CLEARONE COMMUNICATIONS INC
Form 10-Q
November 13, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from _______________ to _______________

Commission file number: **000-17219**

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

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

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

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

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

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

Yes x No ¨

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

Larger Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer x

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

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

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

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements reflect our views with respect to future events based upon information available to us at this time. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from these statements. Forward-looking statements are typically identified by the use of the words “believe,” “may,” “could,” “will,” “should,” “expect,” “anticipate,” “estimate,” “project,” “propose,” “plan,” “intend,” and similar words expressions; however, not all forward-looking statements contain these words. Examples of forward-looking statements are statements that describe the proposed development, manufacturing, and sale of our products; statements that describe our results of operations, pricing trends, the markets for our products, our anticipated capital expenditures, our cost reduction and operational restructuring initiatives, and regulatory developments; statements with regard to the nature and extent of competition we may face in the future; statements with respect to the sources of and need for future financing; and statements with respect to future strategic plans, goals, and objectives. Forward-looking statements are contained in this report in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” Item 3, “Quantitative and Qualitative Disclosures About Market Risk,” and Item 4, “Controls and Procedures” included in this Quarterly Report on Form 10-Q. The forward-looking statements are based on present circumstances and on our predictions respecting events that have not occurred, that may not occur, or that may occur with different consequences and timing than those now assumed or anticipated. Actual events or results may differ materially from those discussed in the forward-looking statements as a result of various factors, including the risk factors discussed in this report under Part II - Other Information, Item 1A, “Risk Factors” and the application of “Critical Accounting Policies” as discussed in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These cautionary statements are intended to be applicable to all related forward-looking statements wherever they appear in this report. The cautionary statements contained or referred to in this report should also be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. Any forward-looking statements are made only as of the date of this report and ClearOne assumes no obligation to update forward-looking statements to reflect subsequent events, changes in circumstances, or changes in estimates.

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

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

See accompanying notes to condensed consolidated financial statements

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

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

See accompanying notes to condensed consolidated financial statements

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

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

See accompanying notes to condensed consolidated financial statements

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

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

Net cash used in continuing financing activities		(35)		-
Net cash used in discontinued financing activities		-		-
Net cash used in financing activities		(35)		-
Net increase in cash and cash equivalents		494		297
Cash and cash equivalents at the beginning of the period		1,240		1,892
Cash and cash equivalents at the end of the period	$	1,734	$	2,189

See accompanying notes to condensed consolidated financial statements

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

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

See accompanying notes to condensed consolidated financial statements

CLEARONE COMMUNICATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands of dollars, except per share amounts)

1. Basis of Presentation

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

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

2. Summary of Significant Accounting Policy Update

Pervasiveness of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting periods. Key estimates in the accompanying condensed consolidated financial statements include, among others, revenue recognition, allowances for doubtful accounts and product returns, provisions for obsolete inventory, valuation of long-lived assets including goodwill, and deferred income tax asset valuation allowances. Actual results could differ materially from these estimates.

Revenue Recognition - The Company evaluates, at each quarter-end, the inventory in the channel through information provided by certain of its distributors. The level of inventory in the channel will fluctuate up or down, each quarter, based upon these distributors’ individual operations. Accordingly, each quarter-end revenue deferral is calculated and recorded based upon the underlying, estimated channel inventory at quarter-end. The amounts of deferred cost of goods sold were included in consigned inventory. The following table details the amount of deferred revenue, cost of goods sold, and gross profit at each period end for the 21-month period ended September 30, 2006.

	Deferred Revenue	Deferred Cost of Goods Sold	Deferred Gross Profit
September 30, 2006	$ 5,249	$ 2,541	$ 2,708
June 30, 2006	5,871	2,817	3,054
March 31, 2006	5,355	2,443	2,912
December 31, 2005	4,936	2,199	2,737
September 30, 2005	4,848	2,373	2,475

June 30, 2005	5,055	2,297	2,758
March 31, 2005	5,456	2,321	3,135
December 31, 2004	4,742	1,765	2,977

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

SFAS No. 123R requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the awards - the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Therefore, if an employee does not ultimately render the requisite service, the costs associated with the unvested options will not be recognized, cumulatively.

