ClearOne

Notice of 2018 Annual Meeting of Shareholders

Date	October 25, 2018
Time	9:30 a.m. Mountain time
Place	5225 Wiley Post Way, Suite 500, Salt Lake City, UT 84116
Record date	September 12, 2018. Only shareholders of record at the close of business on the record date are entitled to receive notice of, and to vote at, the Annual Meeting.
Proxy voting	All shareholders are cordially invited to attend the meeting and vote in person. However, to ensure your representation at the meeting, you are urged to vote as promptly as possible, whether via the Internet, by telephone, or, by marking, signing, dating, and returning the enclosed proxy in the postage-prepaid envelope enclosed for that purpose. Any shareholder attending the meeting may vote in person even if such shareholder has previously submitted a proxy. If you need to obtain directions on how to attend the Annual Meeting and vote in person, please contact our corporate offices at +1 (801) 975-7200.
Items of business	1. To elect three members of our Board of Directors; 2. To ratify the appointment of our independent public accountants; 3. To approve, by non-binding advisory vote, the compensation of our named executive officers as described under the "Compensation Discussion and Analysis" and "Executive Compensation" headings of this Proxy Statement accompanying this Notice of 2018 Annual Meeting of Shareholders; 4. To approve the reincorporation of ClearOne, Inc. from a Utah corporation to a Delaware corporation; and 5. To transact such other business as may properly come before the meeting or any adjournment thereof. The items of business are more fully described in the proxy statement accompanying this notice.

Important Notice Regarding the Availability of Proxy Materials for the 2018 Annual Meeting of Shareholders to be held on October 25, 2018. Because we have elected to utilize the "full set delivery" option, we are delivering to all shareholders paper copies of all of our proxy materials, including a proxy card, as well as providing access to our proxy materials on a publicly accessible website. Our Proxy Statement and Annual Report for the fiscal year ended December 31, 2017 are available on our corporate website and may be accessed at *www.clearone.com* under "Investor Relations".

By the order of the Board of Directors,

Narsi Narayanan
Corporate Secretary

Salt Lake City, Utah
September 24, 2018

ClearOne

2018 Proxy Statement

This proxy statement is solicited by and on behalf of the Board of Directors of ClearOne, Inc., a Utah corporation (hereinafter referred to as the "Company," "ClearOne," "we," "us" or "our"), for use at the Annual Meeting of Shareholders (the "Annual Meeting"), to be held on October 25, 2018 at 5225 Wiley Post Way, Suite 500, Salt Lake City, UT 84116, at 9:30 A.M. local time, or at any continuations thereof.

These proxy solicitation materials will be distributed on or about September 25, 2018 to all shareholders entitled to vote at the meeting.

QUESTIONS AND ANSWERS REGARDING THE ANNUAL MEETING

What is the purpose of this Proxy Statement and accompanying Proxy?

A Proxy Statement is a document that the regulations of the Securities and Exchange Commission ("SEC") require us to give you when we ask you to sign a proxy designating individuals to vote on your behalf. A proxy is your legal designation of another person to vote the stock you own and are entitled to vote. That other person is called a proxy. If you designate someone as your proxy in a written document, that document is also called a proxy or a proxy card. We have designated two of our officers with full power of substitution as proxies for the Annual Meeting. These officers are Zeynep Hakimoglu and Narsi Narayanan.

The Board of Directors is soliciting your proxy to give all shareholders of record the opportunity to vote on matters that will be presented at the Annual Meeting. This Proxy Statement provides you with information on these matters to assist you in voting your shares.

What is the purpose of the Annual Meeting?

The purpose of the Annual Meeting is to: (i) elect three directors; (ii) ratify the appointment of Tanner LLC as our independent public accountants for the year ending December 31, 2018; (iii) approve, by non-binding advisory vote, the compensation of our named executive officers as described under the headings "Compensation Discussion and Analysis" and "Executive Compensation;" (iv) to approve the reincorporation of ClearOne, Inc. from a Utah corporation to a Delaware Corporation; and (v) to transact any such other business that properly comes before the Annual Meeting (each a "Proposal," and collectively, the "Proposals"). Although the Board of Directors does not anticipate that any other issues will come before the Annual Meeting, your completed and executed proxy gives the official proxies the right to vote your shares that you are entitled to vote in their discretion on any other matter properly brought before the Annual Meeting.

What is the record date for voting at the Annual Meeting?

The record date for purposes of determining the number of outstanding shares of our common stock eligible to vote at the Annual Meeting, and for determining the shareholders entitled to vote at the Annual Meeting, is the close of business on September 12, 2018 (the "Record Date"). As of the Record Date, 8,306,735 shares of common stock were issued and outstanding. No other series of stock is outstanding. Holders of the shares of common stock have no preemptive rights. The transfer agent for the common stock is:

Broadridge Corporate Issuer Solutions
P.O. Box 1342
Brentwood, NY 11717
1 (877) 830-4936.

What is the quorum requirement for the Annual Meeting?

A quorum must be present at the meeting in order for the shareholders to take official action. Under Utah law and our Articles of Incorporation and Bylaws, a quorum will exist if a majority of the total number of shares entitled to vote are present, in person or by proxy. Abstentions and broker non-votes, which are described below, will be counted as "represented" for the purpose of determining the presence or absence of a quorum.

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What is a broker non-vote and how is it counted?

Under applicable rules, brokers are permitted to vote their customers' stock held in street name on routine matters when the brokers have not received voting instructions from their customers. However, brokers are not allowed to vote their customers' stock held in street name on non-routine matters unless they have received voting instructions from their customers. In such cases, the uninstructed shares for which the broker is unable to vote are called broker non-votes.

The broker can register your shares as present at the Annual Meeting for purposes of attendance and obtaining a quorum, but will not be able to vote on those matters for which specific authorization is required. Similar to abstentions, broker non-votes are not considered a vote cast. Broker non-votes will have no effect on the voting of Proposals one through three that are on the agenda to be presented at the meeting.

What routine matters will be voted on at the Annual Meeting?

The ratification of the independent public accountants is the only routine matter on which brokers may vote in their discretion on behalf of customers who have not provided voting instructions.

What non-routine matters will be voted on at the Annual Meeting?

The election of directors, the advisory vote on the compensation of our named executive officers and our reincorporation from a Utah corporation to a Delaware corporation are non-routine matters on which brokers are not allowed to vote unless they have received voting instructions from their customers. Your broker will not be allowed to vote your shares on any non-routine matters without your specific instructions. Accordingly, it is particularly important that beneficial owners instruct their brokers how they wish to vote their shares.

How many votes are needed to approve each Proposal?

On all matters, except as otherwise provided by Utah law, each holder of common stock will be entitled to one vote for each share of common stock held on the Record Date. Assuming that a quorum is present, the votes needed to approve each Proposal are set forth below.

*Proposal one: I*n the election of directors, shareholders will not be allowed to cumulate their votes. The election of directors will be determined by plurality vote.

Proposals two and three: The Proposal to ratify the appointment of Tanner LLC as our independent public accountants for the year ending December 31, 2018, and the Proposal to approve, by non-binding advisory vote, the compensation of our named executive officers each requires that the votes cast in favor of the Proposal must exceed the votes cast against the Proposal.

Proposal four: The Proposal to approve the reincorporation of ClearOne, Inc. from a Utah corporation to a Delaware corporation requires the approval of a majority of the outstanding shares of our common stock present and entitled to vote.

Abstentions and broker non-votes will not affect the outcome of the election of directors, the Proposal to ratify the appointment of Tanner LLC as our independent public accountants for the year ending December 31, 2018, or the advisory vote on the compensation of our named executive officers, and will be considered a vote "against" the reincorporation from a Utah corporation to a Delaware corporation.

Other Matters: Any other matter properly presented for approval by the shareholders at the Annual Meeting will generally be approved if the number of votes cast in favor of such matter exceeds the number of votes cast in opposition. With respect to any such matter, abstentions and broker non-votes are not likely to affect the outcome of a vote on such matter. We are not currently aware of any other matters to be presented at the Annual Meeting.

What are the Board of Director's recommendations on the Proposals?

The Board of Directors recommends that shareholders cast their votes on the Proposals as follows:

- "FOR" all director nominees listed in the proxy statement,
- "FOR" the ratification of the appointment of our independent public accountants,
- "FOR" by non-binding advisory vote, the approval of the compensation of our named executive officers, and
- "FOR" the reincorporation of ClearOne, Inc. from a Utah corporation to a Delaware corporation.

What is the effect of an "advisory" vote?

Because your votes with respect to approval of our named executive officer compensation is advisory, it will not be binding upon the Board. However, our Compensation Committee and the Board will take the outcomes of the votes into account when considering future executive compensation arrangements of our named executive officers.

What is the difference between a "shareholder of record" and a "street name" holder?

These terms describe how your shares are held. If your shares are registered directly in your name with Broadridge, our transfer agent, you are a "shareholder of record." If your shares are held in the name of a brokerage, bank, trust or other nominee as a custodian, you are a "street name" holder.

Will I get more than one copy of the proxy statement, annual report or Notice of Internet Availability if there are multiple shareholders at my address?

In some cases, only one copy of this proxy statement, annual report or Notice of Internet Availability is being delivered to multiple shareholders sharing an address unless we have received contrary instructions from one or more of the shareholders. We will deliver promptly, upon a written or oral request, a separate copy of this proxy statement, annual report or Notice of Internet Availability to a shareholder at a shared address to which a single copy of the document was delivered. Shareholders sharing an address may also submit requests for delivery of a single copy of the proxy statement, annual report or Notice of Internet Availability, but in such event will still receive separate proxies for each account. To request separate or single delivery of these materials now or in the future, a shareholder may submit a written request to the Corporate Secretary, ClearOne, Inc., 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116 or a shareholder may make a request by calling the Corporate Secretary at +1 (801) 975-7200, or by contacting our transfer agent, Broadridge Corporate Issuer Solutions P.O. Box 1342, Brentwood, NY 11717 or calling +1 (877) 830-4936.

How do I vote?

If your shares of common stock are held in street name by a broker, bank or other nominee, you will receive information from your nominee as to how to instruct them to vote your shares of common stock for each of the Proposals discussed in this proxy statement.

If you are a shareholder of record and hold common stock in your own name, you may give instructions on how to vote your shares of common stock by following the instructions on the proxy card or Notice of Internet Availability on how to vote over the Internet, by phone, or by mail by completing, signing, dating and returning the proxy card.

By completing and submitting the proxy (whether over the internet, by telephone, or by signing, dating and mailing the accompanying proxy card), the shareholder authorizes Zeynep Hakimoglu, Chairman and Chief Executive Officer, and Narsi Narayanan, Corporate Secretary, as designated on the face of the proxy, to vote all shares for the shareholder. All proxies that are properly completed and submitted will be voted as the shareholder directs. If no direction is given, executed proxies will be voted FOR each proposal set forth in this proxy statement. Votes will be tabulated by Broadridge.

How do I revoke my proxy?

You may revoke your proxy before the vote is taken at the Annual Meeting by:

- completing, signing and submitting a new proxy with a later date;
- attending the Annual Meeting and voting in person; or
- filing a signed, written notice of revocation with the Corporate Secretary of the Company.

Your attendance at the Annual Meeting will not automatically revoke your proxy.

If the common stock you own is held on your behalf by a broker, bank or other nominee, you must contact the nominee to receive instructions as to how you can revoke your proxy.

You may obtain an additional proxy card by writing to Corporate Secretary, ClearOne, Inc., 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116.

Where can I find the voting results of the Annual Meeting?

We will announce the preliminary voting results at the Annual Meeting and disclose the final voting results in a current report on Form 8-K filed with the SEC within four (4) business days of the date of the Annual Meeting, unless only preliminary voting results are available at that time. To the extent necessary, we will file an amended report on Form 8-K to disclose the final voting results within four business days after the final voting results are known. You may access or obtain a copy of these and our other reports filed with the SEC free of charge on our web site at *http://www.clearone.com*. Also, such Form 8-K, any amendments thereto and other reports we file with the SEC are available to you over the Internet at the SEC's web site at *http://www.sec.gov*.

How can I view the shareholder list?

A complete list of shareholders of record entitled to vote at the Annual Meeting will be available for viewing during ordinary business hours for a period of ten (10) days before the Annual Meeting at our offices located at 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116.

Who pays for the proxy solicitation related to the Annual Meeting?

We will bear the costs of the solicitation. The solicitation of proxies by the Board of Directors will be conducted primarily by mail and through the Internet. Additionally, our officers, directors and employees may solicit proxies personally or by telephone, email or other forms of wire or facsimile communication. These officers, directors and employees will not receive any extra compensation for these services. We may reimburse brokers, custodians, nominees and fiduciaries for reasonable expenses incurred by them in forwarding proxy material to beneficial owners of our common stock as of the record date.

How can I obtain a copy of the Annual Report?

Our 2017 Annual Report, has been made available to shareholders with this proxy statement. You may also access or obtain a copy of our 2017 Annual Report, Form 10-K, Form 10-K/A and other reports filed with the SEC free of charge on our web site at http://www.clearone.com, or at the SEC's web site at http://www.sec.gov. The 2017 Annual Report contains financial and other information about our company, but is not incorporated into this proxy statement and is not to be considered a part of these proxy soliciting materials or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The information contained in the "Audit and Compliance Committee Report" shall not be deemed "filed" with the Securities and Exchange Commission or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Exchange Act.

We will provide, without charge, a printed copy of our 2017 Annual Report to each shareholder of record as of the record date that requests a copy in writing. Any such requests should be directed to our Corporate Secretary at our corporate offices set forth in this proxy statement.

PROPOSAL ONE

ELECTION OF DIRECTORS

Our Articles of Incorporation and bylaws provide that our Board of Directors shall consist of not less than three or more than nine members as determined by the Board of Directors or our shareholders from time to time. The Board of Directors has currently fixed the number of directors at four. The term of each of our directors expires at the 2018 Annual Meeting. We have nominated current directors Ms. Hakimoglu, Mr. Hendricks and Mr. Robinson for election at the meeting to serve until the next Annual Meeting of Shareholders or until their respective successors are duly elected and qualified. In the event any nominee is unable to serve, the proxies will be voted for a substitute nominee, if any, to be designated by our Board of Directors. The Board of Directors has no reason to believe any nominee will be unable or will decline to serve as a director. The Board of Directors determined not to nominate Mr. Baldwin for re-election to the Board of Directors. Mr. Baldwin will continue to serve as a member of the Board of Directors until immediately before the start of the Annual Meeting, at which time his term as a director will end and the size of the Board of Directors will be reduced from four to three directors at the outset of the Annual Meeting. The Board of Directors is currently undertaking a search to identify possible candidates to appoint to the Board of Directors, and in accordance with NASDAQ listing standards, the Company will have 180 days to appoint to the Board of Directors a director that satisfies the independence standards of the NASDAQ Capital Market who may be appointed to the Audit Committee of the Board of Directors to comply with the NASDAQ listing standards that require at least three, independent directors serve on the Audit Committee.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" ELECTION OF THE DIRECTOR NOMINEES NAMED HEREIN.

Directors and Nominees for Director

The following table sets forth certain information regarding our current directors, including the three nominees for re-election as directors at the Annual Meeting.

Name	Age	Position	Director Since
Zeynep "Zee" Hakimoglu	65	Chairman, Chief Executive Officer, and President (4)	See Note 4
Brad R. Baldwin	63	Director (1)(2)(3)	1988
Larry R. Hendricks	75	Director (1)(2)(3)	2003
Eric. L Robinson	51	Director(1)(2)(3)	2015

(1) Member of the Audit and Compliance Committee
(2) Member of the Compensation Committee
(3) Member of the Nominating Committee
(4) Officer since July 2004; Director since April 2006; Chairman of the Board since July 2007.

Zee Hakimoglu is our President, Chief Executive Officer and Chairman. She joined our company in December 2003 as Vice President of Product Line Management and was appointed President and Chief Executive Officer in July 2004; she has served as a director of our company since April 2006 and was named Chairman of the Board in July 2007. Prior to joining ClearOne, Ms. Hakimoglu has held senior executive level positions for a variety of high-tech Silicon Valley firms in such areas as business development, product marketing, engineering and product-line management. She served as Vice President of Product Line Management for Oplink Communications, a publicly traded developer of fiber optic subsystems and components, from December 2001 to December 2002; and, President of OZ Optics USA, a manufacturer of fiber optic test equipment and components, from August 2000 to November 2001. From October 1998 to August 2000, she was Vice President of Business Development for Kaifa Technology and was instrumental in its acquisition by E-Tek Dynamics and later by JDS Uniphase. Through these acquisitions, she held the role of Deputy General Manager of the Kaifa Technology business unit. From May 1982 until it was acquired in September 1996, Ms. Hakimoglu held various positions including Vice President of Wireless Engineering and Vice President of the Wireless Business Unit for Aydin Corp., a global telecommunications equipment company that formerly traded on the New York Stock Exchange. Ms. Hakimoglu earned a Bachelor of Science Degree in Physics from California State College, Sonoma, and a Master's Degree in Physics from Drexel University. In light of Ms. Hakimoglu's rich experience in the high-tech industry and her unique and extensive understanding of ClearOne's business, our Board has concluded that Ms. Hakimoglu should continue to serve as a director.

Brad R. Baldwin has served as a director of our company since October 1988 and was appointed "lead independent director" in 2013. Mr. Baldwin is an attorney licensed to practice in Utah. He is currently employed as President and CEO of First Utah Bank, a full service commercial and community bank headquartered in Salt Lake City, Utah. Prior to that, Mr. Baldwin served as general counsel to the Wasatch Front Regional Multiple Listing Service ("WFRMLS"), which provided data and real estate services to over 10,000 real estate brokers, agents and appraisers in Utah. From 2001 to 2009, he served as an attorney and investment real estate specialist with Commerce CRG in Salt Lake City, Utah. From 1988 to 2000, he served as legal counsel and president of Banc One, Utah, a full service commercial bank owned by Banc One Corporation. He also practiced business, corporate and real estate law for ten years in Salt Lake City. He has a degree in finance from the University of Utah and a law degree from the University of Washington. He has served on the board of many community organizations, including the Salt Lake Area Chamber of Commerce, the Utah Bankers Association, and the Economic Development Corporation of Utah.

Larry R. Hendricks has served as a director of our company since June 2003. Mr. Hendricks is a Certified Public Accountant who retired in December 2002 after serving as Vice President of Finance and General Manager of Daily Foods, Inc., a national meat processing company. During his 30-year career in accounting, he served as a self-employed CPA and worked for the international accounting firm Peat Marwick & Mitchell. Mr. Hendricks has served on the boards of eight other organizations, including Tunex International, Habitat for Humanity, Daily Foods, Skin Care International, and the National Advisory Board of the Huntsman College of Business at Utah State University. He earned a Bachelor's Degree in Accounting from Utah State University and a Master of Business Administration Degree from the University of Utah. In light of Mr. Hendricks' background in finance and accounting and his deep understanding of our business due to his long service on our Board, the Board has concluded Mr. Hendricks should continue to serve as a director.

Eric. L Robinson has served as a director of our company since July 2015. Mr. Robinson spent fourteen years in private practice as a corporate attorney, including eleven years as a partner in the Salt Lake City, Utah law firm of Blackburn & Stoll, LC. Mr. Robinson's law practice focused on securities, corporate and other business transactions. Mr. Robinson has been principally employed as General Counsel, Chief Financial Officer and director of MicroPower Global Limited, a development stage company in the semiconductor business since 2009. Mr. Robinson also maintains a small law practice and serves as counsel to a number of companies in the fields of genetics, regenerative medicine, transportation and commercial construction. He also served as General Counsel, Chief Financial Officer and a director to a genetic research company from 2008 until 2015. Mr. Robinson previously acted as General Counsel and Chief Financial Officer to a commercial construction company from 2007 until 2008 which had revenues in excess of $100 million during his tenure. Mr. Robinson previously served as chief financial officer, in-house counsel, secretary and treasurer of ActiveCare, Inc. from July 2016 until his voluntary resignation in June 2017, and subsequent to Mr. Robinson's departure, ActiveCare filed a voluntary bankruptcy petition under Chapter 11 of the U.S. Bankruptcy Code on July 15, 2018. His legal practice includes working with companies in connection with public and private offerings of securities, corporate partnering, mergers and acquisitions, licensing technology transfer, contracts and construction. He graduated from the University of Utah with honors with a B.S. degree in accounting and he subsequently passed the CPA exam (unlicensed). He graduated from Vanderbilt University with a J.D. where he graduated Order of the Coif and acted as a Managing Editor of the Law Review. Mr. Robinson has previously served as corporate and securities legal counsel to the Company and the Company's largest shareholder, E. Dallin Bagley. In light of Mr. Robinson's legal and financial background, the Board has concluded that Mr. Robinson should continue to serve as a director.

CORPORATE GOVERNANCE

Information Relating to Corporate Governance and the Board of Directors

Our Board of Directors has determined, after considering all the relevant facts and circumstances, that Messrs. Baldwin, Hendricks and Robinson are independent directors, as "independence" is defined by the listing standards of NASDAQ. This determination was made because Messrs. Baldwin, Hendricks and Robinson have no relationship with us that would interfere with their exercise of independent judgment.

Our Board of Directors has an Audit and Compliance Committee, a Compensation Committee, and a Nominating Committee, each consisting entirely of independent directors.

Our Board of Directors has adopted charters for the Audit and Compliance, Compensation and Nominating Committees describing the authority and responsibilities delegated to each committee by the Board. We post on our website at *www.clearone.com* the charters of our Audit and Compliance, Compensation and Nominating Committees, our Code of Ethics, and any amendments or waivers thereto and any other corporate governance materials contemplated by SEC or NASDAQ regulations. These documents are also available in print to any shareholder requesting a copy in writing from our Corporate Secretary at our corporate offices located at the address set forth in this proxy statement.

Board Leadership Structure; Lead Independent Director

The Board has no formal policy on whether the role of the Chairman of the Board and Chief Executive Officer should be held by separate persons. We believe it is important to maintain flexibility to have either combined offices or a separate Chairman and Chief Executive Officer structure as circumstances dictate and to make that determination based on the strategic and operational position and direction of the company and the character of the membership of the Board. The Board believes our current management structure, with Zeynep Hakimoglu serving as Chairman and Chief Executive Officer, is the optimal structure for us at this time. Ms. Hakimoglu possesses detailed and in-depth knowledge of the operational issues, opportunities and challenges facing the Company and its business, and also has a keen understanding of and ability to grasp our strategic position and opportunities. Given Ms. Hakimoglu's particular skills and knowledge, as well as our size and stage of development, we believe Ms. Hakimoglu is best positioned to identify strategic priorities, develop agendas that the Board's time and attention should be focused on as the most critical matters, and to lead the discussion and execution of strategy.

