CLEARONE COMMUNICATIONS INC
Form 10-K
April 02, 2012

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 December 31, 2011

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

For the transition period from _________ to ___________

Commission file number 001-33660

CLEARONE COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Utah	**87-0398877**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
5225 Wiley Post Way, Suite 500, Salt Lake City, Utah	**84116**
(Address of principal executive offices)	(Zip Code)

(Registrant s telephone number, including area code) **801-975-7200**
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name on each exchange on which registered**

Common Stock, $0.001 par value	The NASDAQ Capital Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨Yes xNo

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨Yes xNo

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. xYes ¨No

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

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

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

Larger Accelerated Filer ¨	Accelerated Filer ¨	Non-Accelerated Filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company x

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

The aggregate market value of the shares of voting common stock held by non-affiliates was approximately $34.6 million at June 30, 2011 (the Company's most recently completed second fiscal quarter), based on the $6.56 closing price for the Company s common stock on the NASDAQ Capital Market on such date. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

The number of shares of ClearOne common stock outstanding as of March 28, 2012 was 9,098,152.

CLEARONE COMMUNICATIONS, INC.

ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

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CLEARONE COMMUNICATIONS, INC.

ITEM 1 BUSINESS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

PART I

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

ITEM 1. BUSINESS

Overview

ClearOne was formed as a Utah corporation in 1983 organized under the laws of the State of Utah. The company is headquartered in Salt Lake City, Utah with offices in Austin, Texas, Corvallis, Oregon, Hong Kong, United Kingdom and Israel.

We are a global company that designs, develops and sells conferencing, collaboration, streaming and digital signage solutions for audio, video and data multimedia communication. The performance and simplicity of our advanced comprehensive solutions enhance the quality of life. ClearOne products are designed for business and residential use, offering unprecedented levels of functionality, reliability and scalability.

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

NetStreams® DigilinX, the ClearOne brand for residential multimedia streaming and control, and VIEW , the ClearOne brand for commercial multimedia streaming and control, deliver a superior IP A/V experience by streaming high definition audio and video (multimedia) and control over TCP/IP LAN networks. By combining audio and/or video content, meta-data and control signals into one stream over existing Internet Protocol LAN networks, in harmony with industry standards, ClearOne's patented StreamNet® solutions enable *The Power of AV over IP* for bourgeoning markets such as digital signage, and enterprise multimedia streaming. Also sold under the NetStreams residential brand are non-IP multimedia distribution solutions for economical multimedia residential streaming applications.

CLEARONE COMMUNICATIONS, INC.

ITEM 1 BUSINESS

On September 6, 2011, ClearOne acquired the business of MagicBox, Inc., a leading manufacturer of hardware and software solutions delivering digital content and information to digital displays. Under the terms of an asset purchase agreement with MagicBox, Inc, an Oregon corporation, ClearOne paid approximately $980,000 in cash and acquired all the assets, including intellectual property, fixed assets and current assets and assumed no debt.

MagicBox s content management and control technology, along with its industry-leading database integration software are the perfect complement to ClearOne's StreamNet systems. The combined expertise of the two companies brings to the market the only complete, end-to-end digital signage content management, control and IP streaming solution. MagicBox and ClearOne have complementary products for a broad spectrum of applications. One of the single-most challenging requirements for any digital signage provider is the ability to distribute content over a LAN while maintaining control and scheduling alignment. StreamNet technology delivers low-latency HD distribution over IP which is an ideal fit with MagicBox's content creation, control, scheduling, database integration and digital signage domain expertise.

We have an established history of product innovation and plan to continue to apply our expertise in audio, video and network engineering to develop and introduce innovative new products and enhance our existing products. Our end-users range from some of the world s largest and most prestigious companies and institutions to small and medium-sized businesses, higher education and government organizations, as well as individual consumers. We sell our commercial products to these end-users primarily through a global network of independent distributors who in turn sell our products to dealers, systems integrators and other value-added resellers. We also sell commercial products directly to dealers, systems integrators, value-added resellers and end-users. We sell our residential products through a global network of residential electronics dealers, system integrators and other value-added resellers.

Our 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 any amendments to such reports are available, free of charge, on our website in the "Investor Relations" section under "Company." These reports are made available as soon as reasonably practicable after we file such material with, or furnish it to, the SEC.

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

Business Strategy

We currently participate in the following markets:

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Professional audiovisual;

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Unified communications including telephony;

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Multimedia streaming and control; and

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Digital signage.

Our business goals are to:

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Maintain our leading global market share in professional audio conferencing products for large businesses and organizations;

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Focus on the small and medium business (SMB) market with scaled, lower cost and less complex products and solutions;

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Capitalize on the growing adoption of unified communications and introduce new products through emerging information technology channels;

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Partner with large enterprise communications providers worldwide to bring value-added products to their solution portfolios and channels;

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Capitalize on the convergence of AV over IP by integrating NetStreams and ClearOne core technologies to provide new solutions that reach deeper into the enterprise infrastructure and bring clear, differentiated value to our customers; and

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Leverage ClearOne s unique position as the only solution provider to offer a complete, end-to-end digital signage, content management, control and IP streaming solution.

We will continue to improve our existing high-quality products and develop new products for the bourgeoning conferencing, collaboration, multimedia streaming, and digital signage markets.

CLEARONE COMMUNICATIONS, INC.

ITEM 1 BUSINESS

Provide a superior conferencing and collaboration experience

We have been developing audio technologies since 1981 and believe we have established a worldwide reputation for providing some of the highest quality group audio conferencing solutions in the marketplace. Our proprietary and advanced audio signal processing technologies, including our HDConference® technology, have been the core of our professional conferencing products and serve as the foundation for our new product development in other conferencing categories.

Provide significant impact on how multimedia and control are distributed

We believe ClearOne s innovative approach of bringing together networking technology with audio and video streaming and control over these technologies has the potential to bring about a significant change in the audio and video industry and beyond. We believe the benefits and features that only networked digital multimedia can offer will change and enhance the user experience. Our multimedia streaming products incorporate StreamNet® technology and *Perfect Pixel* , our newly patented advanced algorithms for audio and video packet delivery optimization and error concealment, which ensure reliable delivery and eliminate dropped content across the IP based LAN network with near perfect delivery synchronization, to within one millisecond for all endpoints.

Offer greater value to our customers and partners

To provide our customers and partners with products that offer high value, we are focused on listening to our customers and partners and delivering products to meet their needs.

By offering high quality products designed to solve conferencing and collaboration ease-of-use issues, that are easy to install, configure, and maintain, we believe we can provide greater value to our customers and partners to enhance business communications and decision making. Our new networked multimedia streaming and control products offer significant cost savings by offering a non-centralized, edge of the network architecture, that uses existing networking infrastructure to deliver consistent high quality multimedia streaming which is easy to install, maintain and scale.

Leverage and extend ClearOne technology leadership and innovation

We continue to focus on developing cutting edge conferencing and collaboration products and are committed to incorporating the latest technologies into our new and existing product lines. Key to this effort is adopting emerging technologies and leveraging advancements in existing technologies, such as Voice over Internet Protocol (VoIP), wideband audio, wireless connectivity, convergence of voice and data networks, exploring new application models for our mid-tier premium products and affordable personal audio conferencing technologies, and developing products based on internationally accepted standards and protocols. With the acquisition of MagicBox, ClearOne is working to leverage its digital signage technology to increase its market share in its existing channels and enter new and larger markets and channels.

Expand and strengthen sales channels

We continue to expand and strengthen domestic and international sales channels. New sales channel development includes three initiatives. First, we continue to increase sales channel partner coverage in developing economies including the Asia Pacific, South Asia, and Eastern Europe. Second, to expand beyond our traditional audio video channels that carry our high end professionally installed conferencing products, we continue to direct significant sales efforts toward the development of channel partners who are focused on the information technology (IT) market for the sales of our latest VoIP, USB, and unified communications-enabled conferencing products. The IT channel includes resellers and integrators of unified communications products compatible with Avaya, IBM, Microsoft®, and other unified communications platforms, as well as telephony products. Third, we will focus on offering scaled solutions to address the needs of the small and medium business (SMB) market and the associated resellers and channels suited to sell our mid-tier premium and affordable personal conferencing and collaboration products, including products certified for Skype and other SMB web based services.

