Gentner Ventures, Inc., a corporation organised under the laws of the State of Utah, United States;

(hhh) “**Real Property**” means any real property, whether owned or leased, and used for the conduct of the Business or previously used for such purpose;

(iii) “**Regulatory Approvals**” means all necessary approvals, permits, sanctions, rulings, orders or consents from any Authority or self-regulatory organization within or outside of Canada with respect to the transactions contemplated by this Agreement;

(jjj) "**Security Interest**" means any mortgage, pledge, lien, encumbrance, charge, or other security interest

(kkk)**“Substance”** means any substance, waste, liquid, gaseous or solid matter, fuel, micro-organism, sound, vibration, heat, odour, radiation, energy vector, plasma, and organic or inorganic matter.

(lll) “**Tax Act**” means the Income Tax Act (Canada);

(mmm) “**Tax**” ;“**Tax**” or “**Taxes**” shall mean all federal, provincial, municipal, state, local, foreign and other duties, levies, taxes, assessments, reassessments or other Government charges of any nature whatsoever, including, without limitation, income, estimated income, capital, land transfer, value-added, business, occupation, franchise, property, sales, transfer, use, employment, wage, payroll, commercial rent or withholding taxes, workers compensation levies, customs excise duties, social security and unemployment insurance charges and retirement contributions, including interest, penalties, fines and additions in connection therewith for which the Corporation may be liable;

(nnn) “**Tax Return**” means any return, report, information return, election, designation or other document (including any related or supporting information) with respect to Taxes;

(ooo) “**Time of Closing**” means 4:00 PM on the Closing Date or such other time as the Purchaser and the Vendors may agree upon;

(ppp) “**Threshold**” has the meaning attributed thereto in Section 6.6(f);

(qqq) “**Third Party Claim**” has the meaning attributed thereto in Section 6.5;

(rrr) “**Undisputed Amount**” has the meaning attributed thereto in Section7.17; and

(sss) “**Vendors**” has the meanings set forth in the recitals, above.

1.2 Time of the Essence

Time shall be of the essence in and of this Agreement and every part hereof. Any extension, waiver or variation of any provision of this Agreement shall not be deemed to affect this provision and there shall be no implied waiver of this provision.

1.3 Calculation of Time

Unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day on which the period ends. Where the last day of any such time period is not a Business Day, such time period shall be extended to the next Business Day following the day on which it would otherwise end.

1.4 Business Days

Whenever any action to be taken or payment to be made pursuant to this Agreement would otherwise be required to be made on a day that is not a Business Day in the United States or in Canada, such action shall be taken or such payment shall be made on the first Business Day that is a Business Day both in the United States and in Canada on the following such day.

1.5 Currency

Unless otherwise specified, all references to amounts of money in this Agreement refer to Canadian currency. Conversions to/from U.S. dollars shall be made in accordance with the rates published in the Wall Street Journal for the date prior to the date when the conversion needs to be made.

1.6 Headings

The descriptive headings preceding Articles and Sections of this Agreement are inserted solely for convenience of reference and are not intended as complete or accurate descriptions of the content of such Articles or Sections. The division of this Agreement into Articles and Sections shall not affect the interpretation of this Agreement.

1.7 Plurals and Gender

The use of words in the singular or plural, or referring to a particular gender, shall not limit the scope or exclude the application of any provision of this Agreement to such persons or circumstances as the context otherwise permits.

1.8 Statutory References

Any reference to a statute shall mean the statute in force as at the date of this Agreement (together with all regulations promulgated thereunder) as the same may be amended, re-enacted, consolidated or replaced from time to time, and any successor statute thereto, unless otherwise expressly provided.

1.9 Construction

The words "including", "include", and "includes" shall mean "including without limitation", "include, without limitation" and "includes, without limitation", respectively.

1.10 Exhibits

The Exhibits described herein and annexed hereto are incorporated by this reference and are deemed to form part of this Agreement.

ARTICLE 2 - PURCHASE AND SALE OF PURCHASED SHARES

2.1 Purchase and Sale of Purchased Shares

Subject to the terms and conditions of this Agreement, at the Time of Closing, each of the Vendors (as beneficial owner) shall sell, convey and assign those of the Purchased Shares set out opposite his or her name on Exhibit 3.3(a) free and clear from all liens, charges and encumbrances for that portion of the Purchase Price set out opposite each Vendor's name in Exhibit 3.3(a) (each such portion being that Vendor's "Pro Rata Portion" and, collectively, the Vendors'"Pro Rata Portions"), and the Purchaser shall purchase such shares.

2.2 Purchase Price

The consideration to be paid by the Purchaser for the Purchased Shares shall be US$8,000,000 subject to adjustments set out herein. Payment of the Purchase Price is more fully described in Section 3.3, below.

(i) **Pre Closing Adjustments:**

The Cash Proceeds (as hereinafter defined) and the Purchase Price shall be decreased by the amount that Purchaser or Parent has paid as of Closing to Corporation or any affiliate pursuant to that certain letter agreement dated April 18, 2002, a copy of which is attached hereto as Exhibit 2.2(i) which amounts the Parties agree shall constitute a non-refundable deposit toward the Purchase Price. The Vendors do hereby agree that notwithstanding the fact that such amount was not paid to any of them, such payments constitute part of the Purchase Price.

(ii) **Post Closing Adjustments:**

(a) Within six months following Closing, Purchaser shall examine the financial records of Corporation and determine if the following conditions (the "Post Closing Conditions") existed at the Time of Closing: (a) Corporation had in its accounts at least $300,000 Canadian Cash (which for purposes of this calculation will not include

checks which were in the possession of the Corporation at the time of Closing but have not been honoured and collected as of the date of this calculation) , (b) Corporation had a minimum of $675,000 Canadian Net Working Capital, (c) Corporation had no long-term liabilities and (d) there were no amounts owing on any line of credit of the Corporation. If any of these conditions have failed to exist at the Time of Closing, then, if the failure is as to (a), (b) or (c) above then Purchaser shall draw from Holdback Funds an amount sufficient to remedy the deficiency, and if the failure is as to (d) above, Purchaser shall draw from Holdback Funds an amount necessary to pay off all amounts outstanding pursuant to any line of credit Purchaser may draw such amounts as provided above from the Holdback Funds without notice and without complying with the procedure set out in Article 6 hereof, (without limitation, without complying with the procedures set out in Section 6.9 hereof) and seek additional remedies for any deficiency. . Purchaser's calculations to determine if the above conditions were met, shall be unilateral and not subject to discussion with Vendors. Within 10 days following any draw, Purchaser shall provide a courtesy notice to Vendors that such draws from Holdback Funds have been made and provide such information as is reasonably requested by Vendors.

(b) Subject to Section 2.2(ii)(c) below, if during the ninety (90) day period following Closing, Corporation requires Cash in excess of the amount in the Corporation's accounts at the Time of Closing (the "Deficiency"), then Purchaser may draw from the Holdback Funds without notice and without complying with the procedure set out in Article 6 hereof, (without limitation, without complying with the procedures set out in Section 6.9 hereof) an amount sufficient to fund such Deficiency, but not to exceed Can $150,000, and the Purchase Price shall be reduced by such amount. The determination of the Deficiency by Purchaser shall be unilateral and not subject to discussion with Vendors. The expense items listed on Exhibit 2.2(ii)(b) shall not be included in the calculation of the Deficiency. Exhibit 2.2(ii)(b) must be signed by all parties in order to be operative.

(c) If the Corporations Net Working Capital at Closing exceeds Can$675,000, then the amount that may be drawn from the Holdback Funds pursuant to Section 2.2(ii)(a) or (b) above or to satisfy obligations owed pursuant to the pending audit by the Canada Customs and Revenue Agency shall be decreased by the amount that the Corporation's Net Working Capital exceeds Can$675,000.

ARTICLE 3 - CLOSING ARRANGEMENTS

3.1 Place of Closing

The Closing shall take place at the Time of Closing by express delivery of executed documents to each party's counsel in trust with faxed instructions for disbursal or by another means agreed upon by the Purchaser and the Vendors.

3.2 Delivery of Certificates

The Vendors shall transfer and deliver to the Purchaser's counsel prior to the Time of Closing share certificates representing the Purchased Shares duly endorsed in blank for transfer, or accompanied by irrevocable security transfer powers of attorney duly executed in blank. The

Vendors shall take such steps as shall be necessary to cause the Corporation to enter the Purchaser upon the books of the Corporation as the holder of the Purchased Shares and to issue share certificates to the Purchaser representing the Purchased Shares purchased by it. Purchaser's counsel shall deliver the share certificates to Purchaser upon Closing.

3.3 Payment of Purchase Price

Subject to the pre closing and post closing adjustments provided for above, the Purchase Price shall be paid by the Purchaser in the following manner:

(a) By delivery to the Vendors at the Closing by wire transfer of $5,000,000 less $324,000 totalling $4,676,000 to an account of James B. Curran, (pursuant to instructions to be delivered by Mr Curran) who is hereby appointed by Vendor's and each of them as Vendors' agent to receive such wire transfer and Vendors agree that wire of funds to Mr Curran constitutes delivery of funds to each of the Vendors. The respective Pro Rata Portions, of each Vendor in the Purchase Price is as set out on Exhibit 3.3(a) and as adjusted pursuant to Paragraph 2.2 above;

(b) US $1,600,000 by wire transfer to CIBC World Markets pursuant to the written agreement attached hereto as Exhibit 3.3(b) which provides irrevocable, not subject to amendment, instructions to CIBC World Markets to purchase over a period of ninety (90) days in the market, shares of ClearOne common stock based upon the formula set out therein;

(c) IF the separate operations of the Corporation, during the 12-month period beginning on Date of Closing and ending 12 months after the Date of Closing (the "Earn Out Calculation Period") achieves the following earn out criteria, then an amount of earn out calculated as follows shall be paid in the manner set forth below:

Earn Out Criteria	"Earn Out Amount"
1. IF the Corporation's Gross Sales during the Earn Out Calculation Period exceed Canadian $11,900,000 ("Earn Out Sales"). 2. IF the Corporation's Operating Profit Margin during the Earn Out Calculation Period exceeds 15.6% ("Earn Out OPM"). 3. IF Jim Stechyson is fired by Corporation following Closing without "Cause" as that term is defined in the Employment Agreement attached hereto as Exhibit 4.6(a)(1)	1. THEN an amount equal to (Earn Out Sales - C$11,900,000) multiplied by US $0.3077, up to a maximum of US $400,000 shall be paid pursuant to the following subsection. By way of examples only: if Earn Out Sales are Can$12,800,000 , minus Can$ 11,900,000, equals Can$900,000 multiplied by .3077 equals US$276,930 If Earn Out Sales are Can$ 13,200,000, minus Can$ 11,900,000 multiplied by .3077 equals $US400,010 and the Earn Out Amount would be $US400,000. 2. THEN an amount equal to (Earn Out OPM) - (15.6%) multiplied by US $800,000 up to a maximum of US$400,000 shall be paid pursuant to the following subsection. By way of examples only: if Earn Out OPM is 16.1%, the calculation would be as follows: 16.1% minus 15.6% equals .5% Ignore the % sign .5 multiplied by $800,000 US equals $400,000US if Earn Out OPM is 15.9%,minus 15.6% equals .3% Ignore the % sign .3 multiplied by $800,000 equals $US240,000 3. THEN $800,000 US_shall be paid pursuant to the following subsection.

(d) The Earn Out Amount will be paid (promptly following determination) in cash wired to CIBC World Markets for the purchase over a period of ninety (90) days in the market, of shares of ClearOne Common Stock pursuant to the written agreement attached hereto as Exhibit 3.3(b) which provides irrevocable, not subject to amendment, instructions to CIBC World Markets to purchase shares of ClearOne common stock. Determination by Purchaser of the Earn-Out conditions shall be unilateral and not subject to discussion with Vendors. ; Purchaser shall act reasonably to promptly calculate any Earn Out Amount .

(e) Transfer of US $600,000 (the "Holdback Funds") to a separate account held by Parent (the "Holdback Account"), to be disbursed in accordance with the terms hereof.; The Holdback Account shall be at a commercial bank in the United States. The Holdback Funds shall be invested in a money market account with such bank and shall be invested for liquidity rather than highest return. The interest earned on the Holdback Funds shall be considered part of the Holdback Funds, and will be disbursed in accordance with this agreement.

3.4 Payoff of Liabilities/Mechanics of Holdback

(a) Excluding ordinary course of business trade payables which are not in default, payroll tax not in default, and sales taxes not in default prior to Closing the Vendors will cause the Corporation to pay-off those liabilities set forth on Exhibit 3.4(a), and those set forth in the Closing Financial Statements, and any liabilities of the Corporation accruing prior to the date of Closing and not reflected thereon (the "Liabilities");

(b) To the extent that the Cash or Net Working Capital remaining in the Corporation following the Closing is insufficient to pay-off the Liabilities then Purchaser may draw an amount from Holdback Funds sufficient to pay-off such liabilities and Purchaser may draw such amount without notice and without complying with the procedures set out in Article 6 hereof, (without limitation, without complying with the procedures set out in Section 6.9 hereof)

Without limitation, the Parties agree that the Holdback Funds will be available to satisfy any obligation of the Corporation based on the pending audit by the Canada Customs and Revenue Agency without notice and without complying with the procedure set out in Article 6 hereof, (without limitation, without complying with the procedures set out in Section 6.9 hereof) and seek additional remedies for any deficiency.

(c) If at the end of the six month period following Closing all of the Post Closing Conditions have been determined by Purchaser to have been met, then Purchaser shall transfer to the Vendors 1/3 of the Holdback Funds which remain in the Holdback Account, pro rata as set out in Exhibit 3.3 (a)

(d) At such time that Purchaser shall have received from its Canadian counsel reasonable assurances that the pending audit by the Canada Customs and Revenue Agency has been completed and that there is a final determination that there is no liability

owed by the Corporation based on such audit, then Purchaser shall transfer to the Vendors 25% of the Holdback Funds **which remain in the Holdback Account**, pro rata as set out in Exhibit 3.3 (a)

3.5 Lockup

All shares of ClearOne common stock purchased pursuant to Paragraphs 3.3 (b), (c) and (d) shall be subject to the Lockup Agreement the form of which is attached hereto as Exhibit 3.5 and which shall generally prohibit the resale of any such shares for a period of 12 months as to 3814157 Canada Inc, Jim Stechyson, and Heather Stechyson Family Trust and 90 days as to 3814149 Canada, Inc., Stechyson Family Trust, Norm Stechyson, from the date of purchase.

ARTICLE 4 - REPRESENTATIONS, WARRANTIES, AND COVENANTS

4.1 Representations and Warranties of the Vendors

The Corporation and the Vendors and each of them, jointly and severally represent and warrant to the Purchaser and the Parent (and acknowledge that the Purchaser and the Parent are relying on such representations and warranties in completing the transactions contemplated by this Agreement) that as of the Closing Date:

(a) Corporate

The Corporation is a corporation duly incorporated and organized and is validly existing and in good standing under the federal laws of Canada and the Province of Ontario and has all necessary corporate power, authority and capacity to own its properties and assets and to carry on the Business as presently conducted. The Corporation is a private company as that term is defined in the *Securities Act* (Ontario). Neither the nature of the Business nor the location or character of the property owned or leased by the Corporation requires the Corporation to be registered, licensed or otherwise qualified in any jurisdiction other than in Ontario, where as at the Time of Closing it shall be duly registered, licensed or otherwise qualified for such purpose. Copies of the articles and by-laws of the Corporation, including any amendments thereto, are attached hereto as Exhibit 4.1(a).

(b) Subsidiaries

The Corporation does not own, directly or indirectly, nor has it agreed to acquire (i) any of the outstanding shares or securities convertible into shares of any other corporation, or (ii) any participating interest in any partnership, joint venture or other business enterprise.

(c) Binding Agreement, Validity of Transactions

Vendors, and Corporation and each of them has full power and authority (including full corporate and trust power and authority) to execute and deliver this

Agreement and to perform its obligations hereunder. Without limiting the generality of the foregoing, the board of directors of Corporation and the trustees of all vendors have duly authorized the execution, delivery, and performance of this Agreement. This Agreement constitutes a legal, valid, and binding obligation of the Vendors and the Corporation and each of them, enforceable against each in accordance with its terms (subject, as to the enforcement of remedies, to bankruptcy, reorganization, insolvency, moratorium, and other laws relating to or affecting creditors' rights generally and subject to the availability of equitable remedies). The execution and delivery of this Agreement by the Vendors and the Corporation , the consummation of the transactions contemplated by this Agreement and the fulfilment by the Vendors and Corporation of the terms, conditions and provisions hereof do not and will not, except as set out in Exhibit 4.1(c):

(i) Contravene, or conflict with or violate or result in the breach or default (with or without the giving of notice or lapse of time, or both) or acceleration of any obligations of any of the Vendors or the Corporation under, or require the consent or approval of any Person under:

(A) Any constitution, statute, law, or rule, applicable to such Vendor or the Corporation;

(B) any judgment, order, writ, injunction, ruling or decree of any court or of any Authority which is presently applicable to such Vendor or the Corporation;

(C) the articles, by-laws or any resolutions of the Corporation or amendments thereto or restatements thereof;

(D) the constituent documents of the Vendors', as applicable; or

(E) the provisions of any agreement, arrangement or understanding to which such Vendor or the Corporation is a party or by which any of them are bound.

(ii) create in any party the right to accelerate, terminate, modify or cancel any agreement to which the Corporation or any Vendor is a party, and Vendors further represent and warrant that there are no single source suppliers for any item it purchases from its suppliers.

(iii) require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which any of Corporation or Vendor is a party or by which it is bound or to which any of its assets is subject (or result in the imposition of any Security Interest upon any of its assets).

(iv) require any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order for the Parties to consummate the transactions contemplated by this Agreement. Corporation and Vendors have obtained each and every third party

consent necessary to accomplish the intent of this Agreement. Neither Corporation nor any Vendor has any liability or obligation to pay any fees to any broker, finder, with the exception of a nominal filing fee which must paid in connection with a post closing notice with Investment Canada

(d) Licences, Permits and Authorizations

The Corporation has conducted the Business in compliance with, and the Corporation holds all licenses, permits and authorizations necessary for the lawful operation of the Business pursuant to, all applicable statutes, laws, ordinances, rules and regulations of all Authorities having jurisdiction over the Corporation or over any part of the Business, all of which licenses, permits and authorizations are listed on Exhibit 4.1(d) and all of which are valid and subsisting and in good standing with no violations in respect thereof as of the date of this Agreement.

(e) Capitalization

The authorized share capital of the Corporation is as follows:. an unlimited number of common shares, one vote per share, discretionary dividends, an unlimited number of Class A preferred shares, Class B preferred shares, Class C preferred shares, Class D preferred shares, Class E preferred shares, Class F preferred shares, all of which are non-voting, redeemable and retractable. The number of shares that are issued and outstanding are as set forth on Exhibit 4.1(e). The issued and outstanding share capital has been duly and validly issued and is outstanding as fully paid and non-assessable shares in the capital of the Corporation. There are no outstanding securities (of any kind) convertible into or exchangeable or exercisable for any shares of the capital stock of the Corporation, nor does the Corporation have outstanding any rights to subscribe for or to purchase, or any options rights or warranties for the purchase of, or any agreements providing for the issuance of, any shares of its capital stock or any securities convertible into or exchangeable or exercisable for any shares of its capital stock. On the Closing Date, the Purchased Shares shall constitute all the issued and outstanding shares in the capital of the Corporation and all of the Options shall have been extinguished and shall be void and of no further effect.

(f) Ownership of Purchased Shares/Authority

The Vendors are the only registered and beneficial owners of the Purchased Shares free and clear of any Encumbrances, owning the number of shares set out beside each Vendors' name in Exhibit 4.1(f) attached hereto. There is no contract, option or other right of another binding upon or which at any time in the future may become binding upon any of the Vendors to sell, transfer, assign, pledge, charge, mortgage or in any other way dispose of or encumber any of the Purchased Shares, respectively, other than pursuant to this Agreement.

(g) Financial Statements

The Financial Statements present fairly the financial position of the Corporation as of and for the periods stated therein, have been prepared in accordance with (Canadian) GAAP, applied on a consistent basis throughout the periods covered thereby and consistent with prior fiscal years of the Corporation. The Balance Sheet presents fairly a true and complete statement of the assets, liabilities (whether accrued, absolute,

contingent or otherwise) and financial condition of the Corporation as of the dates stated therein, and the statements of income (loss) and retained earnings (deficit) and, for the periods covered thereby, statement of cash flows forming a part of the Financial Statements accurately set forth the results of the operations of the Corporation and the source and application of the funds thereof throughout the periods covered thereby. The Corporation has not produced or had prepared audited financial statements for any period ending, or as at a date, after October 31, 2001 nor are any of the Vendors in possession of such financial statements.

(h) Absence of Undisclosed Liabilities

Except to the extent reflected or reserved against in the Balance Sheet or incurred subsequent to the date thereof and disclosed in Exhibit 4.1(h)(1) and except normal trade creditors payable in the ordinary and normal course of business, the Corporation does not have any outstanding indebtedness or any liabilities or obligations (whether accrued, absolute, contingent or otherwise) nor any outstanding commitments or obligations of any kind whether or not such obligations or commitments are presently considered liabilities of the Corporation under Canadian GAAP. At the Time of Closing, all long-term debt of the Corporation shall be paid in full. Corporation will not during the period between the date of this agreement and Closing make any payments other than in the Ordinary Course of Business and as are set out in Exhibit 4.1(h)(2).

(i) Tax Matters

Except as disclosed in Exhibit 4.1(i):

(i) The Corporation has duly filed on a timely basis with the appropriate Governmental Entities, all Tax Returns required to be filed for taxable periods ending on or before the Closing Date. All such Tax Returns are true, correct and complete in all material respects. To the best of the Corporation’s knowledge, no such Tax Return contains any misstatement or omits any statement that should have been included therein. No Tax Return has been amended. The Corporation is not the beneficiary of any extension of time within which to file any Income Tax Return.

(ii) The tax liability of the Corporation for previous taxation periods is as indicated in its Tax Returns. All Taxes shown as due on such Tax Returns or otherwise due or claimed to be due by any Governmental Entity have been paid. All instalments, assessments and reassessments of which the Corporation is aware of or has received notice of and all other Taxes which are due and payable by it, have been paid in full. Reserves and provisions for Taxes accrued but not yet due on or before the Closing Date as reflected in the Corporation’s Financial Statements are adequate as of the date of the Corporation’s Financial Statements, in accordance with Canadian generally accepted accounting principles. No deficiencies for Taxes have been proposed, asserted or assessed against the Corporation that are not adequately reserved against.

(iii) Attached as Exhibit 4.1(i) are complete and correct copies of all Tax Returns that have been filed from 1999 to the date hereof and copies of all correspondence with taxing authorities.

(iv) No claim has ever been made by or is expected from any Governmental Entity in a jurisdiction in which any one of the members of the Corporation does not file Tax Returns that it is or may be subject to taxation in that jurisdiction.

(v) No unresolved assessments, reassessments, audits, claims, actions, suits, proceedings, or investigations exist or have been initiated with regard to any Taxes or Tax Returns of the Corporation. To the knowledge of the Corporation, no assessment, reassessment, audit or investigation by any Governmental Entity is underway, threatened or imminent with respect to Taxes for which the Corporation may be liable, in whole or part.

(vi) The Tax Returns of the Corporation have not been audited by Revenue Canada. The Ontario Ministry of Revenue has audited the Corporation's 2000 Tax Return.

(vii) No election, consent for extension, nor any waiver that extends any applicable statute of limitations relating to the determination of a Tax liability of the Corporation has been filed or entered into and is still effective.

(viii) There are no liens for Taxes on the assets of the Corporation.

(ix) The Corporation is not a party to, is not bound by, nor has any obligation under, any tax sharing agreement, tax indemnification agreement or similar contract or arrangement.

(x) The Corporation has properly withheld and remitted all amounts required to be withheld and remitted (including without limitation, income tax, Canadian Pension Plan contributions, Unemployment Insurance and Workman's Compensation premiums) and has paid such amounts due to the appropriate authority on a timely basis and in the form required under the appropriate legislation.

(xi) The Corporation has not been and currently is not required to file any Tax Returns in any jurisdiction outside of Canada.

(xii) There has never been a change of control of the Corporation for the purposes of the *Income Tax Act* (Canada).

(xiii) No amount in respect of any outlay or expense that is deductible for the purposes of computing the Corporation's income for the purposes of the *Tax Act* has been owing by the Corporation for longer than two (2) years to a person with whom the Corporation was not dealing at arm's length (for the purposes of the *Tax Act)* at the time the outlay or expense was incurred. The

Corporation has not, either directly or indirectly, transferred property to or acquired property from a person with whom it was not dealing at arm's length (for the purposes of the *Tax Act)* for consideration other than consideration equal to the fair market value of the property at the time of the disposition or acquisition thereof.

(xiv) The Corporation has not claimed a deduction with respect to an outlay or expense that may be considered unreasonable under the circumstances.

(xv) All amounts of consideration paid or agreed to be paid by the Corporation with respect to the acquisition from, the use or reproduction of property of, or services rendered by, a non-resident of Canada with whom the Corporation was not dealing at arm's length for the purposes of and within the meaning of the *Income Tax Act* (Canada) have been no greater than amounts which would be considered reasonable in the circumstances had such non-resident been dealing at arm'' length with the Corporation. All amounts of consideration paid or agreed to be paid to the Corporation with respect to the acquisition by, the use or reproduction of property by, loan to, or services rendered to, a non-resident of Canada with whom the Corporation was not dealing at arm's length for the purposes of and within the meaning of the *Income Tax Act* (Canada) have been no less than amounts which would be considered reasonable in circumstances had such non-resident been dealing at arm's length with the Corporation.

(xvi) There are no circumstances which exist and would result in, or which have existed and resulted in, any of Sections 80 to and including Section 80.04 of the *Income Tax Act* (Canada) applying to the Corporation.

(xvii) The Corporation is a registrant for the purposes of the *ETA* having registration number R105007314 T001, and is not a financial institution within the meaning of the *Excise Tax Act* (Canada). The Corporation has not made any elections under the ETA.

(xviii) The Vendors are not non-residents of Canada within the meaning of the *Tax Act*.

(j) <u>Absence of Changes</u>

Since June 30, 2002:

(i) no Material Change has occurred in any of the assets, business, financial condition, results of operation or prospects of the Corporation nor has any other event, condition or state of facts occurred or arisen that might materially and adversely affect, or threaten to materially and adversely affect, the Corporation or the business, the results of operations or prospects of the Corporation or the ability of the Corporation to carry on its business substantially the same as such business was being conducted as of June 30, 2002;

(ii) no damage, destruction or loss, labour trouble or any other event, development or condition of any character (whether or not covered by insurance) has occurred which might have a Material Adverse Effect; and

(iii) the Corporation has been operated in the ordinary course of business.

(k) <u>Absence of Unusual Transactions</u>

Since June 30, 2002, the Corporation has not:

(i) transferred, assigned, sold or otherwise disposed of any of its assets or cancelled any debts or claims except in each case in the ordinary and normal course of business;

(ii) incurred or assumed any obligation or liability including capitalized lease obligations, (direct or contingent), except those listed in Exhibit 4.1(k) hereto and except unsecured current obligations and liabilities incurred in the ordinary and normal course of business;

(iii) issued or sold any shares in its capital or any warrants, bonds, debentures or other corporate securities of the Corporation or issued, granted or delivered any right, option or other commitment for the issuance of any such other securities;

(iv) discharged or satisfied any lien or encumbrance, or paid any obligation or liability (fixed or contingent) other than liabilities included in the Balance Sheet and liabilities incurred since the date thereof in the ordinary and normal course of business;

(v) except as disclosed in Exhibit 4.1(k), declared, set aside, or made any payment of any dividend or other distribution in respect of any shares in its capital or purchased or redeemed any such shares or effected any subdivision, consolidation or reclassification of any such shares or repaid in full or in part any shareholder loans;

(vi) suffered an operating loss or any extraordinary loss, or waived any rights of substantial value, or entered into any commitment or transaction not in the ordinary and normal course of business where such loss, rights, commitment or transaction is or would be material in relation to the Corporation;

(vii) except as set out in Exhibit 4.1(k) qualified, amended or changed or taken any action to amend or change its constating documents or by-laws;

(viii) except as disclosed in Exhibit 4.1(k), made any wage or salary increases or in respect of personnel which it employs, including officers and directors;

(ix) except as disclosed in Exhibit 4.1(k) hereto, mortgaged, pledged, subjected to lien, granted as security interest in or otherwise encumbered any of its assets or property, whether tangible or intangible;

(x) except as disclosed in Exhibit 4.1(k), paid or become liable for any management fee or any other fee or charge whatsoever to the Vendors or any Person who is an associate of the Vendors or paid or agreed to pay any bonus or like payment to any Person;

(xi) loaned or agreed to lend money to any Person including a shareholder; or

(xii) entered into any material agreement, contract, lease, or license outside the Ordinary Course of Business;

(xiii) received any information that any party (including Corporation) has accelerated, terminated, made material modifications to, or cancelled any material agreement, contract, lease, or license to which Corporation is bound;

(xiv) made any material capital expenditures outside the Ordinary Course of Business;

(xv) made any material capital investment in, or any material loan to, any other Person outside the Ordinary Course of Business;

(xvi) granted any license or sublicense of any material rights under or with respect to any Intellectual Property;

(xvii) entered into any employment contract or collective bargaining agreement, written or oral, or modified the terms of any existing such contract or agreement;

(xviii) adopted, amended, modified, or terminated any bonus, profit-sharing, incentive, severance, or other plan, contract, or commitment for the benefit of any of its directors, officers, and employees (or taken any such action with respect to any other Employee Benefit Plan) except as otherwise provided in this Agreement;

(xix) made any other material change in employment terms for any of its directors, officers, and employees

(xx) authorized or agreed or otherwise become committed to any of the foregoing.

(l) <u>Title to Properties</u>

Except as disclosed in the Balance Sheet or in Exhibit 4.1(l) hereto, the Corporation has good and marketable title to all of its assets, real and personal, including

but not limited to those reflected on the Balance Sheet or acquired since the date of the Balance Sheet (except as since transferred, sold or otherwise disposed of in the ordinary and normal course of business), free and clear of all Encumbrances.

(m) Leases of Personal Property

Exhibit 4.1(m) sets forth a true and complete list in all material respects of all equipment, other personal property and fixtures in the possession or custody of the Corporation which, as of the date hereof, is leased or held under licence or similar arrangement and of the leases, licenses, agreements, or other documentation relating thereto.

(n) Leases of Real Property

(i) Other than the Lease, the Corporation is not a party to or bound by any lease, sublease, license or other instrument relating to real property and the Corporation has not entered into any other instrument relating to real property. The interest held by the Corporation under the Leases is free and clear of any and all Encumbrances.

(ii) The Lease is in good standing and in full force and effect without amendment, and the Corporation is entitled to the benefit of the Lease.

(iii) All amounts of rent and other amounts presently owing under the Lease have been paid.

(iv) The Corporation has complied with all of its obligations under the Lease and the Corporation is not in default or breach, nor has it received a notice of default or breach of its obligations under the Lease.

(v) Attached hereto as Exhibit 4.1(n) is a consent to assignment executed by the landlord as is necessary for this transaction

(o) Real Property

The Corporation does not own any real property or, except for the Lease, any interest in real property.