Effective July 1, 2005, the Company adopted SFAS No. 123R and its fair value recognition provisions using the modified prospective transition method. Under this transition method, stock-based compensation cost recognized after July 1, 2005 includes the straight-line basis compensation cost for (a) all share-based payments granted prior to July 1, 2005, but not yet vested, based on the grant date fair values used for the pro-forma disclosures under the original SFAS No. 123 and (b) all share-based payments granted or modified on or after July 1, 2005, in accordance with the provisions of SFAS No. 123R. See Note 9 for information about the Company's various share-based compensation plans, the impact of adoption of SFAS No. 123R, and the assumptions used to calculate the fair value of share-based compensation.

If assumptions change in the application of SFAS No. 123R in future periods, the stock-based compensation cost ultimately recorded under SFAS No. 123R may differ significantly from what was recorded in the current period.

Recent Accounting Pronouncements

Accounting for Uncertainty in Income Taxes

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

Inventory Costs

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

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

Accounting Changes and Error Corrections

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

3. Earnings Per Common Share

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

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

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

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

4. Discontinued Operations

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

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

Document and Camera Product Line

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

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

OM Video

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

Burk

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

5. Income Taxes

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

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

6. Inventory

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

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

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

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

7. Accrued Liabilities

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

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

8. Commitments and Contingencies

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

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

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

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

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

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

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

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

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

9. Share-Based Payment

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

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

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

The Company also has a 1998 Stock Option Plan (the "1998 Plan"). Provisions of the 1998 Plan include the granting of 2,500,000 incentive and non-qualified stock options. Options may be granted to directors, officers, and key employees and may be granted upon such terms as the Board of Directors, in their sole discretion, determine. Through December 1999, 1,066,000 options were granted that would cliff vest after 9.8 years; however, such vesting was accelerated for 637,089 of these options upon meeting certain earnings per share goals through the fiscal year ended June 30, 2003. Subsequent to December 1999 and through June 2002, 1,248,250 options were granted that would cliff vest after 6.0 years; however, such vesting was accelerated for 300,494 of these options upon meeting certain earnings per share goals through the fiscal year ended June 30, 2005. As of September 30, 2006, 22,500 and 150,500 of these options that cliff vest after 9.8 and 6.0 years, respectively, remain outstanding.

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Of the options granted subsequent to June 2002, all vesting schedules are based on 3 or 4-year vesting schedules, with either one-third or one-fourth vesting on the first anniversary and the remaining options vesting ratably over the remainder of the vesting term. Generally, directors and officers have 3-year vesting schedules and all other employees have 4-year vesting schedules. Additionally, in the event of a change in control or the occurrence of a corporate transaction all directors and officers' unvested options shall vest and become exercisable immediately prior to the event or closing of the transaction. All options outstanding as of September 30, 2006 had contractual lives of ten years. Under the 1998 Plan, 2,500,000 shares were authorized for grant. The 1998 Plan expires June 10, 2008, or when all the shares available under the plan have been issued if this occurs earlier. As of September 30, 2006, there were 1,251,921 options outstanding under the 1998 Plan, which includes the cliff vesting and 3 or 4-year vesting options discussed above, and 945,255 options available for grant in the future.

In addition to the two stock option plans, the Company has an Employee Stock Purchase Plan ("ESPP"). Employees can purchase common stock through payroll deductions of up to 10 percent of their base pay. Amounts deducted and accumulated by the employees are used to purchase shares of common stock on the first day of each month. The Company contributes to the account of the employee one share of common stock for every nine shares purchased by the employee under the ESPP. The program was suspended during the period the Company failed to remain current in its filing of periodic reports with the SEC and reinstated in fiscal year 2007 after the Company became current.