We will also continue to introduce our commercial networked multimedia streaming and control products and our digital signage content management and IP streaming solutions into our existing global professional AV sales channels. We will continue to invest in the necessary resources for the further development of training, certification, technical sales and product support programs and services for these new products to increase adoption of this solution portfolio through this existing channel.

CLEARONE COMMUNICATIONS, INC.

ITEM 1 BUSINESS

Broaden our product offerings

We believe we offer the industry s most complete audio conferencing product line. With our StreamNet multimedia technology and our MagicBox digital signage solutions, end-users can conference, stream audio and video and create custom content on common platforms. Our consolidated, unified multimedia communication options include:

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Professional conferencing products used in large businesses and organizations such as enterprise, healthcare, education and distance learning, government, legal and finance organizations that integrate with leading video conferencing systems;

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Premium conferencing products that are also scaled for smaller conferencing rooms and for small and medium businesses which integrate with leading video and web conferencing systems and applications;

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Traditional tabletop conferencing phones used in conference rooms and offices;

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Personal conferencing products that enable affordable hands-free audio communications in new ways such as through PCs and portable laptops, tablets, smartphones and handsets;

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COLLABORATE is an all-in-one voice, video and data collaboration solution, designed for organizations using unified communications or popular cloud video conferencing services delivering plug-and-play simplicity;

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A full line of networked audio video multimedia distribution and control for a wide range of commercial and residential applications;

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MagicBox media players, content creation, scheduling and database integration that deliver an end-to-end digital signage content management; and

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A comprehensive portfolio of media carts that provide equipment mobility and make conferencing equipment, including our own, easy to access and use.

We plan to continue to broaden our product offerings to meet the evolving needs of our customers, partners and sales channels to address changes in the markets we currently serve, and effectively target new markets for our products.

Develop strategic partnerships

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

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We continue to offer conferencing products suited to leading systems and applications provided by Avaya, Cisco, Crestron, IBM, Microsoft, Mitel and Skype;

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We have entered into channel partnerships with Ingram Micro, Synnex and others; and

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We have interoperability, web collaboration and integration partners.

We plan to broaden the application and adoption of our patented StreamNet technology by partnering with other market participants through technology licensing, joint product development, and co-marketing activities and agreements.

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We have formed StreamNet Ready Partner Program (www.streamnetpartners.com) to enable key audiovisual manufacturers to integrate products seamlessly into ClearOne's TCP/IP standards based StreamNet multimedia distribution and control solutions;

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We have joined AVnu Alliance (www.avnu.org) which is dedicated to enabling an ecosystem of affordable professional quality streaming for networked audio and video content; and

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We also joined HDCP (www.digital-cp.com), which is a High-bandwidth Digital Content Protection (HDCP) specification developed by Intel Corporation to protect digital entertainment across the DVI/HDMI interface.

Strengthen existing customer and partner relationships through dedicated support

We have developed a global reputation for our excellence in providing customers and partners with our pre-sales, post-sales, and technical support by dedicated teams. We believe our support is recognized as among the best in the industry and we will continue to invest in the necessary resources to ensure that our customers and partners have access to the information and resources they need to be successful in using or reselling our products. We also dedicate significant resources to provide various levels of product sales or certified product technical training based on their sales or technical needs.

CLEARONE COMMUNICATIONS, INC.

ITEM 1 BUSINESS

Markets and Products

Audio Conferencing and Collaboration Products: Overview

The performance and reliability of our high-quality conferencing and collaboration products enable effective, natural, and efficient communication among geographically separated enterprises, organizations or individuals. We offer a full range of audio conferencing products including (i) professional conferencing products used in enterprise, healthcare, education and distance learning, government, legal and finance organizations, (ii) mid-tier premium conferencing products for smaller rooms and small and medium businesses which interface with video and web conferencing systems, (iii) traditional tabletop conferencing phones used in conference rooms and offices, and (iv) affordable personal conferencing products that can be used with PCs, laptops, tablets, smartphones, and other portable devices. For all the fiscal periods reported in this Annual Report, our professional conferencing products and traditional tabletop conference phones have together contributed a minimum of 74% percent of our consolidated revenue.

Our audio conferencing products feature our proprietary HDConference Distributed Echo Cancellation® and noise cancellation technologies to enhance communication during a conference call by eliminating echo and background noise. Most of our products also feature some of our other HDConference proprietary audio processing technologies such as adaptive modeling and first-microphone priority, which combine to deliver clear, crisp and full-duplex audio. These technologies enable natural and fatigue-free communication between distant conferencing participants.

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

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Availability of easy-to-use conferencing systems and applications;

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Richer and clearer voice quality of collaborative communications compared to the quality of telephone handset speakerphones; and

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Expansion of global, regional, and local corporate enterprises requiring increased use of collaboration tools and systems.

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

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Availability of affordable and portable audio conferencing solutions for small businesses and home offices;

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Growth of distance learning and corporate training programs;

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Increasing adoption of tele-working and home offices;

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Decreases in travel due to cost, inconvenience, and carbon footprint considerations;

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Transition to Internet Protocol (IP) networks from traditional public switched telephone networks (PSTN) and the growing deployment of VoIP collaboration applications; and

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Increased adoption of unified communication platforms that leverage the affordability and capability of personal computers as a central component of corporate communication.

Audio Conferencing Products: Professional Conferencing

We occupy the number one position in the global professional audio conferencing market with nearly 50% of total global market share. We have been developing high-end, professional conferencing products since 1991 and believe we have established strong brand recognition for these products worldwide. Our professional conferencing products include the Converge® Pro and the Converge SR product lines.

Our flagship Converge Pro product line leads our professionally installed audio products line. This latest generation professional product line delivers significant feature set and performance advancements compared to its predecessor XAP , including superior proprietary acoustical echo cancellation, noise cancellation, full duplex performance, enhanced management capabilities, and simplified configuration utilities. The Converge Pro product line includes the Converge Pro 880, Converge Pro 880T, Converge Pro 880TA, Converge Pro 840, Converge Pro 8i, Converge Pro TH20 and Converge Pro VH20 which together offer various levels of integration and features to allow a commercial system integrator to optimize a system to fit diverse conferencing applications and environments.

CLEARONE COMMUNICATIONS, INC.

ITEM 1 BUSINESS

The ClearOne Ceiling Microphone Array introduced in November 2011, enhances almost any conferencing application which demands high-quality audio. The Ceiling Microphone Array is easily installed and combines affordability with exceptional audio quality. With three wide-range microphones mounted together into a single unit array, the Ceiling Microphone Array provides the rich sound of three individual unidirectional microphones while maintaining full 360-degree coverage.

Audio Conferencing Products: Mid-Tier Premium Conferencing

In order to better meet the needs of our larger customers with smaller conferencing rooms as well as small and medium businesses, we introduced the INTERACT product line in January 2010 as a mid-tier, lower cost, conferencing product line to replace the Converge 560/590 and RAV product lines. The INTERACT product series is comprised of the INTERACT AT and the INTERACT Pro. Both systems can be easily connected to enterprise telephones, analog POTS lines, existing HD video codecs and soft video clients. These INTERACT systems also include a USB audio interface to connect to PCs, laptops and tablets, as well as to rich multimedia devices, such as video or web conferencing systems and emerging unified communication systems for enhanced collaboration. We believe this product line uniquely delivers superior enhanced audio performance at an economical price compared to other audio conference solutions available in the market today. The INTERACT Product line is designed for a wide variety of applications. Based on product configuration, these include:

· Unified Communications Clients	Avaya, Cisco, IBM, Microsft, Siemens, and others
· Internet Telephony	Google Talk, Skype, Vonage, and others
· Enterprise Telephony	Aastra, Avaya, Cisco, Mitel, and others
· VoIP Softphones	Avaya, Cisco, Mirial, and others
· Web Conferencing	IBM Workplace/SameTime, Microsoft Live Meeting, Cisco WebEx, and others
· Instant Messenger	AOL, Microsoft MSN, Yahoo, and others
· Group Video Conferencing Codecs	Cisco/Tandberg, Logitech, Polycom, Sony, and others
·	Cisco/Tandberg, Logitech, Polycom, and others

Group Video Conferencing Soft Clients

· DVDs, VCRs, PCs, and audio sources

Audio Playback

INTERACT AT is designed for quick and easy installation for most room environments and is strategically positioned between our professional and traditional tabletop conferencing products in price and functionality. It is a complete, out-of-the-box solution that includes an audio mixer, 2 loudspeakers, 2 microphones, and a conference room controller device for the user that can be either wired or wireless. It is intended as an ideal system for smaller rooms in large enterprises or for small to medium businesses looking for lower cost and lower complexity, but a high quality audio conferencing solution that does not require the services and expense of a professional installation. The INTERACT AT is designed to be easy to set up as a stereo system and combines the sound quality of a professionally installed audio system with the simplicity of a traditional conference phone. The INTERACT AT replaced the RAV, which was discontinued in September 2010.