(p) Fixed Assets

Each item of tangible assets, machinery, equipment, vehicles, furniture, office equipment, computer hardware and software with a value greater than C$2,000 wherever situate and owned by the Corporation is set out in Exhibit 4.1(p) hereto.

(q) Condition of Assets

All tangible assets of the Corporation are in good condition, repair and (where applicable) proper working order, having regard to the use and age thereof, except only for reasonable wear and tear.

(r) Services Warranty

All of the services rendered by Corporation have conformed in all material respects with all applicable contractual commitments and all express and implied warranties, and , after diligent inquiry, Corporation has no knowledge of any material liability (, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due) for damages in connection therewith.

(s) Product Liability

After diligent inquiry, Corporation has no knowledge of any material liability (whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due) arising out of any injury to individuals or property as a result of the ownership, possession, or use of any product manufactured, sold, leased, or delivered by Corporation.

(t) Litigation

Except as disclosed in Exhibit 4.1(t) there is no suit, action, dispute, civil or criminal litigation, claim, arbitration or legal, administrative or other proceeding or governmental investigation, including appeals and applications for review (collectively, “Claims”), pending or, to the best of the Vendors’ knowledge, threatened against the Corporation or affecting any of its assets or properties or the Business. There are no facts or circumstances known to the Vendors which are likely to give rise to any such Claims. Except as disclosed in Exhibit 4.1(t), there is not presently outstanding against the Corporation (or affecting its Business or properties) any judgement, execution, decree, injunction, rule or order of any court, Authority, administrative agency or arbitrator.

(u) Inventories

Exhibit 4.1(u) sets forth a detailed list of the inventories (the “Inventories”) of the Corporation as at July 31, 2002 and as of August 16, 2002e, which list is true and correct. The Inventories are in good condition, are merchantable, are of a quality and quantity useable or saleable in the ordinary course of business, are fit for the purposes for which they are intended (except to the extent, if any, written down to net realizable value on the Financial Statements) and are carried on the books of the Corporation at the lower of cost or net realizable value. Inventories are labelled and stored in compliance with all applicable federal, provincial and local laws, ordinances, and governmental rules and regulations.

(v) Accounts Receivable

Exhibit 4.1(v) sets forth a detailed list of the accounts receivable (the "Accounts Receivable") of the Corporation as at July 31, 2002 and as of August 16, 2002 which list is true and correct. The Accounts Receivable of the Corporation set out in Exhibit 4.1(v) are, and all other accounts receivable at the Time of Closing shall be, bona fide and good and collectible at their face amounts in the ordinary course of business (subject to no defence, counterclaim or set-off) except to the extent of any reserves provided for doubtful accounts in the ordinary course of business which reserves are set out in Exhibit 4.1(v).

(w) Material Contracts

Except for the Encumbrances referred to in Exhibit 4.1(l), the leases and agreements referred to in Exhibit 4.1(m), the Leases, the written employment contracts referred to in Exhibit 4.1(x) and the contracts and agreements (including government grants or incentives) referred to in Exhibit 4.1(w), the Corporation is not a party to or bound by any material contract or commitment either now or in the future, whether oral or written. The contracts, leases and agreements referred to in the Leases and Exhibits 4.1(m), 4.1(x) and 4.1(w) are all legal, valid, binding, enforceable and in full force and effect unamended and no default exists in respect thereof on the part of the Corporation or on the part of any of the other parties thereto. The Corporation is not in default or in breach of any lease, contract or commitment to which it is a party and there exists no condition, event or act which, with the giving of notice or lapse of time or both would constitute such a default or breach and all such contracts and commitments are in good standing and in full force and effect without amendment thereto and the Corporation is entitled to all benefits thereunder. No party to any contract has repudiated such contract or express an intention to not perform such contract.

The term "material contract" as used in this paragraph shall be deemed to include but not be limited to the following:

(i) any agreement (or group of related agreements) in excess of $20,000Can for the sale or lease of personal property to or from any Person;

(ii) any agreement (or group of related agreements) in excess of $20,000Can for the purchase or sale of raw materials, commodities, supplies, products, or other personal property, or for the furnishing or receipt of services;

(iii) any agreement concerning a partnership or joint venture;

(iv) any agreement (or group of related agreements) under which it has created, incurred, assumed, or guaranteed any indebtedness for borrowed money, or any capitalized lease obligation or under which it has imposed a Security Interest on any of its assets, tangible or intangible;

(v) any agreement concerning confidentiality or noncompetition;

(vi) any agreement involving any Vendors;

(vii) any profit sharing, stock option, stock purchase, stock appreciation, deferred compensation, severance, or other material plan or arrangement for the benefit of its current or former directors, officers, and employees;

(viii) any license of Intellectual Property

(ix) any written agreement for the employment of any individual on a full-time, part-time, consulting, or other basis;

(x) any agreement under which it has advanced or loaned any amount to any of its directors, officers, and employees

(xi) any agreement under which the consequences of a default or termination could have a material adverse effect on the business, financial condition, operations, results of operations, or future prospects of the Corporation; or

(xii) any other agreement (or group of related agreements) the performance of which involves consideration in excess of $20,000 Can.

(x) <u>Employment Matters</u>

(i) Exhibit 4.1(x) contains a complete and accurate list of all employees, agents and independent contractors of the Corporation and, to the extent applicable, their positions, current salaries, benefits and other remunerations, dates of last salary increases and dates of hire with the Corporation or any predecessors of the Corporation. Exhibit 4.1(x) also indicates which employees are parties to a written or oral agreement of employment (including confidentiality and non-competition agreements).

(ii) Except as disclosed in Exhibit 4.1(x), the Corporation is not a party to any agreements with past employees, agents or independent contractors in respect of whom the Corporation has continuing obligations. There are no oral contracts of employment entered into with any employees employed by the Corporation, which are not terminable in accordance with applicable law and the Corporation has not entered into any agreements with such employees with respect to the termination of employment. The Corporation does not have any obligation to re-instate any employees.

(iii) Except for Norm Stechyson, Heather Stechyson and Janice Stechyson, who have resigned and executed full releases which are attached hereto as Exhibit 4.1(x)(iii), at the Time of Closing, the Corporation will not have terminated, laid-off or dismissed (whether such dismissal is actual or constructive) in the four weeks preceding the Date of Closing any employees of the Corporation.

(iv) All liabilities in respect of employees have or shall have been paid in full to the Closing Date, including premium contributions, remittance and assessments for unemployment insurance, employer health tax, Canada Pension Plan, income tax, Workers' Compensation and any other employment related legislation, accrued wages, Taxes, salaries, commissions and employee benefit plan payments.

(v) There are no outstanding, pending, threatened or anticipated assessments, actions, causes of action, claims, complaints, demands, orders, prosecutions or suits against the Corporation, or its directors, officers or agents pursuant to or under any applicable rules, regulations, orders or laws, including Canada Pension Plan, unemployment insurance, Tax, employer health tax, employment standards, labour relations, occupational health and safety, human rights, workers' compensation and pay equity laws.

(vi) The Corporation has not made any agreements, whether directly or indirectly, with any labour union, employee association or other similar entity or made commitments to or conducted negotiations with any labour union or employee association or similar entity with respect to any future agreements. No trade union, employee association or other similar entity has any bargaining rights acquired by either certification or voluntary recognition with respect to the employees of the Corporation. The Vendors, after diligent inquiry, are not aware of any current attempts to organize or establish any other labour union, employee association or other similar entity.

(vii) All vacation pay, bonuses, commissions and other emoluments relating to the employees of the Corporation are accurately reflected in all respects and have been accrued in the financial records of the Corporation.

(viii) Except as described in Exhibit 4.1(x), the Corporation is in compliance with all federal, provincial, state, local foreign and other applicable law respecting employment and employment practices, terms and conditions of employment and wages and hours.

(ix) Corporation has no liability, and anticipates no liability, to the Canada Customs and Revenue Agency, or to employees, in connection with any audit by that agency.

(x) There is no unfair labour practice, complaint, charge or other matter against or involving the Corporation pending or threatened before any governmental authority.

(xi) All officers and employees have been thoroughly interviewed (the notes from such interviews are attached as Exhibit 4.1(x)(xi)) and based upon such interviews no officer or employee employed by the Corporation has indicated his or her intention to resign following Closing except that Norm, Heather and Janice Stechyson will not continue their employment.

(xii) The consummation of the transaction contemplated by this agreement will not entitle any current or former officer or employee of the Corporation to severance pay, pay in lieu of notice, unemployment compensation, or any other similar payment, nor accelerate the time of payment or date of vesting, nor increase the amount of any compensation due to any officer or employee of the Corporation.

(y) Pension and Benefit Matters

(i) Exhibit 4.1(y) hereto is a complete list of each written or unwritten employee benefit, pension or retirement plan, program, agreement or arrangement whether formal or informal and whether legally binding or not, including any plan or arrangement relating to bonuses, incentive compensation, stock purchase rights, stock options, severance or termination pay, hospitalization or other medical or dental benefits, disability, life or other insurance, supplemental unemployment benefits or profit sharing ("Employee Plan"), and all deferred compensation arrangements in which any of the employees of Vendor re participants.

(ii) Each of the Employee Plans is duly registered where required by law, is in good standing and is maintained in material compliance with applicable laws.

(iii) Neither the execution, delivery and performance of this Agreement nor the consummation of the transactions herein or therein contemplated will cause Buyer or any affiliate thereof to be liable to any person pursuant to the terms of any Employee Plan or applicable law.

(iv) Vendor is not a party to any pending or threatened action, claim, suit or proceeding by any person or governmental instrumentality concerning any Employee Plan which relates to Vendor or any of its employees.

(v) All payments due from Vendor (on account of employment contracts or otherwise) for Employee Plans have been paid for all periods ended on or prior to the date hereof, and for the period from the date hereof through the Closing Date, shall be paid by Vendor. Vendor has no Employee Plan that constitutes a "registered pension plan" as that term is defined in s. 248(1) of the Income Tax Act (Canada).

(z) **Legal Compliance**

After diligent inquiry, Corporation represents and warrants that to the best of Vendors knowledge it has complied with all applicable laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings, and charges thereunder) of federal, state, local, and foreign governments (and all agencies thereof), and no action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand, or notice has been filed or commenced against any of

them alleging any failure so to comply, except where the failure to comply would not have a material adverse effect on the business, financial condition, operations, results of operations, or future prospects of the Corporation and its business.

(aa) **Insurance**

The Corporation has all of its assets, property and undertaking and the Business insured against loss or damage by all insurable hazards or risks on a replacement cost basis and such insurance coverage will be continued in full force and effect (with all premiums paid) up to and including the Closing Date.

Exhibit 4.1(aa) sets forth the following information with respect to each material insurance policy (including policies providing property, casualty, liability, and workers' compensation coverage and bond and surety arrangements) with respect to which Corporation is a party, a named insured, or otherwise the beneficiary of coverage:

(i) the name, address, and telephone number of the agent;

(ii) the name of the insurer, the name of the policyholder, and the name of each covered insured;

(iii) the policy number and the period of coverage;

(iv) the scope (including an indication of whether the coverage is on a claims made, occurrence, or other basis) and amount (including a description of how deductibles and ceilings are calculated and operate) of coverage; and

(v) a description of any retroactive premium adjustments or other material loss-sharing arrangements.

With respect to each such insurance policy: (A) the policy is legal, valid, binding, enforceable, and in full force and effect in all material respects; (B) Corporation is not in material breach or default (including with respect to the payment of premiums or the giving of notices), and no event has occurred which, with notice or the lapse of time, would constitute such a material breach or default, or permit termination, modification, or acceleration, under the policy; and (C) no party to the policy has repudiated any material provision thereof.

(bb) **Intellectual Property**

General

(i) Exhibit 1.1(ll) contains a complete and accurate list of all of the Intellectual Property, and details, if any, of all registrations thereof and all applications for registration in respect thereof, and indicate in each case whether such Intellectual Property is owned by or licensed to the Corporation.

(ii) All registrations with, and applications to, Authorities on behalf of, or for the benefit of, the Corporation in respect of the Intellectual Property are

valid and in full force and effect (subject to adjudication, of which there is presently none) and are not in arrears in respect of payment of any taxes or maintenance fees or the taking of any other actions by the Corporation to maintain their validity or effectiveness, other than routine filings and payments applicable to registrations of that kind.

(iii) All intellectual property reasonably necessary for the conduct of the Business by the Corporation, as currently conducted, is owned by, or licensed to, the Corporation.

(A) Except as disclosed in Exhibit 1.1(ll) hereto, no licences or sublicenses have been granted by the Corporation to third parties permitting the use of any Intellectual Property, nor is there any obligation on the part of the Corporation to enter into a licence or sublicense with a third party to permit such third party to use any of the Intellectual Property. With regard to the items listed in Exhibit 1.1(ll), the license, sublicense, agreement, or permission covering the item is legal, valid, binding, enforceable, and in full force and effect in all material respects;

(B) no party to the license, sublicense, agreement, or permission is in material breach or default, and no event has occurred which with notice or lapse of time would constitute a material breach or default or permit termination, modification, or acceleration thereunder;

(C) no party to the license, sublicense, agreement, or permission has repudiated any material provision thereof; and

(iv) Except as disclosed in the Exhibit 4.1(bb)(iv) hereto, to the best of the Vendors' knowledge, there has been no infringement or violation of the rights of the Corporation in and to any of the Intellectual Property. The Corporation has not interfered with, infringed upon, misappropriated, or violated any material intellectual property rights of third parties in any material respect, and neither Vendors nor their affiliates nor the Corporation has ever received any charge, complaint, claim, demand, or notice alleging any such interference, infringement, misappropriation, or violation (including any claim that Corporation must license or refrain from using any intellectual property rights of any third party).

(v) The Corporation has all rights necessary to enable it to lawfully and without infringement of the rights of any third party place on its websites and in its Products the content currently on the Corporation's websites (and to permit others to view and/or download and use such content in the manner allowed by those sites), and contained in the Products. The Corporation has not placed any content on any website or in any Product or distributed such content in a manner which infringes the rights of any third party to a materially adverse extent or which could reasonably be expected to give rise to any claim having any Material Adverse Effect. No legal proceedings alleging infringement in respect of the content on the Corporation's websites or Products of any type (including CD-ROMs and software) have ever been brought.

(vi) The software listed on Exhibit 1.1(ll) shall not contain any clock, timer, counter, or other limiting or disabling code, design or routine that would cause the software to be erased, made inoperable or otherwise rendered incapable of performing in accordance with its performance specifications and descriptions or otherwise limit or restrict the Purchaser's ability to use a copy of the software after a specific or random number of years or copies, or any viruses, Trojan horses, or other disabling or disruptive codes or commands.

(vii) Corporation has not ever agreed to indemnify any Person for or against any interference, infringement, misappropriation, or other conflict with respect to the use of any intellectual property.

Copyrights

(i) The Corporation owns all equitable and legal rights in and to all copyrightable works forming part of the Intellectual Property (including all source code versions of the Products), other than works used in the Business under a contract listed in Exhibit 4.1(w) ("Works"). All Works are protectable under the copyright laws of the United States and Canada and have been, or are capable of being, registered in the United States and Canadian copyright offices. A complete list of all Works reasonably necessary for the conduct of Business is included on Exhibit 1.1(ll).

(ii) The Works listed on Exhibit 1.1(ll) have not been incorporated, in whole or in part, into any completed works which are not listed on Exhibit 1.1(ll), whether published or unpublished.

(iii) Except as noted in Exhibit 1.1(ll), the Works listed thereon are each original works of authorship and are comprised of material created solely by the Corporation's employees in the course of their employment or by contractors who have executed forms of assignment vesting all rights in such Works in the Corporation. No material created by any other persons or any other legal entities have been incorporated in any of the Works except where the Corporation has acquired the rights to do so.

(iv) The Corporation has taken no action, and the Vendors are aware of no facts, which would cause any of the Works listed on Exhibit 1.1(ll) to be adjudicated in any legal forum to have entered the public domain.

(v) The authors of all Works have waived, to the extent permitted by law, in whole any moral rights he or she may have in the Works, in favour of all future acquirors of the Works.

Trademarks

(i) The Corporation owns all equitable and legal title to all words, symbols, devices, designs, logos, artistic renderings, and similar items which have

come to indicate a particular source of origin with respect to the Corporation's goods and/or services and which are reasonably necessary for the conduct of Business. Collectively, these properties are referred to in this Agreement as "the Marks".

(ii) To the knowledge of the Vendors, the Corporation is entitled to use in Canada all generic, descriptive and non-distinctive words, symbols, devices, photographs, designs, artistic renderings and packages designs which it has incorporated in the sale, promotion, advertising or licensing of its goods and/or services.

(iii) There are no claims pending or which, to the Vendors' knowledge, may be successfully brought against the continued use, or attempted or continued registration of any of the marks presently being used by the Corporation in the United States, Canada or throughout the world.

(iv) There are no claims pending or which, to the Vendors' knowledge, may be validly brought against the continued use of any generic, descriptive and/or non-distinctive words, symbols, devices, photographs, designs, artistic renderings and package designs which have been incorporated in the sale, promotion, advertising or licensing of the Corporation's goods and/or services in the United States or throughout the world. The Vendors are aware of no facts which would support any such claims, actual or potential.

(v) All properties which the Corporation recognizes as Marks are listed on Exhibit 1.1(ll) by mark, goods or services, registration number, and date the Mark was first used.

(vi) All Marks listed on Exhibit 1.1(ll) are currently in use in Canada.

Domain Names

(i) All domain names listed on Exhibit 1.1(ll) have been duly registered with an ICANN approved Registrar of the corresponding country top level domain name registration authority approved registrar("ICANN") through ICANN's registration procedures, and are operating, active domain names. The Corporation has taken all reasonable steps to maintain in force the domain name registrations listed on Exhibit 1.1(ll).

(ii) ICANN's records show the Corporation to be the sole Person in exclusive control of the domain names listed in Exhibit 1.1(ll).

(iii) Neither ICANN nor any third party has advised the Corporation that any of the domain names listed in Exhibit 1.1(ll) infringe, dilute, or interfere with the rights of any other party, or may infringe, dilute or interfere with the rights of any other party.

(iv) ICANN has not notified the Corporation that any of the domain names listed in Exhibit 1.1(ll) have been placed on "hold" or are otherwise subject to a dispute or potential dispute pursuant to NSI's dispute resolution policy.

(v) There are no claims pending or, to the knowledge of the Vendors, which may be validly brought against the continued use or registration of any of the domain names presently being used by the Corporation in the United States or throughout the world, as listed on Exhibit 1.1(ll). The Vendors are aware of no facts which would support any such claims, actual or potential.

(cc) **Computer Systems**

The Corporation owns or licences all of the computer systems reasonably necessary for the operation of the Business as it is currently conducted. All such computer systems of the Corporation, including, but not limited to, mainframes, mini-computers and special purpose systems are fully operational.

(dd) **Source Code Versions**

All source code versions of the Products are accurate and complete in all material respects and are sufficient for the ongoing operation and conduct of the Business, and for the enhancement and/or modification of the Products to which such source code versions relate.

(ee) **Contracts with Non-Arm's Length Persons**

Except as set forth in Exhibit 4.1(ee), there are no existing contracts or arrangements to which the Corporation is a party in which any of the Vendors, any director or officer of the Corporation or any other Person not dealing at arm's length with the Vendors or the Corporation, or any director or officer of the Corporation has an interest, whether directly or indirectly, including, without limitation, arrangements for the payment of management or consulting fees of any kind whatsoever.

(ff) **Agreements Restricting Business**

The Corporation is not a party to any agreement or arrangement which restricts the freedom of the Corporation to carry on the Business, including any contract or agreement which contains covenants by the Corporation not to compete in any line of business with any other Person.

(gg) **Bank Accounts, etc.**

There is set forth in Exhibit 4.1(gg) hereto the name of each bank or other depository in which the Corporation maintains any bank account, trust account or safety deposit box and the names of all persons authorized to draw thereon or who have access thereto.

(hh) **Absence of Guarantees**

The Corporation has not given or agreed to give and is not a party to or bound by any guarantee of indebtedness, indemnity, bond or suretyship or other obligations of another Person or Persons or any other commitment by which the Corporation is, or is contingently, responsible for such indebtedness or other obligations except as specifically provided for or referred to in this Agreement or in any exhibit hereto.

(ii) **Corporate Records**

The minute books of the Corporation contain, and will contain at the Closing Date, accurate and complete minutes of all meetings and resolutions of its directors and shareholders held since its incorporation. All resolutions of the Corporation were duly passed and all meetings of the Corporation were duly held, and its share certificate books and share certificate registers are, and will at the Closing Date be, complete and accurate and shall reflect all transactions contemplated by this Agreement.

(jj) **Consents**

No consent, approval or authorization of, or declaration, filing (other than administrative filings with Tax authorities, companies registries and the like) or registration with, any Authority or other person is required to be made or obtained by the Corporation or the Vendors prior to, or as a condition of, the consummation of the transactions contemplated in this Agreement.

(kk) **Powers of Attorney**

The Corporation has not given any power of attorney to any Person for any purpose whatsoever.

(ll) **Brokers**

The Vendors and the Corporation have not engaged any broker or other agent in connection with the transactions contemplated in this Agreement and, accordingly, there is no commission, fee or other remuneration payable to any broker or agent who purports or may purport to act or have acted for the Vendors or the Corporation.

(mm) **Full Disclosure**

None of the foregoing representations and statements of fact contains any untrue statement of a material fact or omits to state any material fact necessary to make any such statement or representation not misleading to a prospective purchaser of the Purchased Shares seeking full information as to the Corporation and its properties, businesses and affairs. There is no fact that the Vendors have not disclosed to the Purchaser in writing having, or, so far as the Vendors can foresee, that might have, a Material Adverse Effect or that might materially adversely effect the ability of the Vendors to perform their obligations under this Agreement. No condition exists that would materially adversely affect Purchaser’s ability to continue to conduct the Business following Closing. The

parties hereto agree that a fact disclosed in one Exhibit hereto does not constitute disclosure in any other Exhibit hereto.

(nn) **Only Business-Customer and Supply Relationships**

The Corporation has not in the last 5 years carried on and does not currently carry on any business other than the Business. After diligent inquiry, to the best of Vendors knowledge, no condition presently exists which would cause an adverse change in Business following Closing which change is based upon relationships with customers or suppliers of the Corporation or the Business. After diligent inquiry, to the best of Vendors knowledge, no person has committed any act or omitted to commit any act which act or omission has had, or with the passage of time would have the effect of damaging relationships with Corporation's customers or suppliers. There is set forth in Exhibit 4.1(nn) copies of all correspondence from customers or suppliers, within the past 24 months which contains material complaints or criticism, regarding the Corporation, its conduct or the conduct of employees or business practices. Exhibit 4.1(nn) also contains all information (whether or not it has been reduced to writing or not) regarding any other material problems of any kind which Corporation has had with customers or suppliers which has occurred in the last 24 months.

(oo) **US Securities Laws**

Each Vendor agrees that: (1) Purchaser has made no recommendation to any Vendor to purchase shares of ClearOne common stock in the market as provided in this Agreement and has made no representation regarding the current or future price of ClearOne common stock (2) Purchaser has provided no information to any Vendor which is not contained in any publicly available document () Each Vendor has been advised by its professional advisors regarding the merits and risks of an investment in ClearOne common stock (4) each Vendor agrees and acknowledges that the investment in ClearOne common stock involves substantial risk based upon the future performance of ClearOne as well as risks associated with the market generally(5) each Vendor can sustain the a loss of its investment in the ClearOne common stock.

(pp) **Ontario Securities Laws**

Each of the Vendors is by virtue of such Vendor's net worth, investment experience and sophistication able to evaluation and assess the merits and risks associated with holding the ClearOne Shares as an investment.

(i) Each of the Vendors is acquiring the ClearOne Shares as principal for such Vendor's own account and not for the benefit of any other person.

(ii) Each of the Vendors is a resident of the Province of Ontario.

(iii) Each of the Vendors acknowledges that the ClearOne Shares may not be resold otherwise than in compliance with the resale restrictions applicable to the Vendors and any purchaser of the ClearOne Shares, including, without limitation, such restrictions under the Ontario Securities Laws.

(qq) **Environmental Matters**

(i) The Corporation has carried and is carrying on its business and its assets always have been and are now in compliance with all Environmental Laws. Neither the Corporation nor any of its directors or officers has ever been convicted of any offence for non-compliance with any Environmental Law, been fined or otherwise penalized for non-compliance with an Environmental Law, or settle any prosecution for non-compliance with any Environmental Law short of conviction.

(ii) The Corporation has filed all reports and other information and obtained all permits, certifications, programs, registrations, licences and other approvals (collectively "**Permits**") copies or a list of which are attached as Exhibit 4.1(qq)(ii) to enable it to carry on its business as now conducted in compliance with Environmental Laws. All of the Permits are valid and in good standing and transferable, there has been no violation of any Permit by the Corporation and no proceeding is pending, or to the knowledge of the Sellers, threatened to revoke or limit any Permit.

(iii) No control orders, stop orders or other orders or directives have been issued from an Authority with respect to any environmental matter to the Corporation in respect to its business or assets (including any owned or leased real property) or, to the knowledge of the Vendors (after due inquiry), to any other Person in respect of any such matter. To the knowledge of the Vendors (after due inquiry), no fact or circumstance exists which could give rise to such an order or directive being issued.

(iv) No Hazardous Substance originating from any real property owned or leased by the Corporation, or any other assets of the Corporation, has been released onto nor has migrated or is migrating to any neighbouring, adjoining or proximate property. No Hazardous Substance originating from any neighbouring or adjoining properties, has been released onto, has migrated onto, or is migrating towards any real property owned or leased by the Corporation or any other asset of the Corporation. No Hazardous Substance is present on, in or under any real property owned or leased by the Corporation or any other asset of the Corporation in levels or concentrations in excess of those prescribed by Environmental Laws, whether or not such presence is in violation of Environmental Laws.

(v) The Corporation has stored, treated and disposed of all Hazardous Substances used or generated in or otherwise relating to its business and assets in compliance with Environmental Laws. The Corporation has not incurred and is not incurring any liability pursuant to Environmental Law in connection with its business and assets including arising as a result of dealing in Hazardous Substances.

(vi) None of the Sellers nor the Corporation has received any written or oral notice of any alleged violation of Environmental Laws or other damage to the environment emanating from or occurring on any of the real property owned or leased by the Corporation or on any property in the vicinity of any of the real property, owned or leased by the Corporation or has incurred any environmental Liability in connection with any of the Corporation's assets and, to the knowledge of the Sellers (after due inquiry), no present or past fact, condition or circumstance exists which would give rise to such a claim or liability, or potential liability.

(vii) There are no above ground or underground storage tanks at, on, in or under the real property owned or leased by the Corporation. None of the real property owned or leased by the Corporation has ever been used by any Person as a landfill site, a waste disposal site, or as a location for the disposal of Hazardous Substances or waste, has ever had any urea formaldehyde foam insulation, asbestos, pcbs, or radioactive substances located thereon.

(viii) All information provided to the Purchaser or its environmental consultants or similar representatives in connection with any environmental audit or other investigation will be true and complete in all material respects. The Sellers and the Corporation have not conducted an environmental audit (including any evaluation, assessment, review or study) of any of the real property owned or leased by the Corporation, the business or assets of the Corporation except those in respect of which copies have been provided to the Purchaser, as listed on Exhibit 4.1(qq)(viii). The Purchaser has been provided with correct and complete copies of all reports required to be made to Authorities under Environmental Laws, and all correspondence relating thereto.

The representations contained in Environmental Matters subparagraphs (iv) and (vii) are limited to the best knowledge of the Vendors upon the condition that the Vendors have used best efforts to determine if those representations are true. If Vendors have not used such best efforts, then those representations are not subject to a best knowledge limitation.

4.2 <u>Representations and Warranties of the Purchaser and the Parent</u>

The Purchaser and the Parent hereby jointly and severally represent and warrant to the Vendors (and acknowledge that the Vendors are relying on the representations and warranties in completing the transactions contemplated hereby) that:

(a) **<u>Corporate - Purchaser</u>**

The Purchaser is a corporation duly incorporated and validly existing under the laws of the Province of New Brunswick. The Purchaser has the corporate power and authority to own and hold its properties and to carry on its business as now conducted.

(b) **Corporate - Parent**

The Parent is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Utah, United States. The Parent has the corporate power and authority to own and hold its properties and to carry on its business as now conducted and as proposed to be conducted.

(c) **Authority**

Each of the Purchaser and the Parent has all necessary corporate power, authority and capacity to enter into this Agreement and to perform its obligations hereunder and the execution and delivery of this Agreement and the performance by each of the Purchaser and the Parent of its obligations hereunder has been duly authorized by all necessary corporate action on the part of the Purchaser and the Parent, respectively.

(d) **Capitalization - Parent**

The authorized capital stock of the Parent consists of fifty million (50,000,000) common shares, of which 10,269,117 are outstanding as of May 1, 2002. All of the outstanding shares are validly issued and outstanding, fully paid and non-assessable, with no personal liability attaching to the ownership thereof.

(e) **Enforceability**

This Agreement constitutes a legal, valid and binding obligation of each of the Purchaser and the Parent, enforceable against each of them in accordance with its terms (subject, as to the enforcement of remedies, to bankruptcy, reorganization, insolvency, moratorium, and other laws relating to or affecting creditors' rights generally and subject to the availability of equitable remedies). The execution and delivery of this Agreement by the Purchaser and the Parent, the consummation of the transactions contemplated hereby and the fulfilment by the Purchaser and the Parent of the terms, conditions and provisions hereof will not: contravene or violate or result in the breach (with or without the giving of notice or lapse of time, or both) or acceleration of any obligations of the Purchaser or the Parent under:

(A) any laws applicable to the Purchaser or the Parent;

(B) any judgement, order, writ, injunction or decree of any court or of any Authority which is presently applicable to the Purchaser or the Parent;

(C) the articles of incorporation, by-laws or any resolutions of the Purchaser or the Parent or any amendments thereto or restatements thereof; or

(D) the provisions of any agreement, arrangement or understanding to which the Purchaser or the Parent is a party or by which it is bound.

(f) **Brokers**

The Purchaser has not engaged any broker or other agent in connection with the transactions contemplated in this Agreement and, accordingly, there is no commission, fee or other remuneration payable to any broker or agent who purports or may purport to have acted for the Purchaser.

4.3 Non-Waiver

No investigations made by or on behalf of any party at any time shall have the effect of waiving, diminishing the scope of or otherwise affecting any representation or warranty made by the other parties herein or pursuant hereto.

4.4 Nature and Survival of Vendor's Representations and Warranties

The representations and warranties of the Vendors contained in this Agreement or in any document or certificate given pursuant to this Agreement shall survive the Closing for the benefit of the Purchaser and Parent as follows:3 years for Claims based on breaches of warranties regarding tax matters and two years for all other Claims unless a bona fide notice of Claim shall have been made in writing before the expiry of that period, in which case the representation and warranty to which such notice applies shall survive in respect of that Claim until the final determination or settlement of that claim.

4.5 Survival of Purchaser's and Parent's Representations and Warranties

The representations and warranties of the Purchaser and the Parent contained in this Agreement or any document or certificate given pursuant to this Agreement shall survive the Closing for the benefit of the Vendors for a period of two (2) years unless a bona fide notice of Claim shall have been made in writing before the expiry of that period, in which case the representation and warranty to which such notice applies shall survive in respect of that Claim until the final determination or settlement of that claim.