The Chief Executive Officer and the independent directors have different perspectives and roles in strategy development. The Chief Executive Officer brings Company-specific experience and expertise, while the Company's independent directors bring experience, oversight, and expertise from outside the Company and its industry. The Board believes its independent directors provide effective oversight of management, and that the combined role of Chief Executive Officer and Chairman promotes the development and execution of strategy and facilitates the flow of information between management and the Board, which is essential to effective corporate governance. The Board believes the combined role of Chief Executive Officer and Chairman, together with a Board whose majority of directors are independent and the current Lead Independent Director, provides the appropriate balance between independent oversight of management and the development of strategy.

Our independent directors have selected Mr. Brad Baldwin to serve as the Board of Directors' lead independent director. The lead independent director chairs all meetings of the non-employee and independent directors of the Board of Directors, including executive sessions. Interested parties who would like to contact Mr. Baldwin, or the non-employee or independent directors, on a confidential basis, may do so by mailing a written communication to Lead Independent Director, ClearOne, Inc., 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116.

Board Role in Risk Oversight

The Board of Directors is responsible for overseeing the management of the business and affairs of the Company, but delegates day-to-day management of the Company to the Chief Executive Officer and our executive management team. The Board of Directors is generally responsible for risk oversight, and the Audit and Compliance Committee assists the Board in fulfilling its responsibilities for general oversight of risk assessment and risk management. In addition, the other Board committees are also tasked with specific risk oversight functions pursuant to the terms of the committee charters or applicable NASDAQ rules. The Board as a whole and the various standing committees, in performing their respective risk oversight functions, have access to our company's management team and external advisors, as necessary, and receive periodic presentations and reports from management, and incidental reports as matters arise with respect to strategic, operational, financial, legal or other risks and the plans management has to control such risks.

Committees of the Board of Directors

Audit and Compliance Committee. The Audit and Compliance Committee meets to review and discuss our accounting practices and procedures with management and independent public accountants and to review our quarterly and annual financial statements. The Audit and Compliance Committee assists the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing, and reporting practices. The Audit and Compliance Committee's primary duties include reviewing the scope and adequacy of our internal accounting and financial controls; reviewing the independence of our independent registered public accounting firm; approving the scope of our independent registered public accounting firm's audit activities; approving the fees of our independent registered public accounting firm; approving any non-audit related services; reviewing the audit results; reviewing the objectivity and effectiveness of our internal audit function; and reviewing our financial reporting activities and the application of accounting standards and principles.

The members of the Audit and Compliance Committee are Eric L. Robinson (Chairman), Brad R. Baldwin and Larry R. Hendricks. Each member of the audit committee, in addition to being independent under the standards of NASDAQ, is independent under the standards of the Securities and Exchange Commission's rules and regulations pertaining to listed company audit committees. The Board of Directors has determined that Eric L. Robinson is an "audit committee financial expert" in accordance with applicable rules and regulations of the SEC.

Compensation Committee. The Compensation Committee is responsible for overseeing, reviewing, and approving our executive compensation and benefit programs and administers the Company's equity incentive plans for employees. Under its charter, the Compensation Committee may delegate authority to subcommittees of the Compensation Committee or to executive officers of the Company, particularly the President and CEO with respect to compensation determinations for persons who are not executive officers of the Company. The members of the Compensation Committee are Brad R. Baldwin (Chairman), Larry R. Hendricks and Eric L. Robinson.

Our compensation objectives for executive officers are as follows:

- to attract and retain highly qualified individuals capable of making significant contributions to the long-term success of our company;
- to use incentive compensation to reinforce strategic performance objectives;
- to align the interest of our executives with the interests of our shareholders such that the risks and rewards of strategic decisions are shared; and
- to reflect the value of each officer's position in the marketplace and within our company.

Policies and Practices Related to ClearOne's Compensation Program. We strive to create an overall compensation package for each executive officer that satisfies the aforementioned objectives, recognizing that certain elements of compensation are better suited to reflect different compensation objectives. For example, as base salaries are the only element of compensation that are fixed in amount in advance of the year in which the compensation will be earned, the Compensation Committee believes that it is most appropriate to determine base salaries with a focus on the market practices for similarly situated officers at comparable companies as adjusted to reflect the individual officer's performance during the preceding year. In contrast, cash bonuses and long-term incentives are better able to reflect our company's performance as measured by financial metrics and are well-suited to motivate officers to achieve specific performance goals that the Compensation

Committee has determined are in the best interests of our company. Equity grants are also well-suited to drive long-term performance and align management's interests with those of shareholders. The Compensation Committee believes that as an officer's responsibility increases, so does his or her ability to influence the performance of our company and accordingly, the proportion of his or her compensation that consists of his or her salary and cash bonus should decrease while the proportion of equity incentives to total compensation should increase.

Comparable Companies. In making compensation decisions, including assessing the competitiveness of the total compensation structure for each named executive officer, the Compensation Committee considers compensation survey data from companies that the Compensation Committee has selected as comparable in terms of industry, size and location. The Compensation Committee periodically reviews the companies that are included as comparable companies and makes revisions to the group as appropriate. The Compensation Committee also reviews executive compensation information for several Utah based publicly-traded companies having revenues similar to those of the Company. The Compensation Committee has reviewed this compensation data to ensure the company's compensation of our executives is reasonable.

Equity Grant Practices. The Compensation Committee recognizes the importance of equity ownership in the alignment of shareholder and management interests. The exercise price of each stock option awarded to our executive officers under our incentive compensation programs is equal to the closing price of our common stock on the date of grant, which is the date when the Compensation Committee acts to approve equity awards for senior executives. Performance-based equity awards are also granted to our named executive officers at this time.

The Compensation Committee establishes the criteria, and directs the implementation, of all compensation program elements for the executive officers. Generally, the base salary for each named executive officer is set at the beginning of each fiscal year by our Board of Directors after review of the recommendation of the Compensation Committee. The Compensation Committee considers the Chief Executive Officer's appraisal of other executive officers' general performance and looks especially to performance against predetermined goals before making its recommendation to the Board of Directors. In the past, the Compensation Committee has authorized the Chief Executive Officer to recruit executive officers and offer initial base salaries. The Chief Executive Officer recommends for the Compensation Committee's approval the stock option grants and compensation related to achievement of non-quantitative goals under non-equity based incentive plans for other executive officers. The Compensation Committee did not employ any compensation consultants during the year ended December 31, 2017.

Nominating Committee. The Nominating Committee is responsible for overseeing the nomination of our directors. The Nominating Committee selects, evaluates, and recommends to the full Board of Directors qualified candidates for election to the Board of Directors. The members of the Nominating Committee are Larry R. Hendricks (Chairman), Brad R. Baldwin, and Eric L. Robinson.

The Board of Directors will consider recommendations by shareholders for director nominees if the names of those nominees and relevant biographical information are submitted in writing to our company's Secretary in the manner described for shareholder nominations below under the heading "Shareholder Proposals." The Nominating Committee identifies and evaluates nominees for our Board of Directors, including nominees recommended by shareholders, based on numerous factors it considers appropriate, some of which may include strength of character, mature judgment, career specialization, relevant technical skills, diversity, and the extent to which the nominee would fill a present need on our Board of Directors. Although the Nominating Committee does not have a formal policy with regard to the consideration of diversity in identifying director nominees, the Nominating Committee strives to nominate directors with a variety of complementary skills so that, as a group, the Board will possess the appropriate talent, skills and expertise to oversee the Company's business. All director nominations, whether submitted by a shareholder, the Nominating Committee, or the Board of Directors, will be evaluated in the same manner. All of the current nominees for director were recommended by the Nominating Committee and nominated by the Board of Directors. All director nominees have consented to serve as directors, if elected, until the next Annual Meeting of Shareholders or until their successors are elected and qualified and have consented to be named as nominees.

Board and Committee Meetings

Our Board of Directors held a total of twelve meetings in 2017. No director attended fewer than 75% of the aggregate of (i) the total number of meetings of the Board of Directors; and (ii) the total number of meetings held by all committees of the Board of Directors on which such director was a member. Although we currently have no formal policy with respect to the attendance of members of the Board of Directors at the Annual Meetings of Shareholders, we encourage each of our directors to attend each annual meeting of shareholders. To that end, and to the extent reasonably practicable, we regularly schedule a meeting of the Board of Directors on the same day as our annual meeting of shareholders. All members of our current Board of Directors attended the 2017 Annual Meeting of Shareholders.

In 2017, the Audit and Compliance Committee held twelve meetings, the Compensation Committee held four meetings, and the Nominating Committee held one meeting.

Code of Ethics

The Board of Directors adopted a code of ethics that applies to our Board of Directors, executive officers, and employees. The Company's Code of Ethics is posted on our website at www.clearone.com.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act, as amended, requires our directors, executive officers and persons who own more than 10% of a registered class of our equity securities to file with the SEC initial reports of ownership on Form 3 and reports of changes of ownership of our equity securities on Forms 4 and 5. Officers, directors, and greater than 10% shareholders are required to furnish us with copies of all Section 16(a) reports they file. Based solely on a review of the reports and amendments to reports furnished to us for the year ended December 31, 2017, we believe that each person who, at any time during such fiscal year was a director, officer, or beneficial owner of more than 10% of our common stock complied with all Section 16(a) filing requirements during such period.

EXECUTIVE OFFICERS

The following table sets forth certain information regarding our executive officers.

Name	Age	Position	Officer Since
Zeynep Hakimoglu	65	Chairman, Chief Executive Officer, and President	2004
Narsi Narayanan	48	Senior Vice President of Finance and Corporate Secretary	2009

For the biography of Ms. Hakimoglu, see “Directors and Nominees for Director.”

Narsi Narayanan (now serving as Senior Vice President of Finance) has served as our Vice President of Finance since July 2009 and has more than two decades of professional experience in the areas of accounting, finance and taxes. Prior to joining our company, he managed the SEC reporting, US GAAP accounting research, Sarbanes-Oxley Act (“SOX”) compliance and other financial reporting functions from August 2007 through February 2009 at Solo Cup Company, a publicly-reporting international consumer products company. Prior to that, Mr. Narayanan managed the accounting and finance functions, including SEC Reporting, SOX compliance and US GAAP accounting research, from June 2004 through August 2007 at eCollege.com, a leading technology company serving private educational institutions, which was also a publicly-reporting company before being acquired by Pearson Education group. In addition to being a Chartered Accountant, Mr. Narayanan has extensive experience working in public accounting and in senior finance positions in India with a large conglomerate. He is a Certified Public Accountant with graduate degrees in accounting (University of Utah, M. Acc.) and business (University of Illinois, MBA-Finance).

COMPENSATION DISCUSSION AND ANALYSIS

Overview of Compensation Program

The Compensation Committee of the Board of Directors is responsible for establishing and implementing our compensation philosophy, as detailed below. The Compensation Committee reviews and approves all of our compensation policies, including executive officer salaries, bonuses and equity incentive compensation. The Compensation Committee has designed the Company’s executive compensation programs with the goal of paying total compensation to the executive officers that is fair, reasonable, competitive, and includes incentives that are designed to appropriately drive corporate performance.

The Compensation Committee reviews and approves the annual compensation for our executive officers. The Compensation Committee may retain the services of an independent compensation consultant or research firm with respect to compensation of all named executive officers. The Compensation Committee did not retain a consultant for any of the years from 2015 to 2017. In addition, the Compensation Committee considers recommendations from the Chief Executive Officer with respect to other executive officers.

Overview of Compensation Philosophy and Objectives

Our “pay-for-performance” philosophy is among the fundamental tenets of our executive compensation program. We have adopted an approach to compensation comprised of a mix of short-term and long-term components that are designed to provide proper incentives and to reward our executive officers.

Our compensation objectives for executive officers are as follows:

- to attract and retain highly qualified individuals capable of making significant contributions to the long-term success of our company;

- to use incentive compensation to reinforce strategic performance objectives;

- to align the interest of our executives with the interests of our shareholders such that the risks and rewards of strategic decisions are shared; and

- to reflect the value of each officer’s position in the marketplace and within our company.

Compensation Policies and Procedures

Our Compensation Committee is responsible for administering our compensation practices. Our Compensation Committee was appointed by our Board of Directors, and consists entirely of directors who are “outside directors” for purposes of Section 162(m) of the Code, and non-employee directors for purposes of Rule 16b-3 under the Exchange Act. Under its charter, the Compensation Committee may delegate authority to subcommittees of the Compensation Committee or to executive officers of the Company, particularly the Chief Executive Officer with respect to compensation determinations for persons who are not executive officers of the Company. The members of the Compensation Committee are Brad R. Baldwin (Chairman), Larry R. Hendricks and Eric L. Robinson.

Our Compensation Committee holds meetings as necessary throughout the year.

Within the context of the overall objectives of our executive compensation philosophy, the Compensation Committee determines the specific types and amounts of compensation to be paid to each of our named executive officers based on a number of factors including:

- the roles and responsibilities of our executives;
- the number of executives being compensated;
- the individual experience and skills of, and expected contributions from, our executives;
- special accomplishments;
- compensation levels of executive officers at peer companies; and
- our executives’ historical compensation at the Company.

The Compensation Committee strives to create an overall compensation package for each executive officer that satisfies the aforementioned objectives, recognizing that certain elements of compensation are better suited to reflect different compensation objectives. For example, as base salaries are the only element of compensation that are fixed in amount in advance of the year in which the compensation will be earned, the Compensation Committee believes that it is most appropriate to determine salaries with a focus on the market practices for similarly situated officers at comparable companies as adjusted to reflect the individual officer’s performance. The Compensation Committee strives to make such comparisons at least once in every two years and fix salaries based on such comparison, but did not do so in 2017. In the years when such comparison is not made, salaries are adjusted from the previous year level based on Compensation Committee’s collective knowledge of the industry, region and position as well as by applying their professional judgement. In contrast, cash bonuses and long-term incentives are better able to reflect our company’s performance as measured by financial metrics and are well-suited to motivate officers to achieve specific performance goals that the Compensation Committee has determined are in the best interests of our company. Equity grants are also well-suited to drive long-term performance and align management’s interests with those of shareholders. The Compensation Committee believes that as an officer’s responsibility increases, so does his or her ability to influence the performance of our company and accordingly, the proportion of his or her compensation that consists of his or her salary and cash bonus should decrease while the proportion of equity incentives to total compensation should increase.

In making compensation decisions, including assessing the competitiveness of the total compensation structure for each named executive officer, the Compensation Committee may consider compensation data from companies that the Compensation Committee may select as comparable in terms of industry, size and location, but did not do so in 2017. The Compensation Committee may, in its discretion, review surveys and relevant articles on executive compensation practices, and may receive reports from Equilar, Inc. on chief executive officer pay strategies and trends for publicly traded small cap companies for that purpose, but did not do so in 2017. The Compensation Committee retains complete discretion with respect to the types and amounts of compensation awards each year.

The Compensation Committee establishes the criteria, and directs the implementation, of all compensation program elements for the executive officers. Generally, the salary for each named executive officer is set at the beginning of each fiscal year by the Compensation Committee. The Compensation Committee considers the Chief Executive Officer's appraisal of other executive officers' general performance and looks especially to performance against predetermined goals before making its decision. The Chief Executive Officer may recommend for the Compensation Committee's approval the stock option grants and compensation related to achievement of non-quantitative goals under non-equity based incentive plans for other executive officers.

Stockholder Say-on-Pay Advisory Vote

The Compensation Committee balances the interests of stockholders, regulators, and other interested parties. In 2017, we sought a stockholder say-on-pay advisory vote regarding executive compensation, and approximately 92% of the votes cast were in favor of our executive compensation. The Compensation Committee viewed this vote as supportive of the Company's overall approach to executive compensation. Due to such strong stockholder support, we did not make any material changes to our compensation policies in 2017. In accordance with the stockholder advisory vote at our 2013 annual meeting of stockholders, we intended to continue seeking a stockholder say-on-pay advisory vote regarding executive compensation on an annual basis.

Elements of Compensation

The compensation of our named executive officers consists primarily of four components:

- salary;
- quarterly incentive cash bonuses;
- equity-based incentives; and
- other benefits

In general, total compensation is geared to be sufficient to attract and retain excellent talent. In determining the adjustments to the compensation of our executive officers for the year ended December 31, 2017, we annually take into account the performance of each executive officer, their contributions toward the Company's success, and the Company's growth and stage of development.

We use a mix of short-term compensation (base salaries and cash incentive bonuses) and long-term compensation (equity incentive compensation) to provide a total compensation structure that is designed to achieve our pay-for-performance philosophy and our compensation objectives. We discuss each of the principal elements of our executive compensation in detail below.

Salary

In general, the salaries are designed to provide a consistent base of income and to attract the appropriate level of talent. The Compensation Committee strives to set salaries that are in line with the salaries for executives serving in similar competitive positions in the market and generally around the median level of salaries for executives serving in similar comparable positions. The Compensation Committee did not undertake an assessment of any market data in 2017. Salaries were fixed in 2015 after the Compensation Committee reviewed surveys and relevant articles on executive compensation practices, reports from Equilar, Inc. on chief executive officer pay strategies and trends for publicly traded small cap companies, and executive compensation information for several Utah based publicly-traded companies having revenues similar to those of the Company. Salaries in 2016 and 2017 were fixed by making adjustments to prior year salaries based on the Compensation Committee's collective knowledge of the industry, region and position as well as by applying their professional judgement.

The salaries of our executive officers are reviewed annually. We may also increase the salary of an executive officer at other times if a change in the scope of the officer's responsibilities or for any other reason that the Compensation Committee feels appropriate to achieve the objectives outlined here. The salaries also reflect the initial base salaries that were negotiated and annual adjustments made taking into account several factors including comparable positions in the market, contributions made by the executive, role and responsibilities of the executive and past performance.

The following table presents annual salaries for our named executive officers in 2015, 2016 and 2017:

Name and Principal Position	2017	2016	2015
Zeynep Hakimoglu - Chief Executive Officer and President	$ 353,077	$ 294,442	$ 279,154
Narsi Narayanan - Senior Vice President of Finance	196,019	177,665	170,481
Michael Braithwaite - Senior Vice President - Network Streaming Business	181,404	172,665	167,288

Quarterly Incentive Cash Bonus

Quarterly incentive cash bonuses are designed to reward near-term operating performance and the achievement of milestones critical to our success in both the near and the long-term. Consistent with our emphasis on pay-for-performance, we have adopted an executive incentive bonus program. Executive officers will have an opportunity to earn bonuses based on the attainment of Company performance goals and a subjective analysis of individual performance that contributes to the attainment of those goals. The target bonuses and our establishment of business goals for the Company reinforces three of our compensation goals - namely, to motivate our executives toward even higher achievement and business results, to tie our executives' goals and interests to ours and our stockholders' and to enable us to attract and retain highly qualified individuals.

Quarterly Incentive Cash Bonus Plan for Ms. Hakimoglu and Mr. Narayanan:

According to this plan pre-determined quarterly goals are set for each quarter, namely, financial goals comprising of revenue, gross margin, operating income and meeting financial reporting goals, and non-quantitative performance goals. Quarterly revenue, gross margin and operating income targets are set early in the year as part of adopting the Company's budget for the year and these goals are seldom changed during the year except when there is a material acquisition or other event that has a significant impact on the financials of the company. Typically, these goals are set at target levels that the Compensation Committee believes will be difficult to achieve so that the full incentive bonuses are only paid when performance exceeds expectations. The Committee recognizes the difficulty to achieve these goals as these goals are often not met. Financial reporting goals which include meeting reporting deadlines are set for each quarter upon consultations with the Audit and Compliance Committee.

The targeted bonus is set at 50% of the officers' salary for each quarter with 70% of such bonus allocated for quantitative financial goals and the remaining 30% allocated for non-quantitative performance goals. The weights for quantitative performance goals are equally split for the first three quarters of the year. For the fourth quarter of the year weights assigned to the quantitative financial goals are as follows: 20% for revenue; 20% for gross margin; 20% for operating income; and 40% for meeting financial reporting deadlines.

Each quarterly quantitative goal is assessed separately. A minimum of 100% of the quarterly quantitative goal must be achieved in order to earn the bonus associated with the goal. In other words, no partial credit is given if the targeted quantitative goal is not achieved. The Compensation Committee approves bonuses for the executives only after the filing of relevant financial reports on Forms 10-Q and 10-K.

In advance of each quarter, quarterly non-quantitative performance goals for Mr. Narayanan are recommended by Ms. Hakimoglu, President and Chief Executive Officer, and approved by the Compensation Committee. Ms. Hakimoglu may at times recommend replacing an originally set performance goal with a different achievement during the quarter to address changed business priorities.

As part of the quarterly Board of Directors review of the Company's operations, the chief executive officer provides a detailed list of priorities and objectives for the next quarter. At the end of each quarter the Compensation Committee considers whether a bonus for the chief executive officer is appropriate in light of objectives and priorities accomplished, the Company's overall performance, the achievement of incentive bonus targets by other members of the management team, and the Compensation Committee's subjective assessment of the overall performance of the chief executive officer.

The Compensation Committee exercises its discretion in evaluating achievement of non-quantitative goals for the other executive officers applying both objective criteria as well as subjective criteria after consulting with Ms. Hakimoglu. The Compensation Committee often relies upon their collective knowledge of the company and applies their professional skills in evaluating the performance of the executives in achieving the non-quantitative goals.

The target and actual cash incentive bonus for Mr. Narayanan and Ms. Hakimoglu in 2017 was for the four quarters beginning the fourth quarter of 2016 and ending with the third quarter of 2017. The Compensation Committee approves bonuses for the executives only after the filing of relevant financial reports in Forms 10-Q and 10-K.

The following table provides full details of bonus targets and bonus paid for Ms. Hakimoglu and Mr. Narayanan by each quarter during 2017.

Quarter	Goal	Zeynep Hakimoglu		Narsi Narayanan	
		Bonus Target	Bonus Paid	Bonus Target	Bonus Paid
2016-Q4	Revenue	$ 5,338	$ —	$ 3,220	$ —
	Gross Margin	5,338	—	3,220	—
	Operating Income	5,337	—	3,220	—
	Financial Reporting	10,675	10,675	6,440	6,440
	Non-Quantitative[1]	11,437	10,294	6,900	3,657
		38,125	20,969	23,000	10,097
2017-Q1	Revenue	7,766	—	4,298	—
	Gross Margin	7,765	—	4,299	—
	Operating Income	7,766	—	4,299	—
	Financial Reporting	7,766	7,766	4,298	4,298
	Non-Quantitative[2]	13,312	—	7,369	—
	Discretionary	—	6,500	—	—
		44,375	14,266	24,563	4,298
2017-Q2	Revenue	7,766	—	4,298	—
	Gross Margin	7,765	—	4,299	—
	Operating Income	7,766	—	4,299	—
	Financial Reporting	7,766	3,883	4,298	—
	Non-Quantitative[2]	13,312	—	7,369	—
		44,375	—	24,563	—
2017-Q3	Revenue	7,766	—	4,298	—
	Gross Margin	7,765	—	4,299	—
	Operating Income	7,766	—	4,299	—
	Financial Reporting	7,766	3,883	4,298	—
	Non-Quantitative[2]	13,312	—	7,369	—
		44,375	—	24,563	—
Total for 2017	Revenue	28,636	—	18,479	—
	Gross Margin	28,633	—	18,479	—
	Operating Income	28,635	—	18,480	—
	Financial Reporting	33,973	22,324	21,542	12,887
	Non-Quantitative	51,373	10,294	32,994	3,657
	Discretionary	—	6,500	—	—
		$ 171,250	$ 39,118	$ 96,689	$ 16,544

(1) 2016-Q4 non-quantitative goals for Mr. Narayanan were to complete the draft budget for 2017, evaluate a new service for the Board of Directors and migration of a software used for accounting purposes. 2016-Q4 non-quantitative goals recognized for Ms. Hakimoglu were transitioning wireless mics manufacturing, transitioning sales personnel from indirect to direct model, building offshore operations, improving revenue from value-added-resellers and supervise finance goals.