Effective July 1, 2005, the Company adopted SFAS No. 123R, "Share-Based Payment." The Company adopted the fair value recognition provisions of SFAS No. 123R using the modified prospective transition method. Under this transition method, stock-based compensation cost recognized beginning July 1, 2005 includes the straight-line compensation cost for (a) all share-based payments granted prior to July 1, 2005, but not yet vested, based on the grant date fair values used in the pro-forma disclosures under the original SFAS No. 123 and (b) all share-based payments granted on or after July 1, 2005, in accordance with the provisions of SFAS No. 123R.

The Company uses judgment in determining the fair value of the share-based payments on the date of grant using an option-pricing model with assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the risk-free interest rate of the awards, the expected life of the awards, the expected volatility over the term of the awards, the expected dividends of the awards, and an estimate of the amount of awards that are expected to be forfeited. The Company uses the Black-Scholes option pricing model to determine the fair value of share-based payments granted under SFAS No. 123R and the original SFAS No. 123.

In applying the Black-Scholes methodology to the options granted during the three months ended September 30, 2006 and 2005, the Company used the following assumptions:

	Three Months Ended	
	September 30, 2006	**September 30, 2005**
Risk-free interest rate, average	4.8%	4.1%
Expected option life, average	4.6 years	5.8 years

Expected price volatility, average	88.4%	88.3%
Expected dividend yield	0.0%	0.0%
Expected annual forfeiture rate	10.0%	10.0%

The risk-free interest rate is determined using the U.S. Treasury rate in effect as of the date of the grant, based on the expected life of the stock option. The expected life of the stock option is determined using historical data. The expected price volatility is determined using a weighted average of daily historical volatility of the Company's stock price over the corresponding expected option life. The Company does not currently intend to distribute any dividend payments to shareholders. The Company recognizes compensation cost net of an expected forfeiture rate and recognized the associated compensation cost for only those awards expected to vest on a straight-line basis over the underlying requisite service period. The Company estimated the forfeiture rates based on its historical experience and expectations about future forfeitures. The Company determined the annual forfeiture rate for options that will cliff vest after 9.8 or 6.0 years to be 38.0 percent and the annual forfeiture rate for options that vest on 3 or 4-year vesting schedules to be 10.0 percent.

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

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

Discontinued operations	-	-
Net income	0.06	0.01

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

CLEARONE COMMUNICATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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The following table shows the stock option activity for the three months ended September 30, 2006.

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

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

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

CLEARONE COMMUNICATIONS, INC.
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10. Segment and Geographic Information

During the three months ended September 30, 2006 and 2005, all revenue and income (loss) from continuing operations was included in the product segment. Additionally, the United States was the only country to contribute more than 10 percent of total revenues in each fiscal year. The Company's revenues are substantially denominated in U.S. dollars and are summarized geographically as follows:

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

11. Manufacturing Transition

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

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

	Severance		Manufacturing Facilities Lease		Total	
Balance at June 30, 2005	$	70	$	40	$	110
Utilized		(30)		(8)		(38)
Balance at September 30, 2005	$	40	$	32	$	72

Balance at June 30, 2006	$	-	$	43	$	43
Utilized		0		(29)		(29)
Balance at September 30, 2006	$	-	$	14	$	14

12. Settlement Agreement and Release

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

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13. Subsequent Events

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

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

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and related notes to condensed consolidated financial statements included in this Form 10-Q and our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended June 30, 2006 filed with the SEC and management's discussion and analysis contained therein. This discussion contains forward-looking statements based on current expectations that involve risks and uncertainties, such as our plans, objectives, expectations, and intentions, as set forth under "Disclosure Regarding Forward-Looking Statements." Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the following discussion and under the caption "Risk Factors" in Part II, Item 1A, as well as other information found in the documents we file from time to time with the SEC. Unless otherwise indicated, all references to a year reflect our fiscal year that ends on June 30.