4.6 Vendors Covenants

(a) **Non-Compete**.

With the exception of Jim Stechyson each Vendor agrees that, for a period of three (3) years following the Closing, it will not compete directly or indirectly with the Purchaser, as more fully described in the Non-Compete Agreement substantially in the form set forth in Exhibit 4.6(a). Jim Stechyson will execute and deliver the Employment Agreement attached hereto as Exhibit 4.6(a)(1).

(b) **Employee Matters.**

No employees of Corporation shall be terminated as a result of this transaction except for Norm, Heather and Janice Stechyson each of whom has executed and delivered a release as attached hereto as Exhibit 4.1(x)(iii).

(c) **Matters Regarding the Share Resale**

(i) The Vendors will comply with all applicable securities laws in connection with the resale of the shares of ClearOne common stock purchased in the market pursuant to Section 3 above, including, without limitation, the provisions of the Securities Act of 1933, *Securities Act* (Ontario) and the regulations, rules, policies, blanket orders and rulings thereunder (the "Ontario Securities Laws"), and shall consult with its own legal advisors to ensure such compliance.

(ii) The Vendors will execute and deliver within the applicable time periods all documentation as may be required by any applicable securities laws, including, without limitation, the Ontario Securities Laws, to permit the resale by the Vendors of ClearOne shares.

ARTICLE 5 - CONDITIONS PRECEDENT TO THE PERFORMANCE BY THE PARTIES OF THEIR OBLIGATIONS UNDER THIS AGREEMENT

5.1 The Purchaser's Conditions

The obligation of the Purchaser to complete the purchase of the Purchased Shares hereunder shall be subject to the satisfaction of, or compliance with, at or before the Time of Closing, each of the following conditions (each of which is hereby acknowledged to be inserted for the exclusive benefit of the Purchaser):

(a) Representations and Warranties

All representations and warranties of the Vendors made pursuant to this Agreement shall be true and correct with the same force and effect as if made at and as of the Time of Closing and the Vendors shall have delivered to the Purchaser at the Time of Closing a certificate dated the Closing Date, duly executed by a senior officer of each of the Vendors reasonably acceptable to the Purchaser, to such effect. The receipt of such certificate and the closing of the transaction of purchase and sale provided for in this Agreement shall not be nor deemed to be a waiver of the representations and warranties of the Vendors contained in this Agreement, which representations and warranties shall continue in full force and effect for the benefit of the Purchaser as provided in Article 4.

(b) Performance of Obligations

The Vendors shall have performed or complied with, in all respects, all of their obligations, covenants and agreements in this Agreement which are to be performed or complied with by the Vendors at or prior to the Time of Closing, and the Vendors shall have delivered to the Purchaser at the Time of Closing a certificate dated the Closing Date under corporate seal, duly executed by a senior officer of each of the Vendors reasonably acceptable to the Purchaser, to such effect.

(c) Receipt of Closing Documentation

All documentation relating to the due authorization and completion of the purchase and sale of the Purchased Shares and all actions and proceedings taken on or prior to the Closing Date in connection with the performance by the Vendors of their obligations, covenants and agreements under this Agreement , including but not limited to delivery of the Closing Financial Statements and all Exhibits hereto shall be satisfactory to the Purchaser and its counsel, acting reasonably, and the Purchaser shall have received copies of all such documentation or other evidence as it may reasonably request in order to establish the consummation of the transactions contemplated hereby and the taking of all corporate proceedings in connection therewith in compliance with these conditions, in form and substance satisfactory to the Purchaser and its counsel, acting reasonably.

(d) Vendors' Closing Opinion

The Purchaser shall have received an opinion dated as of the Closing Date in form and substance reasonably satisfactory to Purchaser's counsel, from counsel for the Vendors and from counsel to the Corporation in such form and as to such matters as the Purchaser or its counsel may request provided that, insofar as the opinions expressed in such opinion are based on matters of fact, such opinions may be based upon certificates of the Vendors, public officials and officers of the Corporation as counsel may deem reasonably appropriate and, as to matters involving the laws of jurisdictions in which such counsel is not qualified to practice, on opinions of recognized local counsel in such jurisdictions.

(e) Employment Agreements

Jim Stechyson shall have entered into Employment Agreements with the Corporation in the form attached as Exhibit 4.6(a)(1) respectively.

(f) Approvals

The acquisition of all of the Purchased Shares pursuant to this Agreement shall have been approved by the Board of Directors and, if necessary, by the shareholders of the Corporation and approvals or waivers, if any, required by the Investment Canada Act.

(g) Lease Matters

The Vendors shall have obtained from the landlord under the Lease an acknowledgement that:

(i) the Lease is in good standing and in full force and effect without amendment;

(ii) the closing of the transactions contemplated herein (including the amalgamation of the Corporation into the Purchaser) will not result in the

termination of or an increase in the rent presently being paid under the Lease or any change in terms of the Lease as they exist on the date hereof; and

(iii) the Corporation has paid or caused to be paid all rents and other amounts presently owing under the Lease.

(h) No Action to Restrain

No action or proceeding shall be pending or threatened by any Authority or any other Person (including a party hereto) to restrain or prohibit the completion of the transactions contemplated by this Agreement or to prevent or restrain the Corporation from carrying on the Business as presently carried on.

(i) Directors and Officers

All directors and officers of the Corporation specified by the Purchaser shall have resigned and shall have executed a form of release satisfactory to the Purchaser and its counsel. In addition, all employees (other than Norm Stechyson) deemed necessary to the successful operation of the Corporation by the Purchaser shall continue to be in the employ of the Corporation as of the Closing.

(j) Due Diligence

The Purchaser has commenced the conduct of investigations of the business and financial position of the Corporation and shall continue such investigations after the execution of this Agreement and prior to the Closing and the Purchaser shall have been satisfied, in its absolute discretion, with the results of its due diligence review of the Corporation and the Business, including its review of the Financial Statements, the Closing Financial Statements and all Exhibits hereto.

k) Board Approval

The board of directors of the Purchaser and the Parent shall have approved of the transaction contemplated in this Agreement.

(l) Options Cancelled (if applicable)

Any Optionee of the Corporation shall, upon payment of consideration (if any) by the Vendors (and not by the Corporation, the Purchaser or the Parent), have surrendered to the Corporation all of the his or her Options for cancellation and delivered a general release to and in favour of the Corporation and all of its directors, officers and shareholders past and present, in form and substance satisfactory to the Purchaser, acting reasonably.

(m) Vendor Agreements

Each beneficial owner of the Vendors shall have entered into his or her respective Vendor Agreement.

(n) **Cash**

The cash account of the Company shall contain at least C$300,000 including checks that are dated prior to Closing and were received prior to Closing.

(o) **Net Working Capital**

The Net Working Capital of the Company shall be at least C$675,000.

(p) **Liabilities**

The Liabilities shall have been paid or terminated, as applicable, as of the Closing with the exception of accounts payable and other amounts owing to various government agencies in the ordinary course of business.

(q) **Encumbrances**

All encumbrances on property of the Corporation shall have been released and Purchaser shall have received copies of such releases and such encumbrances shall be shown on the public record to have been released.

(r) **Line of Credit**

All of the Corporation's lines of credit shall have been terminated and copies of such termination shall have been delivered to Purchaser.

(s) Ernst and Young shall provide an opinion regarding the Corporation' equity and no detrimental effect from corporate reorganization, in form and substance satisfactory to Purchaser.

(t) The Closing Financial Statements shall be satisfactory to the Purchaser both in form and content.

5.2 Conditions of the Vendors

The obligation of the Vendors to complete the sale of the Purchased Shares hereunder shall be subject to the satisfaction of or compliance with in all material respects, at or before the Time of Closing, of each of the following conditions (each of which is hereby acknowledged to be inserted for the exclusive benefit of the Vendors):

(a) Representations and Warranties

All representations and warranties that the Purchaser and the Parent made pursuant to this Agreement shall be true and correct with the same force and effect as if made at and as of the Time of Closing and the Purchaser and the Parent shall have delivered to the Vendors at the Time of Closing a certificate dated the Closing Date, duly executed by a senior officer of the Purchaser and the Parent acceptable to the Vendors, to such effect. The receipt of such certificate and the Closing of the transaction of purchase

and sale provided for in this Agreement shall not be nor be deemed to be a waiver of the representations and warranties of the Purchaser and the Parent contained in this Agreement, which representations and warranties shall continue in full force and effect for the benefit of the Vendors as provided in Article 4.

(b) Performance of Agreement

The Purchaser and the Parent shall have performed or complied with, in all respects all of its obligations, covenants and agreements in this Agreement which are to be performed or complied with by the Purchaser and the Parent at or prior to the Time of Closing and shall have delivered to the Vendors at the time of Closing a certificate dated the Closing Date under corporate seal, duly executed by a senior officer of the Purchaser and the Parent acceptable to the Vendors, to such effect.

(c) Receipt of Closing Documentation

All documentation relating to the due authorization and completion of the purchase and sale of the Purchased Shares and all actions and proceedings taken on or prior to the Closing Date in connection with the performance by the Purchaser and the Parent of their respective obligations under this Agreement shall be satisfactory to the Vendors and their counsel, acting reasonably, and the Vendors shall have received copies of all such documentation or other evidence as they may reasonably request in order to establish the consummation of the transactions contemplated hereby and the taking of all corporate proceedings in connection therewith in compliance with these conditions, in form and substance satisfactory to the Vendors and their counsel, acting reasonably.

(d) No Action to Restrain

No action or proceeding shall be pending or threatened by any Authority or any other Person (including a party hereto) to restrain or prohibit the completion of the transactions contemplated by this Agreement.

(e) Opinion of Parent's General Counsel

The Vendors shall have received an opinion dated the Closing Date, in form and substance reasonably satisfactory to Vendors Counsel, from Parent's General Counsel, confirming the matters warranted in paragraphs b, c, d, e, f of Section 4.2 hereof, provided that, insofar as the opinion, expressed with respect to such matters as are based on matters of fact, such opinions may be based solely upon an officer of the Parent and such evidence as such general counsel may reasonably deem appropriate.

(f) Opinion of Purchaser's Counsel

The Vendors shall have received an opinion dated the Closing Date, in form and substance reasonably satisfactory to Vendors Counsel, from Purchaser's Counsel, confirming the matters warranted in paragraphs a, c and f of Section 4.2 hereof, provided that, insofar as the opinion, expressed with respect to such matters as are based on

matters of fact, such opinions may be based solely upon an officer of the Parent or Purchaser and such evidence as such counsel may reasonably deem appropriate.

5.3 Waiver by Purchaser

If any of the conditions set forth in Section 5.1 have not been fulfilled, performed or satisfied at or prior to August 19, 2002 the Purchaser may, by written notice to the Vendors terminate all of its obligations hereunder and the Purchaser shall be released from all its obligations under this Agreement. Any of such conditions may be waived in whole or in part by the Purchaser by instrument in writing given to the Vendors without prejudice to any of the Purchaser's rights of termination in the event of non-performance of any other condition, obligation or covenant in whole or in part, and without prejudice to its right to complete the transaction of purchase and sale contemplated by this Agreement and claim damages for breach of representation, warranty or covenant.

5.4 Waiver by Vendors

If any of the conditions set forth in Section 5.2 have not been fulfilled, performed or satisfied at or prior to _August 19, 2002 the Vendors may, by written notice executed by all of the Vendors and given to the Purchaser, terminate all of their obligations hereunder and the Vendors shall be released from all their obligations under this Agreement. Any of such conditions may be waived in whole or in part by the Vendors by instrument in writing executed by all of the Vendors and given to the Purchaser, without prejudice to any of the Vendors' rights of termination in the event of non-performance of any other condition, obligation or covenant in whole or in part, and without prejudice to their right to complete the transaction of purchase and sale contemplated by this Agreement and claim damages for breach of representation, warranty or covenant.

ARTICLE 6 - INDEMNIFICATION

6.1 Indemnification by Vendors

The Vendors jointly and severally covenant and agree with the Purchaser and the Corporation to indemnify and save harmless the Purchaser and the Corporation, from and against any claim, demand, action, cause of action, damage, loss (including lost profits), cost, liability or expense (including reasonable professional fees and disbursements) (a "Claim") (including without limitation any liability based on an employee's dismissal prior to Closing or other liability to any employee prior to Closing)which may be made or brought against the Purchaser or the Corporation or any one or more of them, or which they or any one or more of them may suffer or incur in respect of, as a result of, or arising out of:

(a) any nonfulfillment of any covenant or agreement on the part of the Vendors, or any one or more of them, contained in this Agreement or any document or certificate given pursuant to this Agreement;

(b) any inaccuracy in or breach of any representation or warranty of the Vendors, or any one or more of them, contained in this Agreement or any document or certificate given pursuant to this Agreement; or

(c) any debts and liabilities of the Corporation for Taxes existing at the Time of Closing, or any reassessment for Taxes for any period ending on or before the Closing Date, for which no adequate reserve has been provided for and disclosed in the Balance Sheet.

6.2 Indemnification by the Purchaser and the Parent

The Purchaser and the Parent covenant and agree with the Vendors to jointly and severally indemnify and save harmless the Vendors, from and against any Claim which may be made or brought against the Vendors, or one or more of them, or which they or one or more of them may suffer or incur, directly or indirectly, in respect of, as a result of, or arising out of:

(a) any non-fulfillment of any covenant or agreement on the part of the Purchaser under this Agreement or any document or certificate given pursuant to this Agreement;

(b) any inaccuracy in or breach of any of the Purchaser's representations or warranties contained in this Agreement or any document or certificate given pursuant to this Agreement;

6.3 Limitation of Liability

In no event shall an Indemnifying Party be liable for Claims, whether or not previously made by an Indemnified Party, to the extent the aggregate value of all Claims exceeds the Purchase Price. The parties acknowledge that Purchase Price represents the maximum liability of the Purchaser and the Parent, on the one hand, and the Vendors, on the other hand. Further, all demand for payment of indemnification shall be subject to Sections 4.4 and 4.5 hereof and all other provisions of this Agreement.

6.4 The Parent's Guarantee

The Parent hereby guarantees the performance of and compliance with all of the Purchaser's obligations, covenants and agreements under this Agreement and Jim Stechyson's employment agreement in the form attached hereto as Exhibit 4.6(a)(1)

6.5 Procedure for Indemnification

(a) Claims Other Than Third Party Claims

Following receipt from the Vendors or the Purchaser, as the case may be (the "Indemnified Party"), of a written notice of a claim for indemnification which has not arisen in respect of a Third Party Claim, the party who is in receipt of such notice (the "Indemnifying Party") shall have 30 days to make such investigation of the Claim as the Indemnifying Party considers desirable. For the purpose of such investigation, the

Indemnified Party shall make available to the Indemnifying Party the information relied upon by the Indemnified Party to substantiate the claim. If the Indemnified Party and the Indemnifying Party agree at or prior to the expiration of such 30 day period (or any mutually agreed upon extension thereof) to the validity and amount of the Claim, the Indemnifying Party shall immediately pay to the Indemnified Party the Undisputed Amount. If the Indemnified Party and the Indemnifying Party do not agree within such period (or any mutually agreed upon extension thereof), such dispute shall be resolved by arbitration as set out in Section 7.15.

(b) **Third Party Claims**

The Indemnified Party shall notify the Indemnifying Party in writing as soon as is reasonably practicable after being informed in writing that facts exist which may result in a Claim originating from a Person other than the Indemnified Party (a "Third Party Claim") and in respect of which a right of indemnification given pursuant to Section 6.1 or 6.2 may apply. The Indemnifying Party shall have the right to elect, by written notice delivered to the Indemnified Party within 10 days of receipt by the Indemnifying Party of the notice from the Indemnified Party in respect of the Third Party Claim, at the sole expense of the Indemnifying Party, to participate in or assume control of the negotiation, settlement or defence of the Third Party Claim, provided that:

(i) such will be done at all times in a diligent and bona fide matter;

(ii) the Indemnifying Party acknowledges in writing its obligation to indemnify the Indemnified Party in accordance with the terms contained in this Agreement in respect of that Third Party Claim; and

(iii) the Indemnifying Party shall pay all reasonable out-of-pocket expenses incurred by the Indemnified Party as a result of such participation or assumption.

If the Indemnifying Party elects to assume such control, the Indemnified Party shall co-operate with the Indemnifying Party and its counsel and shall have the right to participate in the negotiation, settlement or defence of such Third Party Claim at its own expense. If the Indemnifying Party does not so elect or, having elected to assume such control, thereafter fails to proceed with the settlement or defence of any such Third Party Claim, the Indemnified Party shall be entitled to assume such control. In such case, the Indemnifying Party shall co-operate where necessary with the Indemnified Party and its counsel in connection with such Third Party Claim and the Indemnifying Party shall be bound by the results obtained by the Indemnified Party with respect to such Third Party Claim.

6.6 Additional Rules and Procedures

The obligation of the parties to indemnify each other pursuant to this Article 6 shall also be subject to the following:

(a) an Indemnified Party shall only be entitled to make a claim for indemnification pursuant to Section 6.1 or 6.2, as the case be, if written notice containing reasonable particulars of such Claim is delivered to the Indemnifying Party within the time periods provided for in Section 6.5(a) or 6.5(b) as the case may be;

(b) if any Third Party Claim is of a nature such that the Indemnified Party is required by applicable law to make a payment to any Person (a “Third Party”) with respect to such Third Party Claim before the completion of settlement negotiations or related legal proceedings, the Indemnified Party may make such payment and the Indemnifying Party shall, forthwith after demand by the Indemnified Party, reimburse the Indemnified Party for any such payment. If the amount of any liability under the Third Party Claim in respect of which such a payment was made, as finally determined, is less than the amount which was paid by the Indemnifying Party to the Indemnified Party, the Indemnified Party shall, forthwith after receipt of the difference from the Third Party, pay such difference to the Indemnifying Party;

(c) except in the circumstances contemplated by Section 6.5 above, and whether or not the Indemnifying Party assumes control of the negotiation, settlement or defence of any Third Party Claim, the Indemnified Party shall not settle or compromise any Third Party Claim except with the prior written consent of the Indemnifying Party (which consent shall not be unreasonably withheld). A failure by the Indemnifying Party to respond in writing to a written request by the Indemnified Party for consent for a period of five days or more, shall be deemed a consent by the Indemnifying Party to such request;

(d) the Indemnifying Party and the Indemnified Party shall provide each other on an ongoing basis with all information which may be relevant to the other’s liability hereunder and shall supply copies of all relevant documentation promptly as they become available;

(e) notwithstanding Section 6.5, the Indemnifying Party shall not settle any Third Party Claim or conduct any related legal or administrative proceeding in a manner which would, in the opinion of the Indemnified Party, acting reasonably, have a material adverse impact on the Indemnified Party, provided the Indemnified Party agrees to release the Indemnifying Party from any liability in relation to third party claims; and

(f) no party will have any liability in respect of indemnification under this Article 6 until the total dollar amount arising thereunder exceeds C$50,000 (the “Threshold Amount”). In the event a party’s liabilities under this Section 6 exceeds the Threshold Amount, then in such event the party obligated for indemnification shall fully indemnify and reimburse the other party for all amounts up to the Threshold Amount, as well as amounts in excess of such amount.

6.7 <u>Rights Cumulative</u>

The rights of indemnification contained in this Article 6 are cumulative and are in addition to every other right or remedy of the parties contained in this Agreement or otherwise.

6.8 GST

If the Vendors and the Purchaser acting reasonably determine that any payment (the "Payment") made pursuant to this Article 6 is subject to GST or are deemed by the ETA to be inclusive of GST, the Indemnifying Party agrees to pay to the Indemnified Party in addition to the Payment an amount equal to the Payment multiplied by the applicable rate of GST.

6.9 Set-Off Rights

The Holdback Funds shall be placed in a separate account of the Purchaser or Parent at Closing pursuant to Article 3 above, for a period of one year from the Closing (the "Holdback Period).. If Purchaser determines that it has a Claim it shall notify Jim Stechyson on behalf of the Vendors (hereinafter for purposes of this Section, the "Vendor") in writing of such Claim (the "Set-Off Claim") stating (i) the amount of the Claim, and (ii) the basis for such Claim for the Vendor to evaluate the Set-Off Claim; Vendor shall have ten (10) days to evaluate and respond to the Set-Off Claim in writing. If Vendor does not dispute the Set-Off Claim, Purchaser shall be entitled to set off such claim against the Holdback Funds. In the event that the Vendor disputes a Set-Off Claim, the parties will resolve such dispute using the procedure described in Section 7.15 below, provided that, if the HoldbackPeriod described in this section expires during the existence of a dispute involving a Set-Off Claim, the Purchaser shall retain an amount equal to the Set-Off Claim pending resolution of the dispute, and will release the balance of the Holdback Funds to Vendor.

6.10 Exception

Notwithstanding any other provision in this Agreement, if Purchaser has an expressed right pursuant to this Agreement to draw HoldbackFunds without compliance with Article 6 then Purchaser may draw Holdback Funds without regard to any limitation in this Article 6 and without compliance with any provision of this Article 6 and, without limiting the generality of the above, such draw Holdback Funds shall not be subject to the limitations set out in Section 6.6(f) hereof. However, any draw from Holdback Funds by Purchaser shall be based on Purchaser's reasonable interpretation of this Agreement and applicable facts and Vendors reserve the right to arbitrate any claim that Purchaser was not entitled to draw funds from the Holdback under the terms of this Agreement.

The foregoing indemnification provisions in this Article 6 are in addition to, and not in derogation of, any statutory, equitable, or common law remedy any Party may have with respect to the transactions contemplated by this Agreement.

ARTICLE 7 - GENERAL

7.1 Public Notices

All public notices to third parties and all other publicity concerning the matters contemplated by this Agreement shall be jointly planned and co-ordinated by the Parties and no Party shall act unilaterally in this regard without the prior approval of the other Parties, except where the Party making such notice is required to do so by law or by the applicable regulations

or policies of any regulatory agency of competent jurisdiction or any stock exchange in circumstances where prior consultation with the other Parties is not practicable.

7.2 Term Sheet

The Parties acknowledge that this Agreement supersedes any and all versions of that that certain unexecuted term sheet between the Vendors and the Purchaser.

7.3 Confidentiality

The existence and terms and conditions of this Agreement are confidential until publicly disclosed. The parties acknowledge and agree that they are parties to a mutual non-disclosure agreement, and continue to be bound by the terms thereof.

7.4 Stand-Off

The Vendors, on behalf of themselves, the Corporation, its officers, directors, attorneys, and advisors, agree not to (i) solicit, initiate, or encourage the submission of any proposal or offer from any person relating to the acquisition of any capital stock or other voting securities, or any substantial portion of the assets, of the Corporation (including any acquisition structured as a merger, consolidation, or share exchange), or (ii) participate other than with Purchaser in any discussions or negotiations regarding, furnish any information with respect to, assist or participate in, or facilitate in any other manner any effort or attempt by any person to do or seek any of the foregoing (collectively, the “Stand-Off”). The Vendors and/or the Corporation will notify Parent immediately if any person makes any proposal, offer, inquiry, or contact with respect to any of the foregoing. The Corporation will deal exclusively with Purchaser notwithstanding any third party proposals. The Stand Off will expire at the earlier of (i) sixty (60) days from the effective date of this Agreement (ii) or the Closing.

7.5 Expenses

Each Party to this Agreement shall pay its respective legal, accounting and other professional advisory fees, costs and expenses incurred in connection with the negotiation, preparation or execution of this Agreement and all documents and instruments executed or delivered pursuant to this Agreement, as well as any other costs and expenses incurred.

7.6 Further Assurances

The Parties shall do all such things and provide all such reasonable assurances as may be required to consummate the transactions contemplated by this Agreement, and each Party shall provide such further documents or instruments required by any other party as may be reasonably necessary or desirable to effect the purpose of this Agreement and carry out its provisions, whether before or after Closing.

7.7 Assignment and Enurement

Neither this Agreement nor any benefits or duties accruing under this Agreement shall be assignable by any Party without the prior written consent of each of the other Parties, which

consent shall not be unreasonably withheld or delayed. Subject to the foregoing, this Agreement shall ensure to the benefit of and be binding upon the Parties and their respective successors (including any successor by reason of amalgamation of any Party) and permitted assigns.

7.8 Entire Agreement

With respect to the subject matter of this Agreement, this Agreement and its Exhibits supersedes all prior understandings and communications between the parties or any of them, oral or written. This Agreement, together with any exhibits and checklists attached hereto and any document delivered pursuant to this Agreement, constitutes the entire agreement between the Parties with respect to the matters herein and supersedes all prior agreements, understandings, negotiations and discussions relating to the subject matter hereof. The execution of this Agreement has not been induced by, nor do any of the Parties rely upon or regard as material, any representations, promises, agreements or statements whatsoever not incorporated herein and made a part hereof. This Agreement shall not be amended, altered or qualified except by written agreement signed by all of the Parties.

7.9 Waiver

Except as otherwise expressly set out herein, no waiver of any provision of this Agreement shall be binding unless it is in writing. No indulgence or forbearance by a Party shall constitute a waiver of such Party's right to insist on performance in full and in a timely manner of all covenants in this Agreement. Waiver of any provision shall not be deemed to waive the same provision thereafter, or any other provision of this Agreement at any time.

7.10 Notices

All payments and communications which may be or are required to be given by any party to any other party, shall be in writing and (i) delivered personally, (ii) sent by prepaid courier service or mail, or (iii) sent by prepaid telecopier or other similar means of electronic communication to the parties at their following respective addresses:

For the Purchaser and the Parent:
Susie Strohm
ClearOne Communications, Inc.
1825 West Research Way
Salt Lake City, Utah 84119
Attention: Susie Strohm
Telecopier: (801) 974-3742

with a copy to:

J. Scott Hunter
Clyde, Snow, Sessions, & Swenson
201 South Main
Salt Lake City, Utah 84119
Attention: J. Scott Hunter
Telecopier: (801) 521-6280

For the Vendors:

Jim Stechyson
5597 Goddard St
Ottawa, Ontario
K4M1C5

with a copy to:

Norm Stechyon
1080 Tomkins Farm Crescent
Greely, ON, K4P 1M5

Telecopier: 613 822 1109

Any such notice so given shall be deemed conclusively to have been given and received when so personally delivered or delivered, by courier or on the day on which termination is confirmed if sent by telecopier or other electronic communication or on the fifth day following the sending thereof by mail. Any party may from time to time change its address hereinbefore set forth by notice to the other parties in accordance with this section.

7.11 Severability

If any provision of this Agreement or portion thereof or the application thereof to any Person or circumstance shall to any extent be invalid or unenforceable: (a) the remainder of this Agreement or the application of such provision or portion thereof to any other Person or circumstance shall not be affected thereby; and (b) the Parties will negotiate in good faith to amend this Agreement to implement the intentions set forth herein. If the Parties cannot agree on an appropriate amendment, any Party may refer the matter for determination pursuant to and in accordance with Section 7.15. Each provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

7.12 Execution by Facsimile

The signature of any of the Parties hereto may be evidenced by a facsimile copy of this Agreement bearing such signature.

7.13 Counterparts

This Agreement may be signed in one or more counterparts, each of which so signed shall be deemed to be an original, and such counterparts together shall constitute one and the same instrument. Notwithstanding the date of execution of any counterpart, each counterpart shall be deemed to bear the effective date set forth below.

7.14 Governing Law and Jurisdiction for Disputes

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein and shall be treated, in all respects, as an Ontario contract and the parties hereto do attorn to the exclusive jurisdiction of the Courts of Ontario.

7.15 Resolution of Disputes by Arbitrator

(a) Any dispute, controversy or claim arising out of this contract, including any question regarding its existence, validity or termination, shall be submitted by any party to be finally resolved by arbitration under the *Ontario Arbitration Act*, 1991 as amended (the "Act"). The Act is incorporated by reference into this clause.

(b) The language of the arbitration shall be English. The arbitration shall be governed by the substantive and procedural law of Ontario. The venue for the arbitration shall be Ottawa.

(c) The arbitration shall be conducted by a single arbitrator appointed by agreement between the parties, or in the absence of agreement, in accordance with the Act.

(d) The arbitration must be complete, and a decision rendered, within ninety (90) days of the submission of the dispute to arbitration.

(e) The decision arrived at pursuant to the arbitration shall be final and binding. No appeal shall lie from the arbitration. Any award granted as a result of arbitration proceedings under this section shall be recognized internationally, and may be entered in any court having jurisdiction to enforce such awards.

(f) The prevailing Party in any arbitration brought to enforce or interpret this Agreement shall be entitled to reasonable costs, fees, losses, and expenses including attorney's fees.

7.16 Remedies

The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement are not performed in accordance with their specific terms or are otherwise breached. It is accordingly agreed that the parties shall be entitled to seek an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in an arbitration proceeding brought pursuant to Section 7.15 of this Agreement.

7.17 Undisputed Amounts

Subject to the express provisions of this Agreement, where there is any dispute as to the amount of money owing by any Party to any other Party hereunder, the portion of the amount owing that is not in dispute or otherwise contested or challenged (the “Undisputed Amount”) if any, shall be paid within the time required herein or if the required time has elapsed, shall be paid immediately, without deduction or abatement, but without prejudice to the rights of the Parties to contest, challenge or otherwise dispute the appropriate disposition of the remaining portion of the money claimed hereunder.

7.18 Survival

Unless replaced, amended or withdrawn prior to any detrimental reliance thereon by the Accepting Party (as defined in this paragraph), all covenants, agreements, indemnities, warranties and representations set forth herein or in any certificate or other document delivered pursuant to or in connection with this Agreement by or on behalf of one Party to another Party (the “Accepting Party”) shall be deemed to have been relied upon by the Accepting Party notwithstanding any investigations heretofore or hereafter made by or on behalf of the Accepting Party or its agents, and shall, unless expressly provided otherwise, survive in full force and effect and not merge upon the execution, termination or expiry of this Agreement.

7.19 Good Faith

All parties hereto covenant to act in good faith and fairly in connection with all obligations set out herein including, without limitation, allowing Vendors a good faith attempt to earn the Earn Out Amount. In connection therewith, James Stechyson shall have reasonable rights and responsibilities regarding operations of the Corporation subject to reasonable controls by Parent.

[Signatures appear on the following page]

IN WITNESS WHEREOF the parties have hereunto duly executed this Agreement on the date first above written.

	PURCHASER: **ClearOne Communications of Canada, Inc., a New Brunswick corporation**
/s/ Brian R. Woodland Witness	Per: /s/ Frances M. Flood Its: President & CEO
	PARENT: **ClearOne Communications, Inc., a Utah corporation**
/s/ Brian R. Woodland Witness	Per: /s/ Frances M. Flood Its: President & CEO
	VENDORS: **3814149 Canada Inc., a Canadian corporation**
______________________ Witness	Per: ______________________ Its: ______________________
	3814157 Canada Inc., a Canadian corporation
______________________ Witness	Per: ______________________ Its: ______________________
	Stechyson Family Trust
______________________ Witness	Per: ______________________ Its: ______________________
	Heather Stechyson Family Trust
	Per: ______________________ Its: ______________________
______________________ Witness	______________________ Jim Stechyson
	______________________ Norm Stechyson

PRODUCT LINE PURCHASE AGREEMENT

This Agreement is entered into as of August 23, 2002, (the "Effective Date") by and between ClearOne Communications, Inc., a Utah corporation (the "Seller"), and Comrex Corporation, a Massachusetts corporation (the "Buyer"). Buyer and Seller are referred to collectively herein as "Party" in the singular and "Parties" in the plural.