(2) Non-quantitative goals for Mr. Narayanan for 2017-Q1, 2017-Q2 and 2017-Q3 were to complete a tax planning project, and to draft a logistics and fulfillment plan. Non-quantitative goals for Ms. Hakimoglu for 2017-Q1, 2017-Q2 and 2017-Q3 were to manage marketing events, devise litigation strategy and manage litigation efforts.

Quarterly Incentive Cash Bonus Plan for Mr. Braithwaite:

Mr. Braithwaite's compensation plan is based upon attainment of world-wide revenue of network streaming products. His revenue target is set by Ms. Hakimoglu at the beginning of each quarter. Mr. Braithwaite has to achieve at least 65% of the revenue target to be eligible for bonus. If revenue attainment is above 65% but less than 90% of the revenue target, Mr. Braithwaite gets bonus at a reduced rate of 65% of the original bonus rate. His bonus plan provides for double the bonus rate for every 1% achieved above the target revenue with no cap on the maximum bonus that he could possibly earn.

The target and actual cash incentive bonus for Mr. Braithwaite in 2017 was for the four quarters beginning the fourth quarter of 2016 and ending with the third quarter of 2017. Mr. Braithwaite's targeted bonus for these four quarters was $12,500 each. Mr. Braithwaite was not paid any bonus against these targets in any of the five quarters.

Upon Ms. Hakimoglu's recommendation, the Compensation Committee may at its discretion award cash bonuses not exceeding $5,000 per quarter in recognition of Mr. Braithwaite's non-revenue achievements including promoting network streaming products among channel partners, end users and internal sales teams, travelling extensively both within the U.S. and outside to provide in-depth product presentations, and supporting key projects. Mr. Braithwaite was paid discretionary cash bonus of $5,000 during 2017.

Equity Incentive Compensation

We may grant equity incentive awards in the form of stock options to align the interests of our executive officers with the interests of our stockholders. Our decisions regarding the amount and type of equity incentive compensation and relative weighting of these awards among total executive compensation is based on several factors including contributions made by the executive, the role and responsibilities of the executive, past performance of the executive, cumulative equity awards made to an officer, current stock prices, recent history of profitability of the equity awards, and current philosophy of the Board with respect to the impact of equity awards on common stock dilution.

Initial awards to new officers are largely based on the negotiations the Chief Executive Officer had at the time of recruiting. Typically, the Chief Executive Officer negotiates and makes an offer of employment subject to approval of the Compensation Committee.

We have typically made grants of equity incentive awards to our executive officers once a year. All such grants are reviewed and approved by the Compensation Committee.

The date of grant and the exercise price of the awards are established on the date of final approval by the Compensation Committee in accordance with the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 718, "Compensation - Stock Compensation." Exercise price is typically the closing market price of a share of our common stock on the date of the grant or in cases where grant is made to take effect on a subsequent future date, such future date. We do not have any program, plan or practice of setting the exercise price at a price less than fair market value of our common stock on the grant date. We do not have any program, plan or obligation that requires us to grant equity compensation on specified dates to our named executive officers.

In our year ended December 31, 2017, we made Stock Option Awards to our executive officers, as described below:

Stock Option Awards

Stock option awards provide our executive officers with the right to purchase shares of our common stock at a fixed exercise price typically for a period of up to ten years, subject to continued employment with our Company. In general, we provide our executives with service-based stock options that have gradual vesting schedules. These stock options are earned on the basis of continued service with the Company and vest over three years with one-third of the options vesting on the first anniversary of the date of grant and the remaining options vesting equally over 24 months following the first vesting date.

For certain option grants to executive officers and directors, in the event of a change in control, all of such optionee's unvested stock options will vest and become exercisable immediately prior to the event or the closing of the transaction causing the change in control. Under the option grants, a "Change in Control" means a change in ownership or control of the Company effected through either of the following transactions: (i) the acquisition, directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company), of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's shareholders, or (ii) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less, such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time the Board approved such election or nomination. Except as otherwise set forth in an option grant, in the event of a change in control of our company, the Board of Directors has the sole authority to elect that the vesting of each outstanding option automatically accelerate so that each such option shall, immediately prior to the effective date of the corporate transaction, become fully exercisable for all of the shares of common stock at the time subject to such option and may be exercised for any or all of those shares as fully vested shares of common stock.

We have granted stock options as incentive stock options in accordance with Section 422 of the Code, subject to the volume limitations contained in the Code, as well as non-qualified stock options. Generally, for stock options that do not qualify as incentive stock options, we are entitled to a tax deduction in the year in which the stock options are exercised equal to the difference between the exercise price and the fair market value, at the time of exercise, of the stock for which the stock option was exercised. The holders of the non-qualified stock options are generally taxed on this same amount in the year of exercise. For stock options that qualify as incentive stock options, we do not receive a tax deduction, and the holder of the stock option may receive more favorable tax treatment than he or she would for a non-qualified stock option unless the holder makes a disqualifying disposition, generally by failing to hold the stock for the period required by the Code. Historically, we have primarily granted incentive stock options to provide these potential tax benefits to our executives and because of the limited expected benefits to our company of the potential tax deductions as a result of our historical net losses.

Effective December 12, 2014, we adopted, as approved by our stockholders, the amended and restated 2007 Equity Incentive Plan, or the ClearOne Inc. Equity Incentive Plan, that affords more flexibility to our Compensation Committee by allowing grants of a wide variety of equity awards to our key employees, directors and consultants, including non-qualified stock options, shares of restricted stock and other awards that are valued by reference to the fair market value of our common stock. This plan is designed to assist us in attracting, retaining, motivating and rewarding key employees, directors and consultants and providing long-term value for our stockholders by closely aligning the interests of these individuals with those of our stockholders.

During 2017, the Compensation Committee awarded stock options to Ms. Hakimoglu covering 40,000 shares; to Mr. Narayanan covering 20,000 shares; and to Mr. Braithwaite covering 5,000 shares.

Other Compensation

The Compensation Committee retains the discretion to offer other compensation to executive officers taking into account special circumstances including securing successful litigation settlements and participating in patent programs. In 2017, no such compensation was paid.

All of our executive officers are eligible for benefits offered to employees generally, including life, health, disability and dental insurance and participation in our 401(k) plan. We intend to continue to maintain our current benefits for our executive officers. The Compensation Committee in its discretion may revise, amend or add to the executive officers' benefits and perquisites if it deems it advisable. We do not believe it is necessary for the attraction or retention of executive talent to provide executive officers with a substantial amount of compensation in the form of perquisites. In 2017, no such perquisites were provided.

Potential Payments Upon Termination or Change in Control

Employment Agreements. As of the year ended December 31, 2017, none of our named executive officers was party to an employment or severance agreement with us, and each named executive officer's employment was on an "at-will" basis, permitting either us or the executive to terminate his or her employment for any reason or for no reason.

Separation Agreement with Mr. Braithwaite. On January 4, 2018, the Company terminated Michael Braithwaite as the Company's Senior Vice President - Network Streaming Business and an employee of the Company. In connection with Mr. Braithwaite's separation from the Company, on January 9, 2018 Mr. Braithwaite entered into a Confidential Separation Agreement and General Release with the Company (the "Separation Agreement"). Under the terms of the Separation Agreement, Mr. Braithwaite was paid all unpaid base salary and accrued but unused vacation time through the Separation Date. The Company also paid Mr. Braithwaite cash severance of $52,355.85 as additional consideration for a customary general release of claims.

Accelerated Stock Option Vesting Upon a Change in Control. For certain option grants to executive officers and directors, in the event of a change in control, all of such optionee's unvested stock options will vest and become exercisable immediately prior to the event or the closing of the transaction causing the change in control.

Under the option grants, a "Change in Control" means a change in ownership or control of the Company effected through either of the following transactions:

(i) the acquisition, directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company), of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's shareholders, or

(ii) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less, such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time the Board approved such election or nomination.

Except as otherwise set forth in an option grant, in the event of a change in control of our company, the Board of Directors has the sole authority to elect that the vesting of each outstanding option automatically accelerate so that each such option shall, immediately prior to the effective date of the corporate transaction, become fully exercisable for all of the shares of common stock at the time subject to such option and may be exercised for any or all of those shares as fully vested shares of common stock.

At our current stock price of about $6.50, none of our named executive officers would benefit from any potential accelerated vesting of unvested stock options.

Accounting and Tax Considerations

The Company uses judgment in determining the fair value of the options awards 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, and the expected dividends of the awards. The Company uses the Black-Scholes option pricing model to determine the fair value of share-based payments granted under the guidelines of ASC Topic 718. Black-Scholes option pricing model requires certain estimates, including an expected forfeiture rate and expected term of options granted. We also make decisions regarding the method of calculating expected volatilities and the risk-free interest rate used in the option-pricing model. The resulting calculated fair value of stock options is recognized as compensation expense over the requisite service period, which is generally the vesting period. When there are changes to the assumptions used in the option-pricing model, including fluctuations in the market price of our common stock, there will be variations in the calculated fair value of our future stock option awards, which results in variation in the compensation cost recognized.

We generally intend for our executive compensation program to comply with Section 162(m) of the Code, as well as Code Section 409A. The Compensation Committee intends for all compensation paid to the named executive officers to be tax deductible to us pursuant to Section 162(m) of the Code. Under Section 162(m) of the Code, compensation paid to the named executive officers in excess of $1,000,000 cannot be deducted by us for federal income tax purposes, unless such amounts satisfy the performance-based exception to the deduction disallowance.

Section 409A of the Code addresses certain non-qualified deferred compensation benefits payable to our executives and provides that if such benefits do not comply with Section 409A, they will be taxable in the first year they are not subject to a substantial risk of forfeiture. In such case, our executives would be subject to regular federal income tax, interest and an additional federal income tax of 20% of the benefit includible in income. We have generally designed our executive compensation plans and agreements in a manner that complies with Section 409A.

We have granted stock options as incentive stock options in accordance with Section 422 of the Code subject to the volume limitations contained in the Code. Generally, the exercise of an incentive stock option does not trigger any recognition of income or gain to the holder. If the stock is held until at least one year after the date of exercise (or two years from the date the option is granted, whichever is later), all of the gain on the sale of the stock, when recognized for income tax purposes will be capital gain, rather than ordinary income to the recipient. Consequently, we do not receive a tax deduction. For stock options that do not qualify as incentive stock options, we are entitled to a tax deduction in the year in which the stock options are exercised equal to the spread between the exercise price and the fair market value of the stock for which the stock option was exercised. The holders of the non-qualified stock options are generally taxed on this same amount in the year of exercise.

EXECUTIVE COMPENSATION

The following table sets forth the compensation paid or earned by each named executive officer for the years ended December 31, 2017, 2016, and 2015.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Salary	Option Awards[(1)]	Non-Equity Incentive Plan Compensation[(2)]	All Other Compensation[(3)]	Total
Zeynep Hakimoglu - Chief Executive Officer and President					
Year ended December 31, 2017	$ 353,077	$ 132,700	$ 39,118	$ —	$ 524,895
Year ended December 31, 2016	294,442	258,390	102,192	89,400	$ 744,424
Year ended December 31, 2015	279,154	—	59,895	88,200	427,249
Narsi Narayanan - Senior Vice President of Finance					
Year ended December 31, 2017	$ 196,019	$ 66,350	$ 16,544	$ —	$ 278,913
Year ended December 31, 2016	177,665	118,081	59,472	21,425	376,643
Year ended December 31, 2015	170,481	—	31,210	29,100	230,791
Michael Braithwaite - Senior Vice President - Network Streaming Business					
Year ended December 31, 2017	$ 181,404	$ 16,588	$ 5,000	$ —	$ 202,992
Year ended December 31, 2016	172,665	32,640	23,000	10,884	239,189
Year ended December 31, 2015	167,288	53,073	24,000	3,109	247,470

(1) The amounts in the "Option Awards" column reflect the aggregate grant date fair value of awards of stock options granted pursuant to our long-term incentive plans during the periods reported above, computed in accordance with FASB ASC Topic 718, *Compensation - Stock Compensation.* The assumptions made in the valuation of our option awards and the material terms of option awards are disclosed in Note 9 - Share Based Payments in our Notes to Consolidated Financial Statements included in Part IV of the Form 10-K for the year ended December 31, 2017.

(2) Non-Equity Incentive Plan Compensation for Ms. Hakimoglu and Mr. Narayanan is based upon the achievement of pre-determined quarterly goals, namely, financial goals comprising of revenue, gross margin, operating income and meeting reporting deadlines, and non-quantitative performance goals. Mr. Braithwaite's compensation plan is based upon attainment of revenue of a certain product group. Non-quantitative goals varied for each executive officer. Examples of non-quantitative goals include introduction of a new product, identification of a new distribution opportunity, implementing internal controls, and improving product quality. The Chief Executive Officer recommends to the Compensation Committee the compensation for achievement or partial achievement of any such predetermined goal by the other two executive officers which is then determined by the Compensation Committee. Compensation under the non-equity incentive plan for Ms. Hakimoglu and Mr. Narayanan is calculated by assigning 70% weight to financial goals and 30% to non-quantitative goals. Ms. Hakimoglu's compensation for the year ended December 31, 2017 included $22,324 for achieving financial goals, $10,294 for achieving non-quantitative goals, and $6,500 paid as discretionary bonus. Mr. Narayanan's compensation for the year ended December 31, 2017 included $12,887 for achieving financial goals, and $3,657 for achieving non-quantitative goals.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table provides information on the holdings of stock options by the named executive officers as of December 31, 2017.

Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable(1)	Option Exercise Price ($)	Option Grant Date	Option Expiration Date
Zeynep Hakimoglu	28,380	—	4.030	11-14-2008	11-14-2018
	10,000	—	3.004	05-26-2010	05-26-2020
	10,000	—	5.480	08-05-2011	08-05-2021
	25,000	—	3.920	05-11-2012	05-11-2022
	25,000	—	8.220	08-22-2013	08-22-2023
	40,000		8.340	09-12-2014	09-12-2024
	29166	20,834	11.960	03-11-2016	03-11-2026
	3,333	6,667	11.000	12-14-2016	12-14-2026
	—	40,000	9.900	06-01-2017	06-01-2027
Narsi Narayanan	20,000	—	2.780	08-27-2009	08-27-2019
	10,000	—	3.004	05-26-2010	05-26-2020
	10,000	—	5.480	08-05-2011	08-05-2021
	20,000	—	3.920	05-11-2012	05-11-2022
	15,000	—	8.220	08-22-2013	08-22-2023
	15,000	5,000	8.340	09-12-2014	09-12-2024
	14,583	10,417	11.960	03-11-2016	03-11-2026
	833	1,667	11.000	12-14-2016	12-14-2026
	—	20,000	9.900	06-01-2017	06-01-2027
Michael Braithwaite	8,611	1,389	12.980	05-01-2015	05-01-2025
	3,333	4,167	10.510	08-30-2016	08-30-2026
	166	334	11.000	12-14-2016	12-14-2026
	—	5,000	9.900	06-01-2017	06-01-2027

(1) One-third of unvested options vest one year from the date of grant and balance vest equally over a period of 24 months following the first anniversary date of grant.

GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#) (1)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
Zee Hakimoglu	06-01-2017	—	40,000	9.90	132,700
Narsi Narayanan	06-01-2017	—	20,000	9.90	66,350
Michael J. Braithwaite	06-01-2017	—	5000	9.90	16,588

(1) All Options granted in 2017 have the following vesting schedule: one-third on the first anniversary of the options grant; remaining option vest equally over a period of 24 months immediately following the first vesting date.

OPTION EXERCISES AND STOCK VESTED

The following table provides information on the exercise of stock options by named executive officers during the year ended December 31, 2017. There were no other equity awards that vested for the named executive officers during the year ended December 31, 2017.

Name	Number of shares acquired on exercise	Value realized on exercise[1]
Zeynep Hakimoglu	171,620	$ 617,412

(1) Value realized on exercise is the excess of market price of underlying shares on the date of exercise over exercise price for the options.

Potential Payments Upon Termination or Change in Control

Employment Agreements. As of the year ended December 31, 2017, none of our named executive officers was party to an employment or severance agreement with us, and each named executive officer's employment was on an "at-will" basis, permitting either us or the executive to terminate his or her employment for any reason or for no reason.

Separation Agreement with Mr. Braithwaite. On January 4, 2018, the Company terminated Michael Braithwaite as the Company's Senior Vice President - Network Streaming Business and an employee of the Company. In connection with Mr. Braithwaite's separation from the Company, on January 9, 2018 Mr. Braithwaite entered into a Confidential Separation Agreement and General Release with the Company (the "Separation Agreement"). Under the terms of the Separation Agreement, Mr. Braithwaite was paid all unpaid base salary and accrued but unused vacation time through the Separation Date. The Company also paid Mr. Braithwaite cash severance of $52,355.85 as additional consideration for a customary general release of claims.

Accelerated Stock Option Vesting Upon a Change in Control. For certain option grants to executive officers and directors, in the event of a change in control, all of such optionee's unvested stock options will vest and become exercisable immediately prior to the event or the closing of the transaction causing the change in control.

Under the option grants, a "*Change in Control"* means a change in ownership or control of the Company effected through either of the following transactions:

> (i) the acquisition, directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company), of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's shareholders, or
>
> (ii) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less, such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time the Board approved such election or nomination.

Except as otherwise set forth in an option grant, in the event of a change in control of our company, the Board of Directors has the sole authority to elect that the vesting of each outstanding option automatically accelerate so that each such option shall, immediately prior to the effective date of the corporate transaction, become fully exercisable for all of the shares of common stock at the time subject to such option and may be exercised for any or all of those shares as fully vested shares of common stock.

At our current stock price of about $10.00, all our named executive officers would benefit from any potential accelerated vesting of unvested stock options.

Compensation Risk Assessment

In setting compensation, the Compensation Committee considers the risks to the Company's shareholders and to achievement of its goals that may be inherent in its compensation programs. The Compensation Committee conducted a risk assessment of the Company's compensation programs, including its executive compensation programs. The Compensation Committee reviewed and discussed its assessment with management and outside legal counsel and concluded that the Company's compensation programs are within industry standards and are designed with the appropriate balance of risk and reward to align employees' interests with those of the Company and do not incent employees to take unnecessary or excessive risks. Although a portion of our executives' and employees' compensation is performance-based and "at risk," we believe our compensation plans are appropriately structured and are not reasonably likely to result in a material adverse effect on the Company.

Executive Compensation and Option Committee Report

The Compensation Committee has reviewed the Compensation Discussion and Analysis and discussed that Analysis with management. Based on its review and discussions with management, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 as amended and filed in a Form 10-K/A and the Company's proxy statement relating to the Annual Meeting of stockholders to be held in 2018. This report is provided by the following independent directors, who comprise all of the members of the Compensation Committee:

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS
Brad R. Baldwin (Chairman)
Larry R. Hendricks
Eric L. Robinson

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Brad R. Baldwin (Chairman), Larry R. Hendricks and Eric L. Robinson.

No member of the Compensation Committee was at any time in 2017 or at any other time an officer or employee of the Company, and no member had any relationship with the Company requiring disclosure as a related-person transaction in the section "Certain Relationships and Related Transactions." No executive officer of the Company has served on the board of directors or compensation committee of any other entity that has or has had one or more executive officers who served as a member of our Board of Directors or Compensation Committee at any time in 2017.

DIRECTOR COMPENSATION

The following table summarizes the compensation paid by us to non-employee directors for the year ended December 31, 2017. Ms. Hakimoglu did not receive additional compensation for her service as a director.

Name	Fees Earned or Paid in Cash(1)	Option Awards(2)	Other Compensation	Total	Share Options Outstanding at Year End
Brad R. Baldwin	$ 37,200	$ 33,175	$ —	$ 70,375	55,000
Larry R. Hendricks	33,600	33,175	—	69,775	80,000
Eric L. Robinson	37,200	33,175	—	70,375	28,333

(1) The base annual director's fee for the reporting year was $30,000. In addition, independent directors were paid $100 per month for each board committee served on, and an additional $300 per month if the director was the chair of the Audit and Compliance Committee or Compensation Committee. The fee is not dependent on the number of meetings attended by any directors.

(2) The amounts in the "Option Awards" column reflect the aggregate grant date fair value of awards of stock options granted pursuant to our long-term incentive plans during the periods reported above, computed in accordance with FASB ASC Topic 718, Compensation - Stock Compensation. The assumptions made in the valuation of our option awards are disclosed in Note 9 - Share Based Payments in our Notes to Consolidated Financial Statements contained in our Form 10-K for the year ended December 31, 2017.

Independent directors receive an annual grant of stock options of 10,000 shares of common stock, of which one-third vests on the first anniversary of the date of grant, and the remaining vest in equal monthly increments over the subsequent 24-month period. All directors are reimbursed by us for their out-of-pocket travel and related expenses incurred in attending all Board of Directors and committee meetings.

CEO PAY RATIO DISCLOSURE

Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and Item 402(u) of Regulation S-K promulgated by the SEC thereunder requires the Company to disclose the median of the annual total compensation of all employees, excluding the chief executive officer, and the ratio of the median of the annual total compensation of all employees to the annual total compensation of the chief executive officer. We identified the median employee using our employee population on December 31, 2017 and based on each employee's total compensation, using the same elements of compensation reportable in the Summary Compensation Table for Named Executive Officers as the "consistently applied compensation measure" under Item 402(u) of Regulation S-K. We did not perform adjustments to the compensation paid to part-time employees to calculate what they would have been paid on a full-time basis. We did not make any assumptions, adjustments, or estimates other than annualizing the compensation for any permanent (full-time or part-time) employees that were not employed by us for all of 2017. We then calculated the 2017 total compensation for the median employee using the same methodology used to identify such employee. Employee pay rates in foreign currencies were converted to U.S. Dollars using exchange rates available on December 31, 2017.

The total compensation of our median employees in 2017, other than Ms. Hakimoglu, as calculated using Summary Compensation Table requirements, was $79,593. As noted above, Ms. Hakimoglu's total annual compensation in 2017 was $524,895 as reported in the Summary Compensation Table and the ratio of the chief executive officer's total compensation for 2017 to the total compensation for the median employee was 7:1.

