

CLEARONE COMMUNICATIONS INC  
Form 10-K  
March 31, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
] 1934  
For the fiscal year ended December 31, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
] OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-33660

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

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

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

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.001 par value	The NASDAQ Capital Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. "Yes"  "No"

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. "Yes"  "No"

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

Larger Accelerated Filer

Accelerated Filer

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

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

The aggregate market value of the shares of voting common stock held by non-affiliates was approximately \$15.8 million at June 30, 2010 (the Company's most recently completed second fiscal quarter), based on the \$3.00 closing price for the Company's common stock on the NASDAQ Capital Market on such date. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

The number of shares of ClearOne common stock outstanding as of March 28, 2011 was 8,936,426.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's Proxy Statement related to the Annual Meeting of Shareholders, to be filed within 120 days of the end of the fiscal year covered by this report are incorporated by reference into Part III of this Form 10-K

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CLEARONE COMMUNICATIONS, INC.

ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2010

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

PART I

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

ITEM 1. BUSINESS

Overview

ClearOne was formed as a Utah corporation in 1983 organized under the laws of the State of Utah. The company is headquartered in Salt Lake City with development offices in Austin, Texas.

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

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

save organizations time and money by creating a natural environment for collaboration.

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

On November 3, 2009, ClearOne acquired NetStreams, Inc., a pioneer in digital streaming multimedia networks based on Internet Protocol (IP) technology. NetStreams' technology is used in a wide variety of applications including digital signage, corporate video streaming, network operations centers, distance education, and venues for hospitality, entertainment and casinos.

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NetStreams' patented multimedia and control solutions can synchronously stream virtually any number and any type of digital or analog multimedia audio and or video content sources, including high definition, to virtually an unlimited number of networked endpoints on existing IP networks and infrastructure without the need for centralized switching. In addition, through its ability to combine content and control signals into one data stream, ClearOne's new multimedia streaming solutions offer new levels of affordability, simplicity, reliability, and scalability, benefiting both installers and end-users with lower costs for installation, set-up, and support.

Under the terms of the merger and acquisition agreement, ClearOne paid approximately \$1.45 million in cash and agreed to assume \$2 million in debt. Please refer to Note 3 – Business Combination, Goodwill and Intangibles in the Notes to Consolidated Financial Statements (Part II, Item 8) for more financial information. NetStreams products are currently sold primarily in the residential electronics channel with new products introduced and planned for the audio and video commercial channel. The addition of NetStreams' IP networked multimedia and control streaming products to ClearOne's portfolio of conferencing and collaboration products presents a great fit for bringing complementary products, markets, and sales channels from both organizations, enabling us to provide a comprehensive high definition audio and video solution to better realize the true promise of audiovisual (AV) and information technology (IT) convergence.

We also manufacture and sell media carts for audio and video conferencing.

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

Our website address is [www.clearone.com](http://www.clearone.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports are available, free of charge, on our website at the "Investor Relations" section under "Company", as soon as reasonably practicable after we file electronically such material with, or furnish it to, the SEC.

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

Business Strategy

We currently participate in the following markets:

- Professional audiovisual;
- Unified communications including telephony;
- Commercial multimedia streaming and control including digital signage; and
- Home entertainment.

Our business goals are to:

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

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

Capitalize on the growing adoption of unified communications and introduce new products through entering Information Technology channels;

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

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

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

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Provide a superior conferencing and collaboration experience

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

Distributed Echo Cancellation®

One of the challenges in delivering good sound quality during a conference call is eliminating acoustical echo. Acoustical echo results when sound from the far end phone device is sent into the local conference room, where it is picked up by the microphones on the conference phone and then sent back to the far-end phone device. Because of this process, far-end participants hear their voice echoed as they speak. Distributed Echo Cancellation® from ClearOne solves this problem. By assigning an acoustical echo canceller to each microphone, the echo canceller identifies the sound that would otherwise be returned to the far end as echo and eliminates it. ClearOne was the first to introduce Distributed Echo Cancellation® in 1998. We now incorporate it into every audio conferencing system, and are the worldwide leader in this technology.