CRITICAL ACCOUNTING POLICIES

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

Revenue and Associated Allowances for Revenue Adjustments and Doubtful Accounts

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

We provide a right of return on product sales to distributors. Currently, we do not have sufficient historical return experience with our distributors that is predictive of future events given historical excess levels of inventory in the distribution channel. Accordingly, revenue from product sales to distributors is not recognized until the return privilege has expired, which approximates when product is sold-through to customers of the Company's distributors (dealers, system integrators, value-added resellers, and end-users) rather than when the product is initially shipped to a distributor. We evaluate, at each quarter-end, the inventory in the channel through information provided by certain of our distributors. The level of inventory in the channel will fluctuate up or down, each quarter, based upon our distributors' individual operations. Accordingly, each quarter-end revenue deferral is calculated and recorded based upon the underlying, estimated channel inventory at quarter-end. Although, certain distributors provide certain channel inventory amounts, we make judgments and estimates with regard to the amount of inventory in the entire channel, for all customers and for all channel inventory items, and the appropriate revenue and cost of goods sold associated with those channel products. Although these assumptions and judgments regarding total channel inventory revenue and cost of goods sold could differ from actual amounts, we believe that our calculations are indicative of actual levels of inventory in the distribution channel. As of September 30, 2006, the Company deferred

$5.3 million in revenue and $2.5 million in cost of goods sold related to products sold where return rights had not lapsed. As of September 30, 2005, the Company deferred $4.8 million in revenue and $2.4 million in cost of goods sold related to products sold where return rights had not lapsed. The amounts of deferred cost of goods sold were included in consigned inventory. The following table details the amount of deferred revenue, cost of goods sold, and gross profit at each period end for the 21-month period ended September 30, 2006 (in thousands).

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

We offer rebates and market development funds to certain of our distributors and direct dealers/resellers based upon volume of product purchased by them. We record rebates as a reduction of revenue in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-22, "Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future." Beginning January 1, 2002, we adopted EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." We continue to record rebates as a reduction of revenue in the period revenue is recognized.

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

Impairment of Long-Lived Assets

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

Accounting for Income Taxes

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

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

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

In order to determine what, if any, inventory needs to be written down, we perform a quarterly analysis of obsolete and slow-moving inventory. In general, we write down our excess and obsolete inventory by an amount that is equal to the difference between the cost of the inventory and its estimated market value if market value is less than cost, based upon assumptions about future product life-cycles, product demand, or market conditions. Those items that are found to have a supply in excess of our estimated demand are considered to be slow-moving or obsolete and the appropriate reserve is made to write down the value of that inventory to its realizable value. These charges are recorded in cost of goods sold. At the point of the loss recognition, a new, lower-cost basis for that inventory is established and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. If there were to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to increase our inventory allowances, and our gross profit could be adversely affected.

Share-Based Payment

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

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

Under SFAS No. 123R, we measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the awards - the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Therefore, if an employee does not ultimately render the requisite service, the costs associated with the unvested options will not be recognized, cumulatively.

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

Under SFAS No. 123R, we recognize compensation cost net of an anticipated forfeiture rate and recognize the associated compensation cost for those awards expected to vest on a straight-line basis over the requisite service period. We use judgment in determining the fair value of the share-based payments on the date of grant using an option-pricing model with assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the risk-free interest rate of the awards, the expected life of the awards, the expected volatility over the term of the awards, the expected dividends of the awards, and an estimate of the amount of awards that are expected to be forfeited. If assumptions change in the application of SFAS No. 123R in future periods, the stock-based compensation cost ultimately recorded under SFAS No. 123R may differ significantly from what was recorded in the current period.

SEASONALITY

Our audio conferencing products revenue has historically been strongest during our second and fourth quarters. There can be no assurance that any historic sales patterns will continue and, as a result, sales for any prior quarter are not necessarily indicative of the sales to be expected in any future quarter.