Equity Compensation Plans

Please refer to the section titled "Securities Authorized for Issuance under Equity Compensation Plans" contained in Item 5 in the Original Form 10-K for details regarding our compensation plans under which our equity securities are authorized for issuance.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

We recognize that transactions between us and any of our directors, executives or other related persons can present potential or actual conflicts of interest and create the appearance that our decisions are based on considerations other than the best interests of our company and shareholders. Therefore, as a general matter and in accordance with our Code of Ethics, it is our preference to avoid such transactions. Nevertheless, we recognize that there are situations where such transactions may be in, or may not be inconsistent with, the best interests of our company. Under the terms of its charter, our Audit and Compliance Committee reviews and, if appropriate, approves or ratifies any such transactions. Pursuant to the charter, the Committee will review any transaction in which we are or will be a participant and the amount involved exceeds $120,000, and in which any of our directors or executives had, has or will have a direct or indirect material interest. After its review, the Committee will only approve or ratify those transactions that are in, or are not inconsistent with, the best interests of our company and our shareholders, as the Committee determines in good faith. The Company's Board of Directors adopted Related Party Transactions Policy on January 18, 2017. This policy is available in our website at http://investors.clearone.com/governance.cfm.

Related Party Transactions: Consulting Agreement with Edward D. Bagley

On June 3, 2015, ClearOne, Inc. ("ClearOne") entered into a Consulting Agreement with Edward D. Bagley, former Chairman of the Board and greater than 10% shareholder ("Consulting Agreement") which shall become effective as of July 29, 2015 for a term of three years. Pursuant to the terms of the Consulting Agreement Mr. Bagley will be paid a fee of $5,000 per month and is eligible to participate in our equity incentive programs and will be granted stock options commensurate with grants of stock options made to our directors. During 2016, he was paid $60,000 as consulting fees and was awarded 10,000 options at an exercise price of $11.26. He also received ClearOne stock awarded under a dividend equivalents plan offered to all ClearOne stock optionees including directors and officers. Under this plan, dividend equivalents were calculated at $0.10, $0.035, $0.035, $0.035 and $0.05, for each stock option outstanding in the quarters of 2014-Q4, 2015-Q1, 2015-Q2,2015-Q3, and 2015-Q4, respectively and equivalent value of ClearOne stock awarded. The value of ClearOne stock received by Mr. Bagley in 2016 was $779. During 2017, he was paid $60,000 as consulting fees and was awarded 10,000 option at an exercise price of $9.90.

AUDIT AND COMPLIANCE COMMITTEE REPORT

The Audit and Compliance Committee of the Board of Directors is comprised of three directors, all of whom are independent as defined in NASDAQ and SEC rules and regulations. The members of the Audit and Compliance Committee are Eric L. Robinson (Chair), Brad R. Baldwin and Larry R. Hendricks. Eric L. Robinson is the Board of Directors' designated "audit committee financial expert" as that term is defined in the securities laws. The Audit and Compliance Committee serves as an independent and objective party to monitor and provide general oversight of the Company's financial accounting and reporting process, selection of critical accounting policies, system of internal control, internal audit function, audit process for monitoring compliance with laws and regulations and the Company's standards of business conduct. The Audit and Compliance Committee performs these oversight responsibilities in accordance with its charter.

The Company's management has primary responsibility for preparing the Company's financial statements and the Company's financial reporting process, including its system of internal control over financial reporting. The Company's independent registered public accountants, Tanner LLC, are responsible for expressing opinions on the conformity of the Company's 2017 audited financial statements to accounting principles generally accepted in the United States of America and the effectiveness of the Company's internal control over financial reporting as of December 31, 2017.

The Audit and Compliance Committee discussed with the Company's independent registered public accountants the overall scope and plans for its audits. The Audit and Compliance Committee met with the Company's independent registered public accountants, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal control over financial reporting, and the overall quality of the Company's financial reporting.

In this context, the Audit and Compliance Committee hereby reports as follows:

1. The Audit and Compliance Committee has reviewed and discussed the fiscal 2017 audited financial statements with the Company's management, including the quality, not just the acceptability, of the Company's accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements;

2. The Audit Committee has discussed with the Company's independent registered public accountants the matters required to be discussed by the statement on Auditing Standards No. 1301, Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board;

3. The Audit and Compliance Committee has received the written disclosures and the letter from the Company's independent registered public accountants required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accountant's communications with the Audit and Compliance Committee concerning independence, and has discussed with the Company's independent registered public accountants the independent registered public accountants' independence from management and the Company; and

4. Based on the review and discussions referred to in paragraphs (1) through (3) above, the Audit and Compliance Committee recommended to the Board of Directors (and the Board of Directors has approved) that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, for filing with the Securities and Exchange Commission on April 20, 2018.

The foregoing Audit and Compliance Committee Report does not constitute soliciting material and shall not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933, as amended, or Exchange Act, except to the extent the Company specifically incorporates this Audit and Compliance Committee Report by reference therein. Each of the members of the Audit and Compliance Committee is independent as defined under the standards of the NASDAQ Capital Market and the Securities and Exchange Commission, and meets all other requirements of such exchange and of such rules of the SEC.

Respectfully submitted by the members of the Audit and Compliance Committee.

Eric L. Robinson (Chair)
Brad R. Baldwin
Larry R. Hendricks

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding ownership of our common stock as of September 10, 2018, except as otherwise stated, by (i) each director and nominee for director, (ii) the named executive officers, (iii) all of our named executive officers and directors as a group, and (iv) each person known to us to be the beneficial owner of more than 5% of our outstanding common stock.

	Shares Beneficially Owned				
Name of Beneficial Owner[(1)]	**Currently Owned** [(2)] (A)	**Currently Owned Percent** [(2)] (B)	**Shares that could be acquired within 60 days** [(2)] (C)	**Total** [(2)] (D)	**Percent** [(2)] (E)
Directors and Executive Officers:					
Zeynep Hakimoglu	246,607	2.97%	206,434	453,041	5.15%
Brad R. Baldwin [(3)]	113,853	1.37%	46,944	160,797	1.83%
Larry R. Hendricks	16,313	0.20%	71,944	88,257	1.00%
Eric L. Robinson	65	0.00%	20,277	20,342	0.23%
Narsi Narayanan	4,963	0.06%	127,498	132,461	1.51%
Total (Directors and Officers)	381,801	4.60%	473,097	854,898	9.71%
5% Shareholders:					
Edward D. Bagley [(4)]	2,750,163	33.11%	20,277	2,767,477	31.48%
E. Bryan Bagley [(5)]	642,859	7.74%	—	642,859	7.33%

(1) Except as otherwise indicated, each person named in the table has sole voting and investment power, subject to the Utah Control Shares Acquisition Statute, with respect to all common stock beneficially owned, subject to applicable community property law. Except as otherwise indicated, each person may be reached at our corporate offices c/o ClearOne, Inc., 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116.

(2) The percentages shown in Column (B) are calculated based on 8,306,735 shares of common stock outstanding on September 10, 2018. The numbers shown in Column (D) and percentages shown in Column (E) include the shares of common stock actually owned as of September 10, 2018 and the shares of common stock that the identified person or group had the right to acquire within 60 days of such date. In calculating the percentage of ownership, all shares of common stock that each identified person or group had the right to acquire within 60 days of September 10, 2018 upon the exercise of options shown in Column (C) are deemed to be outstanding for the purpose of computing the percentage of the shares of common stock owned by the persons or groups listed above.

(3) Includes (i) 75,329 shares held in the Baldwin Family Trust; (ii) 26,947 owned jointly with his spouse; and (iii) 11,577 shares owned directly, of which 11,000 are held in an IRA under the name of Mr. Baldwin.

(4) Amounts for Mr. Edward Dallin Bagley include 126,166 shares held by Edward Dallin Bagley's spouse with respect to which he disclaims beneficial ownership but also has acknowledged he may be deemed the owner. Mr. Edward Dallin Bagley has sole voting and dispositive power over 2,641,311 shares (including the shares that may be acquired pursuant to the exercise of stock options) and shared voting and dispositive power over the 126,166 shares held by Mr. Edward Dallin Bagley's spouse. This information is based upon Schedules 13D/A, as filed by Mr. Edward Dallin Bagley with the SEC in 2018 and Forms 4 filed with SEC in 2017. E. Bryan Bagley, who resigned as Director effective November 6, 2012 is the son of Edward Dallin Bagley, and each of them has previously disclaimed beneficial ownership of common stock beneficially owned by the other. The amounts indicated for Mr. Edward Dallin Bagley do not include any shares held by E. Bryan Bagley. All shares indicated as beneficially owned by Edward Dallin Bagley are subject to application of the Utah Control Shares Acquisition Act.

(5) This information is based upon the Form 4 filed with the SEC as of November 13, 2017.

PROPOSAL TWO

RATIFICATION OF THE APPOINTMENT OF THE COMPANY'S INDEPENDENT PUBLIC ACCOUNTANTS

We retained Tanner LLC as our auditor and independent certified public accountants for the year ended December 31, 2017 The Board of Directors of the Company has approved the appointment of Tanner LLC as our auditor and independent certified public accountants for the year ending December 31, 2018. The ratification of selection of our auditors for the current year ending on December 31, 2018 is being submitted to the shareholders for their consideration.

It is anticipated that a representative of Tanner LLC will attend the annual meeting and will be available to respond to questions. It is not anticipated that the representative will make any statement or presentation, although the representative will have an opportunity to do so if he or she desires.

Principle Accountant Fees and Services

During 2017 and 2016, we retained our principal accountants, Tanner LLC to provide services in the following categories and amounts:

	2017	2016
Audit Fees(1)	$ 311,648	$ 335,683
Audit-related Fees	—	—
Tax fees(2)	37,965	67,495
All other fees(3)	—	19,922
Total	$ 349,613	$ 423,100

(1)Represents fees billed for professional services rendered for the audit and reviews of our financial statements filed with the SEC on Forms 10-K and 10-Q.

(2)Represents fees billed for tax filing, preparation, and tax advisory services.

Pre-Approval Policies and Procedures

The Audit and Compliance Committee ensures that we engage our independent registered public accounting firm to provide only audit and non-audit services that are compatible with maintaining the independence of our public accountants. The Audit and Compliance Committee approves or pre-approves all services provided by our public accountants. Permitted services include audit and audit-related services, tax services and other non-audit related services. Certain services are identified as restricted. Restricted services are those services that may not be provided by our external public accountants, whether identified in statute or determined to be incompatible with the role of an independent auditor. All fees identified in the preceding table were approved by the Audit and Compliance Committee. During 2017, the Audit and Compliance Committee reviewed all non-audit services provided by our independent registered public accounting firm and concluded that the provision of such non-audit services was compatible with maintaining the independence of the external public accountants.

Pre-Approval Policies and Procedures

The Audit and Compliance Committee ensures that we engage our independent registered public accounting firm to provide only audit and non-audit services that are compatible with maintaining the independence of our public accountants. The Audit and Compliance Committee approves or pre-approves all services provided by our public accountants. Permitted services include audit and audit-related services, tax services and other non-audit related services. Certain services are identified as restricted. Restricted services are those services that may not be provided by our external public accountants, whether identified in statute or determined to be incompatible with the role of an independent auditor. All fees identified in the preceding table were approved by the Audit and Compliance Committee. During 2015, the Audit and Compliance Committee reviewed all non-audit services provided by our independent registered public accounting firm and concluded that the provision of such non-audit services was compatible with maintaining the independence of the external public accountants.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT PUBLIC ACCOUNTANTS.

PROPOSAL THREE

APPROVAL, BY NON-BINDING VOTE, OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

The Dodd-Frank Wall Street and Consumer Protection Act of 2010, or the Dodd-Frank Act, enables our shareholders to vote to approve, on a non-binding, advisory basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the disclosure rules of the SEC.

As described in detail under the headings “Compensation Discussion & Analysis” and “Executive Compensation,” our executive compensation programs are designed to attract and retain key executives, to stimulate management’s efforts on our behalf in a way that supports our business plan and to align management’s incentives with our long-term interests and those of our shareholders. Please read the discussion under the headings "Compensation Discussion and Analysis" and "Executive Compensation" for additional details about our executive compensation programs, including information about the fiscal year 2017 compensation of our named executive officers.

We are asking shareholders to indicate their support for our named executive officers’ compensation as described in this proxy statement. This proposal, commonly known as “say on pay,” gives our shareholders the opportunity to express their views on our named executive officers’ compensation. The vote on this proposal is not intended to address any specific element of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. Accordingly, we will ask our shareholders to vote FOR this proposal on their proxy card.

The say on pay vote is advisory and, therefore, not binding on the Company, the Compensation Committee or the Board of Directors. Our Board of Directors and our Compensation Committee value the opinions of our shareholders, and to the extent there is any significant vote against our named executive officers’ compensation as disclosed in this proxy statement, the Compensation Committee will evaluate what, if any, actions are necessary to address the concerns of shareholders.

Accordingly, we ask our shareholders to approve the following advisory resolution at the 2018 Annual Meeting:

“RESOLVED, that the compensation paid to the Company’s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including in the compensation tables and narrative discussion, is hereby APPROVED.”

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE “ <u>FOR</u> ” THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT.

PROPOSAL FOUR

REINCORPORATION OF THE COMPANY FROM A UTAH CORPORATION TO A DELAWARE CORPORATION

Overview

On September 4, 2018, the Board unanimously approved the Plan of Conversion pursuant to which the Company will effect the Reincorporation, in compliance with the Delaware General Corporation law and the Utah Revised Business Corporation Act (the "UBCA"), subject to shareholder approval.

Principal Reasons for the Reincorporation Under Delaware Law

Corporate Law

The Board and management believe that it is in the best interest of the Company to be able to draw upon well-established principles of corporate governance in making legal and business decisions. The prominence and predictability of Delaware corporate law provide a reliable foundation on which the Company's governance decisions can be based. The Board believes that the shareholders will benefit from Delaware corporate law because of how established the law is and how responsive the Delaware courts are. With the Reincorporation to Delaware, the Bylaws of the Company will remain unchanged.

For many years, Delaware has followed a policy of encouraging incorporation in Delaware and, in furtherance of that policy, has been the leader in adopting, construing and implementing comprehensive, flexible corporate laws that are responsive to the legal and business needs of the corporations organized under Delaware law. Unlike most states, including Utah, Delaware has established progressive principles of corporate governance that the Company could draw upon when making business and legal decisions.

To take advantage of Delaware's flexible and responsive corporate laws, many corporations choose to incorporate initially in Delaware or choose to reincorporate into Delaware, as the Company proposes to do. In general, the Board believes that Delaware provides a more appropriate and flexible corporate and legal environment in which to operate than currently exists in the State of Utah and that the Company and its shareholders would benefit from such an environment. The Board has considered the following benefits available to Delaware corporations in deciding to propose reincorporation in Delaware:

- the General Corporation Law of the State of Delaware, which is generally acknowledged to be the most advanced and flexible corporate statute in the country;
- the responsiveness and efficiency of the Division of Corporations of the Secretary of State of Delaware;
- the Delaware General Assembly, which each year considers and adopts statutory amendments that the Corporation Law Section of the Delaware State Bar Association proposes in an effort to ensure that the corporate statute continues to be responsive to the changing needs of businesses;
- the Delaware Court of Chancery, which handles complex corporate issues with a level of experience and a degree of sophistication and understanding unmatched by any other court in the country, and the Delaware Supreme Court, which is highly regarded; and
- the well-established body of case law construing Delaware law, which has developed over the last century and which provides businesses with a greater degree of predictability than most, if not all, other jurisdictions provide.

Additionally, management believes that, as a Delaware corporation, the Company would be better able to continue to attract and retain qualified directors and officers than it would be able to as an Utah corporation, in part, because Delaware law provides more predictability with respect to the issue of liability of directors and officers than Utah law does. The increasing frequency of claims against directors and officers that are litigated has greatly expanded the risks to directors and officers of exercising their respective duties. The amount of time and money required to respond to and litigate such claims can be substantial. Although Utah law and Delaware law both permit a corporation to include a provision in the corporation's articles or certificate, as the case may be, of incorporation that in certain circumstances reduces or limits the monetary liability of directors for breaches of their fiduciary duty of care, Delaware law, as stated above, provides to directors and officers more predictability than Utah law does and, therefore, provides directors and officers of a Delaware corporation a greater degree of comfort as to their risk of liability than that afforded under Utah law. As the Company plans for the future, the board of directors and management believe that it is essential to be able to draw upon well-established principles of corporate governance in making legal and business decisions. The prominence and predictability of Delaware corporate law provide a reliable foundation on which the Company's governance decisions can be based.

The Reincorporation will not involve any change in the business, properties, corporate headquarters or management of the Company. The officers of the Company immediately prior to the Reincorporation will serve as the officers of the Company following the Reincorporation, and the nominees elected to the Board at the annual meeting will serve as the members of the Board following the Reincorporation. There will be no change in the operations, assets, liabilities or obligations of the Company as a result of the Reincorporation. Other than the filings with the Secretary of State of Utah and the Secretary of State of Delaware and the approval of the Reincorporation by the Company's shareholders, there are no federal or state regulatory requirements that must be complied with or approvals that must be obtained in connection with the Reincorporation.

<u>Capital Raising</u>

Delaware is a recognized and understood jurisdiction throughout the international financial community. The Company would be better positioned to raise capital both within and outside of the United States by being incorporated in Delaware. The Board believes that the Company will be best suited to pursue all available financing options in the best interests of its shareholders if the Company is incorporated in Delaware versus Utah. The Board believes that the Reincorporation will represent a better opportunity for the Company to increase shareholder value.

<u>Reinstatement of Edward Dallin Bagley's Voting Rights as Shareholder</u>

Reincorporating to Delaware Law would have the effect of avoiding the requirements of the Utah Control Shares Acquisition Act ("UCSAA"). The UCSAA limits the ability of persons acquiring more than 20% of a company's voting stock to vote those shares absent approval by the holders of a majority of all shares entitled to be cast, excluding all interested shares. This statute may discourage, delay or prevent a change of control by limiting the voting rights of control shares acquired in a control share acquisition. The Company's shareholders previously voted in 2013 not to restore voting rights to the control shares that Mr. Bagley acquired when he crossed the first 20% threshold under the UCSAA.

There is nothing in either the Utah Revised Business Corporation Act or in the UCSAA that prohibits the ClearOne board of directors from proposing to its shareholders that they restore to Mr. Bagley's 2013 control shares the voting rights which its shareholders previously denied him. The Board believes it to be in the Company's best interest to reincorporate to Delaware, which does not have a control share acquisition statute similar to the one in Utah. This reincorporation would convert, absent some additional measure taken by the Company in its certificate of incorporation to issue Mr. Bagley's non-voting shares for his Utah control shares, each share of his common stock in ClearOne Utah into a fully voting share of common stock in ClearOne Delaware.

The effect of reinstatement will have a beneficial effect on Edward Dallin Bagley, but will have an overall effect that is advantageous for the Company.

Disadvantages of Reincorporation in Delaware

While our Board believe that the foregoing benefits and advantages of the Reincorporation into Delaware are significant, you may find the Reincorporation disadvantageous. The Delaware General Corporation Law permits a corporation to adopt a number of measures, through amendment of the corporate certificate of incorporation or bylaws or otherwise, designed to reduce a corporation's vulnerability to unsolicited takeover attempts. There is substantial judicial precedent in the Delaware courts as to the legal principles applicable to such defensive measures with respect to the conduct of the board of directors under the business judgment rule, and the related enhanced scrutiny standard of judicial review, with respect to unsolicited takeover attempts. The substantial judicial precedent in the Delaware courts may potentially be disadvantageous to you to the extent it has the effect of providing greater certainty that the Delaware courts will sustain the measures the Company has in place or implements to protect shareholder interests in the event of unsolicited takeover attempts. Such measures may also tend to discourage a future attempt to acquire control of the Company that is not presented to and approved by the Company's Board, but that a substantial number and perhaps even a majority of the shareholders might believe to be in their best interests or in which shareholders might receive a substantial premium for their shares over then current market prices. As a result of such effects, shareholders who might desire to participate in such a transaction may not have an opportunity to do so.

The Reincorporation would be considered, in effect, a continuation of existence of the Company, with the existence of Delaware Corp deemed to have commenced when the Company was first formed in Utah.

General actions that will occur pursuant to the Plan of Conversion

Pursuant to the Delaware General Corporate Law, as amended (the "<u>DGCL</u>"), and the UBCA, upon conversion:

- The Company will cease to be governed by the UBCA and will be deemed a Delaware corporation subject to the DGCL;

- Delaware Corp will be deemed to be the same entity as the Company for all purposes under the laws of Delaware, with the Company's existence deemed to have commenced when the Company was first formed in Utah;
- Delaware Corp will continue to have all of the assets of the Company;
- Delaware Corp will continue to have all the debts, liabilities and duties of the Company; and
- Each director and officer of the Company will continue to hold their respective offices with Delaware Corp.

Approval of the Filing of the Articles of Transfer and the Certificate of Conversion

In connection with the Reincorporation, the Board approved the filing: (1) with the Secretary of State of the State of Utah articles of transfer, in substantially the form attached hereto as Appendix A ("Articles of Transfer"); (2) with the Secretary of State of the State of Delaware a certificate of conversion in substantially the form attached hereto as Appendix B (the "Certificate of Conversion"); and (3) with the Secretary of State of the State of Delaware a certificate of incorporation, substantially in the form attached hereto as Appendix C (the "Certificate of Incorporation").

Adoption of Delaware Certificate of Incorporation

In connection with the Reincorporation, the Board will adopt the Certificate of Incorporation in substantially the form attached hereto as Appendix C and the bylaws of the Company substantially in the form attached hereto as Appendix D (the "New Bylaws"). At the time they become effective, the Certificate of Incorporation will supersede the Company's current articles of incorporation and the New Bylaws will supersede the Company's current bylaws. The Certificate of Incorporation was adopted in order to reflect the Reincorporation of the Company in the State of Delaware and to implement provisions deemed by the Board to be in the best interests of the Company and its shareholders.

Effect on the Company's Securities

Common Stock

Following the reincorporation to Delaware, the authorized capital stock of the Company will consist of 50,000,000 shares of common stock, par value $0.001 per share. Pursuant to the Articles of Transfer and Certificate of Conversion, each share of common stock of the Company, $0.001 par value per share, that is issued and outstanding immediately prior to the Reincorporation will automatically convert into one share of common stock, $0.001 par value per share of Delaware Corp.

Anti-Takeover Implications

Both Utah and Delaware permit a corporation to include in its certificate of incorporation or bylaws or to otherwise adopt measures designed to reduce a corporation's vulnerability to unsolicited takeover attempts. The Board, however, is not proposing the Reincorporation to prevent a change in control of the Company.

With respect to implementing defensive strategies, Delaware law is preferable to Utah law because of the substantial judicial precedent on the legal principles applicable to defensive strategies. As a Utah corporation or a Delaware corporation, the Company could implement some of the same defensive measures. As a Delaware corporation, however, the Company would benefit from the predictability of Delaware law on such matters.