Noise Cancellation

Noise Cancellation stops ambient room noise from being picked up by the microphones on the conference phone. Examples of ambient noise sources include HVAC systems, laptop computers, projectors and fluorescent lights. Unlike competitive products which claim to have noise cancellation, ClearOne uses a spectral content analysis technique that discriminates a talker's voice from ambient noise and only applies noise cancellation to ambient noise sources. This allows the voice signal to pass to the far-end phone device with pristine sound quality.

First Microphone Priority

When multiple microphones are active simultaneously in an audio conference phone, voice signals arrive at different microphones at different times due to the reflection of the sound from walls, ceilings or other surfaces. This causes sound distortion, which participants typically describe as a "hollow" or "tunnel" sound. ClearOne's First Microphone Priority technology minimizes this distortion by using an intelligent voice detection method to activate only one microphone at a time based on its proximity to the person speaking.

Adaptive Modeling

In any conferencing environment, a number of factors can cause changes in the room's ambient noise level, including the HVAC system cycling on and off, an increase or decrease in the number of people in the room, changes in seating arrangements and other similar acoustical events. These events can cause a variety of audio problems, such as feedback and residual echo. Adaptive Modeling monitors key acoustical elements to predict and adapt to such changes, ensuring high quality audio, regardless of varying room dynamics.

ClearEffect™

The vast majority of conference calls are conducted using narrow-band telephony signals, which eliminate the high and low tones from participants' voices. This causes listener fatigue due to participants straining to hear what is being said. ClearEffect™ creates natural, full-sounding audio by simulating the high and low tones that were eliminated by the narrow-band signal. The result is similar to moving from a clock radio to a full-room entertainment system.

Provide significant impact on how multimedia and control are distributed



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

Offer greater value to our customers and partners

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

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

Leverage and extend ClearOne technology leadership and innovation

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

Expand and strengthen sales channels

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

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

We will continue to actively market the NetStreams brand within the residential electronics channel and continue to recruit additional channel sales partners to bring greater awareness of the product solutions.

Broaden our product offerings

We believe we offer the industry's most complete audio conferencing product line, including the following:

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

Premium conferencing products that are also scaled for smaller conferencing rooms and for small and medium businesses which integrate with leading video and web conferencing systems and applications;  
Traditional tabletop conferencing phones used in conference rooms and offices; and  
Personal conferencing products that enable affordable hands-free audio communications in new ways such as through PCs and portable laptops, smartphones and handsets.

With the acquisition of NetStreams, ClearOne offers a full line of networked multimedia streaming and control products for a wide range of commercial and residential applications.

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

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

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Develop strategic partnerships

To stay on the leading edge of product and market development, we plan to continue to identify partners with expertise in areas strategic to our growth objectives. We will work to develop partnerships with leaders in markets complimentary to our products, who can benefit from our products and technologies, and through whom we can access new market growth opportunities. We have entered into partnerships with Avaya, Microsoft, NEC, Skype, and others to offer conferencing products uniquely suited to their systems and application needs.

We also plan to broaden the application and adoption of our newly acquired and patented StreamNet technology by partnering with other market participants through technology licensing, joint product development, and co-marketing activities and agreements. In June 2010, ClearOne announced its newly formed StreamNet Ready Partner Program (<http://www.streamnetpartners.com>). The program enables key audiovisual manufacturers to integrate products seamlessly into ClearOne's TCP/IP standards based StreamNet multimedia distribution and control solutions. We have entered into partnerships with Atlantic technologies and Polk Audio for IP speakers, Sirius and Marantz for AM/FM and satellite tuners, Naimnet for music servers, GE Concord for security systems, Beldon for cable and wiring, Phillips for remote controls, Sharp for displays, as well as other company partnerships for these same equipment categories and different equipment categories.