BUSINESS OVERVIEW

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

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DISCUSSION OF OPERATIONS

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

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

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

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

Income (loss) from continuing operations						
Discontinued operations:						
Income from discontinued operations		55	0.6%		118	1.3%
Gain on disposal of discontinued operations		3	0.0%		1,496	17.0%
Income tax provision		(21)	-0.2%		(602)	-6.9%
Income from discontinued operations		37	0.4%		1,012	11.5%
Net income	$	677	7.2%	$	1,987	22.6%

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

Revenue

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

We evaluate, at each quarter-end, the inventory in the channel through information provided by certain of our distributors. The level of inventory in the channel will fluctuate up or down, each quarter, based upon our distributors' individual operations. Accordingly, each quarter-end revenue deferral is calculated and recorded based upon the underlying, estimated channel inventory at quarter-end. During the three months ended September 30, 2006 and 2005, the net change in deferred revenue based on the net movement of inventory in the channel was a net recognition of $622,000 and $207,000in revenue, respectively. Approximately $700,000 of the net (deferral) during fiscal 2006 related to the Company's customers affected by the RoHS Directive ordering additional product during the fourth quarter of 2006 in anticipation of an inability to get product after June 30, 2006 until the Company's product lines become compliant with the RoHS Directive.

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

Costs of Goods Sold and Gross Profit

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

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

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

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

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

Operating Expenses

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

Marketing and selling expenses. Marketing and selling expenses include selling, customer service, and marketing expenses such as employee-related costs, allocations of overhead expenses, trade shows, and other advertising and selling expenses. Total marketing and selling expenses increased $106,000, or 6%, to $1.9 million for the three months ended September 30, 2006 compared with expenses of $1.8 million for the three months ended September 30, 2005. As a percentage of revenues, marketing and selling expenses were about even for each the three months ended September 30, 2006 and 2005.

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

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

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

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

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

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

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

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

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

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

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

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

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

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the required time periods and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. The effectiveness of any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing, and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate improper conduct completely. A controls system, no matter how well-designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. As a result, there can be no assurance that our disclosure controls and procedures will detect all errors or fraud.

As required by Rule 13a-15 under the Exchange Act, we have completed an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness and the design and operation of our disclosure controls and procedures as of September 30, 2006. Based upon this evaluation, our management, including the Chief Executive Officer and the Chief Financial Officer, has concluded that our disclosure controls and procedures were effective as of September 30, 2006.

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

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

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

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

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

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

Other than as described above, since the evaluation date, there has been no change in our internal controls and procedures over financial reporting (as defined in Rules 13a-15 and 15d-15 under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal controls and procedures over financial reporting.

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PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

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

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

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

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

Item 1A. RISK FACTORS

Investors should carefully consider the risks described below. The risks described below are not the only ones we face, and there are risks that we are not presently aware of or that we currently believe are immaterial that may also impair our business operations. Any of these risks could harm our business. The trading price of our common stock could decline significantly due to any of these risks and investors may lose all or part of their investment. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q, including our September 30, 2006 unaudited condensed consolidated financial statements and related notes.

Risks Relating to Our Business

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

As described in more detail in the section entitled “Competition,” in our Annual Report on Form 10-K for the year ended June 30, 2006, the markets for our products and services are characterized by intense competition and pricing pressures and rapid technological change. We compete with businesses having substantially greater financial, research and development, manufacturing, marketing, and other resources. If we are not able to continually design, manufacture, and successfully introduce new or enhanced products or services that are comparable or superior to those provided by our competitors and at comparable or better prices, we could experience pricing pressures and reduced sales, gross profit, profits, and market share, each of which could have a materially adverse effect on our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

- meeting required specifications and regulatory standards;
- meeting market expectations for performance;
- hiring and keeping a sufficient number of skilled developers;
- obtaining prototype products at anticipated cost levels;
- having the ability to identify problems or product defects in the development cycle; and
- achieving necessary manufacturing efficiencies.

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

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

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

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

Reporting of channel inventory by certain distributors.

We defer recognition of revenue from product sales to distributors until the return privilege has expired, which approximates when product is sold-through to customers of our distributors. We evaluate, at each quarter-end, the inventory in the channel through information provided by certain of our distributors. We use this information along with our judgment and estimates to determine the amount of inventory in the entire channel, for all customers and for all inventory items, and the appropriate revenue and cost of goods sold associated with those channel products. We cannot guarantee that the third party data, as reported, or that our assumptions and judgments regarding total channel inventory revenue and cost of goods sold will be accurate.