For a discussion of differences between Utah and Delaware law see "Changes to Shareholder Rights Before and After the Reincorporation–Changes from Utah to Delaware Law–Business Combinations; – Control Share Acquisitions" below.

Changes to Shareholder Rights Before and After the Reincorporation

As previously noted, the Certificate of Incorporation and Delaware Bylaws will be the governing instruments of the Company following the Reincorporation, resulting in some changes from the Company's current articles of incorporation, which are primarily procedural in nature, such as a change in the registered office and agent of the Company from an office and agent in Utah to an office and agent in Delaware. There are also material differences between the DGCL and the UBCA. Certain changes to the articles of incorporation of the Company, as well as the material differences between Delaware and Utah law are discussed below. The following summary does not purport to be complete and is qualified in its entirety by reference to Delaware and Utah corporate laws, the Certificate of Incorporation and Delaware Bylaws, copies of which are attached hereto as Appendix C and Appendix D, respectively. Shareholders will not have any appraisal rights in connection with the reincorporation of the Company as a Delaware corporation.

Comparing Utah Law to Delaware Law

Set forth below is a non-exhaustive table summarizing the material differences in the rights of the shareholders of the Company before and after the Reincorporation is effective, as a result of the differences between Utah law and Delaware law. This chart does not address each difference between Delaware law and Utah law, but focuses on some of those differences which the Company believes are most relevant to the existing shareholders. This chart is not intended as an exhaustive list of all differences, and is qualified in its entirety by reference to Delaware and Utah law.

Provision	Utah Law	Delaware Law
Action by Shareholders Without a Meeting	Utah law permits shareholder action by less than unanimous written consent and provides that any action that could be taken at an annual or special meeting of shareholders may be taken without a meeting, without prior notice and without a vote, if written consents are signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Unlike Delaware law, Utah law requires a unanimous written consent of shareholders to elect directors. Utah law provides that, in order to be effective, (i) all written consents must be delivered to the corporation within 60 days after the earliest dated consent is delivered to the corporation, and (ii) written notice of the shareholder approval must be given at least 10 days before the consummation of the action authorized by shareholders to (a) all shareholders entitled to vote who have not consented in writing and (b) all shareholders not entitled to vote, but who are otherwise entitled to notice under Utah law. Alternatively, a corporation's articles of incorporation or bylaws may provide that the written notice of shareholder approval can be given only to shareholders who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting and to vote at the meeting. If this election is made, the written notice must be given within 10 days after the corporation confirms sufficient written shareholder consents.	Delaware law permits shareholder action by less than unanimous written consent and provides that any action that could be taken at an annual or special meeting of shareholders (including the election of directors) may be taken without a meeting, without prior notice and without a vote, if written consents are signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Delaware law provides that, in order to be effective, all written consents must be delivered to the corporation within 60 days after the earliest dated consent delivered to the corporation, and prompt notice of the action by written consent must be given to those shareholders who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of shareholders to take the action were delivered to Company. Unlike Utah law, Delaware law does not stipulate that the actions taken by the written consent of shareholders cannot become effective until at least 10 days after notice of such actions has been furnished to all shareholders who did not sign the written consent. Instead, Delaware law requires "prompt" notice of such actions before they can become effective.
Special Meetings of Shareholders	Under Utah law, a special meeting of shareholders may be called by the corporation's board of directors or by such persons as may be authorized by the corporation's bylaws. Unlike, Delaware law, Utah law also permits the holders of 10% or more of the shares entitled to vote on a matter to submit a written demand for a special meeting to the corporate secretary.	Under Delaware law, a special meeting of shareholders may be called by the board of directors or by such persons as may be authorized by the certificate of incorporation or by the bylaws.
Removal of Directors	Utah law provides that any director may be removed, with or without cause, by the holders of common stock of the corporation but only at a meeting of shareholders pursuant to a notice of meeting, which includes the removal of such director as an item of business.	Delaware law provides that any director may be removed, with or without cause, by a majority of the shares then entitled to vote at an election of directors; however, Delaware law also provides that, so long as a Delaware corporation has a classified board of directors, unless otherwise provided in the corporation's certificate of incorporation, shareholders may effect such removal only for cause.

Provision	Utah Law	Delaware Law
Limitation on Director Liability	Utah law permits a corporation, pursuant to its articles of incorporation, or in certain circumstances its bylaws, to provide for the elimination or limitation of the liability of a director to the corporation or its shareholders for monetary damages for any action taken or failure to take any action as a director, except liability for (1) the amount of a financial benefit received by a director to which he is not entitled; (2) an intentional infliction of harm on the corporation or its shareholders; (3) unlawful distributions; or (4) an intentional violation of criminal law.	Under Delaware law, if a corporation's certificate of incorporation so provides, the personal liability of a director for breach of fiduciary duty as a director may be eliminated or limited. A corporation's certificate of incorporation, however, may not limit or eliminate a director's personal liability (a) for any breach of the director's duty of loyalty to the corporation or its shareholders, (b) for acts or omissions not in good faith or involving intentional misconduct or a knowing violation of law, (c) for the payment of unlawful dividends, stock repurchases or redemptions, or (d) for any transaction in which the director received an improper personal benefit.
Quorum	Utah law provides that, unless the corporation's articles of incorporation provide otherwise, a majority of the votes entitled to be cast on a matter constitutes a quorum for action on that matter.	Delaware law provides that, unless the corporation's certificate of incorporation or bylaws provide otherwise, a majority of the votes entitled to be cast on a matter constitutes a quorum for action on that matter. Unlike Utah law, Delaware law provides that in no event shall a quorum consist of less than one-third of the shares entitled to vote at a meeting.
Indemnification	Utah law requires a corporation to indemnify a director who was successful, on the merits or otherwise, in the defense of any claim, issue or matter, to which he or she was a party because of his or her status as a director of the corporation, against reasonable expenses incurred in connection with the proceeding or claim with respect to which he or she was successful. Unlike Delaware law, Utah law authorizes the limitation of such mandatory indemnification in a corporation's articles of incorporation.	Under Delaware law, a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if: the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful. With respect to actions by or in the right of the corporation, no indemnification shall be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit is brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper. A director or officer who is successful, on the merits or otherwise, in defense of any proceeding subject to the Delaware corporate statutes' indemnification provisions shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Provision	Utah Law	Delaware Law
Dissenters' (Appraisal) Rights	Under Utah law, shareholders are entitled to exercise dissenters' rights in the event of certain mergers, share exchanges, sales, leases, exchanges or other dispositions of all or substantially all of the property of the corporation. Dissenters' rights in Utah are available to both record holders and beneficial holders. Utah law sets forth procedures for a corporation to give shareholders notice of their appraisal rights. Unlike Delaware law, Utah law authorizes only the corporation to commence judicial appraisal proceedings with all shareholders who have properly dissented and whose demand remains unresolved to be named as parties to such proceedings.	Delaware law provides appraisal rights only in the case of certain mergers or consolidations. Thus, under Delaware law, shareholders have no appraisal rights in the event of a sale, lease or exchange of all or substantially all of a corporation's assets. Appraisal rights in Delaware are available only to record holders. No appraisal rights exist, however, for corporations whose shares are listed on a national securities exchange or held of record by more than 2,000 shareholders unless the articles of incorporation provides otherwise or the shareholders are to receive in the merger or consolidation anything other than (a) shares of stock of the corporation surviving or resulting from such merger or consolidation, (b) shares of stock of any other corporation which at the effective date of the merger of consolidation will be either listed on a national securities exchange or held of record by more than 2,000 shareholder, (c) cash in lieu of fractional shares of the corporation described in the foregoing clauses (a) and (b), or (d) any combination of clauses (a), (b), or (c). Delaware law permits a shareholder who has received notice of appraisal rights, and who has submitted a written demand for appraisal, to file a petition with the Court of Chancery of the State of Delaware to demand a determination of the fair value of such shareholders' shares. Such petition must be filed within 120 days after the effective date of a merger or consolidation.
Amendments to the Articles (Certificate) of Incorporation	Under Utah law, amendments to the articles of incorporation (other than ministerial amendments authorized by the board of directors without shareholder action) may be proposed by the board of directors. The board of directors must recommend the amendment to the shareholders, unless the amendment is being proposed by the shareholders, or unless the board of directors determines that, because of a conflict of interest or other special circumstances, it should make no recommendation and the board of directors then communicates the basis for its determination to the shareholders with the amendment.	Under Delaware law, shareholders are not entitled to enact an amendment to the certificate of incorporation without appropriate action taken by the board of directors. Amendments to the certificate of incorporation generally require that the board of directors adopt a resolution setting forth the amendment, declaring its advisability and submitting it to a vote of the shareholders.
Declaration and Payment of Dividends	Under Utah law, except as otherwise provided in the articles of incorporation, a board of directors may authorize and the corporation may make distributions to its shareholders, including distributions on shares that are partially paid. However, no distribution may be made if, after giving effect to such distribution: (a) the corporation would not be able to pay its debts as they become due in the usual course of business; or (b) except as otherwise specifically allowed by the articles of incorporation, the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if	Under Delaware law, subject to any restriction contained in a corporation's certificate of incorporation, the board of directors may declare, and the corporation may pay, dividends or other distributions upon the shares of its capital stock either (a) out of "surplus" or (b) in the event that there is no surplus, out of the net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year, unless net assets (total assets in excess of total liabilities) are less than the capital of all outstanding preferred stock. "Surplus" is defined as the excess of the net assets of the corporation over the amount determined to be the

Provision	Utah Law	Delaware Law
	the corporation were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.	capital of the corporation by the board of directors (which amount cannot be less than the aggregate par value of all issued shares of capital stock).
Business Combinations	Utah law prohibits certain business combinations between a Utah corporation and an interested shareholder for two years after such person becomes an interested shareholder. Generally, an interested shareholder is a holder who is the beneficial owner of 10% or more of the voting power of a corporation's outstanding stock and at any time within two years immediately before the date in question was the beneficial owner of 10% or more of the then outstanding stock of the corporation. After the two year period, business combinations remain prohibited unless they are (a) approved by the board of directors prior to the date that the person first became an interested shareholder or a majority of the outstanding voting power not beneficially owned by the interested party, or (b) the interested shareholder satisfies certain fair-value requirements. An interested shareholder is (i) a person that beneficially owns, directly or indirectly, 10% or more of the voting power of the outstanding voting shares of a corporation, or (ii) an affiliate or associate of the corporation who, at any time within the past two years, was an interested shareholder of the corporation.	Delaware law prohibits, in certain circumstances, a "business combination" between the corporation and an "interested shareholder" within three years of the shareholder becoming an "interested shareholder." Generally, an "interested shareholder" is a holder who, directly or indirectly, controls 15% or more of the outstanding voting stock or is an affiliate of the corporation and was the owner of 15% or more of the outstanding voting stock at any time within the three-year period prior to the date upon which the status of an "interested shareholder" is being determined. A "business combination" includes a merger or consolidation, a sale or other disposition of assets having an aggregate market value equal to 10% or more of the consolidated assets of the corporation or the aggregate market value of the outstanding stock of the corporation and certain transactions that would increase the interested shareholder's proportionate share ownership in the corporation. This provision does not apply where, among other things, (i) the transaction which resulted in the individual becoming an interested shareholder is approved by the corporation's board of directors prior to the date the interested shareholder acquired such 15% interest, (ii) upon consummation of the transaction which resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of the outstanding voting stock of the corporation at the time the transaction commenced, or (iii) at or after the date the person becomes an interested shareholder, the business combination is approved by a majority of the board of directors of the corporation and an affirmative vote of at least 66 2/3% of the outstanding voting stock at an annual or special meeting and not by written consent, excluding stock not owned by the interested shareholder. This provision also does not apply if a shareholder acquires a 15% interest inadvertently and divests itself of such ownership and would not have been a 15% shareholder in the preceding three years but for the inadvertent acquisition of ownership.
Control Share Acquisition Statute	Under Utah law, an acquiring person who acquires a controlling interest in an issuing corporation is prohibited from exercise voting rights on any control shares unless such voting rights are conferred by a majority vote of the disinterested shareholders of the issuing corporation at a special or annual meeting of shareholders. Unless otherwise provided in the articles of incorporation or the bylaws, if the control shares are accorded full	Delaware's control share acquisition statute generally provides that shares acquired in a "control share acquisition" will not possess any voting rights unless either the board of directors approves the acquisition or such voting rights are approved by a majority of the corporation's voting shares, excluding interested shares. Interested shares are those held by a corporation's officers and inside directors and by the acquiring party. A "control

Provision	Utah Law	Delaware Law
	voting rights and the acquiring person acquires control shares with a majority or more of all the voting power, any shareholder, other than the acquiring person, who does not vote in favor of authorizing voting rights for the control shares is entitled to dissent and demand payment of the fair value of his or her shares. A controlling interest means the ownership of outstanding voting shares of an issuing corporation sufficient to enable the acquiring person, directly or indirectly and individually or in association with others, to exercise: (i) one-fifth or more but less than one-third; (ii) one-third or more but less than a majority; or (iii) a majority or more, of all the voting power of the corporation in the election of directors. Control shares means those outstanding voting shares of an issuing corporation which an acquiring person: (a) acquires in an acquisition or offer to acquire in an acquisition; and (b) acquires within 90 days immediately preceding the date when the acquiring person became an acquiring person. The control share acquisition statute applies to any acquisition of a controlling interest in an issuing public corporation unless the articles of incorporation or bylaws of the corporation in effect on the 10th day following the acquisition of a controlling interest by an acquiring person provide that the provisions of those sections do not apply. An "issuing public corporation" is defined as a Utah corporation with (a) 100 or more shareholders; (b) its principal place of business, its principal office, or substantial assets within the state; and (c) (i) more than 10% of its shareholders resident in Utah; (ii) more than 10% of its shares owned by Utah residents; or (iii) 10,000 shareholders resident in the state.	share acquisition" is an acquisition, directly or indirectly, by any person of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding "control shares" of a publicly held Delaware corporation. "Control shares" are shares that, except for Delaware's control share acquisition statute, would have voting power that, when added to all other shares that can be voted by the acquiring party, would entitle the acquiring party, immediately after the acquisition of such shares, directly or indirectly, to exercise voting power in the election of directors within any of the following ranges: (1) at least 20% but less than 33 1/3% of all voting power; (2) at least 33 1/3% but less than a majority of all voting power; or (3) a majority or more of all voting power.
Taxes and Fees	Utah charges corporations incorporated in Utah annual corporate franchise taxes equal to 5% of net income with a minimum annual tax of $100.	Delaware imposes annual franchise tax fees on all corporations incorporated in Delaware. The annual fee ranges from a nominal fee to a maximum of $180,000, based on an equation consisting of the number of shares authorized, the number of shares outstanding and the net assets of the corporation.

Changes to Articles of Incorporation

Set forth below is a table summarizing the material differences in the rights of the shareholders of the Company before and after the Reincorporation is effective, as a result of the differences between the Company's Articles of Incorporation and the Certificate of Incorporation. This chart does not address each difference between the Articles of Incorporation and the Certificate of Incorporation, but focuses on some of those differences which the Company believes are material to shareholders.

Provision	Articles of Incorporation	Certificate of Incorporation	Impact on Shareholders
Removal of Directors	Not Addressed	The Certificate of Incorporation states that any director of the Company's board of directors or the entire board of directors may be removed at any time, with or without cause, by the holders of at least sixty-six and two-thirds percent (66 2/3%) of the shares entitled to vote at an election of directors	Under Delaware law, the default provision for the removal of directors of a corporation is that directors may be removed with or without cause upon the affirmative vote of a majority of all of the votes of the class entitled to elect that director unless the charter or certificate of incorporation provides otherwise. The Certificate of Incorporation increases the threshold for the removal of directors to sixty-six and two-thirds percent (66 2/3%) which will impact our shareholders by making it more difficult for them to change the Board's composition.
Indemnification and Advancement of Expenses	Not Addressed in Articles of Incorporation	The Certificate of Incorporation states that the Company shall indemnify, advance expenses, and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person (a "**Covered Person**") who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "**Proceeding**"), by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was a director or officer of the Company or, while a director or officer of the Company, is or was serving at the request of the Company as a director, officer, employee or agent of another Company or of a partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such Covered Person. Notwithstanding the preceding sentence, except for claims for indemnification (following the final disposition of such Proceeding) or advancement of expenses not paid in full, the Company shall be required to indemnify a Covered Person in connection with a Proceeding (or part thereof) commenced by such Covered Person only if the commencement of such Proceeding (or part thereof) by the Covered Person was authorized in the specific case by the Board of the Company.	Section 145(e) of the DGCL permits, but does not require Delaware corporations to pay, prior to final disposition, the expenses, including attorneys' fees, incurred by a corporate representative in defending a proceeding. The provision in Delaware Bylaws and the Certificate of Incorporation permitting such advances of fees associated with indemnification is not the default provision under the DGCL. Advancing expenses to Covered Persons prior to the final disposition of a proceeding could impact our shareholders to the extent that we would use Company assets, which could otherwise be used to grow our business and increase shareholder equity, to cover the costs of litigation without the certainty that the Covered Person will be successful on the merits of the suit.
Choice of Forum	Not Addressed	The Certificate of Incorporation states that unless the Company consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i)	The Delaware Chancery Court is widely regarded as the country's preeminent business court, with experienced jurists who have deep understanding of Delaware corporate law and long standing

Provision	Articles of Incorporation	Certificate of Incorporation	Impact on Shareholders
		any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim for breach of a fiduciary duty owed by any director, officer, employee or agent of the Company to the Company or the Company's shareholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL, the Certificate of Incorporation or the Delaware Bylaws or (iv) any action asserting a claim governed by the internal affairs doctrine, in each case subject to said Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein.	precedent regarding corporations' governance. The inclusion of the provision in the Certificate of Incorporation designating the Delaware Chancery Court as the forum for actions against the Company, may make it more difficult for small shareholders that reside in states other than Delaware to initiate suits against the Company or any director, officer or employee of the Company. The inclusion of a choice of forum provision in a corporation's certificate of incorporation is not a default provision under the DGCL of our shareholders without first amending the powers conferred to the Board to amend or repeal the Delaware Bylaws. Conferring the power to amend or repeal the Delaware Bylaws to the Board is not the default under the DGCL..

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE "FOR" THE APPROVAL OF REINCORPORATION OF THE COMPANY FROM THE STATE OF UTAH TO THE STATE OF DELAWARE, AS DISCLOSED IN THIS PROXY STATEMENT.

DEADLINE FOR RECEIPT OF SHAREHOLDER PROPOSALS

We anticipate that our Annual Meeting of Shareholders in 2019 will be held in April 2019. Any shareholder that wishes to present any proposal for shareholder action at our Annual Meeting of Shareholders to be held during calendar year 2019 must notify us at our principal executive offices no later than March 1, 2019 in order for the proposal to be included in our proxy statement and form of proxy relating to that meeting.

Pursuant to Rule 14a-8 under the Exchange Act, we intend to retain discretionary authority to vote proxies with respect to shareholder proposals for which the proponent does not seek inclusion of the proposed matter in our proxy statement for the annual meeting to be held during calendar 2019, except in circumstances where (i) we receive notice of the proposed matter no later than March 1, 2019; and (ii) the proponent complies with the other requirements set forth in Rule 14a-8.

SUPPLEMENTAL PROXY INFORMATION

Except as specifically modified or supplemented by the information contained in this supplement, all information set forth in the Definitive Proxy Statement remains applicable.

OTHER MATTERS

We know of no other business to be submitted at the meeting. If any other matters should properly come before the meeting, it is the intention of the persons named in the accompanying form of proxy to vote the shares they represent as our Board of Directors may recommend.

This form cannot be hand written.

State of Utah
Department of Commerce
Division of Corporations & Commercial Code
Articles of Transfer (Corporation)

Non-Refundable Processing Fee: $37.00

Pursuant to Utah Code Section 16-10a-1533.5, any Domestic Corporation (Profit, Non-Profit, Professional, or Benefit) may transfer to or domesticate to another state besides Utah by filing Articles of Transfer.

1. Corporation Name: ____

2. The file date of the original Articles of Incorporation is _________________

3. The jurisdiction to which the company will be transferred to is____________

4. The future effective date of the transfer if it will not be effective upon filing is (MM-DD-YYYY) ___________

5. The transfer has been approved by the shareholders.

6. The existence of the domestic company of Utah will cease when the articles of transfer become effective.

7. The company agrees that it may be served with process in Utah for any proceeding of enforcement of any obligation of the company arising while it was a company under Utah laws.

8. If the company does not apply for foreign authority in Utah, then the name and address to which a copy of service of process shall be mailed to:

   ____

   ____

   ____

Under penalties of perjury I declare that these Articles of Transfer have been examined by me and are, to the best of my knowledge and belief, true, correct and complete.

By: _______________________________________ Title: ______________________ Date: _____________

If the filer requests a copy of the **Articles of Transfer** an additional exact copy of the filed document along with a return-addressed envelope with adequate first-class postage must also be submitted.

Under GRAMA {63-2-201}, all registration information maintained by the Division is classified as public record. For confidentiality purposes, you may use the business entity physical address rather than the residential or private address of any individual affiliated with the entity.

04/17

Delaware Division of Corporations
401 Federal Street – Suite 4
Dover, DE 19901
Phone: 302-739-3073
Fax: 302-739-3812

Certificate of Conversion from a
Non-Delaware Corporation
to a Delaware Corporation

Dear Sir or Madam:

Enclosed please find a form for a Certificate of Conversion from a Non-Delaware Corporation to a Delaware Corporation. The fee to file the Certificate of Conversion is $164.00 for a 1 page document. Please add $9 for each additional page. A Certificate of Incorporation is required to be filed simultaneously with the Certificate of Conversion. Enclosed for your convenience, please find a form for a Stock Certificate of Incorporation. Forms for a Non-Stock Certificate of Incorporation can be found on our web site. The fee for filing the Certificate of Incorporation is a minimum of $89.00 for a 1 page document. Please add $9 for each additional page. Filing fees for the Certificate of Incorporation will vary depending on the amount of authorized stock. You may contact our office for assistance in calculating these fees. Please submit the filing with 1 cover sheet with Conversion first. You will receive a stamped "filed" copy of your document. If you would like a certified copy it will be an additional $100.00. ($50.00 for the Conversion and $50.00 for the Certificate of Incorporation) Expedited services are available please contact our office concerning these fees. Please make any check payable to "Delaware Secretary of State".

In order to process your request in a timely manner, please include a cover letter with your name, address and telephone/fax number to enable us to contact you if necessary. For your convenience a cover sheet is available at the following link. http://corp.delaware.gov/filingmemo.pdf. Please make sure you thoroughly complete all information requested on these forms. It is important that the execution be legible, we request that you print or type your name under the signature line.

Thank you for choosing Delaware as your corporate home. Should you require further assistance in this or any other matter, please don't hesitate to call us at (302) 7393073.