This Agreement contemplates a transaction in which Buyer will purchase certain of the assets and assume certain of the liabilities of Seller's DH20, DH22 and DH30 digital hybrid product line, and the Parties shall engage in certain other transactions, as further described herein.

Concurrently with this Agreement the Parties are entering into that certain Manufacturing Agreement and that certain Software License Agreement of even date herewith.

Now, therefore, in consideration of the premises and the mutual promises herein made, and the representations, warranties, and covenants herein contained and subject to the terms and conditions hereinafter set forth, and intending to be legally bound, the Parties agree as follows.

1. Definitions.

(a) "Acquired Assets" means all of the right, title, and interest that Seller possesses and has the right to transfer in and to all of the assets constituting the Products as more fully set forth in Schedule 1, and *including*: (i) the manufacturing rights, Product documentation, all Source Code and Object Code for the Products as set forth in Schedule 1; (ii) the Intellectual Property; (iii) the tooling, dies, accessories, and other tangible personal property owned by Seller identified and in the quantities set forth in Schedule 1; (iv) the sales and marketing materials in printed and in editable electronic file format as set forth in Schedule 1; and (v) to the extent transferable or assignable by Seller, the governmental licenses, permits, approvals and certifications, ratings, compliance reports and listings from product or quality control certification organizations, as set forth in Schedule 1; *provided, however*, that the Acquired Assets shall not include the specific Source Code or Object Code for the Gentner/ClearOne proprietary acoustic echo canceling routines and line echo canceling routines which shall be licensed in Object Code form to Buyer pursuant to the Software License Agreement and the Non-Exclusive Files licensed to Buyer pursuant to §2(b) below.

(b) "Assumed Liabilities" has the meaning set forth in §6(c) below.

(c) "Audio and Video Conferencing Environment" means the market segment where individuals or groups that are in physically separate locations to communicate with each other through electronic media without the intent for such communications to be distributed to the general public for profit.

(d) "Buyer" has the meaning set forth in the preface above.

(e) "Buyer's Disclosure Schedule" has the meaning as set forth in §4 below.

(f) "Closing" has the meaning set forth in §2(e) below.

(g) "Closing Date" has the meaning set forth in §2(e) below.

(h) "Confidential Information" means any information concerning the businesses and affairs of the disclosing Party that is not already generally available to the public; provided, however, that Confidential Information shall not include, any information that: (i) at the time of the disclosure is already in the possession of the receiving Party and not subject to an existing obligation of confidentiality; (ii) is independently made available to the receiving Party by an unrelated third party whose disclosure would not constitute a breach of any duty of confidentiality owed to the disclosing Party; (iii) is generally available to the public through no wrongful act of the receiving Party; or (iv) is independently developed by the receiving Party without using the Confidential Information, as demonstrated by documentary evidence.

(i) "Customer Warranties" means any obligations pursuant the written warranty for the Product in the form attached hereto as Schedule 2, Customer Warranties.

(j) "Digital Hybrid" means the method of separating, sending and receiving audio on a telephone line using digital signal processing technology.

(k) "Excluded Liabilities" has the meaning set forth in §2(c) below.

(l) "Intellectual Property" means (i) the following only with respect to the Acquired Assets and not to the technology licensed to Buyer under this Agreement: all domestic and foreign letters patent, patents, patent applications, docketed patent disclosures, patent licenses, other patent rights, trademarks, trademark registrations, trademark applications, trademark licenses, other trademark rights, service marks, service mark registrations, service mark applications, service mark licenses, other service mark rights, trade names, trade name licenses, trade dress, brand names, brand marks, logos, slogans, ideas, processes, copyrights, copyright registrations, copyright applications, Know-How, Know-How licenses, computer software licenses, computer data, licenses and sublicenses granted and obtained with respect thereto**,** and any divisions, extensions, renewals, reissues, continuations, or continuations in part and rights thereunder, and goodwill associated therewith, and remedies against infringement thereof ; and (ii) the following rights as each may apply after the Closing Date: all rights of Seller in and to, including rights to enforce the terms of, confidentiality agreements and noncompetition agreements of, and any agreements relating to the assignment of Intellectual Property made by, prior and present employees and/or contractors of Seller, and any such agreements with any other Person with respect to the Intellectual Property and rights to protection of interests therein under the laws of all jurisdictions with respect to any of the foregoing.

(m) "Know-How" means the following as each relates exclusively to the Acquired Assets: trade secrets, know-how (including product know-how and use and application know-how), formulas, processes, product designs, inventions, specifications, quality control procedures, manufacturing, cost and pricing data, parts trading information, engineering and other drawings, technology, technical information, safety information, lab journals, engineering data and design and

engineering specifications, research records, market surveys and creative materials, advertising and promotional literature, customer and supplier lists and similar data, including all depictions, descriptions, drawings and plans thereof; the foregoing definition shall not be implied to include the technology licensed to Buyer under the Software License Agreement.

(n) "Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation: any conditional sale or other title retention agreement, any lease in the nature thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction in connection with such mortgage, pledge, security interest, encumbrance, lien or charge).

(o) "Manufacturing Agreement" has the meaning set forth in §6(f) below.

(p) "Material Adverse Effect" means any change, event, circumstance, development, or effect that has or is reasonably likely to have a material adverse effect on the Acquired Assets or the consummation or fulfillment of any obligations under this Agreement or any other agreement contemplated by Buyer or Seller hereunder.

(q) "Non-Exclusive Files" means those data and routine files which are not unique to the Products and used in other ClearOne products.

(r) "Object Code" means the computer programs assembled or compiled in magnetic or electronic binary form on software media, which are readable and usable by machines, but not generally readable by humans without reverse assembly, reverse compiling, or reverse engineering.

(s) "Other Inventory" has the meaning set forth in Exhibit D2, attached hereto and incorporated herein by reference.

(t) "Other Raw Materials" has the meaning set forth in Exhibit D2, attached hereto and incorporated herein by reference.

(u) "Party" or "Parties" has the meaning set forth in the preface above.

(v) "Permits" has the meaning set forth in §3(j).

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

(x) "Product" or "Products" has the meaning set forth in Schedule 1, attached hereto and incorporated herein by reference.

(y) "Purchase Price" has the meaning set forth in §2(d) below.

(z) "Residuals" means information which may be remembered by persons who have received or worked with Seller's Confidential Information, including ideas, concepts, know-how or techniques contained therein.

(aa) "Seller" has the meaning set forth in the preface above.

(bb) "Software License Agreement" means that certain Software License Agreement between the Parties for the license of acoustic echo canceling and line echo canceling routines entered into simultaneously herewith.

(cc) "Source Code" means the computer programs written in higher-level, human-readable programming language, including comments, and all documentation reasonably necessary to build and/or modify such code.

(dd) "Studio Environment" means the market segment where movies, shows, or programs are produced in order to mass distribute such programs to the public through radio, television or other means of mass media distribution.

(ee) Tax or Taxes" means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital, franchise, profit, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

(ff) "Transition Period" means that period of time commencing upon Closing and continuing until the Seller and Buyer have performed the actions described in the Transition Plan, but in no event shall such period exceed ninety (90) days.

(gg) "Transition Plan" means the plan attached as Schedule 5.

2. Basic Transaction. Subject to the terms of this Agreement, the Parties hereby agree as follows:

(a) Purchase and Sale of Assets. Buyer agrees to purchase from Seller, and Seller agrees to sell, assign, transfer and convey to Buyer at the Closing, all of the Acquired Assets, free and clear of any and all Liens, for the consideration specified below in this §2. The Acquired Assets shall be delivered to Buyer at the Closing or as may otherwise be set forth in the Transition Plan.

(b) License Agreement. Seller agrees to license certain technology to Buyer in accordance with the terms of the Software License Agreement between the Parties in substantially the form set forth in Exhibit A attached hereto. Seller also grants to Buyer a perpetual, royalty-free license to copy, modify and create derivatives of the Non-Exclusive Files, provided that such license is for the use by Buyer for the Products or Product upgrades, and for new products to be developed

by Buyer. Seller agrees that it will not grant a license or otherwise grant a right to use the Non-Exclusive Files to third-parties for use in Digital Hybrid products designed for the Studio Environment.

(c) Limited Assumption of Liabilities. Except for the assumption of Customer Warranties, Buyer does not and shall not assume or be otherwise responsible for any liability of or obligation associated with the Acquired Assets arising from or related to activities which occurred prior to the end of business on the Closing Date, including without limitation:

(i) any debts, liabilities, obligations, contracts or Taxes with respect to any period whether known or unknown, contingent or fixed, liquidated or unliquidated;

(ii) litigation to which Seller is a party or subject to, or arising from or related to any litigation relating to any events, occurrences or facts connected to Seller, the Acquired Assets, or Seller's operation of the Acquired Assets, or to which Seller is a party or subject;

(iii) claims by employees, former employees or retirees of Seller, including without limitation, those relating to terms or conditions of employment policies, practices, compensation, medical benefits, benefit or welfare plans or any other employment-related obligation;

(iv) personal injury, product liability or property damage claims whether arising by negligence, strict liability or otherwise, for any products manufactured, fabricated, made, distributed or sold by Seller, or any Inventory, Other Inventory or Other Raw Materials;

(v) any compensation or benefits claims (including, without limitation, pension, profit-sharing or vacation benefits) for services rendered for Seller; or

(vi) Seller's compliance with any applicable laws, rules, regulations, ordinances or orders of federal, state or local laws, the conduct of Seller's operations, the Acquired Assets, including, without limitation, all applicable environmental, health and safety matters, except that Seller shall not be liable for FCC compliance testing for the DH30 product except as set forth in the Transition Plan in Schedule 5.

(The foregoing are collectively referred to as the “Excluded Liabilities”).

(d) Purchase Price. At the Closing (defined below), Buyer agrees to pay to Seller the sum of One Million Three Hundred Thousand Dollars ($1,300,000) (the “Purchase Price”) for the Acquired Assets, payable in immediately available funds deposited to such bank account as Seller shall designate to Buyer in writing not less than three (3) business days prior to the Closing

Date. The amount stated as the Purchase Price does not include the additional amount to be paid by Buyer for Other Raw Materials and Other Inventory, which amount shall be allocated to inventory.

(e) The Closing. Subject to and after fulfillment of or waiver of the conditions set forth in §7 of this Agreement, the closing of the transactions contemplated by this Agreement (the "Closing") shall take place on a date selected by Buyer within five (5) days following the satisfaction or waiver of all conditions to the obligations of the Parties to consummate the transactions contemplated hereby (other than conditions with respect to actions the respective Parties will take at the Closing itself), or such other date as the Parties may mutually determine (the "Closing Date") through the mutual exchange of documents by overnight mail and telecopy, or such other manner as the parties may otherwise agree.

(f) Deliveries at the Closing. At the Closing, (i) Seller will deliver to Buyer: (A) a bill of sale conveying to Buyer the Acquired Assets, duly executed by Seller in substantially the form attached hereto as Exhibit B (the "Bill of Sale"); (B) termination statements, as prescribed by the Uniform Commercial Code as in effect in the State of Utah, or other evidence of release satisfactory to Buyer, in any case duly prepared and properly executed, by each Person that has a security interest in or a Lien against any of the Acquired Assets; (C) such other documents, instruments and certificates as Buyer may reasonably request in connection with the transactions contemplated by this Agreement; and (D) the immediate possession of the Acquired Assets, except as may otherwise be provided in the Transition Plan, in which case delivery of possession shall made in accordance with the Transition Plan; and (ii) Buyer will deliver to Seller the Purchase Price.

(g) Sales, Transfer, and Use Taxes. Seller shall be responsible for paying any transfer taxes arising from the transactions contemplated by this Agreement, and the Buyer shall be responsible for paying any sales and use taxes resulting from the sale of the Acquired Assets and/or any other transaction contemplated by this Agreement.

(h) Allocation. The Parties agree to allocate the Purchase Price (and all other capitalizable costs) among the Acquired Assets for all purposes (including financial accounting and tax purposes) in accordance with the Allocation Schedule attached hereto as Exhibit C. The Parties acknowledge that such allocation was determined by arm's length negotiation, and that no Party will take a position on any Tax return, before any governmental agency charged with collection of any Tax, or in any action that is inconsistent with Exhibit C, without the prior written consent of the other Party. Both parties agree to file identical Form 8594 with their respective corporate tax returns for the year in which the sale of the Acquired Assets pursuant to this Agreement occurs.

(i) Other Raw Materials and Other Inventory. At Closing, in addition to the Inventory constituting a portion of the Acquired Assets, Buyer agrees to purchase the Other Raw Materials and Other Inventory identified in Exhibit D2 attached hereto at the pricing set forth therein, all of which shall be delivered to Buyer in accordance with the Transition Plan and in the amounts as reduced by those amounts used during the Transition Period.

3. Representations and Warranties of Seller. Seller represents and warrants to Buyer that the statements contained in this §3 are true, correct and complete as of the date of this

Agreement, and will be true, correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this §3), except as set forth in Seller disclosure schedule accompanying this Agreement (the "Seller's Disclosure Schedule"). The Seller's Disclosure Schedule will be arranged corresponding to the lettered and numbered paragraphs contained in this §3.

(a) Organization of Seller. Seller is a corporation duly organized, validly existing, and in good standing under the laws of the State of Utah, with full power and authority to own or lease its properties and conduct its business in the manner and the place where such properties are owned or leased or such business is conducted.

(b) Authorization of Transaction. Seller has full power and authority (including full corporate power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. Seller is not required to obtain approval from Seller's Board of Directors in order to enter into this Agreement. This Agreement constitutes the valid and legally binding obligation of Seller, enforceable in accordance with its terms and conditions, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles regardless of whether such enforceability is considered in a proceeding at law or in equity.

(c) Non-contravention. Except as set forth in the Seller's Disclosure Schedule, neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments referred to in §2 above), will: (i) violate any statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Seller or the Acquired Assets are subject or any provision of the charter, organizational documents or bylaws of any of Seller; or (ii) violate, conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, license, instrument, or other arrangement to which Seller is a party or by which it is bound or to which any of the Acquired Assets is subject or result in the imposition of any Lien upon any of the Acquired Assets.

(d) Consents. No consent, approval or authorization of, or declaration, filing or registration with any Person (including, without limitation, any governmental or regulatory authority pursuant to any other state or federal regulation) is required in connection with the execution and delivery by Seller of this Agreement or the performance by Seller of its obligations hereunder, except as listed in the Disclosure Schedule.

(e) Financial Data. Schedule 3(e) of the Seller's Disclosure Schedule describes the data provided by Seller to Buyer relating to Seller's sales of the Acquired Assets.

(f) Intellectual Property. The Disclosure Schedule identifies each registered Intellectual Property right (or pending application therefore), whether patent, trademark, or otherwise, that has been issued to Seller in connection with the Acquired Assets, and identifies each material license, agreement, or other permission which Seller has obtained or granted to any third

party with respect to any of its Intellectual Property forming a part of, or incorporated in, the Acquired Assets. Except as set forth on the Disclosure Schedule, Seller has full legal right, title and interest in the Intellectual Property and has not granted any rights in or to the same to any third party. To Seller's knowledge, (i) Seller's use of the Acquired Assets has not and does not infringe or misappropriate any Intellectual Property rights held or asserted by any Person, (ii) no Person is infringing on the Intellectual Property in the Acquired Assets, (iii) no payments are required for the continued use of the Acquired Assets, and (iv) none of the Acquired Assets has ever been declared invalid or unenforceable, or is the subject of any pending or threatened action for opposition, cancellation, declaration, infringement, or invalidity, unenforceability or misappropriation or like claim, action or proceeding.

(g) Compliance with Laws. To Seller’s knowledge, Seller has received no notice of any claim by any governmental authority that Seller is in material violation of any provision of any such laws, rules or regulations relating to the use, possession or ownership of the Acquired Assets; and, to Seller’s knowledge, Seller has materially complied and is in material compliance with all such laws, rules and regulations where non-compliance would have a Material Adverse Effect. To the knowledge of Seller, no such violation claim, or investigation is threatened or pending in respect of the Acquired Assets.

(h) Insurance. All insurance policies owned or held by Seller which cover the Acquired Assets are in full force and effect, all premiums with respect thereto have been paid to the extent due, no notice of cancellation or termination has been received with respect to any such policy (other than those policies which Seller has replaced or intends to replace prior to the expiration thereof by policies providing substantially the same types and amounts of coverage), and no claim is currently reserved under any such policy. Seller insurance includes liability and products liability policies covering the Acquired Assets.

(i) Good Title, Adequacy and Condition. Seller has, and at the Closing Date will have, good and marketable title to the Acquired Assets with full power to sell, transfer and assign the same free and clear of any Lien, and by delivery of the Bill of Sale as contemplated by §2(f), Seller will deliver to Buyer at Closing title to such Acquired Assets free and clear of any Lien. The equipment included in the Acquired Assets is in good operating condition, normal wear and tear excepted, and has been maintained in accordance with all applicable specifications and warranties. Seller has no knowledge of any material defects in the equipment included in the Acquired Assets.

(j) Licenses and Permits. To Seller’s knowledge, Seller possesses all licenses and required governmental or official approvals, permits or authorizations (collectively, the “Permits”) relating to the Acquired Assets, and the Disclosure Schedule sets forth a complete list of all such Permits. To Seller’s knowledge, all such Permits are valid and in full force and effect, Seller is in material compliance with the respective requirements thereof, except as set forth on Schedule 3(j), and no proceeding is pending or threatened to revoke or amend any of them.

(k) Brokers' Fees. Seller has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which Buyer could become liable or obligated.

4. Representations and Warranties of Buyer. Buyer represents and warrants to Seller that the statements contained in this §4 are true, correct and complete as of the date of this Agreement and will be true, correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this §4), as except as set forth in Buyer disclosure schedule accompanying this Agreement ("Buyer's Disclosure Schedule"). Buyer's Disclosure Schedule will be arranged corresponding to the lettered and numbered paragraphs contained in this §4.

(a) Organization of Buyer. Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the Commonwealth of Massachusetts.

(b) Authorization of Transaction. Buyer has full power and authority (including full corporate power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Buyer, enforceable in accordance with its terms and conditions, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles regardless of whether such enforceability is considered in a proceeding at law or in equity.

(c) Non-contravention. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby will: violate any statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Buyer is subject or any provision of the charter, organizational documents or bylaws of any of Buyer; or violate, conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, license, instrument, or other arrangement to which Buyer is a party or by which it is bound.

(d) Consents. No consent, approval or authorization of, or declaration, filing or registration with any Person (including, without limitation, any governmental or regulatory authority pursuant to any other state or federal regulation) is required in connection with the execution and delivery by Buyer of this Agreement or the performance by Buyer of its obligations hereunder, except as listed in the Buyer's Disclosure Schedule.

(e) Brokers' Fees. Buyer has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which Seller could become liable or obligated.

5. Pre-Closing Covenants. The Parties agree as follows with respect to the period between the execution of this Agreement and the Closing:

(a)General. Each of the Parties will use its reasonable best efforts to take all action and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement (including satisfaction, but not waiver,

of the closing conditions set forth in §7 below). Between the date hereof and the Closing, Seller will comply with the following covenants:

(i) Seller will maintain in full force and effect its present insurance policies with respect to the Acquired Assets, and will not knowingly take any action which would enable the insurers thereunder to avoid liabilities for claims arising out of occurrences prior to the date of Closing.

(ii) Seller will duly observe and conform to the lawful requirements of any governmental authorities relating to any of the Acquired Assets and the covenants, terms and conditions upon or under which any of the Acquired Assets are held, provided that, with respect to the FCC compliance testing for the DH30, duly observe and conform shall mean fulfilling those obligations set forth in paragraph 8 of the Transition Plan in Schedule 5.

(iii) Seller will cooperate with Buyer in Buyer's efforts to obtain any and all approvals and consents, governmental or otherwise, and provide all notices which are necessary for the consummation of the transactions contemplated by this Agreement in accordance with its terms.

(iv) Seller shall not enter into any contract, commitment or transaction binding on or affecting the Acquired Assets that is not in the usual and ordinary course of business or that would obligate Buyer without first obtaining Buyer's prior written authorization.

(b) Notice of Developments. Each party shall notify the other of any development causing a breach of any of its representations and warranties in §3 or §4, above.

6. Post-Closing Covenants. The Parties agree as follows with respect to the period following the Closing:

(a) Further Assurances. At any time and from time to time whether before or after the Closing Date, each Party shall execute and deliver any further instruments and/or documents and take all further action as the other Party may reasonably request in order to consummate this Agreement.

(b) Seller's Liabilities. Seller will pay, and will be solely responsible for all debts, liabilities, and obligations relating to or arising from the Excluded Liabilities, provided however, Buyer, not Seller, shall assume Customer Warranties.

(c) Buyer's Liabilities. Buyer, subject to the limitations of §2(c) above, will be responsible for: (i) all debts, liabilities and obligations arising after the Closing Date that relate to product liability or claims for defective products or other claims for Products manufactured and sold by Buyer; (ii) all Customer Warranties for the Products, including Products produced or sold by Seller prior to the Closing Date; and (iii) technical support obligations arising after the Closing with

respect to Products sold by either Seller or Buyer and not otherwise explicitly agreed to by Seller as set forth in §6(d) below. (The foregoing are collectively referred to as the "Assumed Liabilities").

(d) Additional Support. In order to complete the transfer of the Acquired Assets, Seller agrees and covenants to provide Buyer the following assistance after the Closing for the time periods indicated or as otherwise indicated in the Transition Plan. Buyer agrees to assume those obligations with respect to FCC compliance testing and certification for the DH30, as set forth in the Transition Plan.

(i) Training. Without charge, Seller agrees to provide Buyer up to one (1) business day (8 hours) of training to Buyer's designated personnel at Seller's facilities in the areas of manufacturing, technical support and marketing, including training on the workings of the Object Code licensed to Buyer under the Software License Agreement at a mutually agreeable time and date, and to provide an additional business day (8 hours) of such training to Buyer's technical support personnel at a mutually agreeable time and date.

(ii) Telephone and E-mail Assistance. During the sixty (60) days following Closing, without charge Seller will make available its technical, marketing, and manufacturing employees to Buyer's personnel as reasonably requested for telephone and/or e-mail consultation regarding the Products and sales related issues during normal business hours.

(iii) Engineering Assistance. Seller will provide forty (40) hours of engineering assistance without charge in connection with the transition of the manufacturing process for the Products. Additional engineering assistance will be provided by Seller as requested by Buyer at $150 per hour for the next additional forty (40) hours of engineering assistance and $200 per hour for the following forty (40) hours.

(iv) Warranty Assistance. All of the foregoing shall be in addition to any assistance that is reasonably requested by Buyer to meet the warranty obligations described in §6(c) of this Agreement, which Seller will provide to Buyer without charge.

(v) Sales Support. For a period of twelve (12) months after the Closing, in response to all customer inquiries with regard to the Products, Seller agrees to provide Buyer's contact information, including the names of certain individuals, addresses, and phone numbers identified to Seller by Buyer in writing, and to request customer contact information and submit to Buyer.

(e) Confidential Information.

(i) Each Party will treat and hold as such all of the Confidential Information received from the other Party, and refrain from using any of the

Confidential Information except in connection with this Agreement, and deliver promptly to the disclosing Party (meaning the party originally disclosing the Confidential Information to the other Party and, additionally, Buyer's Confidential Information shall include any Confidential Information of Seller assigned to Buyer pursuant to this Agreement, in which case Buyer shall be deemed the disclosing party) or destroy, at the request and option of the disclosing Party, all tangible embodiments (and all copies) of the Confidential Information which are in its possession.

(ii) Notwithstanding anything to the contrary contained herein, any Confidential Information of Seller relating exclusively to the Acquired Assets and transferred to Buyer as part of the Acquired Assets pursuant to this Agreement shall be deemed to be Confidential Information of Buyer at Closing for purposes of the confidentiality obligations of the parties under this Agreement.

(iii) In the event that a Party is requested or required (by oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process) to disclose any Confidential Information of the other Party, the non-disclosing Party will notify the disclosing Party promptly of the request or requirement so that the disclosing Party may seek an appropriate protective order or waive compliance with the provisions of this §6(e). If, in the absence of a protective order or the receipt of a waiver hereunder, the non-disclosing Party is, on the advice of counsel, compelled to disclose any Confidential Information to any tribunal or else stand liable for contempt, the non-disclosing Party may disclose the Confidential Information to the tribunal; *provided, however*, that the non-disclosing Party shall use its reasonable efforts to obtain, at the reasonable request of the disclosing Party, an order or other assurance that confidential treatment will be accorded to such portion of the Confidential Information required to be disclosed as the non-disclosing Party shall designate.

(iv) Upon the Closing Date, that certain Mutual Confidentiality and Non-Disclosure Agreement, dated January 17, 2002, shall terminate.

(v) The parties’ obligations of confidentiality under this Agreement shall not be construed to limit Buyer’s right to independently develop or acquire products without use of the Seller’s Confidential Information. Further, except as otherwise provided herein, Buyer shall be free to use, in accordance with the limitations set forth in Section 10(b), the Residuals resulting from Seller’s disclosure of or Buyer’s work with such Confidential Information, provided that such party shall otherwise maintain the Residuals as Confidential Information hereunder. Buyer shall not have any obligation to limit or restrict the assignment of its persons or to pay obligation to limit or restrict the

assignment of its persons or to pay royalties for any work resulting from the use of Residuals.

(f) Manufacturing. The Parties acknowledge and agree that, concurrently herewith, they are entering into a Manufacturing and Exclusive Distribution Agreement, substantially in the form of Exhibit E attached hereto and incorporated herein by reference, providing for the manufacture by Seller for Buyer of the TS-612 Product, as defined therein on and subject to the terms and conditions set forth therein

7. Conditions to Obligation to Close.

(a) Conditions to Obligation of Buyer. The obligation of Buyer to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in §3 above shall be true and correct in all material respects at and as of the Closing Date with the same force and effect as though made as and at such time, except that the Parties agree that the non-compliance of the DH30 with FCC certification requirements is not material for purposes of this §7;

(ii) Seller shall have performed and complied with all of its covenants hereunder in all material respects through the Closing; and Seller shall have delivered to Buyer the documents required under §2(f);

(iii) there shall not be any injunction, judgment, order, decree, ruling, or charge in effect preventing consummation of any of the transactions contemplated by this Agreement;

(iv) the Parties shall have entered into those agreements and Seller shall have delivered those documents in form and substance substantially as set forth in Exhibit A and Exhibit E, and the same shall be in full force and effect;

(v) all actions to be taken by Seller in connection with consummation of the transactions contemplated hereby and all certificates, instruments, and other documents required to effect the transactions contemplated hereby will be reasonably satisfactory in form and substance to Buyer; and

(vi) there shall not be pending or threatened any action or proceeding by or before any court or other governmental body which shall seek to restrain, prohibit, invalidate or collect damages arising out of the transactions contemplated hereby, and which, in the judgment of Buyer, makes it inadvisable to proceed with the transactions contemplated hereby.

Buyer may waive any condition specified in this §7(a) if it executes a writing so stating at or prior to the Closing.

(b) Conditions to Obligation of Seller. The obligation of Seller to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in §4 above shall be true and correct in all material respects at and as of the Closing Date;

(ii) Buyer shall have performed and complied with all of its covenants hereunder in all material respects through the Closing;

(iii) there shall not be any injunction, judgment, order, decree, ruling, or charge in effect preventing consummation of any of the transactions contemplated by this Agreement;

(iv) the Parties shall have entered into agreements in form and substance substantially as set forth in Exhibit A and Exhibit E and the same shall be in full force and effect;

(v) all actions to be taken by Buyer in connection with consummation of the transactions contemplated hereby and all certificates, instruments, and other documents required to effect the transactions contemplated hereby will be reasonably satisfactory in form and substance to Seller; and

(vi) there shall not be pending or threatened any action or proceeding by or before any court or other governmental body which shall seek to restrain, prohibit, invalidate or collect damages arising out of the transactions contemplated hereby, and which, in the judgment of Seller, makes it inadvisable to proceed with the transactions contemplated hereby.

Seller may waive any condition specified in this §7(b) if it executes a writing so stating at or prior to the Closing.

8. Remedies for Breaches of this Agreement.

(a) Survival of Representations and Warranties. All of the representations and warranties of Seller and Buyer contained in §3 and §4 of this Agreement shall survive the Closing (unless Buyer knew or had reason to know of any misrepresentation or breach of warranty at the time of Closing) and continue in full force and effect for a period of one (1) year except that the representations and warranties made by Seller with the first sentence of §3(i) with respect to good and marketable title shall be in full force and effect for a period of three (3) years, provided that any claims made pursuant to any representations and warranties must be within such survival period and the notice procedures in pursuant to §11(g) below.

(b) Indemnification Provisions for Benefit of Buyer.

In the event Seller breaches any of its representations or warranties contained in §3, subject to the limitations and notice requirements in §8(a) above, or any of its covenants contained in this Agreement, then Seller agrees to indemnify Buyer from and against the entirety of any damages Buyer shall suffer through and after the date of the claim for indemnification (but *excluding* any damages the Buyer shall suffer after the end of any applicable survival period) caused by the breach. Notwithstanding the foregoing, Seller shall have no obligation to indemnify Buyer until Buyer has suffered damages by reason of all such breaches in excess of $25,000, in the aggregate, and then, only to the extent the damages which Buyer has suffered by reason of all such breaches is less than or equal to $1,000,000 (after which point Seller will have no obligation to indemnify Buyer from and against further such damages). In all circumstances, Seller's indemnification obligation under this §8(b) of this Agreement shall not exceed $1,000,000.

(c) Indemnification Provisions for Benefit of Seller.

In the event Buyer breaches any of its representations or warranties contained in §4, subject to the limitations and notice requirements in §8(a) above, or any of its covenants contained in this Agreement, then Buyer agrees to indemnify Seller from and against the entirety of any damages Seller shall suffer through and after the date of the claim for indemnification (but *excluding* any damages Seller shall suffer after the end of any applicable survival period) caused proximately by the breach. Notwithstanding the foregoing, Buyer shall have no obligation to indemnify Seller until Seller has suffered damages by reason of all such breaches in excess of $25,000.00, in the aggregate, and then, only to the extent the damages which Seller has suffered by reason of all such breaches is less than or equal to $1,000,000.00 (after which point Buyer will have no obligation to indemnify Seller from and against further such damages). In all circumstances, Buyer's indemnification obligation under this §8(c) of this Agreement shall not exceed $1,000,000.00.

(d) Matters Involving Third Parties.

(i) If any third party shall notify any Party (the "Indemnified Party") with respect to any matter (a "Third Party Claim") which may give rise to a claim for indemnification against the other Party (the "Indemnifying Party") under this §8, then the Indemnified Party shall promptly (and in any event within five business days after receiving notice of the Third Party Claim) notify the Indemnifying Party thereof in writing.

(ii) The Indemnifying Party will have the right at any time to assume and thereafter conduct the defense of the Third Party Claim with counsel of its

choice; *provided*, *however*, that the Indemnifying Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Party (not to be withheld unreasonably) unless the judgment or proposed settlement involves only the payment of money damages and does not impose an injunction or other equitable relief upon the Indemnified Party.

(iii) Unless and until the Indemnifying Party assumes the defense of the Third Party Claim as provided in §8(d)(ii) above, the Indemnified Party may defend against the Third Party Claim in any manner it reasonably may deem appropriate.