We depend on an outsourced manufacturing strategy.

In August 2005, we entered into a manufacturing agreement with a manufacturing services provider, to be the exclusive manufacturer of substantially all the products that were previously manufactured at our Salt Lake City, Utah manufacturing facility. This manufacturer is currently the primary manufacturer of many of our products. We also have an agreement with an offshore manufacturer for the manufacture of other product lines. Additionally, in July 2006, we outsourced the manufacturing of our furniture product lines to two manufacturers. If these manufacturers experience difficulties in obtaining sufficient supplies of components, component prices significantly exceed anticipated costs, an interruption in their operations, or otherwise suffer capacity constraints, we would experience a delay in shipping these products which would have a negative impact on our revenues. Should there be any disruption in services due to natural disaster, economic or political difficulties, quarantines, transportation restrictions, acts of terror, or other restrictions associated with infectious diseases, or other similar events, or any other reason, such disruption would have a material adverse effect on our business. Operating in the international environment exposes us to certain inherent risks, including unexpected changes in regulatory requirements and tariffs, and potentially adverse tax consequences, which could materially affect our results of operations. Currently, we have no second source of manufacturing for substantially all of our products.

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

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

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

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

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

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

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

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

- unexpected changes in, or the imposition of, additional legislative or regulatory requirements;
- unique environmental regulations;
- fluctuating exchange rates;
- tariffs and other barriers;
- difficulties in staffing and managing foreign sales operations;
- import and export restrictions;
- greater difficulties in accounts receivable collection and longer payment cycles;
- potentially adverse tax consequences;
- potential hostilities and changes in diplomatic and trade relationships;
- disruption in services due to natural disaster, economic or political difficulties, quarantines, transportation, or other restrictions associated with infectious diseases.

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

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

Our reliance on third-party technology or license agreements.

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

We may have difficulty in collecting outstanding receivables.

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

Interruptions to our business could adversely affect our operations.

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

Risks Relating to Our Company

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

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

- statements or changes in opinions, ratings, or earnings estimates made by brokerage firms or industry analysts relating to the market in which we do business or relating to us specifically;
- disparity between our reported results and the projections of analysts;
- the shift in sales mix of products that we currently sell to a sales mix of lower-gross profit product offerings;
- the level and mix of inventory levels held by our distributors;
- the announcement of new products or product enhancements by us or our competitors;
- technological innovations by us or our competitors;
- success in meeting targeted availability dates for new or redesigned products;
- the ability to profitably and efficiently manage our supplies of products and key components;
- the ability to maintain profitable relationships with our customers;
- the ability to maintain an appropriate cost structure;
- quarterly variations in our results of operations;
- general consumer confidence or general market conditions or market conditions specific to technology industries;
- domestic and international economic conditions;
- the adoption of the new accounting standard, SFAS No. 123R, “Share-Based Payments,” which requires us to record compensation expense for certain options issued before July 1, 2005 and for all options issued or modified after June 30, 2005;
- our ability to report financial information in a timely manner; and
- the markets in which our stock is traded.

We have previously identified material weaknesses in our internal controls.

In our Form 10-K for the fiscal year ending June 30, 2006, we reported and identified a material weakness in our internal controls. Although we believe we have remedied this weakness through the committment of considerable resources, we are always at risk that any future failure of our own internal controls or the internal control at any of our outsourced manufacturers or service providers could result in additional reported material weaknesses. Any future failures of our internal controls could have a material impact on our market capitalization, results of operations, or financial position, or have other adverse consequences.

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

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

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

Not Applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

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

Not Applicable.

Item 5. OTHER INFORMATION

Not Applicable.

Item 6. EXHIBITS

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

*Constitutes a management contract or compensatory plan or arrangement.

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

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLEARONE COMMUNICATIONS, INC.

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