Sincerely,

Department of State
Division of Corporations

Rev. 09/05

STATE OF DELAWARE
CERTIFICATE OF CONVERSION
FROM A NON-DELAWARE CORPORATION
TO A DELAWARE CORPORATION
PURSUANT TO SECTION 265 OF THE
DELAWARE GENERAL CORPORATION LAW

1.) The jurisdiction where the Non-Delaware Corporation first formed is ____.

2.) The jurisdiction immediately prior to filing this Certificate is________________.

3.) The date the Non-Delaware Corporation first formed is_____________________.

4.) The name of the Non-Delaware Corporation immediately prior to filing this Certificate is ____.

5.) The name of the Corporation as set forth in the Certificate of Incorporation is ____.

IN WITNESS WHEREOF, the undersigned being duly authorized to sign on behalf of the converting Non-Delaware Corporation have executed this Certificate on the ___________day of _________________, A.D._______________.

By:_____________________________

Name: __________________________
Print or Type

Title: _____________________________
Print or Type

Certificate of Incorporation
of ClearOne, Inc.

The undersigned, for purposes of incorporating a corporation under the General Corporation Law of the State of Delaware ("DGCL"), does hereby certify as follows:

Article I: Name

The name of the corporation is ClearOne, Inc. (the "Corporation")

Article II: Purpose

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

Article III: Capitalization

(a) Authorized Shares. The total number of shares of stock which the Corporation shall have authority to issue is up to an aggregate of fifty million (50,000,000) shares of common stock, par value $0.001 per share.

(b) Common Stock. Common stock is the only class of stock of the Corporation.

Article IV: Board of Directors

The number of directors constituting the board of directors shall be not fewer than three (3) and not more than nine (9). The number of directors constituting the board of directors initially shall be four (4). Subject to the previous sentence, the precise number of directors shall be fixed exclusively pursuant to a resolution adopted by the board of directors. Vacancies and newly-created directorships shall be filled exclusively pursuant to a resolution adopted by the board of directors. Any director of the Company's board of directors or the entire board of directors may be removed at any time, with or without cause, by the holders of at least sixty-six and two-thirds percent (66 2/3%) of the shares entitled to vote at an election of directors.

Article V: Limitation of Director Liability; Indemnification and Advancement of Expenses

(a) *Limitation of Director Liability.* To the fullest extent that the DGCL or any other law of the State of Delaware as it exists on the date hereof or as it may hereafter be amended permits the limitation or elimination of the liability of directors, no director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. No amendment to, or modification or repeal of, this Article VII (a) shall adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission occurring prior to such amendment, modification or repeal.

(b) *Indemnification and Advancement of Expenses.* The Corporation shall indemnify and advance expenses to, and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person (an "Indemnitee") who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding"), by reason of the fact that he, or a person for whom he is the legal representative, is or was a director or an officer of the Corporation or, while a director or an officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such Indemnitee. Notwithstanding the preceding sentence, the Corporation shall be required to indemnify, or advance expenses to, an Indemnitee in connection with a proceeding (or part thereof) commenced by such Indemnitee only if the commencement of such proceeding (or part thereof) by the Indemnitee was authorized by the board of directors of the Corporation.

Article VI: Meetings of Stockholders

(a) *No Action by Written Consent.* Any action required or permitted to be taken by the stockholders of the Corporation may be effected only at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

(b) *Special Meetings of Stockholders.* Subject to the requirements of applicable law, special meetings of stockholders may be called only by the board of directors.

(c) *Election of Directors by Written Ballot.* Election of directors need not be by written ballot.

Article VII: Registered Office and Agent

The address of the Corporation's registered office in the State of Delaware is 1675 South State St., Suite B, in the City of Dover, Kent County, Delaware 19901. The name of the Corporation's registered agent at such address is Capitol Services, Inc.

Article VIII: Amendments to the Certificate of Incorporation and Bylaws

(a) *Amendments to the Certificate of Incorporation.* Notwithstanding any other provisions of this certificate of incorporation, and notwithstanding that a lesser percentage may be permitted from time to time by applicable law, no provision of Articles IV, V, or VI may be altered, amended or repealed in any respect (including by merger, consolidation or otherwise), nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least sixty-six and two-thirds percent (66.66%) of the capital stock of the Corporation entitled to vote generally in an election of directors.

(b) *Adoption, Amendment and Repeal of the Bylaws.* In furtherance and not in limitation of the powers conferred by law, the board of directors is expressly authorized to make, alter, amend and repeal the Bylaws of the Corporation subject to the power of the stockholders of the Corporation to alter, amend or repeal the bylaws; provided, however, that with respect to the powers of stockholders to make, alter, amend or repeal the bylaws, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66.66%) of the capital stock of the corporation entitled to vote generally in an election of directors shall be required to make, alter, amend, or repeal the bylaws of the corporation.

Article IX: Incorporator

The name and mailing address of the incorporator of the corporation is ____.

Article X: Choice of Forum

Unless the Company consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim for breach of a fiduciary duty owed by any director, officer, employee or agent of the Company to the Company or the Company's shareholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL, the Certificate of Incorporation or the Bylaws or (iv) any action asserting a claim governed by the internal affairs doctrine, in each case subject to said Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein.

IN WITNESS WHEREOF, the undersigned incorporator has executed this Certificate of

Incorporation this ___ day of ______________, ____.

____
Incorporator

Bylaws of
ClearOne, Inc.,
a Delaware corporation

Article I: Stockholders

Section 1.1. Annual Meeting.

An annual meeting of the stockholders for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting shall be held at the place, if any, on the date, and at the time as the Board of Directors shall each year fix, which date shall be within thirteen (13) months of the last annual meeting of stockholders.

Section 1.2. Advance Notice of Nominations and Proposals of Business.

(a) Nominations of persons for election to the Board of Directors and the proposal of business to be transacted by the stockholders may be made prior to an annual meeting of stockholders (i) pursuant to the Corporation's proxy materials with respect to such meeting or (ii) by or at the direction of the Board of Directors at the time of the giving of the notice required in the following paragraph, who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this section.

(b) A person shall not be eligible for election or re-election as a director at an annual meeting unless the person is nominated by or at the direction of the Board of Directors. Only such business shall be conducted at an annual meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this section. The chair of the meeting shall have the power and the duty to determine whether a nomination or any business proposed to be brought before the meeting has been made in accordance with the procedures set forth in these Bylaws and, if any proposed nomination or business is not in compliance with these Bylaws, to declare that such defectively proposed business or nomination shall not be presented for stockholder action at the meeting and shall be disregarded.

(c) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting by or at the direction of the Board of Directors. The notice of such special meeting shall include the purpose for which the meeting is called. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected by or at the direction of the Board of Directors.

Section 1.3. Special Meetings; Notice.

Subject to the requirements of applicable law, special meetings of stockholders may be called only by the Board of Directors. Notice of every special meeting shall state the purpose of the meeting and the business conducted at a special meeting of stockholders shall be limited to the business set forth in the notice of meeting. The Board of Directors may postpone or reschedule any previously called special meeting.

Section 1.4. Notice of Meetings.

(a) Notice of the place, if any, date and time of all meetings of the stockholders, and the means of remote communications, if any, by which stockholders and proxyholders may be deemed present in person and vote at such meeting, and, in the case of all special meetings of stockholders, the purpose of the meeting, shall be given, not less than 10 nor more than 60 days before the date on which the meeting is to be held, to each stockholder entitled to vote at the meeting, except as otherwise provided in these bylaws or required from time to time by the DGCL or the Corporation's Certificate of Incorporation).

(b) When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place, if any, thereof and the means of remote communication, if any, by which stockholder and proxyholders may be deemed to be present in person of such adjourned meeting are announced at the meeting at which the adjournment is taken; *provided, however,* that if the date of any adjourned meeting is more than 30 days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, notice of the place, if any, date and time of the adjourned meeting and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting, shall be given in conformity herewith. At any adjourned meeting, any business may be transacted that might have been transacted at the original meeting.

Section 1.5. Quorum.

(a) At any meeting of the stockholders, the holders of shares of stock of the Corporation entitled to cast a majority of the total votes entitled to be cast by the holders of all outstanding capital stock of the Corporation, present in person or by proxy, shall constitute a quorum for all purposes, unless or except to the extent that the presence of a larger number is required by law.

(b) If a quorum shall fail to attend any meeting, the chair of the meeting may adjourn the meeting to another place, if any, date and time.

Section 1.6. Organization.

The Chair of the Board or, in his or her absence, the person whom the Board of Directors designates or, in the absence of that person or the failure of the Board of Directors to designate a person, the Chief Executive Officer of the Corporation shall call to order any meeting of the stockholders and act as chair of the meeting. In the absence of the Secretary of the Corporation, the secretary of the meeting shall be the person the chair appoints.

Section 1.7. Conduct of Business.

The chair of any meeting of stockholders shall determine the order of business and the rules of procedure for the conduct of the meeting, including the manner of voting and the conduct of discussion as the chair determines to be in order. The chair shall have the power to adjourn the meeting to another place, if any, date and time. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at the meeting shall be announced at the meeting.

Section 1.8. Proxies; Inspectors.

(a) At any meeting of the stockholders, every stockholder entitled to vote may vote in person or by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this Section 1.8 may be substituted or used in lieu of the original writing or transmission that could be used, provided that the copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

(b) The Corporation shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting may, and to the extent required by law, shall, appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of the duties of inspectors.

Section 1.9. Voting.

All elections of directors shall be determined by a plurality of the votes cast, and except as otherwise required by law or these bylaws, all other matters shall be determined by the affirmative vote of the holders of shares entitled to cast a majority of the votes entitled to be cast on the matter by the holders of all shares present in person or represented by proxy at the meeting and entitled to vote.

Section 1.10. Stock List.

(a) A complete list of stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order showing the address of each such stockholder and the number of shares registered in his or her name, shall be open to the examination of any such stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of at least 10 days prior to the meeting as required by law.

(b) The stock list shall also be open to the examination of any such stockholder during the whole time of the meeting as provided by law. The corporation may look to this list as the sole evidence of the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

Section 1.11. No Action by Written Consent.

Any action required or permitted to be taken by the stockholders of the Corporation may be effected only at a duly called annual or special meeting of the stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

Article II: Board of Directors

Section 2.1. Number, Election, Term and Qualifications of Directors.

(a) Subject to the special right of the holders of common stock to elect directors, the number of directors shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the total number of directors which the Corporation would have if there were no vacancies.

(b) Directors need not be stockholders to be qualified for election or service as a director of the Corporation.

Section 2.2. Removal; Resignation.

Any director of the Company's board of directors or the entire board of directors may be removed at any time, with or without cause, by the holders of at least sixty-six and two-thirds percent (66 2/3%) of the shares entitled to vote at an election of directors. Any director may resign at any time upon notice given in writing or by election transmission to the Corporation. A resignation is effective when the resignation is delivered unless the resignation specifies a later effective date or an effective date determined upon the happening of an event or events. A resignation that is conditioned upon the director failing to receive a specified vote for reelection as a director may provide that it is irrevocable.

Section 2.3. Newly Created Directorships and Vacancies.

Except as otherwise required by law and subject to the rights of the holders of any series of stock with respect to such series of stock, unless the Board of Directors otherwise determines, newly created directorships resulting from any increase in the authorized number of directors or any vacancies on the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause shall be filled only by a majority vote of the directors then in office, though less than a quorum, or by a sole remaining director, and not by the stockholders.

Section 2.4. Regular Meetings.

Regular meetings of the Board of Directors shall be held at the place, on the date and at the time as shall have been established by the Board of Directors and publicized among all directors. A notice of a regular meeting the date of which has been so publicized shall not be required.

Section 2.5. Special Meetings.

Special meetings of the Board of Directors may be called by the Chief Executive Officer or by two or more directors then in office and shall be held at the place, on the date, and at the time as they or he or she shall fix. Notice of the place, date, and time of each special meeting shall be given each director either (a) by mailing written notice not less than five (5) days before the meeting, or (b) by telephone or by telegraphing or telexing or by facsimile or electronic transmission of the same not less than twenty-four hours before the meeting. Unless otherwise stated in the notice thereof, any and all business may be transacted at a special meeting.

Section 2.6. Quorum.

At any meeting of the Board of Directors, a majority of the total number of the whole Board of Directors shall constitute a quorum for all purposes. If a quorum shall fail to attend any meeting, a majority of those present may adjourn the meeting to another place, date or time, without further notice or waiver thereof.

Section 2.7. Participation in Meetings by Conference Telephone or Other Communications Equipment.

Members of the Board of Directors, or of any committee thereof, may participate in a meeting of the Board or committee by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person at the meeting.

Section 2.8. Conduct of Business.

At any meeting of the Board of Directors, business shall be transacted in the order and manner as the Board may from time to time determine, and all matters shall be determined by the vote of a majority of the directors present, except as otherwise provided in these bylaws or required by law. The Board of Directors may take action without a meeting if all members thereof consent thereto in writing or by electronic transmission, and the writing or writings or transmission or transmissions are filed with the minutes of proceedings of the Board of Directors. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 2.9. Compensation of Directors.

Unless otherwise restricted by the Certificate of Incorporation, the Board of Directors shall have the authority to fix the compensation of the directors. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or paid a stated salary or paid other compensation as directors. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of standing or special committees may be allowed compensation for attending committee meetings.

Article III: Committees

Section 3.1. Committees of the Board of Directors.

The Board of Directors may from time to time designate committees of the Board, with such lawfully delegable powers and duties as it thereby confers, to serve at the pleasure of the Board and shall, for those committees and any others provided for herein, elect a director or directors to serve as the member or members, designating, if it desires, other directors as alternate members who may replace any absent or disqualified member at any meeting of the committee.

Section 3.2. Conduct of Business.

Unless the Board of Directors provides otherwise, each committee of the Board may make, alter, and repeal rules for the conduct of its business. Each committee shall keep minutes of its meetings and all action taken by it shall be reported to the Board.

Article IV: Officers

Section 4.1. Generally.

The officers of the Corporation shall consist of a chief executive officer, a chief operating officer, a president, a chief financial officer, and a secretary, each of whom shall be appointed by the Board. Such other officers and assistant officers as may be deemed necessary, including any vice presidents, may also be appointed by the Board. Officers shall be elected by the Board of Directors, which shall consider that subject at its first meeting after every annual meeting of stockholders. Each officer shall hold office until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any number of offices may be held by the same person. The salaries of officers elected by the Board of Directors shall be fixed from time to time by the Board of Directors or by the officers as may be designated by resolution of the Board.

Section 4.2. Chief Executive Officer.

The Chief Executive Officer shall supervise and control all the business and affairs of the Corporation, subject to the direction of the Board. Unless a chair of the Board has been appointed, the Chief Executive Officer shall preside at all meetings of the Board or stockholders.

Section 4.3. Chief Operating Officer

The Chief Operating Officer shall be responsible for overseeing all the operations of the Corporation, subject to the direction of the Chief Executive Officer.

Section 4.4. President.

The President shall manage the day-to-day affairs of the Corporation, subject to the direction of the Chief Executive and Chief Operating Officers. The President may sign, with the Secretary or any other proper officer of the Corporation thereunto authorized by the Board of Directors, certificates for shares of the Corporation and deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed. In general, the President shall perform all duties incident to the office of president and such other duties as may be prescribed by the Board of Directors from time to time.

Section 4.5. Vice Presidents.

If appointed, the vice-president (or if there is more than one, each vice-president) shall assist the President and shall perform such duties as may be assigned to him or her by the President or by the Board of Directors. If appointed, in the absence of the President or in the event of his death, inability or refusal to act, the vice-president (or in the event there is more than one vice-president, the vice presidents in the order designated at the time of their election, or in the absence of, any designation, then in the order of their appointment) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. (If there is no vice-president, then the Chief Financial Officer shall perform such duties of the President.)

Section 4.6. Chief Financial Officer

The Chief Financial Officer shall: (i) have charge and custody of and be responsible for all funds and securities of the Corporation; (ii) receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies, or other depositaries as shall be selected by the Board of Directors; and (iii) in general, perform all of the duties incident to the office of Chief Financial Officer and such other duties as from time to time may be assigned by the President or by the Board of Directors. If required by the Board of Directors, the Chief Financial Officer shall give a bond for the faithful discharge of his or her duties in such sum and with such surety or sureties as the Board of Directors shall determine. A controller may be appointed to assist the Chief Financial Officer.

Section 4.7. Secretary.

The Secretary shall: (i) keep the minutes of the proceedings of the stockholders, the Board of Directors and any committees of the Board in one or more books provided for that purpose; (ii) see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; (iii) be custodian of the corporate records; (iv) when requested or required, authenticate any records of the Corporation; (v) keep a register of the post office address of each stockholder which shall be furnished to the Secretary by such stockholder; (vi) sign with the President, or a vice-president, certificates for shares of the Corporation, the issuance of which shall have been authorized by resolution of the Board of Directors; (vii) have general charge of the stock transfer books of the Corporation; and (viii) in general, perform all duties incident to the office of secretary and such other duties as from time to time may be assigned by the President or by the Board of Directors. Assistant secretaries if any, shall have the same duties and powers, subject to the supervision of the Secretary.

Section 4.8 Delegation of Authority.

The Board of Directors may from time to time delegate the powers or duties of any officer to any other officers or agents, notwithstanding any provision hereof.

Section 4.9. Removal.

The Board of Directors may remove any officer of the Corporation at any time, with or without cause.

Section 4.10. Action with Respect to Securities of Other Corporations.

Unless otherwise directed by the Board, the Chief Executive Officer or any officer of the Corporation authorized by the Chief Executive Officer may exercise any right to vote and otherwise act on behalf of the Corporation, in person or by proxy, at any meeting of stockholders or equity holders of, or with respect to any action of stockholders or equity holders of, any other corporation or entity that the Corporation may possess by reason of its ownership of securities or interests in the other corporation or entity.

Article V: Stock

Section 5.1. Certificates of Stock.

Each stockholder shall be entitled to a certificate signed by, or in the name of the Corporation by, the Chair of the Board, the Vice Chair of the Board, the President or a Vice President, and by the Secretary or an Assistant Secretary, or the Treasurer or an Assistant Treasurer, certifying the number of shares owned by him or her unless the Board of Directors provides by resolution that the common stock shall be uncertificated shares. Any or all of the signatures on the certificate may be by facsimile.

Section 5.2. Transfers of Stock.

Transfers of stock shall be made only upon the transfer books of the Corporation kept at an office of the Corporation or by transfer agents designated to transfer shares of the stock of the Corporation. Except where a certificate is issued in accordance with Section 5.3 of these bylaws, an outstanding certificate for the number of shares involved shall be surrendered for cancellation before a new certificate is issued therefore.

Section 5.3. Lost, Stolen or Destroyed Certificates.

In the event of the loss, theft, or destruction of any certificate of stock, another may be issued in its place pursuant to the regulations that the board of directors may establish concerning proof of the loss, theft, or destruction and concerning the giving of a satisfactory bond or bonds of indemnity.

Section 5.4. Regulations.

The issue, transfer, conversion and registration of certificates of stock shall be governed by the other regulations as the Board of Directors may establish.

Section 5.5. Record Date.

(a) In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders, or to receive payment of any dividend or other distribution or allotment of any rights or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may, except as otherwise required by law, fix a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted and which record date shall not be more than 60 nor less than 10 days before the date of any meeting of stockholders, nor more than 60 days prior to the time for the other action described above; *provided*, *however*, that if no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and, for determining stockholders entitled to receive payment of any dividend or other distribution or allotment of rights or to exercise any rights of change, conversion or exchange of stock or for any other purpose, the record date shall be at the close of business on the day on which the Board of Directors adopts a resolution relating thereto.

(b) A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided*, *however*, that the Board of Directors may fix a new record date for the adjourned meeting.

Article VI: Notices

Section 6.1. Notices.

If mailed, notice to stockholder shall be deemed given when deposited in the mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the corporation. Without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders may be given by electronic transmission in the manner provided in Section 232 of the DGCL.

Section 6.2. Waivers.

A written waiver of any notice, signed by a stockholder or director, or a waiver by electronic transmission by such person, whether given before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to such person. Neither the business nor the purpose of any meeting need be specified in the waiver. Attendance at any meeting shall constitute waiver of notice except attendance for the sole purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

Article VII: Miscellaneous

Section 7.1. Corporate Seal.

The Board of Directors may provide a suitable seal, containing the name of the Corporation, which seal shall be in the charge of the Secretary. If and when so directed by the Board of Directors, duplicates of the seal may be kept and used by the Treasurer or by an Assistant Secretary or Assistant Treasurer.

Section 7.2. Facsimile Signatures.

In addition to the provisions for use of facsimile signatures elsewhere specifically authorized in these Bylaws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

Section 7.3. Reliance upon Books, Reports and Records.

Each director, each member of any committee designated by the Board of Directors, of the Corporation shall, in the performance of his or her duties, be fully protected in relying in good faith upon the books of account or other records of the Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of its officers or employees, or committees of the Board of Directors so designated, or by any other person as to matters which such director or committee member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation.

Section 7.4. Fiscal Year.

The fiscal year of the Corporation shall be as fixed by the Board of Directors.

Section 7.5. Time Periods.

In applying any provision of these bylaws which requires that an act be done or not be done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded, and the day of the event shall be included.

Article VIII: Indemnification

Section 8.1. Right to Indemnification.

Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding"), by reason of the fact that he or she is or was a director or an officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (an "indemnitee"), whether the basis of the proceeding is alleged action in an official capacity as a director or officer or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent permitted by applicable law as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that the amendment permits the Corporation to provide broader indemnification rights than such law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by the indemnitee in connection therewith; provided, however, that, except as provided in Section 8.3 with respect to proceedings to enforce rights to indemnification and advancement of expenses, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by the indemnitee only if the proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

Section 8.2. Right to Advancement of Expenses.

The right to indemnification conferred in Section 8.1 shall include the right to be paid by the Corporation the expenses (including attorney's fees) incurred in defending any such proceeding in advance of its final disposition (an "advancement of expenses"); provided, however, that, if the DGCL requires, an advancement of expenses incurred by an indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by the indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking (an "undertaking"), by or on behalf of the indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (a "final adjudication") that the indemnitee is not entitled to be indemnified for the expenses under this Section 8.2 or otherwise. The rights to indemnification and to the advancement of expenses conferred in Sections 8.1 and 8.2 shall be contract rights and such rights shall continue as to an indemnitee who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the indemnitee's heirs, executors and administrators.

Section 8.3. Right of Indemnitee to Bring Suit.

If a claim under Section 8.1 or 8.2 is not paid in full by the Corporation within 60 days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be 20 days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim to the fullest extent permitted by law. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In any suit brought by (i) the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met any applicable standard for indemnification set forth in the DGCL. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the indemnitee has not met the applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to the suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Section 8 or otherwise shall be on the Corporation.

Section 8.4. Non-exclusivity of Rights.