Strengthen existing customer and partner relationships through dedicated support

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

Markets and Products

Audio Conferencing and Collaboration Products: Overview

The performance and reliability of our high-quality audio conferencing and collaboration products enable effective, natural, and efficient communication among geographically separated enterprises, organizations or individuals. We offer a full range of audio conferencing products including (i) professional conferencing products used in enterprise, healthcare, education and distance learning, government, legal and finance, (ii) mid-tier premium conferencing products for smaller rooms and small and medium businesses which interface with video and web conferencing systems, (iii) traditional tabletop conferencing phones used in conference rooms and offices, and (iv) affordable personal conferencing products that can be used with PCs, laptops, smartphones, and other portable devices. For all the fiscal periods reported in this Annual Report, our professional conferencing products and traditional tabletop conference phones have together contributed in excess of 76% percent of our consolidated revenue.

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

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

- Availability of easy-to-use conferencing systems and applications;
- Richer and clearer voice quality of collaborative communications compared to the quality of telephone handset speakerphones; and
- Expansion of global, regional, and local corporate enterprises requiring increased use of collaboration tools and systems.

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

- Availability of affordable and portable audio conferencing solutions for small businesses and home offices;
- Growth of distance learning and corporate training programs;
- Increasing adoption of tele-working and home offices;
- Decreases in travel due to cost, inconvenience, and carbon footprint considerations;

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Transition to Internet Protocol (IP) networks from traditional public switched telephone networks (PSTN) and the growing deployment of VoIP collaboration applications; and  
Increased adoption of unified communication platforms that leverage the affordability and capability of personal computers as a central component of corporate communication.

In December 2010, Frost & Sullivan awarded us their 2010 Global Installed Audio Conferencing Endpoints Market Share Leadership of the Year Award. The award is given to the company that has demonstrated excellence in capturing the highest market share within its industry and recognizes the company's leadership position within the industry in terms of revenues or units. Frost & Sullivan noted that ClearOne has maintained its market leadership by focusing on its core competency: offering high-quality audio products to the marketplace.

In November 2008, Frost & Sullivan awarded us their 2008 Global Market Leadership Award. This award is given to the company that has exhibited excellence in all areas of the market leadership process, including the identification of market challenges, drivers and restraints, as well as strategy development and methods of addressing changing market dynamics. Frost & Sullivan noted that ClearOne not only has the largest market share in the installed audio segment, but has also put into practice growth and implementation strategies to a degree well above most of their competitors. We were recognized for our ability to expand our market share, integrate new technologies into our portfolio of products, and maintain market-leading pricing.

Frost and Sullivan, a leading global research and consulting group, awarded us their Product Line Strategy Award for both 2007 and 2006. This award is presented each year to a company that has demonstrated the most insight into customer needs and product demands within their industry, and who has optimized its product line by leveraging products with the various price, performance, and feature points required by the market.

Audio Conferencing Products: Professional Conferencing

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

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

Converge Pro VH20 provides a direct connection between Converge Pro audio conferencing systems and VoIP PBX phone systems so that users can transport audio signals across their IP networks. VH20 easily links with any of ClearOne's Converge Pro products to create a complete audio conferencing system that can quickly be integrated with Cisco, Avaya and many other VoIP PBX phone systems for complete interoperability. VH20 also delivers wideband audio for rich and crystal clear sound, provides guaranteed quality of service (QoS), and ensures full security with TLS, AES and SRTP industry standard encryption. We believe these features combine to deliver the most advanced professional quality VoIP audio interface available on the market today.

Converge SR 1212 is a digital matrix mixer that provides advanced audio signal processing, microphone mixing, and routing for sound reinforcement. This product line was also expanded with the addition of the Converge SR 1212A, which integrates a 4 channel audio amplifier, our advanced and proprietary signal processing DARE® feedback eliminator and industry leading expandability with the features of the Converge SR1212 into a single product. These products are comprehensive advanced audio processing systems designed to excel in the most demanding acoustical environments and routing configurations for voice clarity and intelligibility enhancement within the same room, such as courtrooms, classrooms or houses of worship. These products are also used for integrating high-quality audio with video and web conferencing systems.

We also offer a new universal controller for the Converge Pro product line giving users an affordable and intuitively easy tabletop peripheral to initiate and navigate an audio conference without the need for existing complex, daunting, and expensive touch panel control systems. The dial pad on the universal controller resembles a telephone keypad for instant familiarity. Users can dial a confere