(iv) In no event will the Indemnified Party consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party.

(e) Exclusive Remedy. Buyer and Seller acknowledge and agree that the foregoing indemnification provisions in this §8 shall be the exclusive remedy of Buyer and Seller with respect to the transactions contemplated by this Agreement.

9. Termination.

(a) Termination of Agreement. The Parties may terminate this Agreement as provided below:

(i) Buyer and Seller may terminate this Agreement by mutual written consent at any time prior to the Closing;

(ii) Buyer may terminate this Agreement by giving written notice to Seller at any time prior to the Closing (A) in the event Seller has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, and Buyer has notified Seller of the breach, and the breach has continued without cure for a period of fifteen (15) days after the notice of breach, or (B) if the Closing shall not have occurred on or before August 31, 2002, by reason of the failure of any condition precedent under §7(a) hereof (unless the failure results primarily from Buyer itself breaching any representation, warranty, or covenant contained in this Agreement); and

(iii) Seller may terminate this Agreement by giving written notice to Buyer at any time prior to the Closing (A) in the event Buyer has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, and Seller has notified Buyer of the breach, and the breach has continued without cure for a period of fifteen (15) days after the notice of breach, or (B) if the Closing shall not have occurred on or before August 31, 2002, by reason of the failure of any condition precedent under

§7(b) hereof (unless the failure results primarily from Seller itself breaching any representation, warranty, or covenant contained in this Agreement).

(b) Effect of Termination. If any Party terminates this Agreement pursuant to §9(a) above, all rights and obligations of the Parties hereunder shall terminate without any liability of any Party to the other Party (except for any liability of any Party then in breach); *provided, however,* that the confidentiality provisions of §6(e) and the indemnification provisions of §8 shall survive termination.

10. Restrictive Covenants.

(a) The Seller shall not, for a period of five (5) years following the Closing, engage in the business of designing, developing, manufacturing (except as provided in the Manufacturing Agreement) or marketing the Products and/or Digital Hybrid products for use in the Studio Environment, provided however, that the beneficial ownership of less than five percent (5%) of any class of securities of any entity having a class of equity securities actively traded on a national securities exchange or over-the-counter market shall not be deemed, in and of itself, to violate the prohibitions of this §10(a).

(b) The Buyer shall not, for a period of five (5) years following the Closing, engage in the business of designing, developing, manufacturing, or marketing the Products or Digital Hybrid products for use in the Audio and Video Conferencing Environment, provided that the beneficial ownership of less than five percent (5%) of any class of securities of any entity having a class of equity securities actively traded on a national securities exchange or over-the-counter market shall not be deemed, in and of itself, to violate the prohibitions of this §10(b).

(c) The Buyer and the Seller agree and acknowledge that the restrictions contained in this §10 are reasonable in scope and duration, and are necessary to protect the Buyer and the Seller, and are material inducement for the Buyer and the Seller to enter into this Agreement. The Buyer and the Seller agree and acknowledge that any breach of this §10 will cause irreparable injury to the other party and upon any breach or threatened breach of any provision of this §10, the Buyer and the Seller shall be entitled to injunctive relief, specific performance or other equitable relief, without the necessity of posting bond; provided, however, that this shall in no way limit any other remedies which the Buyer or the Seller may have as a result of such breach, including the right to seek monetary damages. The Buyer and the Seller hereby agree that either party may assign, without limitation and without the other party's consent, the foregoing restrictive covenants to any successor to its business.

11. Miscellaneous.

(a) Press Releases and Public Announcements. No Party shall issue any press release or make any public announcement relating to the subject matter of this Agreement without the prior written approval of the other Party; *provided, however*, that any Party may make any public disclosure it believes in good faith is required by applicable law or any listing or trading agreement

concerning its publicly-traded securities (in which case the disclosing Party will use its reasonable best efforts to advise the other Party prior to making the disclosure).

(b) No Third-Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

(c) Entire Agreement. This Agreement (including the documents referred to herein) constitutes the entire agreement between the Parties and supersedes any prior understandings, agreements, or representations by or between the Parties, written or oral, to the extent they relate in any way to the subject matter hereof. The exhibits and schedules constitute a part hereof as though set forth in full above. This Agreement is not intended to confer upon any Person, other than the parties hereto, any rights or remedies hereunder.

(d) 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. Seller may not assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of Buyer.

(e) 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. A telecopy signature of any party shall be considered to have the same binding legal effect as an original signature.

(f) 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.

(g) Notices. All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given if it is sent via telefax or overnight courier (and shall be deemed given on the date of dispatch), and addressed to the intended recipient as set forth below:

If to Seller:
ClearOne Communications, Inc.
1825 Research Way
Salt Lake City, UT 84119
Telefax: (801) 974-3742
Attention: Randall J. Wichinski

If to Buyer:
Comrex Corporation
19 Pine Road
Devens, MA 04132
Telefax: (978) 784-1717
Attention: Lynn Distler

with a copy to:

Geoffrey C. Cheney, Esq.
Akerman, Senterfitt & Eidson, P.A.
One S.E. Third Avenue, Suite 2800
Miami, FL 33131

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, messenger service, 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 Party notice in the manner herein set forth.

(h) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Utah without giving effect to any choice or conflict of law provision or rule thereof.

(i) Dispute Resolution. Any dispute arising out of the interpretation and effect of this Agreement or alleged breaches thereof, shall be fully and finally settled first, by good faith negotiation for a period of ten (10) days, and if unsuccessful, then by mediation, and if unsuccessful within thirty (30) days of the commencement thereof, then by arbitration in accordance with the applicable rules of the American Arbitration Association then in effect, by one (1) Arbitra-tor appointed in accordance with such Rules, with the arbitration to take place at Chicago, Illinois. Judgment of the arbitrator may be entered in any court having jurisdiction over the Party against whom the judgment is rendered.

(j) Interpretation. When a reference is made in this Agreement to an article, section, subsection, paragraph, clause, schedule or exhibit, such reference shall be deemed to be to this Agreement unless otherwise indicated. The headings contained herein and on the schedules are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement or the schedules. Whenever the words “include,”“includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.” Time shall be of the essence in this Agreement.

(k) Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by Buyer and Seller. 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.

(l) 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.

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

12. Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean including without limitation.

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

(b) Bulk Transfer Laws. Buyer agrees to waive compliance by Seller with the requirements of all applicable laws, if any, relating to bulk transfer laws.

(c) Survival. All representations, warranties, covenants and agreements of the Parties hereto contained in this Agreement and any Schedule or Exhibit hereto shall survive the execution and delivery hereof and thereof and consummation of the transactions provided for herein notwithstanding any investigation heretofore or hereafter made by or on behalf of the respective Parties hereto.

[SIGNATURE PAGE FOLLOWS]

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

COMREX CORPORATION

By: /s/ Lynn E. Distler
Name: Lynn E. Distler
Title: President

CLEARONE COMMUNICATIONS, INC.

By: /s/ Randall J. Wichinski
Name: Randall J. Hichinkski
Title: CFO

JOINT PROSECUTION AND DEFENSE AGREEMENT

This Joint Prosecution and Defense Agreement (the "Agreement") is made effective as of April 1, 2004, by and between ClearOne Communications, Inc. (“ClearOne”), Parsons Behle & Latimer (“PB&L”), Edward Dallin Bagley (“Bagley”) and Burbidge & Mitchell (“B&M”). Each of the foregoing are individually referred to as a "Party" and sometimes collectively referred to as the "Parties" throughout this Agreement.

RECITALS

A. Bagley is a director and shareholder of ClearOne.

B. On or about February 6, 2004, Lumbermens Mutual Casualty Company (“Lumbermens”) filed a Complaint for Declaratory Judgment in the United States District Court for the District of Utah against ClearOne, Bagley and certain other current and former directors of ClearOne entitled *Lumbermens Mutual Casualty Company v. ClearOne Communications, Inc.*, Case No. 2:04CV0119TC (the “Insurance Litigation”).

C. On or about February 9, 2004, ClearOne and Bagley filed a complaint against National Union Fire Insurance Company of Pittsburgh, Pennsylvania (“National Union”) and Lumbermens in the United States District Court for the District of Utah entitled *ClearOne Communications, Inc., et al. v. National Union Fire Insurance Company, et al.*, Case No. 2:04CV0145TS (the “Second Insurance Lawsuit”).

D. PB&L has entered an appearance for, and is representing, all defendants in the Insurance Litigation other than Bagley and Michael A. Pierce. PB&L is representing ClearOne in the Second Insurance Lawsuit. B&M has entered an appearance for and is representing Bagley in the Insurance Litigation and the Second Insurance Lawsuit.

E. In the Insurance Litigation, ClearOne and Bagley have asserted counterclaims against National Union and Lumbermens. In addition, the Second Insurance Lawsuit has been consolidated with the Insurance Litigation for all purposes. (For further reference in this Agreement, the “Insurance Litigation” refers to all claims and defenses therein, together with the Second Insurance Lawsuit unless otherwise stated.)

F. In the Insurance Litigation (with the consolidated claims from the Second Insurance Lawsuit), ClearOne is pursuing claims, *inter alia*, to recover the policy limits of ceratin policies for directors and officers insurance issued by National Union and Lumbermens (the “Insurance Policies”) and Bagley is pursuing related claims, *inter alia*, to recover losses which he incurred due to National Union’s and Lumbermens’s refusal to pay the policy limits under the Insurance Policies to ClearOne which refusals caused ClearOne to enter into a settlement agreement which diluted his shareholdings in ClearOne. On the other hand, National Union and

Lumbermens allege in the Insurance Litigation, *inter alia*, that they have properly rescinded the Insurance Policies due to alleged fraud in procuring the Insurance Policies.

G. The joint prosecution of the Company's claims and Bagley's claims in the Insurance Litigation, and defense of National Union's and Lumbermens' claims in the Insurance Litigation, is in the best interests of ClearOne and Bagley and will likely lead to an economy of litigation expenses in the Insurance Litigation.

H. Due to their prior and current representation of ClearOne and Bagley in litigation concerning matters which are also the subject of the Insurance Litigation, PB&L and B&M are familiar with the underlying facts in the Insurance Litigation and are able to work as co-counsel in the Insurance Litigation.

I. Through March 30, 2004, Bagley has paid the attorney's fees and costs of B&M in connection with Insurance Litigation. On the other hand, ClearOne has paid the attorney's fees and costs of PB&L in connection with the Insurance Litigation.

J. ClearOne, Bagley, PB&L and B&M now wish (1) to reach certain agreements concerning the joint prosecution of ClearOne's and Bagley's claims in the Insurance Litigation and joint defense of claims made by National Union and Lumbermens in the Insurance Litigation, (2) to allocate certain responsibilities in the Insurance Litigation, (3) to make certain agreements in order to protect all applicable privileges, including the attorney/client privilege and work product doctrine, and (4) to reach certain agreements concerning the payment of litigation expenses, including attorney's fees, in the Insurance Litigation.

THEREFORE, upon the foregoing premises, which are incorporated herein by reference, and in consideration of the mutual covenants herein, the Parties agree as follows:

1. Joint Prosecution and Representation. For purposes of the Insurance Litigation, PB&L and B&M shall jointly prosecute ClearOne's and Bagley's claims in the Insurance Litigation and shall jointly defend ClearOne and Bagley with respect to claims made by National Union and Lumbermens in such litigation. PB&L and B&M shall divide and allocate duties and responsibilities for pre-trial activities (including discovery), as well as for trial in a cost efficient manner (but in a manner which will not impede the effective representation of ClearOne and Bagley). In connection with such joint representation, B&M may make formal appearances for ClearOne and PB&L may make formal appearances for Bagley.

2. Conflicts of Interest. There is a potential for a conflict of interest arising from PB&L's and B&M's joint and concurrent representation of ClearOne and Bagley. In particular, and among various potential conflicts, ClearOne and Bagley may have or may develop adverse positions with respect to the division of any proceeds received by settlement, or otherwise, from the Insurance Litigation. When any conflicts of interests arise between ClearOne and Bagley in connection with the Insurance Litigation, PB&L and B&M shall undertake to notify ClearOne

and Bagley of the existence of such conflict(s) of interest. In the event of any such conflicts, PB&L shall represent ClearOne solely with respect to any conflict and B&M shall represent Bagley solely with respect to such conflict. Accordingly, ClearOne and Bagley waive any actual or potential conflict of interest by virtue of the joint representation set forth in Section 1, above.

3. Payment of Litigation Expenses. Unless and until this Agreement is terminated by any of the Parties hereto in accordance with Section 9, below, ClearOne shall pay all litigation expenses, including attorney's fees, of PB&L and B&M in the Insurance Litigation.

4. Cooperation. ClearOne and Bagley agree to cooperate with PB&L and B&M in connection with the Insurance Litigation by (i) making themselves and persons in their employ and control available to PB&L and B&M for interviews, for deposition testimony and for trial in the Insurance Litigation and (ii) making documents within their possession or control available to PB&L and B&M for purposes of the Insurance Litigation. It is expressly anticipated that Bagley will have confidential communications with PB&L and that ClearOne and its officers, directors and employees will have confidential communications with B&M; it is the express intent of the Parties that such communications will be protected by the attorney/client privilege.

5. Joint Litigation Materials. The Parties agree to share Joint Litigation Materials (as defined below) protected by the attorney-client privilege, the work product doctrine, and all other applicable privileges, protections, doctrines, or any other immunity otherwise available, in order to assert mutually common and/or joint claims and defenses that are or may be asserted in the Insurance Litigation. To further their common interests, the Parties intend to exchange privileged and work product information, orally, electronically, and in documents. The Parties intend to share draft pleadings and memoranda, and other information that may or may not include factual analyses, mental impressions, reports of witness interviews, and other similar information (collectively, "Joint Litigation Materials"). The Parties would not exchange any of the other Parties such Joint Litigation Materials but for their mutual and common interests in the Insurance Litigation, but for the undertakings in this Agreement and but for the understanding that by doing so they do not waive any attorney/client privilege, work product privilege or any other applicable privilege. The Parties agree that in the exchange of Joint Litigation Materials among the Parties to this Agreement they shall continue to protect the confidentiality of the Joint Insurance Materials or will not waive any applicable privilege, protection or immunity.

6. Privilege. The Joint Litigation Materials which the Parties intend to exchange between and among the Parties to this Agreement are privileged from disclosure to adverse or other third parties as a result of the attorney-client privilege, the joint-defense privilege, the work product doctrine, and other applicable privileges or protections. By this Agreement, the Parties state that in the pursuit of their common interests in of the Insurance Litigation they do not intend to waive any applicable privileges and they intend to preserve to the maximum extent permitted by applicable law the attorney-client privilege, the work-product doctrine and all other privileges or protections which they may have. The disclosure of Joint Litigation Materials by a receiving

Party does not constitute a waiver of any attorney/client privilege, work product privilege or any other applicable privilege held by the producing Party.

7. Waiver. Neither ClearOne nor Bagley shall have authority to waive any applicable privilege or doctrine for conversations, matters or materials exchanged or developed during the pendency of this Agreement on behalf of the other without the other's consent; nor shall any waiver of an applicable privilege or doctrine by the conduct of any Party be construed to apply to any other Party.

8. Non-Disclosure. The Parties shall not disclose any Joint Litigation Materials, and any other conversations, matters of materials otherwise protected by any applicable privileges or doctrines, to any third persons (other than those working with or on behalf of the Parties for purposes of the Insurance Litigation) without the consent of both ClearOne and Bagley. This obligation survives any termination of this Agreement pursuant to Section 9, below.

9. Termination. Any Party to this Agreement may terminate this Agreement by giving written notice to all other Parties. In the event of termination of this Agreement, Bagley hereby waives any right to preclude PB&L from representing ClearOne in the Insurance Litigation or in any other matter or dispute (even if adverse to Bagley) on the grounds of PB&L's representation of Bagley pursuant to this Agreement; likewise, ClearOne hereby waives any right to preclude B&M from representing Bagley in the Insurance Litigation or in any other matter or dispute (even if adverse to ClearOne) on the grounds of B&M's representation of ClearOne pursuant to this Agreement. Notwithstanding any termination of this Agreement, all parties shall continue to be bound by this Agreement with regard to any Joint Litigation Materials and matters protected by the attorney/client privilege disclosed to the Parties.

10. Severability. If any provision of this Agreement is invalidated, the remainder of this Agreement shall be fully enforceable.

11. Enforcement. The Parties agree that a breach of the provisions of this Agreement by a Party will cause irreparable harm to the other Parties and therefore agree that injunctive relief is an appropriate means to enforce this Agreement. The Parties further agree that this paragraph is not intended to limit the rights or remedies of the Parties in the event of a breach of the Agreement.

12. Modification. This Agreement may be modified, amended, or supplemented only by a writing signed by all Parties to this Agreement.

13. No Admission. In the event of any adversarial action, proceeding or litigation between any of the Parties, no Joint Litigation Materials, as defined here, that have been disclosed pursuant to this Agreement, shall be used or construed to constitute an admission against interest by any Party or to alter or adversely affect any rights, claims, defenses or other relations as among any of the Parties. In any such adversarial action, proceeding or litigation

between any of the Parties, the Joint Litigation Materials may only be used if such are part of the public record of any proceeding or are otherwise discoverable.

14. Substitution of Counsel. If ClearOne or Bagley retains new counsel for the Insurance Litigation other than PB&L and B&M, the Joint Litigation Materials shall be provided to such new counsel when and only when new counsel provides written assurance to ClearOne and Bagley , in a form acceptable to ClearOne and Bagley, that such new counsel will protect the confidentiality of the Joint Litigation Materials and matters protected by the attorney/client privilege and work product doctrine in accordance with the provisions of this Agreement.

15. Headings. The headings in this Agreement are intended solely as a convenience and shall not control or in any way affect the meaning or interpretation of any provision of this Agreement.

16. Governing Law. This Agreement shall be governed by the laws of the State of Utah.

CLEARONE COMMUNICATIONS, INC., a Utah corporation

/s/ Edward Dallin Bagley
____
EDWARD DALLIN BAGLEY

By: /s/ Delonie N. Call
Delonie N. Call, VP, Human Resources

BURBIDGE & MITCHELL

By: /s/ Jefferson W. Gross
Jefferson W. Gross

PARSONS BEHLE & LATIMER

By: /s/ Raymond Etcheverry
Raymond Etcheverry

FIRST AMENDMENT TO JOINT PROSECUTION AND DEFENSE AGREEMENT

This First Amendment to the Joint Prosecution and Defense Agreement (the "Amendment") is made effective retroactively to April 1, 2004, by and between ClearOne Communications, Inc. ("ClearOne"), Parsons Behle & Latimer ("PB&L"), Edward Dallin Bagley ("Bagley") and Burbidge & Mitchell ("B&M"). Each of the foregoing are individually referred to as a "Party" and sometimes collectively referred to as the "Parties" throughout this Agreement.

RECITALS

A. Effective April 1, 2004, ClearOne, Bagley, PB&L and Burbidge & Mitchell entered into a Joint Prosecution and Defense Agreement (the "JPDA").

B. In order to resolve an ambiguity in the JPDA, the parties have agreed to enter into this Amendment.

1. Amendment. Section 3 of the JPDA is hereby amended to read in its entirety as follows:
   Payment of Litigation Expenses. Unless and until this Agreement is terminated by any of the Parties hereto in accordance with Section 9, below, ClearOne shall pay all litigation expenses, including attorney's fees, of PB&L and B&M in the Insurance Litigation except for litigation expenses which are solely related to Bagley's claims in the Insurance Litigation.

2. Except as expressly amended herein, the parties re-affirm the JPDA.

CLEARONE COMMUNICATIONS, INC., a Utah corporation

By: /s/ Zee Hakimoglu
Zee Hakimoglu, Chief Executive Officer

/s/ Edward Dallin Bagley
EDWARD DALLIN BAGLEY

BURBIDGE & MITCHELL

By: /s/ Jefferson W. Gross
Jefferson W. Gross

PARSONS BEHLE & LATIMER

By: /s/ Raymond Etcheverry
Raymond Etcheverry

Exhibit 10.8

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (the "Agreement") dated as of May 6, 2004 (the "Effective Date") by and between ClearOne Communications, Inc., a Utah corporation ("Seller"), and M:SPACE, Inc., a Minnesota corporation ("Buyer").

WHEREAS, Seller operates a division ("Division") which is engaged in the marketing and sale of audiovisual integration products and services throughout the United States and internationally which is partially based in Golden Valley, Minnesota; and

WHEREAS, the business of the Division, as conducted only in the United States and not internationally, is herein referenced as the "Business"; and

WHEREAS, Seller desires to sell and Buyer desires to purchase certain assets of Seller (and not the liabilities of Seller, except as herein provided) which are utilized exclusively or predominantly by the Division in connection with the Business, and not internationally, all on the terms set forth herein;

NOW, THEREFORE, in consideration of the promises and of the mutual covenants and conditions contained herein, the parties hereby agree as follows:

1. PURCHASE AND SALE OF ASSETS.

1.1 Generally. Subject to the terms of this Agreement, including the qualifications set forth below, Seller shall sell, transfer, convey and deliver to Buyer, and Buyer shall purchase from Seller, on and as of the Closing Date, all property and assets of Seller, tangible or intangible, owned (not leased) by Seller and used exclusively or predominantly by the Division in connection with the Business, but excluding the Excluded Assets, as such term is defined below (the "Assets"), including but not limited to the following:

(a) All equipment, demonstration equipment, machinery, computers and other tangible personal property exclusively or predominantly used in or related to the Business, owned (not leased) by Seller, including but not limited to those items identified in Schedule 1.1(a), but, notwithstanding anything herein to the contrary, excluding (i) all furniture and fixtures other than the furniture listed in Schedule 1.1(a), and (b) those items listed as excluded in the "Notes" column of Schedule 1.1(a).

(b) All finished goods and work, inventory, materials in final form, work-in-process, raw materials and supplies owned by Seller and exclusively or predominantly used in or related to the Business including but not limited to the items listed in Schedule 1.1(b) (the "Inventory");

(c) The intellectual property listed in Schedule 1.1(c) (the "Transferred Intellectual Property").

(d) All books, records and datafiles associated with a particular software program, owned by Seller and, notwithstanding anything to the contrary herein, used exclusively in the conduct of the Business, including but not limited to the items listed in Schedule 1.1(d) (the

“Business Books, Records and Datafiles”) although Seller shall be entitled to retain copies of the same for record keeping purposes;

(e) Seller’s transferable and assignable non-compete, non-disclosure, confidentiality and non-solicitation agreements with former employees of Seller, but only with respect to such employees who worked exclusively for the Division (the “Non-Compete Contracts”) but only to the extent locatable by Seller using reasonable diligence;

(f) All rights of Seller under any warranty or guarantee (collectively, the “Warranties”) by any manufacturer, supplier or other transferor of the Assets, and all Licenses and Permits, as such term is defined in Section 7.9, but only to the extent they are assignable but, with respect to the Warranties, only to the extent locatable by Seller using reasonable diligence;

(g)All rights (but no obligations except the Assumed Liabilities, as such term is defined in Section 2 below) of Seller under any purchase orders, contracts, guarantees, license agreements, commitments, and SBC maintenance agreement, other maintenance agreements commonly known as the “legacy” agreements, or other agreements, all as specifically listed on Schedule 1.1(g), but notwithstanding anything herein to the contrary, no other contracts (the “Assigned Contracts”);

(h) All sales records, purchase records, customer lists, salespersons’ lists, sales reports, costs sheets, bills of material, technical information, supplier lists, advertising and promotional materials, blueprints and specifications, vendor records and information, and production records relating exclusively to the Business or the Assets, although Seller shall be entitled to retain and use copies of these records;

(i)Notwithstanding anything to the contrary herein, Seller’s rights in and to only those Internet Web site locations (together with all content, information and data located on such websites and all copyrights thereto) and/or Internet domains and telephone and facsimile numbers identified on Schedule 1.1(h), subject to the qualifications therein.

The Assets shall be transferred by Seller to Buyer in accordance with this Agreement with all required consents of any and all third parties and free and clear of all liabilities, obligations, claims, liens, security interests or encumbrances, except (a) as otherwise provided herein with respect to the Assigned Contracts and related Assumed Liabilities and (b) that Seller need not furnish copies of the Non-Compete Contracts, the Business Books, Records and Data files or Warranties at Closing. Rather, Buyer shall be entitled to request copies following Closing on an as needed basis, and Seller shall then use reasonable diligence to locate the same and furnish copies to Buyer. All Assets are sold in an “as is and with all faults” condition.

1.2 Excluded Assets. Notwithstanding anything in this Agreement to the contrary, Seller is not selling, assigning, transferring or conveying to Buyer any of the following assets or intangible property interests described in this Section 1.2, which were first referred to hereinabove as the “Excluded Assets”:

(a)Cash and cash equivalents;

(b)All of Seller’s minute books, stock transfer journals, tax returns and the corporate seal of Seller;

(c) All books and records of Seller except (i) the Business Books, Records and Datafiles, (ii) as provided in Sections 1.1(d) with respect to copies being retained by Seller, and (iii) the items listed in Section 1.1(h), although Seller shall be permitted to retain copies of such items;

(d) The rights of Seller under this Agreement;

(e) The name "ClearOne Communications" and all combinations thereof;

(f) All intellectual property other than the Transferred Intellectual Property.

(g) All accounts receivable of Seller, whether or not related to the Business.

(h) All prepaid deposits of Seller, whether or not related to the Business.

(i) All claims of Seller against third parties, known or unknown, asserted or unasserted, which arise before or after the Closing Date, including claims for payment, except claims for payment arising out of Assigned Contracts and for which Buyer is entitled to payment hereunder by the counterparties thereto, in connection with services to be performed by Buyer thereunder following the Closing Date.

(j) All of Seller's rights to tax refunds, known or unknown, choate or inchoate, whether or not related to the Business.

(k) All assets and finished goods relating to the operation of the Division's woodshop.

(l) The Spectrologic Tape Library.

(m) All furniture and fixtures other than the furniture listed in Schedule 1.1(a).

(n) All real and personal property leases.

(o) All assets of Seller, tangible or intangible, other than the Assets.

2. ASSUMPTION OF LIABILITIES. Except as hereinafter specifically provided, Buyer shall not and does not assume any liabilities or obligations of Seller. Seller shall be solely liable for its liabilities and obligations arising from ownership of the Assets, operation of the Division and Business and incidents and occurrences prior to the Closing Date, whether or not reflected in Seller's books and records and whether or not such incidents or occurrences first became known following the Effective Date, except as follows: Subject to the terms and conditions of this Agreement, as of the Closing Date, Buyer assumes only the following:

(a) the liabilities and obligations of Seller arising before or after the Closing Date and related to the period of time after the Closing Date, but such liabilities and

obligations must relate to services or obligations to be performed by Buyer as assignee of the Assigned Contracts following the Closing Date, which by their terms are to be performed following the Closing Date; and

(b) any liability first asserted after the Closing Date under or in respect of the Assigned Contracts relating to the period prior to the Closing Date, to the extent such liability is asserted after a period of two years following the Closing Date.

(c) any liability arising out of the use by Buyer of the telephony listed in Schedule 1.1(h) following the Closing.

The liabilities referred to in subsection (a), (b) and (c) are herein referenced as the "Assumed Liabilities."

3. INSTRUMENTS OF CONVEYANCE. At the Closing, pursuant to the terms and subject to the conditions of this Agreement, Seller shall:

(a) Execute and deliver an Assignment and Assumption Agreement in substantially the form attached hereto as Schedule 3 ("Assignment"), which document shall be without warranty, except as to title and except as otherwise specifically set forth herein;

Execute and deliver such additional instruments of conveyance as may be reasonably required to transfer the Assets. At the Closing, pursuant to the terms and subject to the conditions of this Agreement, Buyer shall also execute and deliver to Seller, the Assignment.

4. CLOSING. The Closing with respect to the transactions provided for herein shall take place at such place and time as the parties may mutually agree, on (a) the earlier to occur of (i) a day which is 5 business days after the fulfillment of the conditions precedent referenced in Sections 13 and 14, or (ii) May 6, 2004, or (b) at such other date as the parties may mutually agree (the "Closing Date"). Notwithstanding the foregoing, neither party shall be obligated to close the transactions contemplated by this Agreement unless all conditions precedent referenced in this Agreement have been satisfied or waived.

5. PURCHASE PRICE. The total purchase price for the Assets and the performance of Seller's obligations under this Agreement is Buyer's assumption of the Assumed Liabilities.

6. LABOR AND EMPLOYMENT MATTERS. Buyer shall not assume any employment obligations, wage or salary payment obligations, including without limitation those arising under any pension, profit sharing, deferred compensation, severance, welfare, sick leave, accrued or earned vacation, wage or other employee benefit plan, procedure, policy or practice of Seller regardless of whether such plan, procedure, policy or practice is disclosed in this Agreement. Notwithstanding the foregoing, Buyer may make offers of employment to certain of Seller's employees, pursuant to terms determined by Buyer. Seller will furnish to Buyer such information in their personnel files as Buyer may reasonably request and with respect to which it is lawful for Seller to disclose.

7. REPRESENTATIONS AND WARRANTIES OF SELLER. Seller hereby represents and warrants to Buyer that:

7.1 Incorporation. Seller is a corporation duly incorporated, validly existing and in good standing under the laws of the State of its incorporation, and has the corporate power to own or lease its properties and to carry on the Business as it is now being conducted.

7.2 Authority Relative to this Agreement. The execution, delivery and performance of this Agreement by Seller, including without limitation the sale, conveyance, transfer and delivery and other transactions contemplated herein or hereby: (a) have been or will be, prior to Closing, duly and effectively authorized by the Board of Directors of Seller, with respect to the Assets sold by Seller hereunder; and (b) have been or will be, prior to Closing, authorized and approved by all of Seller's shareholders, if necessary.

7.3 Conflicting Agreements, Governmental Consents. Except as disclosed on Schedule 7.3, the execution, delivery and performance by Seller of this Agreement and all of the other agreements and instruments to be executed and delivered pursuant hereto (collectively, the "Transaction Documents"), the consummation of the transactions contemplated hereby, and the performance or observance by Seller of any of the terms or conditions hereof or thereof, will not (with or without notice or lapse of time) (a) conflict with, or result in a breach or violation of the terms or conditions of, or constitute a default under, or result in the creation of any lien on any of the Assets pursuant to any award of any arbitrator, or any indenture, contract or agreement, instrument, order, judgment, decree, statute, law, rule or regulation to which Seller or any of the Assets is subject, or (b) require any filing or registration with, or any consent or approval of, any federal, state or local governmental agency or authority, or (c) contravene, conflict with, or result in a violation or breach of any provision of, or give any person or entity the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any contract or other arrangement to which Seller is a party or by which Seller is bound or to which any of the Assets is subject (or result in the imposition of any security interest upon any of such Assets).

7.4 Restrictive Covenants. Seller is not a party to nor are the Assets bound or affected by any agreement or document containing any covenant limiting the freedom of Seller to compete in the Business or which materially or adversely affects the business practices, operations or conditions of the Business or the continued operation of the Business after the Closing Date on substantially the same basis and on substantially the same terms and conditions as the Business is presently carried on.