INTERACT Pro is designed for professional installation at a total lower solution cost compared to the Converge Professional series for medium sized rooms or smaller rooms with more demanding room environments. The INTERACT Pro features stereo echo cancellation signal processing for unrivaled audio intelligibility. It includes professional connectors and audio performance adjustments that allow a professional installer to configure and optimize the system. The INTERACT Pro, unlike the AT, can be extended from 8 to 16 microphone inputs by the addition of an extension unit in the series, the INTERACT 8i, for medium sized rooms. The INTERACT Pro replaced the Converge 560 and Converge 590, which were discontinued in September 2010.

The ClearOne Ceiling Microphone Array, discussed above, is also for larger customers with smaller conferencing rooms and small and medium businesses.

COLLABORATE is an all-in-one voice, video and data collaboration solution designed for organizations using unified communications or popular cloud video conferencing services delivering plug-and-play simplicity.

CLEARONE COMMUNICATIONS, INC.

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Audio Conferencing Products: Traditional Tabletop Conferencing

Our MAX® line of traditional tabletop conferencing phones utilizes many of our HDConference echo cancellation, noise cancellation, and audio processing technologies found in our professional audio conferencing products.

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

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

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

Audio Conferencing Products: Personal Conferencing Products

Our industry leading CHAT® product line of affordable and stylish personal speaker phones, using ClearOnes s HDConference technologies, provides full-duplex and rich full bandwidth frequency response for superior audio clarity. The CHATs are designed for a wide variety of applications and devices (fixed or portable) for greatly enhanced collaboration wherever and whenever needed, including the following:

· Unified Communications Clients — Avaya, Cisco, IBM, Microsft, Siemens, and others

· Internet Telephony — Google Talk, Skype, Vonage, and others

· Aastra, Avaya, Cisco, Mitel, and others

Enterprise Telephony

· Avaya, Cisco, Mirial, and others

VoIP Softphones

· HTC, LG, Motorola, Nokia, RIM, and others

Smartphones and Cell Phones

· IBM Workplace/SameTime, Microsoft Live Meeting, Cisco WebEx, and others

Web conferencing

· AOL, Microsoft MSN, Yahoo, and others

Instant Messenger

· Cisco/Tandberg, Logitech, Polycom, Sony, and others

Desktop Video Conferencing

· iPod, Quicktime, RealPlayer, Windows Media Player, and TeamSpeak, and others

Audio Playback

·

PC-Based Gaming

Our personal conferencing products have become popular with large and small enterprises and organizations alike. We have entered into partnerships with Avaya, IBM, Microsoft, Skype, and others to offer personal conferencing products uniquely suited for their enterprise systems and user applications.

CHAT 50 is a personal speakerphone, about the size of a deck of cards, that connects to PCs and Macs, laptops, tablets, enterprise handsets, smartphones, cell phones, and MP3 players for rich, clear, hands-free audio and playback. It is an affordable and portable audio peripheral for greatly enhanced personal collaboration. The CHAT 50 attracted significant press coverage and has won much recognition since its introduction, including PC Magazine s Editors Choice Award in March 2006 and PC Magazine s Best for Business Products Award for 2007.

CLEARONE COMMUNICATIONS, INC.

ITEM 1 BUSINESS

CHAT 150 is for small group use. It offers many of the same device connectivity and application options as the CHAT 50, but features three microphones in larger elegant design for use by a larger number of participants compared to CHAT 50. Users have the ability to add a high-quality, full-duplex speaker phone to their enterprise telephone handsets such as Avaya and Cisco and still retain the full functionality of their client directory services that come with today s VoIP telephone handsets, including access to company directory, voicemail, and audio bridge functions. CHAT 150 makes it possible to introduce rich, crystal clear conferencing capability without the need for introducing a separate traditional conference phone. The speakerphone can also be controlled through the CHAT client application.

CHATAttach 150, introduced in October 2010, is for use in both small and mid-size conference rooms. It is comprised of two CHAT 150 speakerphones which can daisy-chain together to function as a single conferencing system to provide balanced distribution of microphones and loudspeakers for outstanding audio quality and coverage, as well as distributed access to mute and volume user controls through each pod or through the CHAT client application for ease-of-use. Similar to our other daisy-chainable products, the CHATAttach can be used as a pair or each pod can be used separately.

CHAT 70 and CHAT 170 are USB only, personal and small group speakerphones, both compatible to work with Microsoft's Lync unified communications platform and also with other unified communication applications. These products provide the same advanced audio signal processing technologies as other CHAT products. True to their plug-and-play capabilities, CHAT 70 and CHAT 170 require no driver downloads or installations and facilitate all incoming Lync Communicator calls to ring into these products. The speakerphones can also be controlled through the Lync client application.

CHATAttach 170 was introduced in December 2010 to enhance collaboration in larger offices or conference rooms where the Microsoft Lync unified communications platform is used. The CHATAttach 170 requires no driver downloads or installations for Lync. Users plug it in and all incoming calls ring into the CHATAttach 170. The balanced distribution of microphones and loudspeakers provided by the CHATAttach 170, as well as distributed access to mute and volume user controls through each pod or through the Lync client application, provide ease-of-use benefits for larger group conferencing venues using Lync.

CHAT 60 and CHAT 160 are personal and small group speakerphones that are USB only, and are both certified by Skype as optimized for use with Skype s internet telephony platform. These products provide users of Skype with the same features and benefits as the CHAT 50 series and require no driver downloads or installations, enabling all incoming Skype calls to ring on the CHAT 60 or CHAT 160. The speakerphones can also be controlled through the Skype client application.

CHATAttach 160 was introduced in November 2010 to enhance collaboration in larger offices or conference rooms where the Skype internet telephony platform is used. The CHATAttach 160 requires no driver downloads or installations for Skype. Users plug it in and all incoming calls ring into the CHATAttach 160. The balanced distribution of microphones and loudspeakers provided by the CHATAttach 160, as well as distributed access to mute and volume user controls through each pod or through the Skype client application, provide ease-of-use benefits for larger group conferencing venues using Skype.

Multimedia Streaming and Control Products: Overview

Our Multimedia Streaming and Control Products are comprised of commercial and residential product lines. VIEW, the ClearOne brand introduced in 2010 targeted for commercial products, and NetStreams® DigiLinX, the ClearOne brand for residential products, deliver the ultimate IP A/V experience by streaming time sensitive high definition audio and video and control over TCP/IP networks. ClearOne s products are designed for commercial and residential use to offer outstanding levels of performance, functionality, simplicity, reliability, and scalability. By combining audio and or video content, meta-data and control signals into one digital stream in harmony with industry standards, its distributed, edge of the network architecture allows the hardware and the processing power to be distributed across any existing TCP/IP network. This leverages many of the advantages of using TCP/IP over traditional analog systems and other centrally controlled IP-based systems. Other NetStreams residential brands include non-IP multimedia distribution solutions for the more economical and smaller scale multimedia residential streaming applications.

CLEARONE COMMUNICATIONS, INC.

ITEM 1 BUSINESS

Multimedia Streaming and Control Products: VIEW and DigiLinX

The ClearOne VIEW and NetStreams DigiLinX branded products are powered by ClearOne's newly patented StreamNet® technology and *Perfect Pixel*, a combination of ClearOne s proprietary and advanced algorithms for audio and video packet delivery optimization and error concealment insuring reliable delivery and avoiding dropped content across the IP network with perfect delivery synchronization to all endpoints within a millisecond. These product solutions enable drastic improvements in flexibility, scalability and price to performance over traditional multimedia streaming methods to effectively harness *the Power of AV over IP* over existing Internet Protocol networks for the bourgeoning digital signage, and enterprise multimedia streaming markets.