The rights to indemnification and to the advancement of expenses conferred in this Article 8 shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Corporation's Certificate of Incorporation, bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

Section 8.5. Insurance.

The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify the person against the expense, liability or loss under the Delaware General Corporation Law.

Section 8.6. Indemnification of Employees and Agents of the Corporation.

The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent of the provisions of this Section with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

Article IX: Amendments

In furtherance and not in limitation of the powers conferred by law, the Board of Directors is expressly authorized to make, alter, amend and repeal these bylaws subject to the power of the stockholders of the Corporation to alter, amend or repeal the bylaws; provided, however, that, with respect to the powers of stockholders to make, alter, amend and repeal the bylaws, notwithstanding any other provision of these bylaws or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the stockholders of the Corporation required by law or these bylaws, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66.66%) of the voting power of all of the then-outstanding shares entitled to vote generally in the election of directors shall be required to adopt, amend or repeal any provisions of these bylaws.

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

FORM 10-K

(Mark One)

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2017

[ ] **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, INC.
(Exact name of registrant as specified in its charter)

Utah	**87-0398877**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
5225 Wiley Post Way, Suite 500, Salt Lake City, Utah	**84116**
(Address of principal executive offices)	(Zip Code)
(Registrant's telephone number, including area code)	**801-975-7200**

Securities registered pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [ ] Yes [X] 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 [X] 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 required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] 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). [X] 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Larger Accelerated Filer [ ]	Accelerated Filer [X]	Non-Accelerated Filer [ ] (Do not check if a smaller reporting Company)	Smaller Reporting Company [ ] Emerging Growth Company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

The aggregate market value of the shares of voting common stock held by non-affiliates was approximately $51.2 million at June 30, 2017 **,** (the Company's most recently completed second fiscal quarter), based on the $9.43 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 April 20, 2018 was 8,301,473.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Part III is incorporated by reference from registrant's proxy statement for the 2017 annual meeting of shareholders or an amendment to this Annual Report on Form 10-K, which will be filed with the Securities and Exchange Commission within 120 days after the end of its fiscal year ended December 31, 2017.

CLEARONE, INC.

ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2017

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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 words and expressions. Examples of forward-looking statements are statements that describe the proposed development, manufacturing, and sale of our products; statements that describe expectations regarding pricing trends, the markets for our products, our anticipated capital expenditures, our cost reduction and operational restructuring initiatives, and future impact of regulatory developments; statements with regard to the nature and extent of competition we may face in the future; statements with respect to the anticipated sources of and need for future financing; and statements with respect to future strategic plans, goals, and objectives and forecasts of future growth and value. Forward-looking statements are contained in this report under "Business" included in Item 1 of Part I, and "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, Inc., a Utah corporation, and, unless the context otherwise requires or is otherwise expressly stated, its subsidiaries.

ITEM 1. BUSINESS

GENERAL

ClearOne (the Company) was formed as a Utah corporation in 1983 organized under the laws of the State of Utah. The Company is headquartered in Salt Lake City, Utah, with locations in Gainesville, Florida; Austin, Texas; Corvallis, Oregon; Hong Kong; India, Israel, Spain and United Arab Emirates.

We are a global company that designs, develops and sells conferencing, collaboration and network streaming solutions for voice and visual communications. The performance and simplicity of our advanced comprehensive solutions offer unprecedented levels of functionality, reliability and scalability.

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

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

ITEM 1-BUSINESS

Acquisitions

We believe that attractive acquisition opportunities may arise in the future. We intend to pursue strategic acquisition opportunities that would grow our customer base, expand our product lines, enhance our manufacturing and technical expertise, or otherwise complement our business or further our strategic goals.

Company Information

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

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

Our Business Strategy

We currently participate in the following markets:

- Professional audio visual, including audio conferencing, web conferencing and video conferencing and collaboration;
- Professional microphones which includes our patented beamforming microphones, ceiling microphones and wireless microphones;
- Media collaboration including interactive whiteboarding, webinar, wireless sharing and training tools;
- Network streaming which includes audio and video networking, media streaming and video walls; and
- Unified communications, including telephony.

Our business goals are to:

- Maintain our leading global market share in professional audio conferencing products for large businesses and organizations;
- Position ClearOne as the preferred AV channel partner uniquely offering a complete value-chain of natively integrated solutions from audio to video maximizing AV partner profitability;
- Extend total addressable market from installed audio beachhead to adjacent complementary markets – microphones, video collaboration and networked audio and video streaming;
- Continue to leverage the video conferencing, collaboration and network streaming technologies to enlarge our current market share;
- Focus on the small and medium business (SMB) market with scaled, lower cost and less complex products and solutions;
- Capitalize on the growing influence of information technology channels in the audio-visual market and introduce more products to these channels;
- Capitalize on emerging market trends as audio visual, information technology, and digital signage converge to meet enterprise and commercial multimedia needs and the users shift from high-priced systems to low cost appliances and cloud solutions;
- Leverage software-based platforms to provide disruptive cloud and networked video conferencing, collaboration and streaming solutions that complement our audio solutions;
- Expand and strengthen our sales channels;
- Consider disciplined strategic acquisitions

We will continue to focus on our core strengths, which include the following:

- Providing a superior conferencing and collaboration experience;
- Delivering the complete value chain for audio visual communication;
- Significantly impacting network streaming and control;
- Offering greater innovation, interoperability and value to our customers and partners;
- Leveraging and extending ClearOne technology, leadership and innovation;
- Leveraging our strong domestic and international channels to distribute new products; and
- Strengthening existing customer and partner relationships through dedicated support.

ITEM 1- BUSINESS

PRODUCTS

Our products can be broadly categorized into the following:

- Professional audio conferencing including professional microphones
- Visual communication products including media collaboration and network streaming
- Unified communications audio end points

PROFESSIONAL AUDIO CONFERENCING INCLUDING MICROPHONES

Our full range of professional audio communication products includes (i) professional conferencing and sound-reinforcement products used in enterprise, healthcare, education and distance learning, government, legal and finance organizations, (ii) mid-tier premium conferencing products for smaller rooms and small and medium businesses which interface with video and web conferencing systems, and (iii) professional microphones used in various applications.

Our professional audio communication products, including premium conferencing and professional microphones, contributed 73%, 78% and 80% of our consolidated revenue in 2017, 2016 and 2015, respectively.

Our professional audio communication products and unified communications audio end points 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.

Professional Conferencing, Sound Reinforcement

We occupy the number one position in the global professional audio conferencing market with more than 50% of the 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 2, CONVERGE Pro and CONVERGE SR product lines.

Our flagship CONVERGE Pro 2 and CONVERGE Pro product lines lead our professionally installed audio products line. The CONVERGE Pro product line includes the CONVERGE Pro 880, CONVERGE Pro 880T, CONVERGE Pro 880TA, CONVERGE Pro 840T, CONVERGE Pro 8i, CONVERGE Pro TH20 and CONVERGE Pro VH20, and CONVERGE SR product line including CONVERGE SR1212 and SR1212A 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.

We started shipping some of the SKUs of the next generation of CONVERGE Pro products broadly called as CONVERGE Pro 2 at the end of 2016. We added more SKUs to CONVERGE Pro 2 line which now includes CONVERGE Pro 2 128, CONVERGE Pro 2 128D, CONVERGE Pro 2 128T, CONVERGE Pro 2 128TD, CONVERGE Pro 2 128V, CONVERGE Pro 2 128VD, CONVERGE Pro 2 120, CONVERGE Pro 2 012, CONVERGE Pro 2 48T, CONVERGE Pro 2 48V, CONVERGE Pro 2 128SR and CONVERGE Pro 2 128SRD. We have been shipping all SKUs in the CONVERGE Pro 2 line of products in 2017.

CONVERGE Pro 2's broad DSP platform satisfies clients' diverse audio needs with these features:
- The very latest and most powerful audio DSP algorithms, including acoustic echo cancellation, noise cancellation, feedback elimination, gain and level control, and microphone gating;
- More microphone inputs to supply greater flexibility;
- Integration of VoIP or telephony, USB, and Dante™ for maximum functionality;
- A new expansion bus that delivers increased audio-channel scalability to support large audio projects;
- New native interface that enables daisy-chaining for any combination of ClearOne peripheral devices, such as the new Beamforming Microphone Array 2, USB Expander unit, GPIO Expander unit and/or the new DIALOG® 20 Wireless Microphone system; and
- New software that includes both a traditional matrix view and the unique ClearOne FlowView™.

CONVERGE Pro 2 line of products is ably supported by a touch panel controller, a GPIO expansion box and a USB expansion box. CONVERGE Pro 2 VoIP SKUs are certified to interoperate with Cisco, Avaya and ShoreTel SIP based VoIP systems. It also interoperates with Microsoft Skype for Business.

Mid-Tier Premium Conferencing

Our INTERACT® product line is a mid-tier, lower cost, conferencing product line designed to meet the needs of our larger customers with smaller conferencing rooms as well as small and medium businesses. The INTERACT product series is comprised of the INTERACT AT and the INTERACT Pro. Both systems can be easily connected to enterprise telephones, analog POTS lines, existing HD video codecs and soft video clients. These INTERACT systems also include a USB audio interface to connect to PCs, laptops and tablets, as well as to rich multimedia devices, such as video or web conferencing systems and emerging unified communication systems for enhanced collaboration.

Professional Microphones: Beamforming Microphone Array

The ClearOne Beamforming Microphone Array is the Pro-Audio industry's first professional-grade microphone array with Beamforming and smart beam selection and ClearOne's next-generation Acoustic Echo Cancellation. The ultra-sleek design fits into any conferencing environment and delivers the clearest audio pickup available. The 24 microphone element industry-leading Beamforming Microphone Array has focused acoustic beams, digital signal processing, smart beam selection, and acoustic echo canceling to produce the clearest and most intelligible conferencing sound possible. ClearOne began shipping the Beamforming Microphone Array in March 2013. During the first quarter of 2014, we began shipping the Beamforming Microphone Array, including table, wall and ceiling applications, in black to increase market compatibility. This product works with CONVERGE Pro 880, CONVERGE Pro 880T, CONVERGE Pro 880TA and CONVERGE Pro 840T.

Beamforming Microphone Array 2, the next generation Beamforming Microphone Arrays started shipping in the last quarter of 2017. The Beamforming Microphone Array 2 affirms ClearOne's clear industry leadership in delivering:
- Significantly enhanced and new echo cancellation, using direction of arrival determination for demanding acoustic environments;
- Faster convergence and better adaptation to changes in room acoustics, such as ambient noise from chairs moving, doors closing, chatter in the background, or any spikes in sound that alter the path of the audio, using separate acoustic echo cancellation for each fixed beam and inhibiting beam selection when the far end is active;
- Dramatically better mic pickup, including using an augmenting microphone signal, sharpening the capability to detect softer voices;
- Natural and clearly intelligible audio, even when two people speak at once; and
- Zero consumption of analog mic inputs in the CONVERGE Pro 2 suite of DSP mixers.

Professional Microphones: Ceiling Microphone Array

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

Professional Microphones: Wireless Microphones

In 2013 ClearOne introduced WS800 Wireless Microphone Systems, including four new models of wireless microphones/transmitters (Tabletop/boundary, Gooseneck, Handheld, Bodypack) and a base-station receiver with either 4 or 8 channels, which connect to professional audio mixers. Since the Sabine acquisition in 2014, our portfolio of wireless microphone systems was enhanced by the introduction of digital compressed versions, Dante standard compatible versions and more frequency ranges catering to various international markets.

During 2017, we started shipping DIALOG® 20, the two-channel wireless microphone system. Leveraging the full power of ClearOne's robust, adaptive frequency-hopping "spread" spectrum technology within the 2.4 GHz unlicensed spectrum, DIALOG 20 has several advantages over fixed-frequency transmission. DIALOG 20 incorporates flexible features and multiple options usually available only in much larger systems. While DIALOG 20 works seamlessly with all commercially available mixers, it boasts additional features when natively interfacing with our new CONVERGE Pro 2 or new Beamforming Microphone Array 2.

UNIFIED COMMUNICATIONS AUDIO END POINTS

Our unified communications audio end points include (i) traditional tabletop conferencing phones used in conference rooms and offices and (ii) affordable personal conferencing products that can be used with PCs, laptops, tablets, smartphones, and other portable devices. Our unified communications audio end points contributed approximately 9%, 11% and 13% of our consolidated revenue in 2017, 2016 and 2015, respectively.

Tabletop Conferencing

Our MAX® product line is comprised of the following product families: MAX EX and MAXAttach® wired conference phones; MAX Wireless and MAXAttach Wireless; and MAX IP and MAXAttach IP tabletop conferencing phones. Designed for use in executive offices or small conference rooms with multiple participants, MAX Wireless can be moved from room to room within 150 feet of its base station. MAXAttach Wireless was the industry’s first and remains the only dual-phone, completely wireless solution. This system gives customers tremendous flexibility in covering larger conference room areas. MAX EX and MAXAttach wired phones can be daisy chained together, up to a total of four phones. This provides even distribution of microphones, loudspeakers, and controls for better sound quality and improved user access in medium to large conference rooms. In addition, all MAXAttach wired phones can be used separately when they are not needed in a daisy-chain configuration. MAX IP and MAXAttach IP are VoIP tabletop conference phones which are based on the industry-standard SIP signaling protocol. These phones can also be daisy-chained together, up to a total of four phones.

Speakerphone

Our CHAT® product line includes affordable and stylish personal speakerphones and USB headsets. CHAT speakerphones provide full-duplex and rich full bandwidth frequency response for superior audio clarity. CHAT products are designed for a wide variety of applications and devices (fixed or portable) for greatly enhanced collaboration wherever and whenever needed. CHAT speakerphones are offered either as personal speakerphones under CHAT 50, CHAT 60 or CHAT 70 SKUs or as group speakerphones under CHAT 150, CHAT 160 and CHAT 170 SKUs.

CHAT 50/60/70 personal speakerphones are approximately the size of a deck of cards, and connect to PCs and MACs for rich, clear, hands-free audio and playback. CHAT 150 group speakerphones are designed for small group use. These can also connect many of the same devices and applications as the CHAT personal speakerphones but feature three microphones in larger design for use by a larger number of participants. CHAT 150/160/170 group speakerphones have the ability to add high-quality, full-duplex speakerphones to user enterprise telephone handsets such as Avaya and Cisco. CHAT group speakerphones make it possible to introduce rich, crystal clear conferencing capability without the need for introducing a separate traditional conference phone. CHATAttach® is comprised of two CHAT 150 group speakerphones which can be daisy-chained together to function as a single conferencing system for much larger coverage than a single CHAT 150.

VISUAL COMMUNICATIONS

Our visual communication products include media collaboration and network streaming products. Our visual communication products contributed 18%, 11% and 7% of our consolidated revenue in 2017, 2016 and 2015, respectively.

Media Collaboration:

Our Media Collaboration suite of products is led by our comprehensive portfolio of industry-leading COLLABORATE® branded HD videoconferencing solutions.

COLLABORATE Pro 300: includes video appliance, UNITE® 150 camera, CHAT® 150C speakerphone and 90-days subscription to Spontania cloud video, audio and web conferencing, SIP/H.323 video conferencing, in-room wireless presentation and optional Skype® for Business native integration. This solution is targeted for huddle and small-size rooms.

COLLABORATE Pro 600: includes video appliance, UNITE 200 camera, CHATAttach® 150 speakerphones, and 90-days subscription to Spontania cloud video, audio and web conferencing, SIP/H.323 video conferencing with 4-way built-in MCU, in-room wireless presentation, optional Skype for Business native integration, capture recording and streaming. This solution is targeted at medium-size rooms.

COLLABORATE Pro 900: includes video appliance, UNITE 200 camera, CONVERGE® Pro installed audio endpoint, Beamforming Microphone Array and 90-days subscription to Spontania cloud video, audio and web conferencing, SIP/H.323 video conferencing with 4-way built-in MCU, multi-user in-room wireless presentation, optional Skype for Business native integration, capture recording and streaming. This solution is targeted at medium and large-size rooms.

Our Media Collaboration series also includes Spontania cloud video, audio and web conferencing service that can be deployed on-premises or in the cloud. Spontania offers all sort of collaboration tools such as screen sharing, application sharing, whiteboard, annotation over presentation, recording, hand-raise and chat. The service is targeted for any workspace including mobile, desktop and rooms of any size; and multiple use cases including meetings, classrooms and training sessions.

Bring your own video and web conferencing – COLLABORATE Versa 150 includes USB PTZ camera, speakerphone and central hub that connects the laptop to the meeting room peripherals via single USB 3.0 connectivity. COLLABORATE Versa 150, compatible with Cisco WebEx, Google Hangouts, Microsoft Skype for Business and more, is also bundled with 90-days free subscription of Spontania cloud video, audio and web conferencing. This solution is targeted at huddle spaces and medium conference rooms.

UNITE 200/150 is a professional-grade PTZ camera series supporting USB, HDMI and IP connectivity. It delivers 1080p HD resolution, 12X optical zoom and is compatible with PC-based and Pro-AV applications, supporting wide range of meeting spaces.

ITEM 1 - BUSINESS

Network Media Streaming and Digital Signage:

Our network media streaming products are primarily sold under VIEW™ and VIEW Pro brands deliver the ultimate IP A/V experience by streaming time sensitive high definition audio and video and control over TCP/IP networks. By combining audio and/or video content, meta-data and control signals into one digital stream in harmony with industry standards, its distributed, edge of the network architecture allows the hardware and the processing power to be distributed across any existing TCP/IP network. This leverages many of the advantages of using TCP/IP over traditional analog systems and other centrally controlled IP-based systems. The ClearOne VIEW and VIEW Pro products are powered by ClearOne's patented StreamNet® technology. A user can activate and control a single audio source or combination of audio sources, video sources, security systems, HVAC systems, lighting, and other room or facility monitoring functions such as paging or security access by just a single touch to its attractive touch screens. Alternatively, any PC, laptop, tablet, iPod, or other device with a built-in web browser with Flash can control the equipment connected to the system. The VIEW and VIEW Pro systems have no limits on the numbers of sources, displays, or amplifiers in a project and can be used in venues from high-end residential homes to large-scale commercial projects. The number of devices could be determined by the network bandwidth availability, number of media streams and its bandwidth requirements.

Converting an audio or video signal to TCP/IP preserves the digital quality of the signal across the network. Unlike analog systems, which lose quality over long distances, TCP/IP packets are decoded to retain the same digital quality as contained when they were encoded. The addition of Digital Encoder and Digital Decoder products with DVI/HDMI input and output enhances the flexibility of complete AV distribution system and makes it as easy to use as analog devices.

VIEW Pro solution provides 1080p60, H.264 high definition HDMI video-audio, 4:4:4 true-color, 24 bit per pixel video output. It comes with dual inputs encoder, single input encoder and single output decoder with balanced audio, general purpose control ports and clock synchronized video output. VIEW Pro system also provides PANORAMA™ , a multi-view video composition and video-wall software application using its built-in video processing engine, without using external expensive hardware video processors. This continues to be truly differentiated in the professional market by offering complete AV streaming and distribution systems that can scale to fulfill projects of any size and complexity, from light commercial to the very largest environments. VIEW Pro products include E110 and E120 encoders and D110, D210 and D310 decoders. VIEW Pro solution also comes with multiple license options including audio mixing, video composition, video wall, multicast RTSP and local playback.

During the second quarter of 2016, we introduced the new VIEW CONSOLE configuration management software. This software gives integrators a comprehensive platform from which to configure, manage, monitor, and control VIEW system installation using an easy, modern interface. The new toolset, which spotlights the latest in advanced software development technologies, works across ClearOne's full line of VIEW/VIEW Pro products. In 2017, we released an updated version of VIEW CONSOLE and PANORAMA software applications.

At the end of May 2016, we introduced a new flexible and single-channel-priced VIEW® Pro E110 Encoder — designed for single-media input settings. E110 Encoder delivers high-quality video with configurable 4:4:4 and 4:2:0 color sampling; standards-based streaming formats; 1080p60, H.264-based, high-profile encoding with lossless compression; very low end-to-end latency; and full HDCP support. We also introduced the innovative new entry-level VIEW Pro D310 Decoder featuring all the basic functionality to fully satisfy simple applications while delivering superb price-to-performance value. D310 Decoder features convenience in its small footprint and easy mounting behind any display. It delivers full-screen, single-image video; high-quality video with 4:2:0 video color sampling; and 1080p60, H.264-based high-profile decoding with lossless compression.

MARKETING AND SALES

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

Our product sales generated in the United States and outside the United States for the years ended December 31 are as follows:

Revenue in millions	2017		2016		2015	
	Revenue	%	Revenue	%	Revenue	%
In the United States	$ 24.6	59%	$ 31.8	65%	$ 39.6	68%
Outside United States	$ 17.2	41%	$ 16.8	35%	$ 18.2	32%
	$ 41.8	100%	$ 48.6	100%	$ 57.8	100%

We sell directly to our distributors, resellers and end-users in approximately 61 countries worldwide. We anticipate that the portion of our total product revenue from international sales will continue to be a significant portion of our total revenue as we further enhance our focus on developing new products, establishing new channel partners, strengthening our presence in key growth areas, complying with regional environmental regulatory standards, and improving product localization with country-specific product documentation and marketing materials.

Distributors, Resellers and Independent Integrators

We sold our products directly to approximately 378 distributors and direct resellers throughout the world during 2017. Distributors and resellers purchase our products at a discount from list price and resell them worldwide to hundreds of independent systems integrators, telephony value-added resellers, IT value-added resellers, and PC dealers on a non-exclusive basis. Our distributors maintain their own inventory and accounts receivable and are required to provide technical and non-technical support for our products to the next level of distribution participants. We work with our distributors and resellers to establish appropriate inventory stocking levels. We also work with our distributors and resellers to maintain relationships with our existing systems integrators, dealers, and other value-added resellers.

While dealers, resellers, and system integrators all sell our products directly to the end-users, system integrators typically add significant value to each sale by combining our products with products from other manufacturers as part of an integrated system solution. Commercial dealers and value-added resellers usually purchase our products from distributors and may bundle our products with products from other manufacturers for resale to the end-user. We maintain close working relationships with all our reseller partners and offer them education and training on all of our products.

Marketing

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

Customers

We do not get comprehensive reports from our distributors and resellers that identify our end-users. As a result, we do not know whether any end-user accounted for more than 10 percent of our total revenue during any of the periods reported in this Annual Report. However, revenues included sales to Starin Marketing, which represented approximately 16% of consolidated revenue during the year ended December 31, 2017 with no other customer accounting for more that 10 percent. During the year ended December 31, 2016 sales to Starin Marketing represented approximately 16.3% of consolidated revenue with no other customer accounting for more that 10 percent. During the year ended December 31, 2015 sales to Starin Marketing and VSO represented approximately 14.2% and 10.4% of consolidated revenue with no other customer accounting for more that 10 percent.