7.5 Binding Obligation. This Agreement and the Transaction Documents are, or when delivered will be, legally valid and binding obligations of Seller, enforceable in accordance with their respective terms, subject to the qualification that such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

7.6 Actions, Suits, Proceedings. Except as disclosed in Schedule 7.6, there are no actions, suits or proceedings pending or, to the knowledge of Seller, threatened against Seller or any of the Assets in any court or before any federal, state, municipal or other governmental agency or before any other private or public tribunal or quasi-tribunal which, (a) if decided adversely to Seller, would have a material adverse effect upon the Business or Assets, (b) seek to restrain or prohibit the transactions contemplated by this Agreement or obtain any damages in connection therewith, or (c) in any way call into question the validity of this Agreement or the other agreements and instruments

to be executed and delivered by Seller; nor is Seller in default with respect to any order of any court or governmental agency entered against it in respect of the Business or Assets. Seller has not has received notice, formally or otherwise, of any judgments, orders, decrees, stipulations, settlement agreements, liens or injunctions, relating in any way to the Assets, which have not been wholly and completely settled, complied with and discharged.

7.7 No Material Violations. Except as disclosed in Schedule 7.7, Seller is not in violation of any applicable law, rule or regulation relating to the Business that would reasonably be expected to have a material adverse effect on the Business, and, to the knowledge of Seller, there are no requests, claims, notices, investigations, demands, administrative proceedings, hearings or other governmental claims against Seller alleging the existence of any such violation that would have a material adverse effect on the Business. For purposes of this Agreement, "material adverse effect" means any change in or effect (i) that is or will be materially adverse to the Business taken as a whole, or (ii) that will prevent or materially impair Seller's ability to consummate the transaction contemplated by this Agreement, provided that a material adverse effect shall not include changes or effects (a) relating to economic conditions or financial markets in general, (b) resulting from the voluntary termination of employment by employees of Seller between the date of this Agreement and the Closing Date or (c) resulting from actions required to be taken by the terms of this Agreement.

7.8 Title to Assets and Absence of Encumbrances. Except as noted otherwise in this Agreement or any schedule thereto with respect to qualifications as to assignability or transferability, (i) Seller owns and has good and marketable title to all of the Assets; (ii) the delivery to Buyer of the instruments of transfer of ownership contemplated by this Agreement will vest good and marketable title to the Assets in Buyer, free and clear of any and all liabilities (except as otherwise provided in this Agreement with respect to Assigned Contracts and the Assumed Liabilities), liens, claims, and encumbrances of every kind and character whatsoever; and (iii) the Assets include all assets necessary for the operation of the Business as it has been operated by Seller, except with respect to contracts which are not being assigned hereunder.

7.9 Licenses and Permits. All material licenses, permits, franchises, approvals and governmental authorizations (collectively the "Licenses and Permits") required for Seller in connection with the operation of the Business, except with respect to qualifications of Seller to do business as a foreign corporation in states other than Utah, as to which Seller makes no warranty, are listed in Schedule 7.9. Except for the Licenses and Permits, no other such licenses, permits, franchises, approvals and governmental authorizations (other than qualifications of Buyer to do business as a foreign corporation in states outside of Minnesota) are required for the operation of the Business.

8. Labor and Employment Agreements. The Division is not subject to any collective bargaining agreement.

8.1 Environmental Matters. Except as set forth in Schedule 8.1:

(a)Seller is conducting and has conducted its Business in compliance with all applicable Environmental Laws and pursuant to all necessary government permits;

(b)There is no pending litigation and no pending or threatened Environmental Claim by any person (including, but not limited to, any governmental authority) with respect to the Business;

(c)Seller has not received any written notification from the United States Environmental Protection Agency advising Seller of any potential liability under the Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”), as amended, with respect to the Business;

(d)Throughout this Agreement, the following terms shall have the meanings set forth below:

(i) “Environmental Claim” shall mean any claim or demand, or notice thereof, alleging potential liability (including, without limitation, liability for investigative costs, clean-up costs, monitoring costs, governmental response costs, natural resources damages, property damages, liability for nuisance or damage to property values, personal injuries or penalties) arising out of, based on or resulting from: (A) noncompliance with Environmental Laws by Seller in connection with the Business.

(ii) “Environmental Laws” shall mean any federal, state or local statute, regulation, rule, ordinance or common law pertaining to the protection of human health or the environment and any applicable orders, judgments, decrees, permits, licenses or other authorizations or mandates under such laws.

8.2 Employee Plans.

(a)After the Closing, Seller warrants that Buyer shall not have any responsibility or liability under any:

(i) employee benefit plan, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), maintained or contributed to by Seller or any subsidiary for any of its employees, former employees or directors (or their respective beneficiaries), including without limitation any group insurance or self-insured health plan, severance pay plan, non-qualified deferred compensation plan or retirement plan intended to be qualified under Internal Revenue Code (the “Code”) Section 401(a) (collectively, the "ERISA Plans");

(ii) trust fund maintained by Seller or any subsidiary in connection with any such ERISA Plan;

(iii) "cafeteria plan" ("125 Plan") maintained by Seller and governed by Code Section 125; or

(iv) other plan maintained by Seller providing compensation, benefits or perquisites to any employees, former employees or directors (or their respective beneficiaries) of Seller or any subsidiary, including without limitation any incentive, bonus, stock option, restricted stock, vacation pay or sick pay plan.

(b)Seller represents that Seller and its subsidiaries have timely complied with all of its "COBRA" obligations under ERISA Section 602, Code Section 4980B and applicable state insurance laws, with respect to any group life insurance and health benefit continuation coverage required to be provided by those of its ERISA Plans and any 125 Plan that provide such benefits for employees (and their respective beneficiaries) that are or have been employed in

connection with the Assets being acquired by Buyer hereunder; and Seller warrants that Seller and its subsidiaries will continue, after the Closing, to comply with such obligations with respect to any of their employees, former employees or their respective beneficiaries who are or become entitled to such continuation coverage, to the extent required by applicable laws.

8.3 Assigned Contracts. Seller and, to the knowledge of Seller, each other party thereto, has substantially performed all obligations required to be performed under the Assigned Contracts to date, and are not in default under any Assigned Contract. The Assigned Contracts are each in full force and effect and, except as set forth in Schedule 8.3(a), are assignable to Buyer without the consent of third parties, and Seller has not waived or assigned to any other person any of its rights thereunder. The Assigned Contracts are complete and accurate or prior to Closing will be complete and accurate, and complete copies of such contracts including all amendments or supplements thereto have been or will be delivered to Buyer prior to Closing. No such contract shall prohibit or limit the ability of Seller to engage in any business activity or compete with any person in connection with the Business and/or other activities of the Buyer. Seller has delivered to Buyer three basic forms of maintenance contracts (copies of which are attached as Schedule 8.3(b), and each of the Assigned Contracts is substantially identical in form to at least one of such forms of maintenance contracts, recognizing that each such maintenance contract may vary from one another as to details.

8.4 Intellectual Property Rights. All Intellectual Property included in the Assets are solely registered (if at all) in the name of Seller, of which Seller has all right, title and interest, and have not been licensed or otherwise been made available by Seller for use by others except in the ordinary course of Seller's Business. To Seller's knowledge, all such registered intellectual property rights are in full force and effect. Except as listed elsewhere in this Agreement, Seller does not license from others the right to use any industrial or intellectual property rights in the Business. To Seller's knowledge there has been no unauthorized use or disclosure or misappropriation of any of its intellectual properties utilized in connection with the Business, and Seller has taken reasonable steps in its view, to protect against the unauthorized use or disclosure of its intellectual property.

8.5 Inventory. The Inventory is being sold and transferred hereunder in an "as is, with all faults" condition, inspected and accepted by Buyer.

8.6 Taxes. Seller has paid all taxes, including federal, state and local income, profits, franchise, sales, use, property, excise, payroll, and other taxes and assessments (including interest and penalties) relating to or for Seller, the Assets or the Business, in each case to the extent that such have become due and are not being contested in good faith. No claims for additional taxes have been asserted against Seller and no audits are pending with respect to any tax liabilities of Seller.

8.7 Product Liability. Except as set forth in Schedule 8.7, it has no liability (and Seller has no knowledge of any basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against Seller giving rise to any liability) arising out of any injury to individuals or property as a result of the ownership, possession, or use of any product manufactured, sold, or delivered by Seller.

8.8 Disclosure. The representations and warranties contained in this Section 8 do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements and information contained in this Section 8 not misleading.

9. REPRESENTATIONS AND WARRANTIES OF BUYER. Buyer hereby represents and warrants to Seller as follows:

9.1 Organization. Buyer is a corporation duly incorporated and existing and in good standing under the laws of the State of Minnesota and has the corporate power to execute and deliver this Agreement and to consummate the transactions contemplated hereby.

9.2 Corporate Authority. The execution and delivery of this Agreement, and the Transaction Documents, and the consummation of transactions contemplated hereby or thereby have been duly authorized by all necessary corporate action and will not violate or conflict with any agreement or order by which Buyer is bound. This Agreement and the Transaction Documents are, or when delivered will be, legally, valid and binding obligations of Buyer, enforceable in accordance with their respective terms.

9.3 No Conflict. Neither the execution, delivery and performance by Buyer of this Agreement nor the consummation by it of the transactions contemplated hereby, will:

(a)Result in a violation of or default under or give rise to a right of termination, cancellation or acceleration, with or without the giving of notice or the lapse of time or both, of any agreement of Buyer;

(b)Adversely affect Buyer's ability to perform its obligations hereunder or otherwise consummate the transactions contemplated hereby;

(c)Result in a violation of any statute, rule, regulation, ordinance, code, order, judgment, writ, injunction, decree or award, which would have a material adverse effect on Buyer's ability to perform its obligations hereunder or to otherwise consummate the transactions contemplated hereby.

9.4 Absence of Litigation. There are no claims, actions, suits or proceedings (public or private) pending or, to Buyer's knowledge, threatened against or effecting Buyer at law or in equity, before or by any federal, state, municipal or other governmental or non-governmental department, commission, board, bureau, agency, court or other instrumentality, or by any private person or entity that if adversely determined, would individually or in the aggregate, have an adverse effect upon Buyer's ability to enter into and consummate the transactions contemplated by this Agreement.

10. NONCOMPETE AND CONFIDENTIAL INFORMATION.

(a)Noncompetition. Seller will not, without the prior written consent of Buyer (which Buyer may withhold with or without reason) for the period commencing on the Effective Date and ending three (3) years from such date (the "Noncompete Period"), engage or be interested, directly or indirectly, whether alone or together with or on behalf of or through any other person, firm, association, trust, venture or corporation whether as partner, stockholder, agent, officer, director, employee, technical adviser, lender, trustee, beneficiary, or otherwise, in any phase of the "Restricted Business" (as hereinafter defined) in the "Restricted Area" (as hereinafter defined). Notwithstanding anything to the contrary in this Section 10, Seller shall not be restricted from and shall be entitled to:

(i) Purchase or otherwise acquire up to (but not more than 5% of any class of securities of any person engaged in the Restricted Business, so long as such securities are publicly traded; and

(ii) Be acquired by, merged, or otherwise consolidated or combined with a business or person, a component of which is engaged in the Restricted Business.

(b) Nonsolicitation. During the Noncompete Period Seller will not, for itself or any other person or entity, employ or otherwise engage, or offer to employ or otherwise engage, or solicit (except as may occur in solicitations of a general nature which are not targeted towards specific individuals) any person who has been an employee, or sales representative of the Division or Buyer at any time within the one year period prior to the date hereof or during the term of the Noncompete Period (the "Nonsolicitation Time Period"), nor during the Noncompete Period will Seller or any other person or entity on its behalf, contact or solicit any Restricted Business in the Restricted Area (as defined herein) from any person or entity that has been or is a customer or client of Seller or Buyer at any time during the Nonsolicitation Time Period.

(c) Restricted Business. The term "Restricted Business" means only the design, installation and maintenance (but not manufacture) of integrated (as such term is described below) audio/visual systems and integrated telephone conferencing systems for end users, including the resale of third-party manufactured audio/visual and phone conferencing systems in connection (and only in connection) with such design, installation and maintenance services. The term "integrated" refers to the integration by Buyer of individual products manufactured by two or more manufacturers unaffiliated with Buyer into audio/visual or telephone conferencing systems, which are then installed by Buyer for end users. Notwithstanding the foregoing, the term "Restricted Business" does not include the design and manufacture by Seller or its contracted manufacturers of audio/visual and phone conferencing systems (including manufactured products comprising all or a portion of such systems but which products may themselves contain components manufactured by third parties), or the design, sale, installation and maintenance by Seller, its affiliates, dealers, distributors, manufacturers' representatives and agents, of such manufactured systems (including manufactured products comprising all or a portion of such systems but which products may themselves contain components manufactured by third parties). Nor does the term "Restricted Business" include the maintenance by Seller of one or more "Helpdesks."

(d) Restricted Area. The term "Restricted Area" means the geographic areas of the United States of America, not including its territories and possessions.

(e) Engage or Be Interested, Directly or Indirectly. The term "engage or be interested, directly or indirectly," as used herein, shall include giving advice or technical or financial assistance, by loan, guarantees, stock transactions or in any other manner to any person, firm, association, trust, venture or corporation doing or proposing to undertake such "Restricted Business" in the area covered by this Agreement.

(f) Injunctive Relief. In the event that said covenant not to compete is considered by a court of competent jurisdiction to be excessive in its duration or in the area to which it applies, it shall be considered modified and valid for such duration and for such area as said court may determine reasonable under the circumstances. In recognition of the irreparable harm that a violation of said covenant would cause to Buyer, Seller agrees that Buyer shall have the right to

enforce this agreement by specific remedies, which shall include, among other things, temporary restraining orders and temporary and permanent injunctions. In the event of any such violation, Seller agrees to pay the reasonable attorneys' fees incurred by Buyer in pursuing any of its rights with respect to such violation or violations in addition to the actual damages sustained by Buyer as a result thereof. In turn, Buyer agrees to pay the reasonable attorneys' fees incurred by Seller if Buyer is not the prevailing party in connection with Buyer's efforts to enforce this Agreement.

(g)Confidential Information. Each party acknowledges that it has, will or may have access to and become informed of Confidential Information of the other which is a competitive asset of such other party. As used herein, "Confidential Information" shall mean information that is proprietary to a party or proprietary to others and entrusted to a party, whether or not trade secrets. Confidential Information includes, but is not limited to, information relating to business plans and to business as conducted or anticipated to be conducted by a party and to its past, current or anticipated business (including without limitation information relating to the Restricted Business). Confidential Information also includes, without limitation, customer lists and information concerning purchasing, accounting, marketing, selling, products and services of a party. The Confidential Information with respect to the Business and the Assets purchased by Buyer pursuant to the Agreement shall be owned exclusively by Buyer, except to the extent that such Confidential Information may have other uses in the remainder of Seller's business or businesses, whether currently or in the future, including but not limited to Seller's international audiovisual integration business. Each party agrees that it will keep all Confidential Information owned exclusively by the other party hereto in strict confidence and to never directly or indirectly make known, divulge, reveal, furnish, make available, or use any such Confidential Information. Notwithstanding the foregoing, a party shall not have a duty of confidentiality with respect to any information disclosed by the other party which:

(i) The receiving party can demonstrate was known to it at the time of its disclosure, and was not acquired either directly or indirectly in breach of any violation of secrecy or confidentiality obligations owed to the disclosing party by any other party;

(ii) Is or becomes publicly known through no wrongful act of the receiving party or any other third parties;

(iii) Is received from a third party subsequent to the date of this agreement without breach of the restriction contained in this Agreement or any agreement between a third party and the disclosing party; or

(iv) Is approved for release by the written authorization of the disclosing party, or

(v) That has been or is independently developed by the receiving party or any other person as a matter of record, without reliance on the information provided by the disclosing party.

11. INDEMNIFICATION BY THE SELLER

11.1 Generally. Subject to the terms of this Section 11, Seller shall indemnify, defend and hold harmless Buyer and its directors, officers, employees, agents, consultants, representatives, affiliates, successors, permitted transferees and assigns (individually a "Buyer

Indemnified Party"; and collectively the "Buyer's Indemnified Parties"), promptly upon demand, at any time and from time to time, from, against, and in respect of any and all demands, claims, losses, damages, judgments, liabilities, assessments, suits, actions, proceedings, interest, penalties, and expenses (including, without limitation, settlement costs and any legal, accounting and other expenses for investigating or defending any actions or threatened actions or for enforcing such rights of indemnity and defense) incurred or suffered by the Buyer's Indemnified Parties, in connection with, arising out of or as a result of each and all of the following:

(a) any breach of any covenant, obligation, agreement, representation or warranty (but with respect to any representation or warranty, subject to the limitations of Section 17.3) made by Seller in this Agreement or any other document or instrument delivered by Seller to Buyer or entered into as part of the transactions contemplated by this Agreement;

(b) any and all liabilities and obligations of Seller except for the Assumed Liabilities, and any and all liabilities and obligations arising from ownership of the Assets, operation of the Business and incidents and occurrences on or prior to the Effective Date, whether or not reflected in its book and records and whether or not manifest on, after or prior to the Effective Date;

(c) any environmental liabilities, including but not limited to, clean-up, remediation and closure liabilities, arising out of, based on or resulting from (i) Seller's operation of the Business; or (ii) Seller's ownership of the Assets prior to the Closing Date; and

(d) any and all liabilities arising out of the lawsuit referenced in Schedule 8.7.

11.2 Non-Waiver, Non-Exclusive Remedy. Failure of the Buyer Indemnified Parties to give reasonably prompt notice of any claim or claims shall not release, waive or otherwise affect Sellers' obligations with respect thereto except to the extent that Seller can demonstrate actual loss and prejudice as a result of such failure.

12. INDEMNIFICATION BY BUYER

12.1 Generally. Subject to the terms of this Section 12, Buyer shall indemnify, defend and hold harmless Seller and its directors, officers, employees, agents, consultants, representatives, affiliates, successors, permitted transferees and assigns (individually a "Seller Indemnified Party"; and collectively the "Seller's Indemnified Parties"), promptly upon demand, at any time and from time to time, from, against, and in respect of any and all demands, claims, losses, damages, judgments, liabilities, assessments, suits, actions, proceedings, interest, penalties, and expenses (including, without limitation, settlement costs and any legal, accounting and other expenses for investigating or defending any actions or threatened actions or for enforcing such rights of indemnity and defense) incurred or suffered by the Seller's Indemnified Parties, in connection with, arising out of or as a result of each and all of the following:

(a) any breach of any covenant (including specifically the covenants of Buyer in Section 16.1), obligation, agreement, representation or warranty (but with respect to any representation or warranty, subject to the limitations of Section 17.3) made by Buyer in this Agreement or any other document or instrument delivered by Buyer to Seller or entered into as part of the transactions contemplated by this Agreement; and

(b) any misrepresentation or omission contained in any document, statement or certificate furnished by Buyer pursuant to this Agreement or in connection with the transactions contemplated by this Agreement.

(c)All Assumed Liabilities.

12.2 Non-Waiver, Non-Exclusive Remedy. Failure of the Buyer Indemnified Parties to give reasonably prompt notice of any claim or claims shall not release, waive or otherwise affect Buyer's obligations with respect thereto except to the extent that Seller can demonstrate actual loss and prejudice as a result of such failure.

12.3 Whenever any claim arises for indemnification hereunder, the indemnified party (hereafter the "Indemnified Party") shall notify the indemnifying party (hereafter the "Indemnifying Party") in writing by registered or certified mail promptly after the Indemnified Party has actual knowledge of the facts constituting the basis for such claim (the "Notice of Claim"), provided that the failure of the Indemnified Party to notify the Indemnifying Party shall not invalidate any claim for indemnification hereunder unless the failure to so notify prejudices the Indemnifying Party. Such notice must be given in good faith, shall specify with particularity all facts known to the Indemnified Party giving rise to such indemnification right and, if possible, the amount or an estimate of the amount of the liability arising therefrom.

12.4 Right to Defend. If the facts giving rise to any such claim for indemnification involve any actual or threatened claim or demand by any third party against the Indemnified Party or any possible claim or demand by the Indemnified Party against any third party, the Indemnifying Party shall be entitled (without prejudice to the right of the Indemnified Party to participate in the determination of such claim or demand at its expense through counsel of its own choosing) to defend or prosecute such claim or demand in the name of the Indemnified Party at the Indemnifying Party's expense and through counsel of its own choosing if it gives written notice of its intention to do so to the Indemnified Party at any time. Whether or not the Indemnifying Party chooses to so defend or prosecute such claim, the parties shall cooperate in the defense of prosecution thereof and shall furnish such records, information and testimony and attend such conferences, discovery proceedings, hearings, trial and appeals as may be reasonably requested in connection therewith.

12.5 Settlement. Except as provided in Section 12.4, (a) neither the Indemnified Party nor the Indemnifying Party shall make any settlement of any claim that would give rise to an indemnification claim hereunder without the consent of the Indemnifying Party, which consent shall not be unreasonably withheld, and (b) if a firm offer is made to settle a claim and the Indemnifying Party desires to accept such offer, but the Indemnified Party elects not to agree to such settlement offer, the Indemnified Party may contest or defend such claim and, in such event, the total maximum liability of the Indemnifying Party to indemnify or otherwise reimburse the Indemnified Party in accordance with this Agreement with respect to such claim shall be limited to and shall not exceed the amount of such settlement offer.

12.6 Claim Reduction. Any claim for indemnification under this Article 12 shall be reduced to the extent of any third party insurance actually received by the Indemnified Party.

13. CONDITIONS PRECEDENT TO THE OBLIGATIONS OF SELLER. The obligations of Seller to consummate the transactions contemplated hereby are subject to the satisfaction (or waiver by Seller) on or prior to the Closing Date of the following conditions precedent:

13.1 Representations and Warranties. All the representations and warranties of Buyer set forth herein shall have been true and correct in all material respects when made and shall be true and correct in all material respects on and as of the Closing Date with the same force and effect as though made on and as of the Closing Date.

13.2 Performance of Agreements. Buyer shall have performed in all material respects all obligations and agreements and complied in all material respects with all covenants and conditions set forth herein which are to be performed by or complied with by or prior to the Closing Date.

13.3 Prohibition. There shall have been no written or oral claims by a third party challenging consummation of the transactions contemplated by this Agreement and no order or preliminary or permanent injunction shall have been entered in any action or proceeding before any United States federal or state court of competent jurisdiction or governmental authority (which has jurisdiction over the enforcement of any applicable laws) making illegal the consummation of any of the transactions hereunder.

13.4 Closing Documents. The form and substance of all certificates, instruments and other documents required to be delivered to Buyer under this Agreement or necessary to affect the transfer of the Assets and assumption of the Assumed Liabilities, shall have been executed by Buyer and delivered to Seller on or before the Closing in the form attached hereto or in a form otherwise reasonably acceptable to Seller, including all the documents required by Section 3 hereof.

13.5 Officer Certificate. Buyer shall have furnished to Seller a certificate, dated as of the Closing Date, signed by an officer of Buyer to the effect that Buyer has fulfilled the conditions set forth in Sections 13.1 and 13.2 hereof.

13.6 Consents. All required Consents shall have been obtained.

14. CONDITIONS PRECEDENT TO THE OBLIGATIONS OF BUYER. The obligations of Buyer to consummate the transactions contemplated hereby are subject to the satisfaction (or waiver by Buyer) on or prior to the Closing Date of the following conditions precedent:

14.1 Representations and Warranties. All the representations and warranties of Seller set forth herein shall have been true and correct in all material respects when made and shall be true and correct in all material respects on and as of the Closing Date with the same force and effect as though made on and as of the Closing Date.

14.2 Performance of Agreements. Seller shall have performed in all material respects all obligations and agreement and complied in all material respects with all covenants and conditions set forth herein which are to be performed by or complied with by or prior to the Closing Date.

14.3 Prohibition. There shall have been no written or oral claims by a third party challenging consummation of the transactions contemplated by this Agreement and no order or preliminary or permanent injunction shall have been entered in any action or proceeding before any United States federal or state court of competent jurisdiction or governmental authority (which has

jurisdiction over the enforcement of any applicable laws) making illegal the consummation of any of the transactions hereunder.

14.4 Closing Documents. The form and substance of all certificates, instruments and other documents required to be delivered to Seller under this Agreement or necessary to affect the transfer of the Assets and assumption of the Assumed Liabilities, shall have been executed by Seller and delivered to Buyer on or before the Closing in the form attached hereto (including the Assignment of Domain Names and the Assignment of Marks attached as Exhibits 14.4(a) and 14.4(b) or in a form otherwise reasonably acceptable to Buyer, including all the documents required by Section 3 hereof.

14.5 Officer Certificate. Seller shall have furnished to Buyer a certificate, dated as of the Closing Date, signed by an officer of Seller to the effect that Seller has fulfilled the conditions set forth in Sections 14.1 and 14.2 hereof.

14.6 Consents. All required Consents shall have been obtained.

15. TERMINATION PRIOR TO THE CLOSING.

15.1 Termination. This Agreement may be terminated at any time prior to the Closing as follows:

(a)By the mutual consent of Seller and Buyer.

(b)By Seller or Buyer if there shall have been any statute, rule or regulation enacted or promulgated by any government body or agency which makes the purchase of the Assets illegal or renders Buyer unable to purchase or Seller unable to transfer the Assets or any part thereof.

(c)If any of the conditions set out in Section 12 and 13 are not satisfied or waived at or before the Closing Date, this Agreement may be terminated by the Party entitled to the benefit of such condition upon notice in writing to the other Party.

(d)If the Closing has not occurred on or prior to June 1, 2004, this Agreement may be terminated by either Party upon giving written notice to the other Party.

15.2 Rights Upon Termination. In the event of a termination of this Agreement pursuant to this Section 15, the obligations of the Parties under this Agreement shall be at an end, provided that any party may also bring an action against the other for damages suffered where the non-performance or non-fulfillment of the relevant condition is as a result of (a) a breach of a covenant, representation or warranty contained in this Agreement by the other and such party has not used commercially reasonable efforts to cure such breach prior to the Closing; or (b) a breach of Section 17.4.

15.3 Effect of Termination. In the event of termination by reason of Section 15.1 and subject to the terms of Section 15.2, this Agreement shall forthwith become void and of no force and effect and there shall be no further obligations hereunder on the part of the parties except for the obligations set forth in Sections 10(g) and 17.7.

16. OTHER AGREEMENTS.

16.1 Consequences of Non-Assignability and Service Agreement.

(a) Notwithstanding anything to the contrary stated in this Agreement, but subject to Subsection (b) below, if (i) the sale, assignment, transfer or conveyance of any of the Assigned Contracts without approval, consent or waiver of another party thereto would violate, conflict with, result in a breach or termination of, or constitute a default or event of default under (or an event which with due notice or lapse of time, or both, would continue a default or event of default under) the terms of such Assigned Contract or result in the creation of any security interest on any of the Assets under any such Assigned Contract or enable another party to such Assigned Contract to terminate the same or impose a penalty or additional payment obligations or accelerate any obligation of Seller or Buyer under any such Assigned Contract, and (ii) all necessary approvals, consents and waivers of all parties to such Assigned Contract have not been obtained at or prior to the Closing, then (A) this Agreement shall not constitute an agreement to assign or assume such Assigned Contract and such Assigned Contract shall not be assigned to or assumed by Buyer or be included in the Assets or the Assumed Liabilities, (B) Seller shall, following the Closing, use all reasonable efforts to assist Buyer in attempting to obtain such necessary approvals, consents and waivers, (C) Seller and Buyer shall, following the Closing, promptly execute all documents necessary to complete the assignment and assumption of such Assigned Contract if such approvals, consents and waivers are obtained, and (D) unless and until such approvals, consents and waivers are obtained and such assignment and assumption occurs, Seller and Buyer shall cooperate in entering into any reasonable arrangement designed to obtain for Buyer all benefits and privileges of such Assigned Contract including the holding by Seller of such benefits and privileges in trust for Buyer, while protecting Seller from the obligations of Seller first accruing under such Assigned Contract after the Closing Date and related to the period of time after the Closing Date under such Assigned Contract.

(b)Attached hereto as Exhibit 16.1 is a service agreement between US Bancorp Piper Jaffray and Seller. The parties acknowledge that Section 9 thereof prohibits any assignment of such agreement or the subcontracting of services to be rendered by Seller to any other party, without the prior written consent of US Bancorp Piper Jaffray, which has not been obtained. Consequently, while such agreement is listed in Schedule 1.1(g) as an “Assigned Contract,” its assignment is subject to the terms of subsection (a) above. Further, Seller shall indemnify Buyer pursuant to Section 11 hereof against any claim alleged by US Bancorp Piper Jaffray to have been suffered by it as a consequence of such subcontracting in violation of the service agreement provided, however, such indemnity shall not extend to any failure by Buyer to perform in compliance with such agreement, with respect to liabilities and obligations arising thereunder and relating to services or obligations required to be performed under such agreement following the Closing Date, to the extent Buyer has been allowed to perform by US Bancorp Piper Jaffray. Buyer acknowledges that it has been informed by Seller that Seller has given notice to US Bancorp Piper Jaffray of Seller’s intent to terminate the services agreement, as provided therein.

16.2 Non-compete Agreements. With respect to any non-compete, non-disclosure, confidentiality and non-solicitation agreements which Seller has executed with former or current employees, both parties covenant to reasonably cooperate with one another, regardless of which party retains ownership of any such contract, so as to allow the enforcement of the rights therein granted to Seller for the benefit of both Seller and Buyer, to the extent the same is commercially appropriate.

16.3 Telephony. Promptly following Closing, Buyer shall, with Seller's cooperation, request that the providers of the telephony services listed in Schedule 1.1(h) change the account information relating thereto, such that Buyer is solely liable to such providers for services rendered following the Closing. If such
request is denied, then notwithstanding anything to the contrary herein, the telephony services shall not be transferred to Buyer hereunder.

16.4 Removal. Buyer shall have 30 days from the Closing Date to remove at its expense any of the Assets located at Seller's leased premises in the Golden Hills Business Park in Golden Valley Minnesota. Buyer shall be responsible for repairing any damage caused in connection with its removal of any of the Assets. If they are not timely removed, Seller shall be entitled to remove such Assets at Buyer's expense.

17. MISCELLANEOUS

17.1 Assignment. Neither party shall be permitted to assign its rights in this Agreement without the prior written consent of the other party. The terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of the parties hereto, their successors and permitted assigns, and no person, firm or corporation other than the parties, their successors and assigns, shall acquire or have any rights under or by virtue of this Agreement. Notwithstanding the foregoing, either party shall be permitted to assign this Agreement in connection with the sale of substantially all of its assets to a single party, or by operation of law, including by merger.

17.2 Covenant of Further Assistance. Notwithstanding any provision herein to the contrary, without further consideration, the parties shall execute and deliver or make available to one another such further instruments, documents and/or files as are necessary to effectuate the terms of this Agreement.

17.3 Survival of Representations and Warranties. All representations and warranties contained herein, and all other written representations and warranties of Buyer and Seller contained in the instruments executed in connection with the consummation of the transactions provided for herein, shall survive the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby for a period of three years.

17.4 Best Efforts Prior to Closing. Each of the parties shall take, or cause to be taken, all other commercially reasonable actions and do, or cause to be done, all other commercially reasonable things necessary, proper or advisable to permit the completion of the transactions contemplated by this Agreement in accordance with the terms hereof and to satisfy all the condition precedent to Closing, and shall cooperate with each other in connection therewith, including using all commercially reasonable efforts to obtain, prior to the Closing Date, any necessary consent to assign the Assigned Contracts, although Seller shall not be required to pay any amounts or incur any additional obligations in connection with any request it may make of any counterparty to the Assigned Contracts, to consent to the assignment of such contracts.