Both the ClearOne VIEW and NetStreams DigilinX are easy to use and create a web where all streaming multimedia and control functions reside on one network making for a truly integrated and interactive experience. A user can activate and control a single or combination of audio sources, video sources, security systems, HVAC systems, lighting, and other room or facility monitoring functions such as paging or security access by just a single touch to its attractive touch screens. Alternatively, any PC, laptop, tablet, iPod, or other device with a built-in web browser with Flash can control the equipment connected to the system. The VIEW and DigiLinX systems have no limits on the numbers of sources, displays, or amplifiers in a project and can be used in areas from residential homes with a few rooms to large-scale commercial projects.

Multimedia content and control are carried over existing network wiring obviating the necessity to pull separate infrastructure cable for audio, video, and another cable infrastructure system for controlling the sources and displays. Converting an audio or video signal to TCP/IP preserves the digital quality of the signal across the network. Unlike analog systems, which lose quality over long distances, TCP/IP packets are decoded to retain the same digital quality as they were encoded. Whether the multimedia streaming is being sent to the next floor or across an expansive campus, it arrives just as it was sent. ClearOne s multimedia streaming and control products also allow for decentralization of switching equipment. Each StreamNet product for each node contains the needed processing and interfaces for its functionality. The VIEW and DigiLinX graphical user interface (GUI) are dynamically generated based on the devices connected on the network and require no additional programming. The GUIs include everything needed to easily control a system and any third party equipment, saving time and money on costly user interface design and programming.

ClearOne's patented StreamNet encompasses several protocols, conventions, and technologies to insure outstanding quality of audio and video distribution over TCP/IP. StreamNet technology provides an end-to-end all digital solution with 1 millisecond A/V signal synchronization, automatic device discovery and configuration, self-healing, remote access for control, software upgrades and more. One of the fundamental problems with using TCP/IP to distribute digital audio to multiple zones is the synchronization of playback. Without synchronization, audio can sputter, cut out, or have strong echo effects from room to room, sometimes playing several seconds apart. ClearOne s StreamNet technology ensures that audio and/or video content is synchronized to less than a millisecond of each device, preventing undesirable echo or latency.

The latest addition of our Digital Encoder and Digital Decoder products with DVI/HDMI input and output enhances the flexibility of complete AV distribution system and makes it as easy to use as analog devices.

Multimedia Streaming and Control Products: Non-IP Products

Musica, a NetStreams branded residential audio streaming system, is designed to deliver superior audio performance and features interactive keypads that are designed to be very easy to use. The advanced design of the Musica system places digital amplifiers in each zone, behind each keypad, rather than in one central location. This improves sound quality by reducing noise, distortion and power losses as well as increasing reliability and simplifying the installation. Any Musica keypad can be upgraded to include a digital FM Tuner, allowing every zone an independent selection of radio stations. Audio Ports of Musica are highly flexible, allowing the output of the distributed audio to be coupled with a powered subwoofer or external amplifier, as well as the input of a local source such as a television monitor or cable box.

MagicBox Digital Signage Products

We make digital signage and video messaging systems with an emphasis on ease of use and flexibility with hardware and software applications.

Our Aavelin branded media players come with different hardware configurations for Digital Signage applications. Using the Composer software application with Aavelin media players, the contents can be managed, scheduled and published to one or many media players to display on screens.

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Our RoomRoster branded room information solution is a combination of display and data wrapped in one design. It consists of the room sign and database integration used to display room schedules and other information in real-time.

Media Carts

We complement our audio conferencing products with media carts for audio and video conferencing access and mobility. Our wide selection makes conferencing easier and more convenient. Our media carts are designed to be highly durable and functional while also providing the style and elegance required for conferencing settings.

Marketing and Sales

We primarily use a two-tier channel model through which we sell our commercial products to a worldwide network of independent audiovisual, information technology and telecommunications distributors, who then sell our products to independent systems integrators, dealers, and value-added resellers, who in turn work directly with the end-users of our products for product fulfillment and installation if needed. Our products are also specified and recommended by professional audio-video consultants. We also sell our commercial products directly to certain dealers, systems integrators, value-added resellers, and end-users. We sell our residential products through a global network of residential electronics dealers, system integrators, and other value-added resellers.

During the year ended December 31, 2011, approximately $29.2 million, or 63 percent, of our total product sales were generated in the United States and product sales of approximately $16.8 million, or 37 percent, were generated outside the United States. Revenue from product sales to customers outside of the United States accounted for approximately 37 percent of our total product sales for the year ended December 31, 2010. We sell directly to our distributors, resellers and end users in approximately 62 countries worldwide. We anticipate that the portion of our total product revenue from international sales will continue to be a significant portion of our total revenue as we further enhance our focus on developing new products, establishing new channel partners, strengthening our presence in key growth areas, complying with regional environmental regulatory standards, and improving product localization with country-specific product documentation and marketing materials.

Direct Distributors and resellers

We sell our products directly to approximately 190 distributors and resellers throughout the world. Distributors and resellers purchase our products at a discount from list price and resell them on a non-exclusive basis to independent systems integrators, dealers, and other 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 and resellers to establish appropriate inventory stocking levels. We also work with our distributors and resellers to maintain relationships with our existing systems integrators, dealers, and other value-added resellers.

Independent Integrators, Dealers, and Resellers

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

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Marketing

Much of our marketing effort is conducted in conjunction with our channel partners who provide leverage for us in reaching existing and prospective customers worldwide. We also regularly attend industry forums and exhibit our products at multiple regional and international trade shows, often with our channel partners. These trade shows provide exposure for our brand and products to a wide audience. We also market our NetStreams branded residential products on our website www.netstreams.com, our MagicBox branded digital signage products on our website www.magicboxinc.com, and ClearOne branded commercial products on our website www.clearone.com. We also conduct public relations initiatives to get press coverage and product reviews in industry and non-industry publications alike.

Customers

We do not get any reports from our distributors and resellers to identify our end-users. Hence we do not know whether any end-user accounted for more than 10 percent of our total revenue during any of the periods reported in this Annual Report. However, revenues included sales to two distributors, Starin Marketing and VSO Marketing, that represented approximately 30% of consolidated revenue during the year ended December 31, 2011, with each of these distributors accounting for more than 10 percent of the consolidated revenue during that period. During the year ended December 31, 2010, revenues included sales to two distributors, namely NewComm Distributing and Starin Marketing, that represented 32.5% of the consolidated revenue, with each of these distributors accounting for more than 10 percent of the consolidated revenue during that period. As discussed above, these distributors facilitate product sales to a large number of independent systems integrators, dealers, and value-added resellers, and subsequently to their end-users. The loss of one or more distributors could reduce revenue and have a material adverse effect on our business and results of operations. As of December 31, 2011, our shipped orders on which we had not recognized revenue were $3.4 million and our backlog of unshipped orders was approximately $490,000.

Competition

The conferencing and the networked multimedia and control distribution product markets are characterized by intense competition, rapidly evolving technology, and increased business consolidation. We compete with businesses having substantially greater financial, research and product development, manufacturing, marketing, and other resources. If we are not able to continually design, manufacture, and successfully market new or enhanced products or services that are comparable or superior to those provided by our competitors and at comparable or better prices, we could experience pricing pressures and reduced sales, gross profit margins, profits, and market share, each of which could have a materially adverse effect on our business. Our competitors vary within each product category. We believe we are able to differentiate ourselves and therefore successfully compete as a result of the high audio quality of our products resulting from a combination of proprietary and highly advanced audio signal processing technologies and networking technology in the form of trade secrets and patented intellectual property, technical and channel support services, and the strength of our channels and brands.

We believe the principal factors driving sales are the following:

- Quality, features and functionality, and ease of use of the products;
- Broad and deep global channel partnerships;
- Significant established history of successful worldwide installations for diverse vertical markets;
- Brand name recognition and acceptance;
- Quality of customer and partner sales and technical support services; and
- Effective sales and marketing.

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

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In the traditional tabletop conferencing market, we face significant competition from Konftel (now part of Avaya), LifeSize (now part of Logitech), Panasonic and Polycom, and especially from their OEM partnerships. A significant portion of the tabletop market is covered by sales through OEM partnerships. While we believe MAX products have unique features like the ability to attach or daisy chain multiple phones together and have superior quality as a result of our proprietary digital signal processing technologies, our limited OEM partnerships and pricing pressures from higher volume competitors limit our ability to expand our existing share of this market.

Our primary competitors in the personal conferencing market are GN Netcom, Phoenix Audio, Plantronics, Polycom, Yamaha and their OEM partners. We believe that our CHAT product line offers unique advantages as a result of their superior audio performance and their ability to connect to multiple devices for a variety of applications.

Our networked multimedia streaming and control products face intense competition from a few well-established corporations of diversified capabilities and strengths. In the commercial streaming multimedia and control market, our main competitors include AMX, BiAmp, Crestron, Extron, Haivision. In the residential streaming multimedia and control market, our main competitors include AMX, Crestron, ELAN, and Russound. We believe that our pioneering and patented StreamNet technology delivers superior audio and video streaming performance and flexibility and provides us with a competitive edge over other industry players.

In digital signage, our primary competitors include Scala, Tightrope and Visix.

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

Regulatory Environment

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

Sources and Availability of Raw Materials

We manufacture our products through electronics manufacturing services ("EMS") providers, who are generally responsible for sourcing and procuring required raw materials and components. Most of the components that our EMS providers require for manufacturing our products are readily available from a number of sources.

We continually work with our EMS providers to seek alternative sources for all our components and raw materials requirements to ensure higher quality and better pricing. Most of our EMS providers and their vendors are qualified by Corporate Quality Assurance. We work with our EMS providers to ensure that raw materials and components conform to our specifications.

Manufacturing

Currently, all of our products are manufactured by EMS providers. Our primary EMS provider is Flextronics.

Seasonality

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

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Research and Product Development

We are committed to research and product development and view our continued investment in research and product development as a key ingredient to our long-term business success. Our research and product development expenditures were approximately $7.1 million during the year ended December 31, 2011 and $7.7 million during the year ended December 31, 2010.

Our core competencies in research and product development include (a) many audio technologies, including acoustic echo cancellation, noise cancellation and other advanced adaptive digital signal processing technologies, and (b) networking and multimedia streaming technologies. We also have expertise in wireless technologies, VoIP, software and network application, and digital signage system development. We believe that continued investment in our core technological competencies is vital to developing new products and to enhancing existing products.

Intellectual Property and Other Proprietary Rights

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

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

Employees

As of December 31, 2011, we had 139 full-time employees. Of these employees, 86 were located in our Salt Lake City office, 49 in other U.S. locations, two in the United Kingdom and two in Asia. None of our employees is subject to a collective bargaining agreement and we believe our relationship with our employees is good. We also hire contractors with specific skill sets to meet our operational needs.

ITEM 1A. RISK FACTORS

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

Risks Relating to Our Business

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

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

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

Orders from our distributors and other distribution participants are based on demand from end-users. Prospective end-user demand is difficult to measure. This means that our revenue during any fiscal quarter could be adversely impacted by low end-user demand, which could in turn negatively affect orders we receive from distributors and dealers. Our expectations for both short and long-term future net revenues are based on our own estimates of future demand. Revenue for any particular time period is difficult to predict with any degree of certainty. We typically ship products within a short time after we receive an order; consequently, unshipped backlog has not historically been a good indicator of future revenue. We believe that the level of backlog is dependent in part on our ability to forecast revenue mix and plan our manufacturing accordingly. A significant portion of our customers orders are received during the last month of the quarter. We budget the amount of our expenses based on our revenue estimates. If our estimates of sales are not accurate and we experience unforeseen variability in our revenue and operating results, we may be unable to adjust our expense levels accordingly and our gross profit and results of operations will be adversely affected. Higher inventory levels or stock shortages may also result from difficulties in estimating customer demand.

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

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

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

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

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

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

CLEARONE COMMUNICATIONS, INC.

ITEM 1A RISK FACTORS

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

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

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

We have in the past experienced, and may again experience, technical difficulties and delays with the development and introduction of new products. Many of the products we develop contain sophisticated and complicated circuitry, software and components and utilize manufacturing techniques involving new technologies. Potential difficulties in the development process that could be experienced by us include difficulty in the following : (a) meeting required specifications and regulatory standards; (b) hiring and keeping a sufficient number of skilled developers; (c) meeting market expectations for performance; (d) obtaining prototype products at anticipated cost levels; (e) having the ability to identify problems or product defects in the development cycle; and (f) achieving necessary manufacturing efficiencies.

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

We rely on reporting of distribution channel inventory by our distributors to recognize revenue from product sales to them, which could turn out to be inaccurate.

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

We depend on an outsourced manufacturing strategy, and any disruption in their services could negatively impact our product availability and revenues.

We outsource the manufacturing of all of our products to electronics manufacturing services ("EMS") providers located in both the U.S. and Asia. If any of these EMS providers experiences difficulties in obtaining sufficient supplies of components, component prices significantly exceeding anticipated costs, an interruption in their operations, or otherwise suffers capacity constraints, we would experience a delay in shipping these products, which would have a negative impact on our revenue. Should there be any disruption in services due to natural disaster, such as the natural disaster in Japan in 2011, economic or political difficulties, transportation restrictions, acts of terror, 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. Operating in the international outsourcing environment exposes us to certain inherent risks, including unexpected changes in regulatory requirements and tariffs, and potentially adverse tax consequences, which could materially affect our results of operations. Currently, we have no second source of manufacturing for a portion of our products.

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Switching from one EMS provider to another is an expensive, difficult and a time consuming process, with serious risks to our ability to successfully transfer our manufacturing operations. Our operations and consequently our revenues and profitability would be materially adversely affected if we are forced to switch from any of our EMS providers due to any of a number of factors, including financial difficulties faced by the manufacturer, disagreements in pricing negotiations between us and the manufacturer and organizational changes in the manufacturer.

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

Global economic conditions have adversely affected our business in the past and could adversely affect our revenues and harm our business in the future.

Adverse economic conditions worldwide have contributed to slowdowns in the communications industry and have caused a negative impact on the specific segments and markets in which we operate. Adverse changes in general global economic conditions can result in reductions in capital expenditures by end-user customers for our products, longer sales cycles, the deferral or delay of purchase commitments for our products and increased competition. These factors have adversely impacted our operating results in prior periods and could also impact us again in the future. Global economic concerns, such as the varying pace of global economic recovery, the recent sovereign debt crisis in Europe, domestic debt and budget issues, the possibility of a slowdown in China s economic growth and international currency fluctuations, may continue to create uncertainty and unpredictability in the global and national economy. A global economic downturn would negatively impact technology spending for our products and services and could materially adversely affect our business, operating results and financial condition. Further, global economic conditions may result in a tightening in the credit markets, low liquidity levels in many financial markets, decrease in customer demand and ability to pay obligations, and extreme volatility in credit, equity, foreign currency and fixed income markets.

These adverse economic conditions can negatively impact our business, particularly our revenue potential, losses on investments and the collectability of our accounts receivable, by causing the inability of our customers to obtain credit to finance purchases of our products and services, customer or partner insolvencies or bankruptcies, decreased customer confidence to make purchasing decisions resulting in delays in their purchasing decisions, decreased customer demand or demand for lower-end products, and decreased customer ability to pay their obligations when they become due to us.

We are a smaller company than some of our competitors and may be more susceptible to market fluctuations, other adverse events, increased costs and less favorable purchasing terms.

Since we are a smaller company, there is a risk that we may be more susceptible to market fluctuations and other adverse events. In particular, we may be more susceptible to reductions in government and corporate spending from our government and enterprise customers. We may also experience increased costs and less favorable terms from our suppliers than some of our larger competitors who may have greater leverage in their purchasing spend. All of these outcomes may result in our products being more costly to manufacture and less competitive. Any such unfavorable market fluctuations, reductions in customer spending or increased manufacturing costs could have a negative impact on our business and results of operations.

Difficulties in integrating past or potential future acquisitions could adversely affect our business.