17.5 Confidentiality; Public Announcements. The parties shall consult in advance on the timing and content of public announcements regarding the transactions contemplated under this Agreement, and subject to applicable law, rule or regulation, all such public announcements shall require the consent of the parties, which consent shall not be unreasonably withheld. Subject to

any applicable law, rule or regulation, no public announcement shall be made concerning the negotiation or execution of this Agreement without the written consent of each party, which consent shall not unreasonably withheld.

17.6 Notices. All notices, requests, demand and other communications hereunder shall be in writing (except as otherwise agreed upon between the parties as set forth in this Agreement), and shall be given by (i) a nationally recognized express delivery service which maintains delivery records, (ii) hand delivery, or (iii) certified or registered mail, postage prepaid, return receipt requested, to the parties at the following addresses, or at such other addresses as the parties may designate from time to time by written notice in the above manner:

If to Seller:	ClearOne Communications, Inc. 1825 Research Way Salt Lake City, Utah 84119 Attention: Chief Executive Officer Telephone:801-975-7200 Facsimile:801-977-0087
With a copy to: (such copy not to constitute notice)	Parsons Behle & Latimer Attention: Geoffrey Mangum One Utah Center 201 South Main Street, Suite 1800 P.O. Box 45898 Salt Lake City, Utah 84145-0898 Telephone: 801-532-1234 Fax: 801-536-6111
If to Buyer:	M:Space, Inc. 901 Marquette Ave. Suite 250 Minneapolis, MN 55402 Attention: Ryan Heining
With a copy to: (such copy not to constitute notice)	Maslon Edelman Borman & Brand, LLP Attention: Shawn R. McIntee 90 South 7th Street 3300 Wells Fargo Center Minneapolis, MN 55402 Telephone: 612-672-8200 Fax: 612-672-8397

17.7 Expenses. Except as provided in this section, each party to this Agreement shall pay its own costs and expenses (including attorneys' fee and accountants' fees) incurred in connection with the negotiation, execution and performance of this Agreement. Any sales, transfer, stamp or other like taxes applicable to the conveyance and transfer to Buyer of the Assets shall be borne and paid by Seller (in all events whether the foregoing are imposed on Buyer or Seller) to Buyer at Closing. If either party makes any payment of any fees or expenses that are to be borne by any other party, such other party shall reimburse the party making such payment on demand.

17.8 Risk of Loss. The risk of loss or damage by fire or other casualty to the Assets shall be upon Seller until the Closing and upon Buyer after the Closing.

17.9 Entire Agreement. This Agreement, including the exhibits and schedules attached to this Agreement, constitutes the entire agreement and understanding between Seller and Buyer with respect to the sale and purchase of the Assets and the other transactions contemplated by this Agreement. All prior representations, understandings and agreements between the parties with respect to the purchase and sale of the Assets and the other transactions contemplated by this Agreement are superseded by the terms of this Agreement.

17.10 Choice of Law and Venue. This Agreement shall be construed and interpreted in accordance with the laws of the State of Minnesota, without regard to its choice of law provisions, as though all acts and omissions related to this Agreement occurred in the State of Minnesota. All disputes related to or arising under this Agreement must be brought in either the United States District Court for the District of Minnesota or the State of Minnesota's Fourth Judicial District Court with each party consenting to the exclusive jurisdiction of such courts and waiving any personal jurisdiction defenses. Each party hereby (i) waives any objection which it might have now or hereafter to the foregoing venue of any such litigation, action or proceeding, (ii) irrevocably submits to the exclusive jurisdiction of any such court set forth above in any such litigation, action or proceeding, and (iii) waives any claim or defense of inconvenient forum. Each party hereby consents to service of process by registered mail, return receipt requested, at such party's address set forth in this Agreement (as modified by written notice of a party from time to time) and expressly waives the benefit of any contrary provision of law.

17.11 Injunctive Relief. The parties hereto acknowledge and agree that the other parties would be damaged irreparably in the event any of the provisions of this Agreement are not performed substantially in accordance with their specific terms. Accordingly, each of the parties agrees that the other parties shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically the substantial performance of this Agreement and the terms and provisions hereof.

17.12 Severability. The provisions of this Agreement shall, where possible, be interpreted so as to sustain their legality and enforceability, and for that purpose the provisions of this Agreement shall be read as if they cover only the specific situation to which they are being applied. The invalidity or unenforceability of any provision of this Agreement in a specific situation shall not affect the validity or enforceability of that provision in other situations or of other provisions of this Agreement.

17.13 Counterparts. This Agreement may be executed in counterparts and by facsimile, each of which shall be considered an original.

17.14 Knowledge Convention. Whenever any statement herein or in any schedule, exhibit, certificate or other document delivered to any party pursuant to this Agreement is made "to Seller's or Buyer's knowledge" or "to the best of Seller's or Buyer's knowledge" or words of similar intent or effect of any party or its representative, such statement shall be deemed to be made to the actual knowledge of a party's officers at the vice president level and above as of the Effective Date.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered by their duly authorized officers as of the date and year first above written.

ClearOne Communications, Inc.

/s/ Mike Keough

By Mike Keough

Its CEO/President

M:SPACE, Inc.

/s/ Ryan Heining

By Ryan Heining

Its President

STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement (this "Agreement") is entered into as of March 4th, 2005, between 6351352 Canada Inc., a Canada corporation ("Buyer"), and Gentner Ventures, Inc., a Utah corporation ("Seller"). Buyer and Seller are referred to collectively herein as the "Parties."

Seller owns all of the outstanding capital stock of ClearOne Communications of Canada, Inc., a New Brunswick corporation ("Target"), and Target owns all of the outstanding capital stock of Stechyson Electronics Ltd., a Canada corporation ("Sub").

This Agreement contemplates a transaction in which Buyer will purchase from Seller, and Seller will sell to Buyer, all of the outstanding capital stock of Target in return for the Purchase Price (as hereinafter defined).

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.

1. Definitions.

"$" means United States dollars.

"Adverse Consequences" means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, reasonable amounts paid in settlement, liabilities, obligations, taxes, liens, losses, expenses, and fees, including court costs and reasonable attorneys' fees and expenses, but does not include special, consequential or punitive damages.

"Affiliate" has the meaning set forth in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act.

"Business" means the business currently carried on by the Target including procurement and sale of room based audio visual equipment and post sales equipment service and support.

"Buyer" has the meaning set forth in the preface above.

"Change of Control Transaction" means (A) a transaction in which any person (as that term is used in Rule 13d-5 under the Securities Exchange Act of 1934) or group (as that term is used in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934) other than Buyer becomes the beneficial owner of securities of Sub representing 50% or more of the combined voting power of Sub's then outstanding securities; (B) a merger or consolidation of Sub with any other corporation, other than (i) a merger or consolidation which would result in the voting securities of Sub outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of Sub or such surviving entity outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of Sub (or similar transaction) in which no person

acquires more than 50% of the combined voting power of Sub's then outstanding securities; or (C) the sale or disposition by Sub of all or substantially all of its assets.

"Closing" has the meaning set forth in Section 2 below.

"Closing Amount" has the meaning set forth in Section 2 below.

"Closing Date" has the meaning set forth in Section 2 below.

"Code" means the Internal Revenue Code of 1986, as amended.

"Confidential Information" means any information concerning the businesses and affairs of Target and Sub that is not already generally available to the public.

"Determination Date" means December 31, 2004.

"Disclosure Schedule" has the meaning set forth in Section 4 below.

"Earn Out Amount" has the meaning set forth in Section 2 below.

"Earn Out Calculation Period" has the meaning set forth in Section 2 below.

"Earn Out Period" has the meaning set forth in Section 2 below.

"Environmental, Health, and Safety Requirements" shall mean all Canadian federal, provincial, or local statutes, statutes, regulations, and ordinances 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.

"Gross Revenues" means the aggregate of all revenue in the ordinary course of the Business.

"Income Tax" means any federal, provincial, state, local, provincial or foreign income tax measured by or imposed on net income, including any interest, penalty, or addition thereto, whether disputed or not.

"Income Tax Return" means any return, declaration, report, claim for refund, or information return or statement relating to Income Taxes, including any schedule or attachment thereto.

"Indemnified Party" has the meaning set forth in Section 8(e)(i) below.

"Indemnifying Party" has the meaning set forth in Section 8(e)(i) below.

"Knowledge" means actual knowledge without independent investigation. Knowledge, with respect to a particular fact or matter, will be imputed to the Seller if any individual who is serving as an officer of any of Seller, Target, or Sub has Knowledge of such fact or matter.

"Lease" means that certain real property lease dated August 1, 2000 between Commercial Property Developments and Sub pertain to premises located in the City of Nepean, Province of Ontario.

"Lien" means any mortgage, pledge, lien, encumbrance, charge, or other security interest, other than (a) liens for taxes not yet due and payable, (b) purchase money liens and liens securing rental payments under capital lease arrangements, and (c) other liens arising in the Ordinary Course of Business and not incurred in connection with the borrowing of money.

"Material Adverse Effect" or "Material Adverse Change" means any effect or change that would be materially adverse to the Business of Target and Sub, taken as a whole, or on the ability of any Party to consummate timely the transactions contemplated hereby; provided that none of the following shall be deemed to constitute, and none of the following shall be taken into account in determining whether there has been, a Material Adverse Effect or Material Adverse Change: (a) any adverse change, event, development, or effect arising from or relating to (1) general business or economic conditions, including such conditions related to the Business of Target and Sub, (2) national or international political or social conditions, including the engagement by the United States or Canada in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack upon Canada or the United States, or any of its territories, possessions, or diplomatic or consular offices or upon any military installation, equipment or personnel of the United States or Canada, (3) financial, banking, or securities markets (including any disruption thereof and any decline in the price of any security or any market index), (4) changes in Canadian or United States generally accepted accounting principles, (5) changes in law, rules, regulations, orders, or other binding directives issued by any governmental entity, or (6) the taking of any action contemplated by this Agreement and the other agreements contemplated hereby, and (b) any existing event, occurrence, or circumstance with respect to which Buyer has knowledge as of the date hereof, and (c) any adverse change in or effect on the Business of Target and Sub that is cured by Seller before the earlier of (1) the Closing Date and (2) the date on which this Agreement is terminated pursuant to Section 9 hereof.

"Note" has the meaning set forth in Section 2(b)(iii).

"Ordinary Course of Business" means the ordinary course of business consistent with past custom and practice (including with respect to quantity and frequency).

"Party" has the meaning set forth in the preface above.

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

"Purchase Price" has the meaning set forth in Section 2(b) below.

"Securities Act" means the *Securities Act* of 1933, as amended.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Seller" has the meaning set forth in the preface above.

"Special Accountants" has the meaning set forth in Section 2(c)(ii) below.

"Sub" has the meaning set forth in the preface above.

"Subsidiary" means, with respect to any Person, any corporation, limited liability company, partnership, association, or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof or (ii) if a limited liability company, partnership, association, or other business entity (other than a corporation), a majority of partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more Subsidiaries of that Person or a combination thereof and for this purpose, a Person or Persons owns a majority ownership interest in such a business entity (other than a corporation) if such Person or Persons shall be allocated a majority of such business entity's gains or losses or shall be or control any managing director or general partner of such business entity (other than a corporation). The term "Subsidiary" shall include all Subsidiaries of such Subsidiary.

"Target" has the meaning set forth in the preface above.

"Target Share" means any share of the common stock, no par value, of Target.

"Tax" or "Taxes" means any federal, provincial, state, local, provincial or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code §59A or a similar provision under Canadian federal tax legislation), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

"Tax Return" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Third Party Claim" has the meaning set forth in Section 8(e)(i) below.

2. Purchase and Sale of Target Shares.

(a) Basic Transaction. On and subject to the terms and conditions of this Agreement, Buyer agrees to purchase from Seller, and Seller agrees to sell to Buyer, all of Seller's Target Shares for the consideration specified below in this Section 2.

(b) Purchase Price. The consideration to be paid by Buyer to Seller for Seller's Target Shares (the "Purchase Price") shall be paid by the Buyer in the following manner:

(i) By delivery to Seller of a deposit of US$25,000 upon execution of this Agreement;

(ii) By delivery to the Seller at Closing of US$175,000 in cash (the "Closing Amount"), payable by wire transfer or delivery of other immediately available funds.

(iii) By delivery by the Buyer to the Seller of a secured promissory note in the form attached hereto as Exhibit A (the "Note"), the principal amount of which shall equal to US$1,256,000; and

(iv) By payment of the Earn Out Amounts described in Section 2(c) below.

(c) Earn Out Amounts.

(i) Earn Out Periods and Amounts. For each consecutive 3-month period (each an "Earn Out Calculation Period") during a period of 5 years commencing on January 1, 2006 (the "Earn Out Period"), Buyer shall pay to Seller an earn out amount ("Earn Out Amount") equal to 4% of Sub's Gross Revenues the first year and 3% of Sub's Gross Revenues for each year thereafter that have accrued for the same period, and each Earn Out Amount payable hereunder shall be paid by Buyer to Seller in United States dollars-within 60 days following the end of any Earn Out Calculation Period, such amount payable by wire transfer as per instructions provided to Buyer by Seller or its Affiliate. It is understood and agreed that Earn Out Amounts will be initially calculated in Canadian dollars and such amounts will be converted into United States dollars at the exchange rate quoted by the Bank of Canada on the last business day of each relevant Earn Out Calculation Period.

(ii) Records and Verification of Earn Out Amounts. Buyer shall provide to Seller such accounting and other records as Seller may request from time to time to verify the computation of Sub's Gross Revenues for any Earn Out Calculation Period. In the event that Seller disputes the amount of an Earn Out Amount for a specific Earn Out Calculation Period, Seller shall promptly notify Buyer of such dispute. If within 30 days of such notification, Buyer and Seller are unable to reach agreement with respect to such amount, the disputed Earn Out Amount shall be submitted to a mutually agreeable third party firm of chartered accountants ("Special Accountants") for determination, whose determination shall be binding and conclusive upon the parties. If the Special Accountants determine that the disputed Earn Out Amount has

been understated by ten (10%) percent or more, then Buyer shall pay the Special Accountant's fees, costs and expenses and shall promptly remit the deficiency in the Earn Out Amount to Seller. If the Special Accountants determine that the disputed Earn Out Amount has not been understated or has been understated by less than ten (10%) percent, then Seller shall pay the Special Accountant's fees, costs and expenses, and Buyer shall promptly remit any deficiency in the Earn Out Amount to Seller.

(iii) Change of Control Transaction. In the event of a Change of Control Transaction before the end of the Earn Out Period, then Buyer shall provide written notice to Seller prior to the effective date of such Change of Control Transaction and shall pay to Seller, within 10 days following such effective date, a sum equal to the aggregate Earn Out Amounts that would have been paid in respect of the Earn Out Calculation Periods remaining in the Earn Out Period. Any Earn Out Amount payable pursuant to this Section 2(c)(iii) shall be based on Sub's projected Gross Revenues which shall equal, with respect to each Earn Out Calculation Period, Sub's average Gross Revenues for the 12-month period prior to the commencement each Earn Out Calculation Period, plus a cumulative premium of 10% for each year remaining in the Earn Out Period at the time the Change of Control Transaction is concluded.

(iv) Guarantee. Buyer agrees that it shall cause Sub to guarantee the obligations of Buyer pursuant to this Section 2(c) and the Note (the "Sub" Guarantee").

(v) Security Interest. Buyer agrees that any Earn Out Amounts payable hereunder and under the Sub Guarantee shall be secured by the charges on the assets of Buyer and Sub, respectively.

(d) Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Parsons Behle & Latimer, in Salt Lake City, Utah or at such other place as the Parties may agree, commencing at such time and on such date as Buyer and Seller may mutually determine (the "Closing Date"); provided, however, that the Closing Date shall be no later than March 4, 2005.

(e) Deliveries at Closing. At the Closing, (i) Seller shall deliver to Buyer the various certificates, instruments, and documents referred to in Section 7(a) below, (ii) Buyer will deliver to Seller the various certificates, instruments, and documents referred to in Section 7(b) below, (iii) Seller will deliver to Buyer one or more stock certificates representing all of Seller's Target Shares, endorsed in blank or accompanied by duly executed stock powers, and (iv) Buyer will deliver to Seller the Closing Amount specified in Section 2(b) above.

3. Representations and Warranties Concerning Transaction.

(a) Seller's Representations and Warranties. Seller represents and warrants to Buyer that the statements contained in this Section 3(a) are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Section 3(a)).

(i) Organization of Seller. Seller is duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation.

(ii) Authorization of Transaction. Seller has full power and authority (including full corporate or other entity power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Seller, enforceable in accordance with its terms and conditions. Seller need not give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order to consummate the transactions contemplated by this Agreement. The execution, delivery and performance of this Agreement and all other agreements contemplated hereby have been duly authorized by Seller.

(iii) Non-contravention. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (A) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Seller is subject or, any provision of its charter, bylaws, or other governing documents, or (B) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Seller is a party or by which it is bound or to which any of its assets is subject.

(iv) Brokers' Fees. Seller has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement.

(v) Target Shares. Seller holds of record and owns beneficially all of the issued and outstanding Target Shares, free and clear of any encumbrances or restrictions on transfer (other than any restrictions under the Securities Act and applicable state and provincial securities laws). Seller is not a party to any option, warrant, purchase right, or other contract or commitment that could require Seller to sell, transfer, or otherwise dispose of any capital stock of Target (other than this Agreement). Seller is not a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any capital stock of Target.

(b) Buyer's Representations and Warranties. Buyer represents and warrants to Seller that the statements contained in this Section 3(b) are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Section 3(b)).

(i) Accredited Investor. Buyer is purchasing the Target Shares as principal and is an "accredited investor" as defined in Ontario Securities Commission Rule 45-501.

(ii) Organization of Buyer. Buyer is a corporation (or other entity) duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation (or other formation).

(iii) Authorization of Transaction. Buyer has full power and authority (including full corporate or other entity power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Buyer, enforceable in accordance with its terms and conditions. Buyer need not give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order to consummate the transactions contemplated by this Agreement. The execution, delivery and performance of this Agreement and all other agreements contemplated hereby have been duly authorized by Buyer.

(iv) Non-contravention. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (A) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Buyer is subject or any provision of its charter, bylaws, or other governing documents or (B) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Buyer is a party or by which it is bound or to which any of its assets is subject.

(v) Brokers' Fees. Buyer has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement.

(vi) Investment. Buyer is not acquiring the Target Shares with a view to or for sale in connection with any distribution thereof within the meaning of the Securities Act.

4. Representations and Warranties Concerning Target and Sub. Seller represents and warrants to Buyer that the statements contained in this Section 4 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Section 4), except as set forth in the disclosure schedule, delivered by Seller to Buyer on the date hereof and initialed by the Parties (the "Disclosure Schedule").

(a) Organization, Qualification, and Corporate Power. Each of Target and Sub are corporations duly organized, validly existing, and in good standing under the laws of the jurisdiction of their incorporation. Each of Target and Sub are duly authorized to conduct Business and are in good standing under the laws of each jurisdiction where such qualification is required, except where the lack of such qualification would not have a Material Adverse Effect. Each of Target and Sub have full corporate power and authority to carry on the businesses in

which they are engaged and to own and use the properties owned and used by them. Section 4(a) of the Disclosure Schedule lists the directors and officers of Target and Sub

(b) Capitalization. The entire authorized capital stock of Target consists of an unlimited number of Target Shares, of which 100 Target Shares are issued and outstanding. All of the issued and outstanding Target Shares are owned by Seller, have been duly authorized, are validly issued, and are fully paid, and non-assessable. There are no outstanding or authorized options or rights that could require Target to issue, sell, or otherwise cause to become outstanding any of its capital stock. There are no outstanding or authorized stock appreciation, phantom stock, profit participation, or similar rights with respect to Target. The authorized capital, as well as the issued and outstanding shares of Sub (the "Sub Shares"), are as set out in Schedule 1 hereto. All of the Sub Shares are owned by Target, have been duly authorized, are validly issued, and are fully paid, and non-assessable. There are no outstanding or authorized options or rights that could require Sub to issue, sell, or otherwise cause to become outstanding any of its capital stock. There are no outstanding or authorized stock appreciation, phantom stock, profit participation, or similar rights with respect to Sub

(c) Non-contravention. To the Knowledge of the Seller, neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will violate any contract, constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, party , or court to which Target and Sub are subject or any provision of the articles or bylaws of Target and Sub, except where the violation would not have a Material Adverse Effect. To the Knowledge of Seller, neither Target nor Sub needs to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government, governmental agency or party in order for the Parties to consummate the transactions contemplated by this Agreement, except where the failure to give notice, to file, or to obtain any authorization, consent, or approval would not have a Material Adverse Effect

(d) Brokers' Fees. Neither Target nor Sub has any liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement.

(e) Title to Tangible Assets. Target and Sub have good title to, or a valid leasehold interest in, the material tangible assets they use regularly in the conduct of their Business.

(f) Subsidiaries. Target has no Subsidiaries other than Sub. Neither Target nor Sub owns or has any right to acquire, directly or indirectly, any outstanding capital stock of, or other equity interests in, any Person.

(g) Tax Matters. Target and Sub have filed all Income Tax, sales tax, employment and payroll related tax that they were required to file, and have paid all Taxes shown thereon as owing, except where the failure to file Income Tax Returns or to pay Income Taxes would not have a Material Adverse Effect.

(h) Litigation. Section 4(h) of the Disclosure Schedule sets forth each instance in which Target or Sub (i) is subject to any outstanding injunction, judgment, order, decree, ruling, or charge or (ii) is a party to any action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction, except where the injunction, judgment, order, decree, ruling, action, suit, proceeding, hearing, or investigation would not have a Material Adverse Effect.

(i) Environmental, Health, and Safety Matters. To the Knowledge of Seller, Target and Sub are in compliance with Environmental, Health, and Safety Requirements, except for such non-compliance as would not have a Material Adverse Effect.

(j) Disclaimer of Other Representations and Warranties. Except as expressly set forth in Section 3 and this Section 4, Seller makes no representation or warranty, express or implied, at law or in equity, in respect of Target or Sub or any of their respective assets, liabilities or operations, including with respect to merchantability or fitness for any particular purpose, and any such other representations or warranties are hereby expressly disclaimed. Buyer hereby acknowledges and agrees that, except to the extent specifically set forth in Section 3 and this Section 4, Buyer is purchasing the Target Shares on an "as-is, where-is" basis.

5. Pre-Closing Covenants. The Parties agree as follows with respect to the period between the execution of this Agreement and the Closing.

(a) General. Each of the Parties will use his, her, or its reasonable best efforts to take all action and to do all things necessary in order to consummate and make effective the transactions contemplated by this Agreement (including satisfaction, but not waiver, of the Closing conditions set forth in Section 7 below).

(b) Notices and Consents. Each of the Parties will (and Seller will cause Target and Sub to) give any notices to, make any filings with, and use its reasonable best efforts to obtain any authorizations, consents, and approvals of governments and governmental agencies required in connection with the matters referred to in Section 3(a)(ii), Section 3(b)(ii) and Section 4(d) above.

(c) Operation of Business. Seller will not cause or permit Target or Sub to engage in any practice, take any action, or enter into any transaction outside the Ordinary Course of Business.

(d) Notice of Developments.

(i) Seller shall notify Buyer of any development causing a breach of any of the representations and warranties in Section 4 above. Unless Buyer has the right to terminate this Agreement pursuant to Section 9(a)(ii) below by reason of the development and exercises that right within the period of 5 business days referred to in Section 9(a)(ii) below, the written notice pursuant to this Section 5(d)(i) will be deemed to have amended the Disclosure Schedule, to have qualified the representations and warranties contained in §4 above, and to have

cured any misrepresentation or breach of warranty that otherwise might have existed hereunder by reason of the development.

(ii) Each Party will give prompt written notice to the others of any material adverse development causing a breach of any of his or its own representations and warranties in §3 above. No disclosure by any Party pursuant to this Section 5(d)(ii), however, shall be deemed to amend or supplement the Disclosure Schedule or to prevent or cure any misrepresentation or breach of warranty.

(e) Treatment of Confidential Information. Irrespective of any terms and conditions of any nondisclosure agreement entered into between Buyer and Seller or its Affiliate, Buyer will treat and hold as such any Confidential Information it receives from any of Seller, Target or Sub in the course of any due diligence review conducted by it in anticipation of the transactions contemplated by this Agreement, will not use any of the Confidential Information except in connection with this Agreement, and if this Agreement is terminated for any reason whatsoever, will return to Seller, Target and Sub all tangible embodiments (and all copies) of the Confidential Information which are in its possession.

6. Post-Closing Matters.

(a) General. In case at any time after the Closing any further action is necessary to carry out the purposes of this Agreement, including the specific matters referred to in Section 6(b)-(d) and any Canadian tax matters, each of the Parties will take such further action (including the execution and delivery of such further instruments and documents) as any other Party reasonably may request, all at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under Section 8 below).

(b) Security Filings. Buyer agrees to execute, and cause Sub to execute, and cooperate with Seller in filing any and all appropriate documentation to secure financing statements and all other forms and documentation Seller deems necessary to create, preserve, perfect or otherwise protect the security interests created in connection with Buyer's obligations pursuant to the Note and under §2(c), and Sub's obligations under the Sub Guarantee, which documentation shall be in form acceptable to Seller, in Seller's sole and absolute discretion..

(c) Name Change of Target. Buyer agrees to cause Target to change its name immediately following Closing, to cease use of the name "ClearOne" or any logos, trade-marks or derivatives thereof in the representation or conduct of its business and to file articles of amendment and such other documentation as is necessary to effect such name change with the Director under the *Business Corporations Act* (New Brunswick), and to register such name change with the Canada Revenue Agency and all other appropriate Canadian government entities.

(d) Non-Compete. For a period of three years, the Seller shall not, either directly or indirectly as a stockholder, investor or partner (i) participate in the Business except as a manufacturing reseller. This paragraph does not prevent seller from selling its products through normal distributor and reseller relationships nor does it prevent seller from performing post sales

equipment service and support or to provide maintenance contracts directly or through those distributor and reseller relationships.

7. Conditions to Obligation to Close.

(a) Conditions to Buyer's Obligation. Buyer's obligation to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in Section 3(a) and Section 4 above shall be true and correct in all material respects at and as of the Closing Date, except to the extent that such representations and warranties are qualified by terms such as "material" and "Material Adverse Effect," in which case such representations and warranties shall be true and correct in all respects at and as of the Closing Date;

(ii) Seller shall have performed and complied with all of its covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by terms such as "material" and "Material Adverse Effect," in which case Seller shall have performed and complied with all of such covenants in all respects through the Closing;

(iii) there shall not be any injunction, judgment, order, decree, ruling, or charge in effect preventing consummation of any of the transactions contemplated by this Agreement;

(iv) Seller shall have delivered to Buyer a certificate to the effect that each of the conditions specified above in Section 7(a)(i)-(iii) is satisfied in all respects;

(v) the Parties, Target, and Sub shall have received any authorizations, consents and approvals of governments and governmental agencies referred to in Section 3(a)(ii), Section 3(b)(ii), and Section 4(c) above;

(vi) all actions to be taken by Seller in connection with consummation of the transactions contemplated hereby and all certificates, opinions, instruments, and other documents required to effect the transactions contemplated hereby, including resignations of current directors and officers of Target and Sub, will be reasonably satisfactory in form and substance to Buyer.

Buyer may waive any condition specified in this Section 7(a) if it executes a writing so stating at or prior to the Closing.

(b) Conditions to Seller's Obligation. Seller's obligation to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in Section 3(b) above shall be true and correct in all material respects at and as of the Closing Date, except to the extent

that such representations and warranties are qualified by terms such as “material” and “Material Adverse Effect,” in which case such representations and warranties shall be true and correct in all respects at and as of the Closing Date;

(ii) Buyer shall have performed and complied with all of its covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by terms such as “material” and “Material Adverse Effect,” in which case Buyer shall have performed and complied with all of such covenants in all respects through the Closing;

(iii) there shall not be any injunction, judgment, order, decree, ruling, or charge in effect preventing consummation of any of the transactions contemplated by this Agreement;

(iv) Buyer shall have delivered to Seller a certificate to the effect that each of the conditions specified above in Section 7(b)(i)-(iii) is satisfied in all respects;

(v) the Parties, Target, and Sub shall have received any authorizations, consents, and approvals of governments and governmental agencies referred to in Section 3(a)(ii), Section 3(b)(ii), and Section 4(c) above; and

(vi) all actions to be taken by Buyer in connection with consummation of the transactions contemplated hereby and all certificates, opinions, instruments, and other documents required to effect the transactions contemplated hereby, including any documents referred to in Section 6(b) and (c), will be reasonably satisfactory in form and substance to Seller.

Seller may waive any condition specified in this Section 7(b) if it executes a writing so stating at or prior to the Closing.

8. Remedies for Breaches of This Agreement.

(a) Survival of Representations and Warranties. The representations and warranties of Seller contained in Section 4 above shall survive the Closing hereunder for a period of six (6) months-All of the representations and warranties of the Parties contained in Section 3 above shall survive the Closing (unless the damaged Party knew or had reason to know of any misrepresentation or breach of warranty at the time of Closing) and continue in full force and effect thereafter, subject to any applicable statutes of limitations.

(b) Indemnification Provisions for Buyer’s Benefit.

(i) In the event Seller breaches its representations, warranties, and covenants contained herein, and, provided that Buyer makes a written claim for indemnification against Seller pursuant to Section 8(e) below within the survival period (if there is an applicable survival period pursuant to Section 8(a) above), then Seller shall indemnify Buyer, Target and Sub from and against any Adverse Consequences Buyer, Target and Sub shall suffer (but

excluding any Adverse Consequences Buyer, Target and Sub shall suffer after the end of any applicable survival period) caused by the breach.

(ii) Notwithstanding the foregoing, (A) Seller shall not have any obligation to indemnify Buyer from and against any Adverse Consequences caused by the breach of any representation or warranty or covenant of Seller contained in this Agreement until Buyer has suffered Adverse Consequences by reason of all such breaches in excess of a $10,000 aggregate deductible, and (B) the maximum aggregate amount of Adverse Consequences caused by the breach of any representation or warranty of Seller contained in this Agreement for which Seller shall have any obligation hereunder to indemnify Buyer shall be the amount of the Purchase Price (after which point Seller will have no obligation to indemnify Buyer from and against further such Adverse Consequences).

(c) Indemnification Provisions for Seller's Benefit. In the event Buyer breaches any of its representations, warranties, and covenants contained herein, and provided that any Seller makes a written claim for indemnification against Buyer pursuant to Section 8(e) below within the survival period (if there is an applicable survival period pursuant to Section 8(a) above), then Buyer shall indemnify each Seller from and against the entirety of any Adverse Consequences suffered (but excluding any Adverse Consequences suffered after the end of any applicable survival period) caused by the breach.

(d) Matters Involving Third Parties.

(i) If any third party shall notify any Party (the "Indemnified Party") with respect to any matter (a "Third Party Claim") which may give rise to a claim for indemnification against any other Party (the "Indemnifying Party") under this Section 8, then the Indemnified Party shall promptly (and in any event within five business days after receiving notice of the Third Party Claim) notify each Indemnifying Party thereof in writing.