We acquired NetStreams, a pioneer in digital media networks based on Internet Protocol (TCP/IP), in November 2009 and MagicBox, a leading provider of digital signage services, in September 2011. In addition, we acquired substantially all of the assets of VCON Video Conferencing, Ltd, a high-performance, end-to-end, software video conferencing solutions company in Israel, in February 2012.The efficient and effective integration of these businesses into our organization is important to our growth. Any acquisition involves numerous risks, including difficulties in integrating the operations, technologies and products of the acquired companies, the diversion of our management's attention from other business concerns, and the potential loss of key customers or employees of an acquired company. Failure to achieve the anticipated benefits of this and any future acquisitions or to successfully integrate the operations of this or any other companies we acquire, could also harm our business, results of operations and cash flows. Additionally, we cannot assure you that we will not incur material charges in future periods to reflect additional costs associated with acquisitions or any future acquisitions we may make.

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ITEM 1A RISK FACTORS

Conditions in Israel and the Middle East may affect the operations of our new subsidiary in Israel.

We have recently formed a subsidiary located in Israel in connection with the acquisition of the assets of VCON Video Conferencing, Ltd.. Accordingly, political, economic, security and military conditions in the Middle East in general, and in Israel in particular, directly affect our Israeli subsidiary s operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Despite negotiations to effect peace between Israel and its Arab neighbors, the future of these peace efforts is uncertain.

In early 2011, riots and popular uprisings in various countries in the Middle East have led to severe political instability in those countries. This instability may lead to deterioration of the political and trade relationships that exist between the State of Israel and these countries. In addition, this instability may affect the economy in the Middle East as well as the global economy and marketplace. Any armed conflicts or political instability in the region, including acts of terrorism or any other hostilities involving or threatening Israel, would likely negatively affect business conditions and could make it more difficult for us to conduct our operations in Israel, which could increase our costs and adversely affect our financial results.

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

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

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

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

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ITEM 1A RISK FACTORS

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

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

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unexpected changes in, or the imposition of, additional legislative or regulatory requirements;

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unique or more onerous environmental regulations;

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fluctuating exchange rates;

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tariffs and other barriers;

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difficulties in staffing and managing foreign sales operations;

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import and export restrictions;

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greater difficulties in accounts receivable collection and longer payment cycles;

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potentially adverse tax consequences;

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potential hostilities and changes in diplomatic and trade relationships; and

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disruption in services due to natural disaster, economic or political difficulties, transportation, quarantines or other restrictions associated with infectious diseases.

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

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

We rely on third-party technology and license agreements, the loss of any of which could negatively impact our business.

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

We may have difficulty in collecting outstanding receivables.

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

CLEARONE COMMUNICATIONS, INC.

ITEM 1A RISK FACTORS

Interruptions to our business could adversely affect our operations.

As with any company, our operations are at risk of being interrupted by earthquake, fire, flood, and other natural and human-caused disasters, including disease and terrorist attacks. Our operations are also at risk of power loss, telecommunications failure, human error, physical or electronic security breaches and computer viruses (which could leave us vulnerable to the loss of confidential proprietary information as well as disruption of our business activities) and other infrastructure and technology based problems. To help guard against such risks, we carry business interruption loss insurance to help compensate us for losses that may occur, but we cannot assure that such coverage would protect us from all such possible losses.

Risks Relating to Share Ownership

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

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

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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;

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disparity between our reported results and the projections of analysts;

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the shift in sales mix of products that we currently sell to a sales mix of lower-gross profit product offerings;

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the level and mix of inventory levels held by our distributors;

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the announcement of new products or product enhancements by us or our competitors;

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technological innovations by us or our competitors;

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success in meeting targeted availability dates for new or redesigned products;

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the ability to profitably and efficiently manage our supplies of products and key components;

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the ability to maintain profitable relationships with our customers;

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the ability to maintain an appropriate cost structure;

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quarterly variations in our results of operations;

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general consumer confidence or general market conditions or market conditions specific to technology industries;

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domestic and international economic conditions;

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unexpected changes in regulatory requirements and tariffs;

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our ability to report financial information in a timely manner; and

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the markets in which our stock is traded.

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

As of December 31, 2011, we had outstanding options to acquire approximately 1.2 million shares of our common stock at a weighted average exercise price of $4.50 per share. An additional 501,000 shares remain available for grant under our 2007 Equity Incentive Plan. During the terms of these options, the holders thereof will have the opportunity to profit from an increase in the market price of the common stock. The existence of these options may adversely affect the terms on which we can obtain additional financing, and the holders of these options can be expected to exercise such options at a time when we, in all likelihood, would be able to obtain additional capital by offering shares of our common stock on terms more favorable to us than those provided by the exercise of these options.

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

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

CLEARONE COMMUNICATIONS, INC.

ITEM 1A RISK FACTORS

We have previously identified material weaknesses in our internal controls.

In our Form 10-K for the fiscal year ending June 30, 2006 and Form 10-K/A-2 for the fiscal year ending June 30, 2008, we reported and identified a material weakness in our internal controls.

Although we believe we have remedied this weakness through the commitment of considerable resources, we are always at risk that any future failure of our own internal controls or the internal control at any of our outsourced manufacturers or partners could result in additional reported material weaknesses. Any future failures of our internal controls could have a material impact on our market capitalization, results of operations, or financial position, or have other adverse consequences.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We currently occupy a 31,279 square-foot facility in Salt Lake City, Utah under the terms of an operating lease expiring in May 2016 which supports our principal administrative, sales, marketing, customer support, and research and product development facility.

We occupy a 40,000 square-foot warehouse in Salt Lake City under the terms of an operating lease expiring in December 2017 which serves as our primary inventory fulfillment and repair center. Our earlier lease for the 23,712 square-foot warehouse in Salt Lake City terminated in January 2012.

We also lease approximately 5,600 square-feet of warehouse space in Hong Kong under an operating lease which expires in February 2014 to support our partners and customers located in the Asia-Pacific region. Our earlier leases for smaller Hong Kong warehouses totaling 3,700 square-feet expired in February 2012.

We also occupy a 9,400 square-foot facility in Austin, Texas under the terms of an operating lease expiring in May 2012, which serves as an additional facility to support our administrative, sales, marketing, customer support, and research and development activities.

In addition to the above, we also occupy a 2,264 square-foot office space in Corvallis, Oregon under a month-to-month operating lease to support our digital signage business operations and research and development facilities.

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

ITEM 3. LEGAL PROCEEDINGS

See Note 8 – Commitments and Contingencies of the Notes to Consolidated Financial Statements (Part II, Item 8) for information regarding legal proceedings in which we are involved, which is incorporated in this Item 3 by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

CLEARONE COMMUNICATIONS, INC.

PART II

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

Market Information

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

	Year ended December 31,			
	2011		2010	
	High	Low	High	Low
Q1 - Jan 1 to Mar 31	$7.49	$3.75	$3.33	$2.90
Q2 - April 1 to Jun 30	9.20	5.91	3.25	2.96
Q3 - July 1 to Sep 30	7.73	4.90	4.00	2.97
Q4 - Oct 1 to Dec 31	5.51	3.95	4.10	3.11

On March 28, 2012, the closing price for our common stock as reported on the Nasdaq Capital Market was $4.468.

Shareholders

As of March 28, 2012, there were 9,098,152 shares of our common stock issued and outstanding and held by approximately 429 shareholders of record. This number includes each broker dealer and clearing corporation that holds shares for customers as a single shareholder.

Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans

We currently have two equity compensation plans, our 1998 Stock Option Plan (the 1998 Plan) and our 2007 Equity Incentive Plan (the 2007 Plan). See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters for additional information for securities authorized for issuance under our equity compensation plans.

Issuer Purchases of Equity Securities

There were no issuer purchases of equity securities during the years ended December 31, 2011 and 2010.

ITEM 6. SELECTED FINANCIAL DATA

Not Applicable.

CLEARONE COMMUNICATIONS, INC.

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

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

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

OVERVIEW

Throughout this discussion, we compare results of operations for the year ended December 31, 2011 ("2011") to the year ended December 31, 2010 (2010 or "the comparable period").

Despite the uncertainty with the European markets in the second half of 2011, overall global economic conditions remained stable during 2011, contributing to our strong financial performance in 2011.

On September 6, 2011, we acquired substantially all the assets of MagicBox, Inc. an Oregon based company engaged in digital signage business. Under the terms of the asset purchase agreement, we paid $980,000 in cash for the assets of MagicBox, which included working capital of approximately $206,000. MagicBox s content management and control technology, along with its industry-leading database integration software complements ClearOne's StreamNet systems. The combined expertise of the two companies brings to the market the only complete end-to-end digital signage content management and IP streaming solution.

Revenue and profitability of almost all product lines in our conferencing and collaboration portfolio of products improved during the year ended December 31, 2011. We experienced appreciable improvements in revenues from professional, personal and premium conferencing products. The revenue from NetStreams products remained flat, while revenue from traditional tabletop conferencing suffered. We also benefitted from additional revenue from MagicBox products during 2011. Both revenue and gross profit increased by 12% during 2011 over the comparable period. Net Income increased to $6.9 million from $2.4 million in 2011. Net income in 2011 benefited by a credit for

$3.7 million in proceeds from litigation related to the theft of our intellectual property. On the other hand, net income in 2010 declined due to a legal accrual of $2.2 million related to our litigation involving the indemnification of our former officers.

We derive a major portion (approximately 66%) of our revenue from North America. Our share of revenue from foreign markets outside North America has been stable over the last two years.

The conferencing products market is characterized by intense competition and rapidly evolving technology. Our competitors vary within each product category. The professionally installed product side of our business continues to perform at a high level and the personal product side is also growing along with our premium products category. However, we face significant competition in the tabletop category due to the dominant presence of a major competitor. We intend to increase our market presence through the introduction of new products to take advantage of the increasing adoption of unified communications in the marketplace. We expect the recent introduction of HDMI compatible digital encoders and decoders will strengthen our portfolio of networked multimedia streaming products. We also expect that a successful integration of MagicBox technology with NetStreams technology will significantly strengthen our competitive position as a comprehensive solutions provider.

The immediate outlook for our business is encouraging as we see continued stability in the economic conditions affecting our business. Even though our recent acquisitions will increase our operating costs, we will continue to exercise fiscal discipline and balance the need to invest in the growth of our product offerings future against the need to maintain the profitability of the company.

CLEARONE COMMUNICATIONS, INC.

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

DISCUSSION OF RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2011 COMPARED TO YEAR ENDED DECEMBER 31, 2010

The following table sets forth certain items from our consolidated statements of operations for the years ended December 31, 2011 and 2010, together with the percentage of total revenue which each item represents.

	Year ended December 31,				Variance Favorable (Unfavorable)	
	2011		2010			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	$		$		$	
Revenue	46,067	100.0%	41,284	100.0%	4,783	11.6%
Cost of goods sold	18,522	40.2%	16,643	40.3%	(1,879)	-11.3%
Gross profit	27,545	59.8%	24,641	59.7%	2,904	11.8%
Sales and marketing	8,120	17.6%	8,685	21.0%	565	6.5%
Research and product development	7,128	15.5%	7,739	18.7%	611	7.9%
General and administrative	5,427	11.8%	6,420	15.6%	993	15.5%
Proceeds from litigation	(3,702)	-8.0%	-	-	3,702	
Operating income	10,572	22.9%	1,797	4.4%	8,775	488.3%
Other income (expense), net	24	0.1%	(104)	-0.2%	128	
Income before income taxes	10,596	23.0%	1,693	4.1%	8,903	525.9%
(Provision) benefit for income taxes	(3,667)	-8.0%	681	1.6%	(4,348)	-638.5%
	$		$		$	
Net income	6,929	15.0%	2,374	5.8%	4,555	191.9%

Not meaningful

Revenue

Our revenue was $46.1 million for the year ended December 31, 2011 compared to $41.3 million for the comparable period. Revenue during 2011 increased by approximately $4.8 million, or 12%, from the comparable period. The increase in revenue was primarily the result of increases in sales volume in our professional, personal and premium product categories. Revenue from professional, personal and premium products increased in 2011 by 10%, 19% and 35% respectively. Additional revenue in 2011 from MagicBox products was approximately $353,000. These increases in revenue were partially offset by an 8% decrease in revenue from tabletop conferencing products. Revenue from NetStreams products remained flat. The share of professional products in our revenue mix stayed the same in both periods at 60%. The share of personal and premium products in the revenue mix increased from 22% in 2010 to 25% in 2011.

We evaluate, at each quarter-end, the inventory in the distribution channel through information provided by certain of our distributors. The level of inventory in the channel will fluctuate up or down each quarter based upon our distributors individual operations. Accordingly, each quarter-end revenue deferral is calculated and recorded based upon the underlying channel inventory at quarter-end. During 2011 and 2010, the change in deferred revenue based on the movement of inventory in the channel was a recognition of revenue of $902,000 and $401,000, respectively.

Cost of Goods Sold and Gross Profit

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

CLEARONE COMMUNICATIONS, INC.

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

Our gross profit during 2011 was approximately $27.5 million compared to approximately $24.6 million in the comparable period, an increase of 12%. This increase in gross profit is in line with the similar increase in revenue. Gross profit margins (GPM), or gross profit as a percentage of sales, were uniformly 60% in both 2011 and 2010.

Our profitability in the near-term continues to depend significantly on our revenues from professional conferencing products. We hold considerable amounts of long-term inventory and if we are unable to sell our long-term inventory, profitability might be affected by inventory write-offs and price mark-downs.

Operating Expenses and Profits (Losses)

Operating profits (losses), or income from operations, is the surplus after operating expenses are deducted from gross profits. Operating expenses include sales and marketing (S&M) expenses, research and product development (R&D) expenses and general and administrative (G&A) expenses. Total operating expenses were approximately $17.0 million in 2011 compared to approximately $22.8 million during the comparable period. Following is a more detailed discussion of expenses related to sales and marketing, research and product development, general and administrative, and other items.

Sales and Marketing. S&M expenses include selling, customer service, and marketing expenses such as employee-related costs, allocations of overhead expenses, trade shows, and other advertising and selling expenses. Total S&M expenses were approximately $8.1 million in 2011 compared with approximately $8.7 million in 2010. As a percentage of revenue, S&M expenses were 17.6% in 2011 compared with 21.0% in 2010. The decrease in S&M expenses in 2011 was approximately $565,000, or 7%, from 2010 as a result of decreases in employee-related costs including commissions to sales personnel, and marketing and advertising expenses partially offset by increased commissions to independent sales representatives.

Research and Product Development. R&D expenses include research and development, product line management, engineering services, and test and application expenses, including employee-related costs, outside services, expensed materials, depreciation, and an allocation of overhead expenses. Total R&D expenses were approximately $7.1 million in 2011 compared to approximately $7.7 million during the comparable period. As a percentage of revenue, R&D expenses were 15.5% in 2011 compared to 18.7% in 2010. The decrease in R&D expenses was primarily due to a reduction in the facilities and information technology-related costs allocated to R&D and also due to a decrease in the expenditures on R&D projects.

General and Administrative. G&A expenses include employee-related costs, professional service fees, allocations of overhead expenses, litigation costs and corporate administrative costs, including finance and human resources. Total G&A expenses were approximately $5.4 million in 2011 compared with approximately $6.4 million in 2010. G&A expenses in 2010 included an accrual of $2.2 million of legal expenses in connection with the indemnification of a former ClearOne officer. If the $2.2 million accrual of legal expenses in 2010, as explained above, were excluded from our GAAP calculation, G&A expenses in 2011 and in 2010 would be $5.4 million and $4.2 million, respectively. The increase in these "adjusted" G&A expenses was primarily due to an increase in employee related expenses, executive bonus, bad debts, bank charges, legal expenses related to acquisition and other acquisition and integration expenses. Management believes that excluding the accrual of legal expenses from GAAP results of G&A expenses in 2010 will provide investors with useful information to help them evaluate our operating results and objectives, and management does not believe that the excluded items are reflective of underlying performance.

Proceeds from litigation. We recognized income of approximately $3.7 million received from one of our competitors upon our successful litigation in the matter related to the theft of our intellectual property. (See section titled "Theft of our Intellectual Property and Related Cases under Note 8 - Commitments and Contingencies to our Consolidated Financial Statements)

(Provision) Benefit from income taxes

The tax expense of $3.7 million during 2011 was primarily the result of tax on current year income. This compared to a tax benefit of $681,000 during the comparable period. The tax benefit for the comparable period was primarily the result of a decrease in our unrecognized tax benefits liability due to the reversal of the liability related to the settlement with taxing authorities.

CLEARONE COMMUNICATIONS, INC.