(ii) Any Indemnifying Party will have the right at any time to assume and thereafter conduct the defense of the Third Party Claim with counsel of his or its choice reasonably satisfactory to the Indemnified Party; provided however, that the Indemnifying Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Party (not to be withheld unreasonably) unless the judgment or proposed settlement involves only the payment of money damages and does not impose an injunction or other equitable relief upon the Indemnified Party.

(iii) Unless and until an Indemnifying Party assumes the defense of the Third Party Claim as provided in Section 8(d)(ii) above, however, the Indemnified Party may defend against the Third Party Claim in any manner he, she, or it reasonably may deem appropriate.

(iv) In no event will the Indemnified Party consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of each of the Indemnifying Parties.

(e) Determination of Adverse Consequences. All indemnification payments under this §8 shall be paid by the Indemnifying Party net of any Tax benefits and insurance coverage that may be available to the Indemnified Party.

(f) Exclusive Remedy. Buyer and Seller acknowledge and agree that the foregoing indemnification provisions in this §8 shall be the exclusive remedy of Buyer and Seller with respect to Target, Sub, and the transactions contemplated by this Agreement. Without *limiting the generality of the foregoing*, Buyer acknowledges and agrees that it shall not have any remedy after the Closing for any breach of the representations and warranties in §4 above.

9. Termination.

(a) Termination of Agreement. Buyer and Seller may terminate this Agreement as provided below:

(i) Buyer and Seller may terminate this Agreement by mutual written consent at any time prior to the Closing;

(ii) Buyer may terminate this Agreement by giving written notice to Seller at any time prior to the Closing in the event: (A) Seller has within the previous 5 business days given Buyer any notice pursuant to Section 5(d)(i) above and (B) the development that is the subject of the notice has had a Material Adverse Effect

(iii) Buyer may terminate this Agreement by giving written notice to Seller at any time prior to the Closing (A) in the event Seller has breached any material representation, warranty, or covenant contained in this Agreement (other than the representations and warranties in Section 4 above) in any material respect, Buyer has notified Seller of the breach, and the breach has continued without cure for a period of 30 days after the notice of breach

(iv) Seller may terminate this Agreement by giving written notice to Buyer (A) at any time prior to the Closing in the event Buyer has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, Seller has notified Buyer in writing of the breach, and the breach has continued without cure for a period of 30 days, or (B) at Closing in the event any of the conditions contained in Section 7(b) have not been or are not satisfied.

(b) Effect of Termination. If any Party terminates this Agreement pursuant to Section 9(a) above, all rights and obligations of the Parties hereunder shall terminate without any liability of any Party to any other Party (except for any liability of any Party then in breach); provided, however, that the confidentiality provisions contained in Section 5(e) above shall survive termination.

10. Miscellaneous.

(a) Press Releases and Public Announcements. No Party shall issue any press release or make any public announcement relating to the subject matter of this Agreement prior to the Closing without the prior written approval the other Party; provided, however, that any Party may make any public disclosure it believes in good faith is required by applicable law or any listing or trading agreement concerning its publicly-traded securities (in which case the disclosing Party will use its reasonable best efforts to advise the other Parties prior to making the disclosure).

(b) No Third-Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

(c) Entire Agreement. This Agreement (including the documents referred to herein) constitutes the entire agreement among the Parties and supersedes any prior understandings, agreements, or representations by or among the Parties, written or oral, to the extent they relate in any way to the subject matter hereof.

(d) 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. No Party may assign either this Agreement or any of his, her, or its rights, interests, or obligations hereunder without the prior written approval of the other Party hereto; provided, however, that Buyer may (i) upon written notice of same to Seller, assign any or all of its rights and interests hereunder to one or more of its Affiliates and (ii) designate one or more of its Affiliates to perform its obligations hereunder (in any or all of which cases Buyer nonetheless shall remain responsible for the performance of all of its obligations hereunder).

(e) Counterparts. This Agreement may be executed in one or more counterparts (including by means of facsimile), each of which shall be deemed an original but all of which together will constitute one and the same instrument.

(f) 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.

(g) Notices. All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given (i) when delivered personally to the recipient, (ii) one business day after being sent to the recipient by reputable overnight courier service (charges prepaid), (iii) one business day after being sent to the recipient by facsimile transmission or electronic mail, or (iv) four business days after being mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid, and addressed to the intended recipient as set forth below:

If to Seller:

Gentner Ventures, Inc.
c/o ClearOne Communications, Inc.
1825 Research Way
Salt Lake City, Utah 84119
Fax: (801) 977-0087
Attn: Chief Financial Officer

Copy to:

Geoffrey W. Mangum, Esq.
Parsons Behle & Latimer
1800 - 201 South Main Street
Salt Lake City, Utah 84111
Fax: (801) 536-6111

If to Buyer:

6351352 Canada Inc.
c/oWilliam Douglas
Suite PH2-55 Elm Drive West
Mississauga, Ontario, Canada L5B 323

Copy to:

Alfred Apps
Suite 4200-66 Wellington Street West
Box 20, Toronto, Ontario, Canada M5K 1N6

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.

(h) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Utah, including those laws governing conflicts of law. Except as specifically provided in § 2(b)(ii) herein, any dispute, disagreement or difference arising in connection with this Agreement or any breach thereof, which cannot be settled between the parties hereto by mutual negotiation in good faith, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The arbitration shall take place in the State of Utah

(i) Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by Buyer and Seller. No waiver by any Party of any provision of this Agreement or any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be valid unless the same shall be in writing and signed by the Party making such waiver, nor shall such waiver 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.

(j) 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.

(k) Expenses. Each of Buyer, Seller, Target, and Sub will bear his, her, or its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby. Without limiting the generality of the foregoing, all transfer, documentary, sales, use, stamp, registration and other such Taxes, and all conveyance fees, recording charges and other fees and charges (including any penalties and interest) incurred in connection with the consummation of the transactions contemplated by this

Agreement shall be paid by Buyer when due, and Buyer shall, at its own expense, file all necessary Tax Returns and other documentation with respect to all such Taxes, fees and charges, and, if required by applicable law, the Parties will, and will cause their Affiliates to, join in the execution of any such Tax Returns and other documentation.

(l) Construction. Any reference to any federal, provincial state, local, or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word " including" shall mean including without limitation.

(m) Incorporation of Exhibits, Annexes, and Schedules. The Exhibits, Annexes, and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

(n) Governing Language. This Agreement has been negotiated and executed by the Parties in English. In the event any translation of this Agreement is prepared for convenience or any other purpose, the provisions of the English version shall prevail.

[SIGNATURE PAGE FOLLOWS]

* * * * *

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

6351352 CANADA INC.	**GENTNER VENTURES, INC.**
By: /s/ William Douglas	By: /s/ Donald E Frederick
Title: Vice President	Title: Vice President

SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement and Release (this “Agreement") is made and entered into as of the 27th day of February 2004, between Gregory L. Rand (“Employee”) and ClearOne Communications Corporation (“ClearOne”), who shall be referred to as the “Parties”, or individually as a “Party”.

DEFINITIONS

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

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

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

RECITALS

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

COVENANTS

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

1. Employee's employment with ClearOne shall end effective February 27, 2004. Employee is not entitled to receive any further compensation or benefits from ClearOne after this date.

2. Notwithstanding the provisions of section 1, above, after his or her execution of this Agreement and in accordance with the terms of this Agreement, beginning after the effective date of termination of Employee's employment, ClearOne will make total payment to Employee in the amount of $75,000.00 paid in increments according to the normal payroll schedule. Regular payroll and tax withholdings and deductions shall be applied and shall reduce this gross amount accordingly. In addition, 25,000 ClearOne stock options shall vest on February 27, 2004. Employee acknowledges that this sum constitutes consideration for Employee's execution and adherence to the provisions of this Agreement. Employee understands and agrees that he or she would not receive the amounts specified herein except for his or her execution of this Agreement and the fulfillment of the promises contained herein. The ClearOne Released Parties make no representations whatsoever to Employee concerning the taxable status of the payment of the settlement amount. Employee assumes full and sole responsibility for any tax consequences related to the settlement amount. Employee understands and agrees to indemnify and hold harmless the ClearOne Released Parties from any taxes, assessments, withholding obligations, penalties or interest payments that they may incur at any time by reason of demand, suit or proceeding brought against them for any taxes or assessments or withholdings arising out of the payment of the settlement amount. Employee acknowledges he or she has been fully compensated by the terms of this Agreement for releasing the Released Claims.

3. Employee shall not pursue, or authorize anyone on his or her behalf to pursue, the Released Claims in any way in any court. Employee represents that he or she has not filed and there is not pending with any governmental agency or any state or federal court, any other claims, complaints, charges, or lawsuits of any kind against the ClearOne Released Parties. Employee agrees that he or she will not make any filings with any court at any time hereafter for any matter, claim or incident, known or unknown, which occurred or arose out of occurrences on or prior to the date of this Agreement; provided, however, this shall not limit the Parties from filing a lawsuit for the sole purpose of enforcing their rights under this Agreement. Each of the Parties shall bear their own costs and attorneys' fees in this dispute.

4. Employee hereby waives, releases, remises and discharges each and every one of the ClearOne Released Parties from liability with respect to the Released Claims. Employee acknowledges that he or she understands he or she is prohibited from any further relief on the Released Claims. Employee hereby promises and covenants never to institute any suit or action at law or in equity against the ClearOne Released Parties regarding or relating to the Released Claims. Specifically and without limitation, Employee understands and agrees that he or she is waiving and forever discharging the ClearOne Released Parties from any and all claims, causes of action or complaints he or she may have or have ever had, which have or may have arisen prior to the execution of this Agreement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Employee has until Monday, March 15, 2004 to accept terms and conditions by signing below. If Employee does not accept such terms and conditions by such date, this offer shall expire at that time.

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

EMPLOYEE

/s/ Gregory L. Rand

CLEARONE COMMUNICATIONS CORP.

/s/ Delonie N. Call
DeLonie N. Call
Vice President, Human Resources

SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement and Release (this “Agreement") is made and entered into as of the 6th day of April 2004, between George E. Claffey (“Employee”) and ClearOne Communications Corporation (“ClearOne”), who shall be referred to as the “Parties”, or individually as a “Party”.

DEFINITIONS

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

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

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

RECITALS

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

COVENANTS

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

1. Employee's employment with ClearOne shall end effective April 6, 2004. Employee is not entitled to receive any further compensation or benefits from ClearOne after this date.

2. Notwithstanding the provisions of section 1, above, after his or her execution of this Agreement and in accordance with the terms of this Agreement, beginning after the effective date of termination of Employee's employment, ClearOne will make total payment to Employee in the amount of $61,192.49 paid in increments according to the normal payroll schedule. Regular payroll and tax withholdings and deductions shall be applied and shall reduce this gross amount accordingly. Employee acknowledges that this sum constitutes consideration for Employee's execution and adherence to the provisions of this Agreement. Employee understands and agrees that he or she would not receive the amounts specified herein except for his or her execution of this Agreement and the fulfillment of the promises contained herein. The ClearOne Released Parties make no representations whatsoever to Employee concerning the taxable status of the payment of the settlement amount. Employee assumes full and sole responsibility for any tax consequences related to the settlement amount. Employee understands and agrees to indemnify and hold harmless the ClearOne Released Parties from any taxes, assessments, withholding obligations, penalties or interest payments that they may incur at any time by reason of demand, suit or proceeding brought against them for any taxes or assessments or withholdings arising out of the payment of the settlement amount. Employee acknowledges he or she has been fully compensated by the terms of this Agreement for releasing the Released Claims.

3. Employee shall not pursue, or authorize anyone on his or her behalf to pursue, the Released Claims in any way in any court. Employee represents that he or she has not filed and there is not pending with any governmental agency or any state or federal court, any other claims, complaints, charges, or lawsuits of any kind against the ClearOne Released Parties. Employee agrees that he or she will not make any filings with any court at any time hereafter for any matter, claim or incident, known or unknown, which occurred or arose out of occurrences on or prior to the date of this Agreement; provided, however, this shall not limit the Parties from filing a lawsuit for the sole purpose of enforcing their rights under this Agreement. Each of the Parties shall bear their own costs and attorneys' fees in this dispute.

4. Employee hereby waives, releases, remises and discharges each and every one of the ClearOne Released Parties from liability with respect to the Released Claims. Employee acknowledges that he or she understands he or she is prohibited from any further relief on the Released Claims. Employee hereby promises and covenants never to institute any suit or action at law or in equity against the ClearOne Released Parties regarding or relating to the Released Claims. Specifically and without limitation, Employee understands and agrees that he or she is waiving and forever discharging the ClearOne Released Parties from any and all claims, causes of action or complaints he or she may have or have ever had, which have or may have arisen prior to the execution of this Agreement.

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

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

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

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

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

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

11. Employee will be available to ClearOne on a consulting basis, up to 160 hours, ending no later than August 31, 2004. Hours and location of work will be scheduled by mutual agreement. ClearOne will reimburse employee for approved, related business expenses.

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

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

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

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

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

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

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

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

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

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

Employee has until Wednesday, April 28, 2004 to accept terms and conditions by signing below. If Employee does not accept such terms and conditions by such date, this offer shall expire at that time.

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

EMPLOYEE

/s/ George E. Claffey______________________________

CLEARONE COMMUNICATIONS CORP.

/s/ DeLonie N. Call_______________________
DeLonie N. Call
Vice President, Human Resources

SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement and Release (this “Agreement") is made and entered into as of the 16th day of June 2004, between Michael Keough (“Employee”) and ClearOne Communications Corporation (“ClearOne”), who shall be referred to as the “Parties”, or individually as a “Party”.

DEFINITIONS

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

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

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

RECITALS

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

COVENANTS

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

1. Employee's employment with ClearOne shall end effective June 16, 2004. Employee is not entitled to receive any further compensation or benefits from ClearOne after this date.

2. Notwithstanding the provisions of section 1, above, after his or her execution of this Agreement and in accordance with the terms of this Agreement, beginning after the effective date of termination of Employee's employment, ClearOne will make total payment to Employee in the amount of $46,154.00 paid in increments according to the normal payroll schedule. Regular payroll and tax withholdings and deductions shall be applied and shall reduce this gross amount accordingly. Employee acknowledges that this sum constitutes consideration for Employee's execution and adherence to the provisions of this Agreement. Employee understands and agrees that he or she would not receive the amounts specified herein except for his or her execution of this Agreement and the fulfillment of the promises contained herein. The ClearOne Released Parties make no representations whatsoever to Employee concerning the taxable status of the payment of the settlement amount. Employee assumes full and sole responsibility for any tax consequences related to the settlement amount. Employee understands and agrees to indemnify and hold harmless the ClearOne Released Parties from any taxes, assessments, withholding obligations, penalties or interest payments that they may incur at any time by reason of demand, suit or proceeding brought against them for any taxes or assessments or withholdings arising out of the payment of the settlement amount. Employee acknowledges he or she has been fully compensated by the terms of this Agreement for releasing the Released Claims.

3. Employee shall not pursue, or authorize anyone on his or her behalf to pursue, the Released Claims in any way in any court. Employee represents that he or she has not filed and there is not pending with any governmental agency or any state or federal court, any other claims, complaints, charges, or lawsuits of any kind against the ClearOne Released Parties. Employee agrees that he or she will not make any filings with any court at any time hereafter for any matter, claim or incident, known or unknown, which occurred or arose out of occurrences on or prior to the date of this Agreement; provided, however, this shall not limit the Parties from filing a lawsuit for the sole purpose of enforcing their rights under this Agreement. Each of the Parties shall bear their own costs and attorneys' fees in this dispute.

4. Employee hereby waives, releases, remises and discharges each and every one of the ClearOne Released Parties from liability with respect to the Released Claims. Employee acknowledges that he or she understands he or she is prohibited from any further relief on the Released Claims. Employee hereby promises and covenants never to institute any suit or action at law or in equity against the ClearOne Released Parties regarding or relating to the Released Claims. Specifically and without limitation, Employee understands and agrees that he or she is waiving and forever discharging the ClearOne Released Parties from any and all claims, causes of action or complaints he or she may have or have ever had, which have or may have arisen prior to the execution of this Agreement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Employee has until Thursday, July 8, 2004 to accept terms and conditions by signing below. If Employee does not accept such terms and conditions by such date, this offer shall expire at that time.

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

EMPLOYEE

/s/ Michael Keough______________________

CLEARONE COMMUNICATIONS CORP.

/s/ DeLonie N. Call____________________
DeLonie N. Call
Vice President, Human Resources

SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement and Release (this “Agreement") is made and entered into as of the 15th day of July, 2004, between Angelina Beitia (“Employee”) and ClearOne Communications Corporation (“ClearOne”), who shall be referred to as the “Parties”, or individually as a “Party”.

DEFINITIONS

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

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

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

RECITALS

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

COVENANTS

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

1. Employee's employment with ClearOne shall end effective June 30, 2004. Employee is not entitled to receive any further compensation or benefits from ClearOne after this date.

2. Notwithstanding the provisions of section 1, above, after his or her execution of this Agreement and in accordance with the terms of this Agreement, beginning after the effective date of termination of Employee's employment, ClearOne will make total payment to Employee in the amount of $100,000.00. Regular payroll and tax withholdings and deductions shall be applied and shall reduce this gross amount accordingly. Employee acknowledges that this sum constitutes consideration for Employee's execution and adherence to the provisions of this Agreement. Employee understands and agrees that he or she would not receive the amounts specified herein except for his or her execution of this Agreement and the fulfillment of the promises contained herein. The ClearOne Released Parties make no representations whatsoever to Employee concerning the taxable status of the payment of the settlement amount. Employee assumes full and sole responsibility for any tax consequences related to the settlement amount. Employee understands and agrees to indemnify and hold harmless the ClearOne Released Parties from any taxes, assessments, withholding obligations, penalties or interest payments that they may incur at any time by reason of demand, suit or proceeding brought against them for any taxes or assessments or withholdings arising out of the payment of the settlement amount. Employee acknowledges he or she has been fully compensated by the terms of this Agreement for releasing the Released Claims.

3. (a) ClearOne Communications shall indemnify and defend Angelina Beitia ("Indemnitee") to the fullest extent permitted by the Utah Revised Business Corporation Act (as the same exists on the date hereof) if Indemnitee is or was a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that Indemnitee is or was an officer, employee or agent of the Company or a subsidiary of the Company, by reason of any action or inaction on the part of Indemnitee while an officer, employee or agent or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including reasonable attorneys' fees), judgments, fines and amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) actually and reasonably incurred by Indemnitee in connection with such action, suit or proceeding. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption (i) that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in the best interests of the Company, or (ii) with respect to any criminal action, suit or proceeding, that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

(b) The Company shall, to the fullest extent permitted by the Utah Revised Business Corporation Act (as the same exists on the date hereof) advance all reasonable expenses incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any civil or criminal action, suit or proceeding referenced in subsection (a). Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent that, it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Company as authorized hereby. The advances to be made hereunder shall be paid by the Company to Indemnitee within thirty (30) days following delivery of a written request therefor by Indemnitee to the Company.

(c) Indemnitee shall, as a condition precedent to her right to be indemnified or be advanced expenses under this Agreement, give the Company notice in writing as soon as practicable of any claim made against Indemnitee for which indemnification will or could be sought under this Agreement. Notice to the Company shall be directed to the Chief Executive Officer of the Company at the address for its principal executive offices (or such other address as the Company shall designate in writing to Indemnitee). In addition, Indemnitee shall give the Company such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

(d) If, at the time of the receipt of a notice of a claim pursuant to subsection 3(b) of this Agreement, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such action, suit or proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such action, suit or proceeding in accordance with the terms of such policies.

4. Employee shall not pursue, or authorize anyone on his or her behalf to pursue, the Released Claims in any way in any court. Employee represents that he or she has not filed and there is not pending with any governmental agency or any state or federal court, any other claims, complaints, charges, or lawsuits of any kind against the ClearOne Released Parties. Employee agrees that he or she will not make any filings with any court at any time hereafter for any matter, claim or incident, known or unknown, which occurred or arose out of occurrences on or prior to the date of this Agreement; provided, however, this shall not limit the Parties from filing a lawsuit for the sole purpose of enforcing their rights under this Agreement. Each of the Parties shall bear their own costs and attorneys' fees in this dispute.

5. Employee hereby waives, releases, remises and discharges each and every one of the ClearOne Released Parties from liability with respect to the Released Claims. Employee acknowledges that he or she understands he or she is prohibited from any further relief on the Released Claims. Employee hereby promises and covenants never to institute any suit or action at law or in equity against the ClearOne Released Parties regarding or relating to the Released Claims. Specifically and without limitation, Employee understands and agrees that he or she is waiving and forever discharging the ClearOne Released Parties from any and all claims, causes of action or complaints he or she may have or have ever had, which have or may have arisen prior to the execution of this Agreement.

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

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

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

9. Employee agrees to forfeit all rights and claims to ClearOne stock options granted at any time prior to June 30, 2004.

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

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

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

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

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

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

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

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

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

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

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

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

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

Employee has until Thursday, August 5, 2004 to accept terms and conditions by signing below. If Employee does not accept such terms and conditions by such date, this offer shall expire at that time.

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

EMPLOYEE

/s/ Angelina Beitia

CLEARONE COMMUNICATIONS CORP.

/s/ DeLonie N. Call
DeLonie N. Call
Vice President, Human Resources

Exhibit 14.1

CLEARONE COMMUNICATIONS, INC.

CODE OF ETHICS FOR DIRECTORS, OFFICERS AND EMPLOYEES

ClearOne Communications, Inc. (the “Company”) has policies and procedures applicable to all directors, officers and employees of the Company (the “Policies and Procedures”). In addition to the Policies and Procedures, the Company has adopted the following Code of Ethics that applies to all directors, officers and employees of the Company:

1. The directors, officers and employees are responsible for full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the Company with the SEC. It is the responsibility of all directors, officers and employees to promptly bring to the attention of the Board of Directors any material information of which they may become aware that affects the disclosures made by the Company in its public filings.

2. The directors, officers and employees shall promptly bring to the attention of the Board of Directors any information they may have concerning (a) significant deficiencies in the design or operation of internal controls which could adversely affect the Company’s ability to record, process, summarize and report financial data or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s financial reporting, disclosures or internal controls.

3. The directors, officers and employees shall promptly bring to the attention of the CEO and to the Board of Directors any information they may have concerning any violation of the Policies and Procedures, including any actual or apparent conflicts of interest between personal and professional relationships, involving any management or other employees who have a significant role in the Company’s financial reporting, disclosures or internal controls.

4. The directors, officers and employees shall promptly bring to the attention of the CEO and to the Board of Directors any information they may have concerning evidence of a material violation of the securities or other laws, rules or regulations applicable to the Company and the operation of its business, by the Company or any agent thereof, or of violation of the Policies and Procedures or of this Code of Ethics.

5. The Board of Directors shall determine, or designate appropriate persons to determine, appropriate actions to be taken in the event of violations of the Policies and Procedures or of this Code of Ethics by the directors, officers or employees of the Company. Such actions shall be reasonably designed to deter wrongdoing and to promote accountability for adherence to the Policies and Procedures and to these additional procedures, and shall include written notices to the individual involved that the Board has determined that there has been a violation, censure by the Board, demotion or re-assignment of the individual involved, suspension with or without pay or benefits (as determined by the Board) and termination of the individual’s employment. In determining what action is appropriate in a particular case, the Board of Directors or such designee shall take into account all relevant information, including the nature and severity of the violation, whether the violation was a single occurrence or repeated occurrences, whether the violation appears to have been intentional or inadvertent, whether the individual in question had been advised prior to the violation as to the proper course of action and whether or not the individual in question had committed other violations in the past.

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

E.mergent, Inc.
ClearOne Communications EuMEA GmbH
ClearOne Communications Limited UK
Gentner Communications Ltd. - Ireland
Gentner Ventures, Inc.

EXHIBIT 31.1

CERTIFICATION

I, Zeynep Hakimoglu, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 18, 2005

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

EXHIBIT 31.2

CERTIFICATION

I, Donald Frederick, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 18, 2005

/s/ Donald Frederick
Donald Frederick
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

I, Zeynep Hakimoglu, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of ClearOne Communications, Inc. on Form 10-K for the year ended June 30, 2003, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of ClearOne Communications, Inc.

Date: August 18, 2005

/s/ Zeynep Hakimoglu
Zeynep Hakimoglu
President and Chief Executive Officer
(Principal Executive Officer)

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

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

I, Donald Frederick, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of ClearOne Communications, Inc. on Form 10-K for the year ended June 30, 2003, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of ClearOne Communications, Inc.

Date: August 18, 2005

/s/ Donald Frederick
Donald Frederick
Chief Financial Officer
(Principal Financial and Accounting Officer)

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

Exhibit 99.1

CLEARONE COMMUNICATIONS, INC. BOARD OF DIRECTORS

AUDIT COMMITTEE CHARTER

I. Purpose and Authority

The Audit Committee (the "Committee") of the Board of Directors (the "Board") of ClearOne Communications, Inc. ("ClearOne"):

(a) assists the Board in fulfilling its responsibilities for general oversight of: (1) ClearOne's financial reporting processes and the audit of ClearOne's financial statements, including the integrity of ClearOne's financial statements, (2) ClearOne's compliance with legal and regulatory requirements, (3) the independent auditors' qualifications and independence, (4) the performance of ClearOne's independent auditors, and (5) risk assessment and risk management;

(b) prepares the report required by the proxy rules of the Securities and Exchange Commission (the "SEC") to be included in ClearOne's annual proxy statement; and

(c) has the additional duties and responsibilities set forth in Section IV below.

The Committee has the authority to obtain advice and assistance from outside legal, accounting or other advisors as the Committee deems necessary to carry out its duties, and the Committee shall receive appropriate funding, as determined by the Committee, from ClearOne for payment of compensation to the outside legal, accounting or other advisors employed by the Committee.

II. Membership

The Committee shall consist of at least three directors, each of whom shall meet the independence and experience requirements of the applicable stock exchange listing standards, as determined by the Board. In particular, the Chairman of the Audit Committee shall have accounting or related financial management experience. In addition, no Committee member may have participated in the preparation of the financial statements of ClearOne or any of ClearOne's current subsidiaries at any time during the past three years. The members of the Audit Committee shall be appointed by the Board.

III. Meeting and Procedures

The Committee shall convene at least six times each year, with additional meetings called as the Committee deems appropriate. The Committee Chair is responsible for the agenda, including input from management, staff and other Committee and Board members as appropriate. A majority of the Committee members shall be present to constitute a quorum for the transaction of the Committee's business. The Committee shall meet regularly in separate executive sessions and also in private sessions with management and the independent auditors to facilitate full communication. The Committee shall be given open access to the Chairman of the Board, ClearOne executives and independent auditors, as well as ClearOne’s books, records, facilities and other personnel.

IV. Duties and Responsibilities

The Committee shall:

1. Review and reassess annually the adequacy of this charter and submit the charter for approval of the full Board. The Committee also shall conduct an annual self valuation of the Committee's performance and processes.

2. Appoint, evaluate and compensate the independent auditors, which shall report directly to the Committee, and oversee the rotation of the independent auditors' lead audit and concurring partners at least once every five years and the rotation of other audit partners at least once every seven years, with applicable time-out periods, in accordance with SEC regulations. The Committee shall determine whether to retain or, if appropriate, terminate the independent auditors. The Committee is responsible for recommending the independent auditors for approval by the stockholders, if appropriate.

3. Review and approve in advance the scope of the fiscal year's independent audit and the audit fee, establish policies for the independent auditors' activities and any fees beyond the core audit, approve in advance all non-audit services to be performed by the independent auditors that are not otherwise prohibited by law and associated fees, and monitor the usage and fees paid to the independent auditors. The Committee may delegate to the Chair of the Committee the authority, with agreed limits, to pre-approve non-audit services not prohibited by law to be performed by the independent auditors. The Chair shall report any decisions to pre-approve such services to the full Committee at its next meeting.

4. Review and discuss with the independent auditors their annual written statement delineating all relationships or services between the independent auditors and ClearOne, or any other relationships or services that may impact their objectivity and independence.

5. Set clear hiring policies for employees or former employees of the independent auditors, and monitor compliance with such policies.

6. Review with management and the independent auditors:

    (a) ClearOne's annual audited and quarterly financial statements, including ClearOne's disclosures in "Management's Discussion and Analysis of Financial Condition and Results of Operations," prior to being published;

    (b) the results of the independent auditors' audit and the independent auditors' opinion on the annual financial statements;

(c) the independent auditors' judgments on the quality, not just the acceptability, and consistent application of ClearOne's accounting principles, the reasonableness of significant judgments, clarity of disclosures and underlying estimates in the financial statements;

(d) changes in accounting principles or application thereof, significant judgment areas, significant and complex transactions and off-balance sheet structures, if any; and

(e) any disagreements between management and the independent auditors, about matters that individually or in the aggregate could be significant to ClearOne's financial statements or the independent auditors' report, and any serious difficulties the independent auditors encountered in dealing with management related to the performance of the audit.

7. Recommend to the Board whether the audited financial statements should be included in ClearOne's Annual Report on Form 10-K, before the report is released.

8. Prepare the report required by the rules of the SEC to be included in the Company's annual proxy statement.

9. Discuss earnings press releases, as well as corporate disclosure policies with respect to financial information and earnings guidance provided to analysts and ratings agencies.

10. At least annually, obtain from and review a report by the independent auditors describing (a) the independent auditors' internal quality control procedures, and (b) any material issues raised by the most recent internal quality-control review, or peer review, or by any governmental or professional inquiry or investigation within the preceding five years regarding any audit performed by the independent auditors, and any steps taken to deal with any such issues.

11. Review the adequacy and effectiveness of ClearOne's disclosure controls and procedures.

12. Review the adequacy and effectiveness of ClearOne's internal controls, including any significant deficiencies in such controls and significant changes or material weaknesses in such controls reported by the independent auditors or management, and any fraud, whether or not material, that involves management or other ClearOne employees who have a significant role in such controls.

13. Review the adequacy and effectiveness of ClearOne's information security policies and the internal controls regarding information security.

14. Review with management the results of its review of compliance with applicable laws and regulations and ClearOne's Standards of Business Conduct, and review with management the results of its review of compliance with applicable listing standards.

15. Assure that procedures are established for the receipt, retention and treatment of complaints on accounting, internal accounting controls or auditing matters, as well as for confidential, anonymous submissions by ClearOne's employees of concerns regarding questionable accounting or auditing matters and compliance with the Standards of Business Conduct.

16. Receive and, if appropriate, respond to attorneys' reports of evidence of material violations of securities laws and breaches of fiduciary duty and similar violations of U.S. or state law.

17. Review significant risks or exposures relating to litigation and other proceedings and regulatory matters that may have a significant impact on ClearOne's financial statements.

18. Review the results of significant investigations, examinations or reviews performed by regulatory authorities and management's response.

19. Review and approve all "related party transactions," as defined in applicable SEC rules.

20. Obtain reports from management and the independent auditor that ClearOne’s subsidiary/foreign affiliated entities are in conformity with applicable legal requirements and ClearOne’s Code of Conduct, including disclosures of insider and affiliated party transactions.

21. Conduct or authorize investigations into any matters within the Committee's scope of responsibilities.

22. Meet at least quarterly with the chief financial officer and the independent auditor in separate executive sessions.

23. Consider such other matters regarding ClearOne's financial affairs, its controls, and the independent audit of ClearOne as the Committee, in its discretion, may determine to be advisable.

24. Report regularly to the Board with respect to the Committee's activities.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company’s financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations and ClearOne’s Code of Conduct.