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

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

As of December 31, 2011, our cash and cash equivalents were approximately $16.7 million compared to $11.4 million as of December 31, 2010. Our working capital was $32.7 million and $22.8 million as of December 31, 2011 and December 31, 2010, respectively.

Net cash flows provided by operating activities were approximately $5.8 million during 2011, an increase of approximately $1.4 million, compared to $4.4 million in 2010. The increase was primarily due to higher net income, higher collections from accounts receivable and an increase in deferred income taxes. These increases in cash inflows were partially offset by increased outflows on inventory, accrued expenses and prepaid expenses.

Net cash flows used in investing activities were $1.4 million during 2011 compared to net cash flows used in investing activities of $449,000 during 2010. During 2011, the cash outflows on investing activities consisted of the acquisition of MagicBox business for $980,000 (Please refer to Note 3 - Business Combinations, Goodwill and Intangible Assets in the Notes to Consolidated Financial Statements (Part II, Item 8) and the purchase of property, plant and equipment. During 2010, the cash flows on investing activities consisted of the receipt of $350,000 of escrow money related to NetStreams acquisition and the purchases of property, plant and equipment totaling $799,000.

Net cash provided by financing activities in 2011 consisted of

proceeds from the issuance of common stock upon the exercise of stock options totaling $747,000 and associated tax benefits totaling $66,000. Net cash used in financing activities during 2010 totaled $2.0 million representing repayment of debt assumed in the acquisition of NetStreams.

During 2011, a total of $1.7 million was paid towards income taxes while we received net refunds of approximately $221,000 in income taxes during 2010.

We believe that future income from operations and effective management of working capital will provide the liquidity needed to meet our short-term and long-term operating requirements and finance our growth plans. We also believe that our strong financial position and sound business structure will enable us raise additional capital when needed to meet our short and long-term financing needs. In addition to capital expenditures, we may use cash in the near future for selective infusions of technological, marketing or product manufacturing rights to broaden our product offerings, as well as acquisitions that may strategically fit our business and are accretive to our performance.

At December 31, 2011, we had open purchase orders related to our electronics manufacturing service providers and other contractual obligations of approximately $4.6 million, primarily related to inventory purchases.

At December 31, 2011, we had inventory totaling $14.5 million out of which non-current inventory accounted for $1.9 million. This compares to total inventories of $11.4 million and non-current inventory of $2.6 million as of December 31, 2010. As our business prospects continue to improve, we expect to continue to reduce our non-current inventory and convert it into cash.

Off-Balance Sheet Arrangements

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

CLEARONE COMMUNICATIONS, INC.

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

those estimates. Our significant accounting policies are described in Note 2 - Summary of Significant Accounting Policies to the Consolidated Financial Statements included in Part II, Item 8 of this report. We believe the following critical accounting policies identify our most critical accounting policies, which are the policies that are both important to the representation of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Revenue and Associated Allowances for Revenue Adjustments and Doubtful Accounts

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

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

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

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

The amount of deferred cost of goods sold was included in consigned inventory. The following table details the amount of deferred revenue, cost of goods sold, and gross profit:

	As of December 31,	
	2011	**2010**
	$	$
Deferred Revenue	3,404	4,306
Deferred Cost of Goods Sold	1,199	1,742
	$	$
Deferred Gross Profit	2,205	2,564

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

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

Impairment of Goodwill and Intangible Assets

We allocated the purchase price for the acquisition of NetStreams, Inc. on the basis of well-established valuation techniques performed by qualified experts. Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. We perform impairment tests of goodwill and intangible assets with indefinite useful lives on an annual basis in the fourth fiscal quarter, or sooner if a triggering event occurs suggesting possible impairment of the values of these assets. In association with the acquisition of NetStreams, $726,000 and $400,000 have been recorded as goodwill and intangible assets with indefinite useful life, respectively. With respect to the MagicBox acquisition, $427,000 and $159,000 have been recorded as goodwill and intangible assets with indefinite useful life, respectively. In response to changes in industry, technology and competitive circumstances, we might be required to exit or dispose of the assets acquired through the NetStreams or MagicBox acquisitions, which could result in an impairment of goodwill and intangible assets.

Impairment of Long-Lived Assets

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

Accounting for Income Taxes

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

To the extent we establish a valuation allowance in a period we must include and expense the allowance within the tax provision in the consolidated statement of operations. In accordance with ASC Topic 740, Accounting for Income Taxes, we analyzed our valuation allowance at December 31, 2011 and determined that based upon available evidence it is more likely than not that certain of our deferred tax assets related to capital loss carryovers and state research and development credits will not be realized and accordingly we have recorded a valuation allowance against these deferred tax assets in the amount of $1,065,000. Please refer to Note 11 - Income Taxes in the Notes to Consolidated Financial Statements for additional information.

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

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

We perform a quarterly analysis of obsolete and slow-moving inventory to determine if any inventory needs to be written down. In general, we write-down our excess and obsolete inventory by an amount that is equal to the difference between the

CLEARONE COMMUNICATIONS, INC.

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

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

Share-Based Payments

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

In December 2004, the FASB issued guidelines now contained under FASB ASC Topic 718, *Compensation Stock Compensation*. ASC Topic 718 establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. Primarily, this Topic focuses on accounting for transactions in which an entity obtains employee services in share-based payment transactions. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments.

Under ASC Topic 718, we measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the awards the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Therefore, if an employee does not ultimately render the requisite service, the costs associated with the unvested options will not be recognized cumulatively.

Effective July 1, 2005, we adopted the guidelines contained in ASC Topic 718 and its fair value recognition provisions using the modified prospective transition method. Under this transition method, stock-based compensation cost recognized after July 1, 2005 includes the straight-line basis compensation cost for (a) all share-based payments granted prior to July 1, 2005, but not yet vested, based on the grant date fair values used for the pro-forma disclosures under the original SFAS No. 123 and (b) all share-based payments granted or modified on or after July 1, 2005, in accordance with the provisions of ASC Topic 718.

Under ASC Topic 718, we recognize compensation cost net of an anticipated forfeiture rate and recognize the associated compensation cost for those awards expected to vest on a straight-line basis over the requisite service period. We use judgment in determining the fair value of the share-based payments on the date of grant using an option-pricing model with assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the risk-free interest rate of the awards, the expected life of the awards, the expected volatility over the term of the awards, the expected dividends of the awards, and an estimate of the amount of awards that are expected to be forfeited. If assumptions change in the application of ASC Topic 718 and its fair value recognition provisions in future periods, the stock-based compensation cost ultimately recorded under the guidelines of ASC Topic 718 may differ significantly from what was recorded in the current period.

CLEARONE COMMUNICATIONS, INC.

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

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

After evaluating the recent accounting pronouncements through the date of this filing, the Company has concluded that application of these pronouncements will have no material impact on the Company s financial results.

CLEARONE COMMUNICATIONS, INC.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is submitted as a separate section of this Form 10-K beginning on Page F-1 and is incorporated in this Item 8 by reference.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized, and reported within the required time periods and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. As required by Rule 13a-15 under the Exchange Act, we have completed an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Principal Financial Officer, of the effectiveness and the design and operation of our disclosure controls and procedures as of December 31, 2011. Based upon this evaluation, our Chief Executive Officer and Principal Financial Officer concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures are effective at a reasonable assurance level.

The effectiveness of any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing, and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate improper conduct completely. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. As a result, there can be no assurance that our disclosure controls and procedures will detect all errors or fraud.

Management s Annual Report on Internal Control Over Financial Reporting

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

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

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011 based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment using those criteria, management concluded that the design and operation of our internal control over financial reporting are effective as of December 31, 2011.

Changes in Internal Control Over Financial Reporting

There were no significant changes in our internal control over financial reporting that occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

CLEARONE COMMUNICATIONS, INC.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table set forth certain information regarding our directors and executive officers..

Name	Age	Position	Director or Officer Since
Zeynep Zee Hakimoglu	58	Chairman, Chief Executive Officer, and President(4)	See Note 4
Brad R. Baldwin	55	Director (1)(2)(3)	1988
Larry R. Hendricks	68	Director (1)(2)(3)	2003
Scott M. Huntsman	46	Director (1)(2)(3)	2003
E. Bryan Bagley	47	Director	2009
Narsi Narayanan	41	Vice President of Finance and Corporate Secretary	2009
Michael E. Braithwaite			