As discussed above, distributors facilitate product sales to a large number of independent systems integrators, dealers, and value-added resellers, and subsequently to their end-users. The loss of one or more distributors could reduce revenue and have a material adverse effect on our business and results of operations. Our shipped orders on which we had not recognized revenue were $4.6 million and $3.9 million as of December 31, 2017 and 2016, respectively. We had a backlog of unshipped orders of approximately $0.2 million and $0.6 million as of December 31, 2017 and 2016, respectively.

Competition

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

We believe the principal factors driving sales are the following:

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

In the professional audio conferencing system and sound reinforcement markets our main competitors include AcousticMagic, AMX Harman, Audio Technica, Biamp, BOSE, Crestron, Extron, BSS Harman, Peavey, Phoenix Audio, Polycom, QSC, Shure, Symetrix, Vaddio and Yamaha and their original equipment manufacturing (OEM) partners, along with several other companies potentially poised to enter the market. We occupy the number one position in the global professional audio conferencing market with more than 50% of the global market share.

In the professional microphones market, our primary competitors include AKG, Audio Technica, Audix, Avlex/Mipro, Beyerdynamic, Biamp, Clock Audio, Lectrosonics, Nureva, Mediavision/Taiden, Polycom, Phoenix Audio, Sennheiser, Shure, TeachLogic, TOA, Yamaha/Revolabs and Vaddio and their OEM partners.

In the traditional tabletop conferencing market, we face significant competition from Avaya/Konftel, Phoenix Audio, Polycom and Yamaha, and especially from their OEM partnerships. A significant portion of the tabletop market is covered by sales through OEM partnerships. While we believe MAX products have unique features and superior quality, our limited OEM partnerships and pricing pressures from higher volume competitors limit our ability to expand our existing share of this market.

Our primary competitors in the personal conferencing market are GN Netcom (Jabra), Logitech, Phoenix Audio, Plantronics, Polycom, Sennheiser and Yamaha and their OEM partners.

Our video conferencing products face tremendous competition from well established players as well as emerging players, including Acano, Adobe Connect, Amazon Chime, Avaya (Radvision), Aver, Barco, Blackboard Collaborate, Blue Jeans, Christie Digital, Cisco, Citrix, Fuze, Huawei, IDK AV, InFocus, Kramer, LifeSize, Magor, Pexip, Polycom, Microsoft Skype for Business, Starleaf, Telylabs, UNIFY, Videxio, Vidyo, Yealink, Zoom, ZTE, Highfive, Google, Tixeo and Owl Labs. We believe the migration of video conferencing from hardware-based codecs to software-based codecs provides an opportunity for us to differentiate our products and gain market share.

Our network streaming products which includes digital signage products face intense competition from a few well-established corporations of diversified capabilities and strengths, including AMX, Atlona, Aurora Multimedia, Barco, Biamp, Broadsign, Cisco, Christie Digital, Crestron, Extron, Gefen, Goopie, Haivision, Hall Research, IDK AV, Infocus (Jupiter), Key Digital, Kramer, Liberty AV, Magenta Research, Matrox, Mediasite, Ncast, RGB Spectrum, Scala, Spinetix, SVSi, voLANte, Tightrope, Teracue, tvONE, UCView, VBrick, Visionary Solutions, Visix, WyreStorm and ZeeVee. We believe that our software based patented technology delivers superior audio and video streaming performance and flexibility and provides us with a competitive edge over other industry players.

Regulatory Environment

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

Sources and Availability of Raw Materials

We manufacture our products through electronics manufacturing services ("EMS") providers, who are generally responsible for sourcing and procuring required raw materials and components. Most of the components that our EMS providers require for manufacturing our products are readily available from a number of sources. During 2017, we witnessed a significant tightening of the electronics market with demand for electronic products especially for memories and processors far exceeding the supply caused price increases and longer fulfillment cycles.

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

Manufacturing

Currently, all of our products are manufactured by EMS providers. Our primary EMS provider is Flextronics. The digital signage products are assembled in our Salt Lake City, Utah facility.

Seasonality

We do not recognize a consistent pattern between the quarters to identify seasonality.

Research and Product Development

We are committed to research and product development and view our continued investment in research and product development as a key ingredient to our long-term business success. Our research and product development expenditures were approximately $9.3 million, $8.6 million and $8.3 million, during the years ended December 31, 2017, 2016 and 2015, respectively.

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

Intellectual Property and Other Proprietary Rights

We believe that our success depends in part on our ability to protect our proprietary rights. We rely on a combination of patent, copyright, trademark, and trade secret laws and confidentiality agreements and processes to protect our proprietary rights.

As of December 31, 2017, we had approximately 87 patents and 21 pending patent applications, including foreign counterpart patents and foreign applications. Our patents and pending patent applications cover a wide range of our products and services including, but not limited to acoustic echo cancellation, beamforming microphone arrays, systems that enable streaming media over IP networks, algorithms for video processing, wireless conferencing systems, spatial audio, and technologies for the Internet of Things. The durations of our patents are determined by the laws of the country of issuance. For the U.S., patents may be 17 years from the date of issuance of the patent or 20 years from the date of its filing, depending upon when the patent application was filed. In addition, we hold numerous trademarks, both in the U.S. and in other countries. The laws of foreign countries may not protect our intellectual property to the same degree as the laws of the United States.

We will obtain patents and other intellectual property rights used in connection with our business when practicable and appropriate. Our intellectual property policy is to protect our products, technology and processes by asserting our intellectual property rights where appropriate and prudent. From time to time, assertions of infringement of certain patents or other intellectual property rights of others have been made against us. In addition, certain pending claims against a competitor are in various stages of litigation. See Part I, Item 3. Legal Proceedings and Note 8 – Commitments and Contingencies of the Notes to Consolidated Financial Statements (Part II, Item 8) for information regarding current legal proceedings involving our intellectual property rights.

We are dependent on our intellectual property. If we are not able to protect our proprietary rights or if those rights are invalidated or circumvented, our business may be adversely affected. We may be subject to litigation and infringement claims, which could cause us to incur significant expenses or prevent us from selling our products or services. For more information concerning the risks related to patents, trademarks, and other intellectual property, please see "Risk Factors-Risks Related to our Business."

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

On April 25, 2017, the Company was awarded a new patent, U.S. Patent No. 9,635,186 (the "186 Patent"), which relates to a system and method involving the combination of echo cancellation and beamforming microphone arrays. Also on April 25, 2017, the Company filed a lawsuit in the U.S. Federal District Court in the District of Utah against three parties—Shure, Inc. ("Shure"), Biamp Systems Corporation ("Biamp"), and QSC Audio Products, LLC ("QSC," together with Shure and Biamp, collectively, the "Defendants"), alleging that the Defendants were jointly and indirectly infringing the newly issued '186 Patent (the "Infringement Action"). On that same day, Shure filed a separate action in the U.S. Federal District Court in the Northern District of Illinois (the "Illinois Action") requesting a declaratory judgment as to the invalidity or non-infringement with respect to the '186 Patent. The Illinois Action also seeks the same declaratory judgment with respect to another Company patent, United States Patent No. 9,264,553 (the "553 Patent"), and which has not been asserted by the Company against any defendant and has been submitted to the USPTO for reissue. In early 2018, Shure added a claim that the '186 Patent is unenforceable.

ITEM 1A. RISK FACTORS

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

Risks Relating to Our Business

A material weakness has been identified in our internal control over financial reporting. If we fail to remediate and maintain effective internal control over financial reporting, we may be unable to report our financial results accurately on a timely basis, investors could lose confidence in our reported financial information, the trading price of our common shares could decline and our access to the capital markets or other financing sources could become limited.

In connection with the audit of our consolidated financial statements as of December 31, 2017, our independent registered public accounting firm identified deficiencies in our system of internal control over financial reporting that it considered to be a material weakness in the operation of certain of our controls that would have prevented and detected a misstatement on a timely basis, and therefore, affected our ability to ensure timely and accurate reporting of our financial condition and results of operations. The Public Company Accounting Oversight Board's Auditing Standard No. 5 defines a material weakness as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. The identified material weakness related to our lack of formally designed processes and controls to prevent or mitigate the risk of material errors from occurring within our consolidated financial statements. See Part II, Item 9A, “Controls and Procedures.”

We have initiated remedial measures, however there can be no assurance that these actions, as well as further actions we may take, will allow us to remediate this material weakness and provide a solid foundation to meet our reporting obligations under the Exchange Act. If we fail to implement and maintain effective internal control over financial reporting (including appropriately and effectively remediating this material weakness), or if additional material weaknesses in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements, and we could be required to restate our financial results. In addition, if we are unable to successfully remediate this material weakness and if we are unable to produce accurate and timely financial statements, our stock price may be materially adversely affected and we may be unable to maintain compliance with applicable stock exchange listing requirements.

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

The markets for our products and services are characterized by intense competition, pricing pressures and rapid technological change. Our competitive landscape continues to rapidly evolve, in particular with respect to our video-related services and products, as we move into new markets for video collaboration such as mobile, social and cloud-delivered video. We compete with businesses having substantially greater financial, research and product development, manufacturing, marketing, and other resources than we do. If we are not able to continually design, manufacture, and successfully introduce new or enhanced products or services that are comparable or superior to those provided by our competitors and at comparable or better prices, we could experience pricing pressures and reduced sales, gross profit margins, profits, and market share, each of which could have a materially adverse effect on our business.

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

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

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. Our success is dependent in part on obtaining, maintaining and enforcing our intellectual property rights If we are unable to obtain, maintain and enforce intellectual property legal protection covering our products, then no assurances can be given that others will not independently develop technologies similar to ours, or duplicate or design around aspects of our technology. In addition, we cannot assure that any patent or registered trademark owned by us will not be invalidated, circumvented or challenged, or that the rights granted thereunder will provide competitive advantages to us. Costly litigation may be necessary to enforce our intellectual property rights. We believe our products and other proprietary rights do not infringe upon any proprietary rights of third parties; however, we cannot ensure that third parties will not assert infringement claims in the future. We currently hold only a limited number of patents. To the extent that we have patentable technology that is material to our business and 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, which could have a material adverse effect on our business. With respect to any patent application we have filed, we cannot ensure that a patent will be awarded.

ITEM 1A - RISK FACTORS

We are currently subject to patent litigation, including claims challenging the validity and enforceability of some of our patents, which could cause us to incur significant expenses or prevent us from protecting our products or services against competing products.

Our industry is characterized by vigorous protection of intellectual property rights. We have initiated litigation to enforce our intellectual property rights, which has resulted in our adversaries in such litigation challenging the validity, scope, and/or enforceability of our intellectual property. Irrespective of the merits of these claims, any resulting litigation could be costly and time consuming and could divert the attention of management and key personnel from other business issues. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. See Part I, Item 3. Legal Proceedings and Note 8 – Commitments and Contingencies of the Notes to Consolidated Financial Statements (Part II, Item 8) for information regarding current legal proceedings involving our intellectual property rights.

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

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

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

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

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

We market our products primarily through a network of distributors who in turn sell our products to value-added resellers. All of our agreements with such distributors and other distribution participants are non-exclusive, terminable at will by both 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, value-added resellers cannot easily be replaced and any loss of revenues from these and other sources or our inability to reduce expenses to compensate for such loss of revenue could adversely affect our net revenue 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 some do offer competitive products. The support of our products by distributors and other distribution participants may depend on the competitive strength of our products and the price incentives we offer for their support. If our distributors and other distribution participants are not committed to our products, our revenue and profit margins may be adversely affected.

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

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

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

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

ITEM 1A - RISK FACTORS

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

We outsource the manufacturing of all of our products except digital signage and wireless microphone products to electronics manufacturing services ("EMS") providers located outside the U.S. If any of these EMS providers experience (i) difficulties in obtaining sufficient supplies of components, (ii) component prices significantly exceeding anticipated costs, (iii) an interruption in their operations, or (iv) otherwise suffers capacity constraints, we could experience a delay in production and shipping of these products, which would have a negative impact on our revenue. Should there be any disruption in services due to natural disaster, economic or political difficulties, transportation restrictions, acts of terror, quarantines or other restrictions associated with infectious diseases, or other similar events, or any other reason, such disruption could have a material adverse effect on our business. Operating in the international outsourcing environment exposes us to certain inherent risks, including unexpected changes in regulatory requirements and tariffs, and potentially adverse tax consequences, which could materially affect our results of operations. Currently, we have no second source of manufacturing for a large portion of our products.

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

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

EMS providers often require long range forecasts to help them plan their operations as well as to allocate their resources. We are tied to these forecasts through contracts as well as to maintain harmony in business relationships. Our ability to react to actual demand from our customers and order optimum levels of inventory is severely limited due to these forecasts provided to the EMS providers. Our inability to accurately forecast our future demands could lead to either excess inventory causing potential inventory obsolescence and cashflow problems or shortage in inventory causing potential loss of revenue.

Recent regulatory requirements regarding the use of "conflict minerals" could affect the sourcing and availability of raw materials to our EMS providers in the manufacture of certain of our products. We may be subject to costs associated with the new regulations, including for the diligence pertaining to the presence of any conflict minerals used in our products and the cost of remediation and other changes to products, processes, or sources of supply as a consequence of such verification activities. The impact of the regulations may result in a limited pool of suppliers who provide conflict free minerals, and we cannot assure you that we will be able to obtain products in sufficient quantities, at competitive prices, or at all. We may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins for the metals used in the products we sell. As a result, we may not be able to obtain the materials necessary to manufacture our products, which could force us to cease production or search for alternative supply sources, possibly at a higher cost. Such disruptions may have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

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

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

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

Any acquisition involves numerous risks and challenges, including difficulties and time involved in integrating the operations, technologies and products of the acquired companies, entering new business or product lines, the diversion of our management's attention from other business concerns, geographic dispersion of operations, generating market demand for expanded product lines and the potential loss of key customers or employees of an acquired Company. Failure to achieve the anticipated benefits of these and any future acquisitions or to successfully integrate the operations of these or any other companies or assets we acquire, could also harm our business, results of operations and cash flows. Additionally, we cannot assure you that we will not incur material charges in future periods to reflect additional costs associated with these acquisitions or any future acquisitions we may make.

Profitability could be negatively impacted if we do not adequately forecast the demand for our products and are unable to monetize our long-term inventories.

We hold approximately $8.7 million in long-term inventories. There can be no assurance that we will be able to successfully anticipate changing consumer preferences and product trends or economic conditions and, as a result, we may not successfully monetize our long-term inventory. Inventory levels in excess of consumer demand may result in inventory write-downs and the sale of excess inventory at discounted prices, which could have an adverse effect on the image and reputation of our brands and negatively impact profitability.

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

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

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

ITEM 1A - RISK FACTORS

Conditions in China, India, Spain and United Arab Emirates may affect our operations.

We have different teams working outside the U.S. in China, India, Spain and United Arab Emirates offering various services including research and development, sales and marketing, and manufacturing operations support. Our ability to operate the company smoothly may be affected significantly if either one or more of these countries are adversely impacted by political, economic, security and military conditions in these countries.

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

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

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

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

- unexpected changes in, or the imposition of, additional legislative or regulatory requirements;
- unique or more onerous 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; and
- disruption in services due to natural disaster, economic or political difficulties, transportation, quarantines or other restrictions associated with infectious diseases.

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

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

ITEM 1A - RISK FACTORS

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

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

We may have difficulty in collecting outstanding receivables.

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

Interruptions to our business could adversely affect our operations.

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

Changes in tax laws and uncertainties in the interpretation and application of the 2017 Tax Cuts and Job Act could materially affect our financial position, results of operations and cash flows.

In December 2017, the U.S. government enacted comprehensive income tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "2017 Tax Act"). The 2017 Tax Act makes broad and complex changes to the Internal Revenue Code of 1986, as amended (the "Code"), including, among other changes, significant changes to the U.S. corporate tax rate and certain other changes to the Code that impact the taxation of corporations. In certain instances the 2017 Tax Act requires complex computations to be performed that generally were not previously required by the Code and the regulations promulgated thereunder; significant judgments to be made in interpreting the provisions of the 2017 Tax Act significant estimates to be made in certain calculations; and the preparation and analysis of information generally not previously relevant or regularly produced. The U.S. Treasury Department, the Internal Revenue Service ("IRS"), and other standard-setting bodies could interpret or issue guidance on how provisions of the 2017 Tax Act will be applied or otherwise administered that differs from our interpretation. As we complete our analysis of the 2017 Tax Act, collect and prepare necessary data, and interpret any additional guidance, we may make adjustments to provisional amounts that we have recorded that may materially impact our provision for income taxes in the period in which the adjustments are made. Additionally, there is risk relating to assumptions regarding the outcome of tax matters, based in whole or in part upon consultation with outside advisors; risk relating to potential unfavorable decisions in tax proceedings; and risks regarding changes in, and/or interpretations of federal and state income tax laws. Any such changes, interpretations or alternative outcomes could result in more unpredictability and variability to our future effective tax rates.

ITEM 1A - RISK FACTORS

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

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

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our employees, customers, licensors, vendors and business partners, including personally identifiable information of our customers and employees, in our data centers and on our networks. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Security breaches have occurred with increased frequency and sophistication in recent years. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, disrupt our operations, and damage our reputation, which could adversely affect our business.

ITEM 1A - RISK FACTORS

Risks Relating to Share Ownership

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

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

- 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 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 supply 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 market conditions, or market conditions specific to technology industry;
- domestic and international economic conditions;
- unexpected changes in regulatory requirements and tariffs;
- our ability to report financial information in a timely manner;
- the markets in which our stock is traded;
- our ability to integrate the companies we have acquired; and
- our ability to successfully utilize our cash reserves resulting from the settlement of litigation and arbitration matters.

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

As of December 31, 2017, there were outstanding options to acquire approximately 764,430 shares of our common stock at a weighted average exercise price of $8.78 per share. During the terms of these options, the holders thereof will have the opportunity to profit from an increase in the market price of the common stock. The existence of these options may adversely affect the terms on which we can obtain additional financing, and the holders of these options can be expected to exercise such options at a time when we, in all likelihood, would be able to obtain additional capital by offering shares of our common stock on terms more favorable to us than those provided by the exercise of these options.

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

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

ITEM 1A - RISK FACTORS

If equity research analysts do not publish research or reports about our business or if they issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.

The liquidity of the trading market for our common stock may be affected in part by the research and reports that equity research analysts publish about us and our business. We do not control the opinions of these analysts. The price of our stock could decline if one or more equity analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business.

Write off of capitalized legal expenses related to our defense of patents could negatively impact our net income and stockholders' equity.

Our intangible assets include capitalized legal expenses net of amortization of $2.3 million related to our defense of patents from infringement by our competitors. Legal expenses have been capitalized upon satisfaction of two conditions: (a) a determination being made that a successful defense of this litigation is probable, and (b) that the monetary benefits arising out of such successful defense will be in excess of the costs for the defense. If either one of these conditions fail to be satisfied in the future, the carrying amount in the books may have to be written off either completely or partially. There can be no assurance that we will be successful in the defense of these litigation claims, in whole or in part.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We occupy a 5,000 square-foot facility in Gainesville, Florida under the terms of an operating lease that expires in February 2021 with the possibility of renewing the lease for 10 more years. The Gainesville facility was used primarily to support out research and development activities.

We lease a 4,700 square-foot office facility in Hod Hasharon, Israel under the terms of an operating lease expiring in December 2019 which serves to support our research and development activities. Upon expiration, we will have the option to extend the lease for two additional years.

We currently occupy a 31,000 square-foot facility in Salt Lake City, Utah under the terms of an operating lease expiring in May 2019, which supports our principal administrative, sales, marketing, customer support, and research and product development activities.

We occupy a 10,700 square-foot warehouse in Shenzhen, China under the terms of an operating lease expiring in September 2019, which serves as our primary inventory fulfillment and repair center.

We occupy a 7,070 square-foot facility in Austin, Texas - under the terms of an operating lease expiring in October 2019. This facility support our administrative, sales, marketing, customer support, and research and development activities.

We occupy a 40,000 square-foot warehouse in Salt Lake City, Utah under the terms of an operating lease expiring in December 2021, which serves as our primary inventory fulfillment and repair center. This facility also serves as our assembly workshop for digital signage products.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

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

Market Information

Our common stock is traded on the NASDAQ Capital Market under the symbol CLRO. On March 30, 2018, there were 8,301,473 shares of our common stock issued and outstanding held by approximately 323 shareholders of record. Each broker dealer or a clearing corporation that holds shares for customers is counted as a single shareholder of record.

The high and low common stock sales prices per share were as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2017					
High	$ 12.60	$ 11.10	$ 10.10	$ 9.00	$ 12.60
Low	9.70	9.25	7.40	6.70	6.70
2016					
High	$ 13.15	$ 11.68	$ 12.36	$ 11.40	$ 13.15
Low	10.60	10.21	10.32	10.40	10.21

Dividends

During 2017 and 2016, our Board of Directors declared the following dividends:

Declaration Date	Record Date	Payment Date	Dividend per share	Dividends (S thousands)
February 25, 2016	March 07, 2016	March 18, 2016	0.050	459
May 17, 2016	June 01, 2016	June 15, 2016	0.050	465
August 02, 2016	August 17, 2016	August 31, 2016	0.050	449
November 01, 2016	November 16, 2016	November 30, 2016	0.050	444
January 31, 2017	February 15, 2017	March 1, 2017	0.050	439
May 4, 2017	May 17, 2017	May 31, 2017	0.070	612
August 7, 2017	August 22, 2017	September 7, 2017	0.070	599
November 8, 2017	November 22, 2017	December 6, 2017	0.070	589

In addition, on March 1, 2017, our Board of Directors authorized an increase in our quarterly dividend from $0.05 per share to $0.07 per share beginning with the second quarter dividend in 2017.

Issuer Purchases of Equity Securities

In May 2012, our Board of Directors authorized a stock repurchase program authorizing the Company to repurchase up to $2 million of our outstanding common stock. On July 30, 2012, the Board of Directors increased the repurchase amount to $3 million from the original $2 million. On February 20, 2013, the Board of Directors again increased the repurchase amount to $10 million from $3 million. On December 2, 2014, ClearOne, Inc. issued a press release announcing the declaration of future cash dividends by the Company's Board of Directors and reported the discontinuance of this stock repurchase program. At the time of the discontinuance of this stock repurchase program, the Company had repurchased approximately $5.4 million of the Company's stock.

On March 9, 2016, the Board of Directors of the Company authorized the repurchase of up to $10 million of the Company's outstanding shares of common stock under a new stock repurchase program. In connection with the repurchase authorization, the Company was authorized to complete the repurchase through open market transactions or through an accelerated share repurchase program, in each case to be executed at management's discretion based on business and market conditions, stock price, trading restrictions, acquisition activity and other factors. The repurchase program may be suspended or discontinued at any time without prior notice. The transactions effectuated to date occurred in open market purchases.

On March 1, 2017, the Board of Directors of the Company renewed and extended the repurchase program until March 8, 2018 for up to an additional $10 million of common stock over the next twelve months. In connection with the repurchase extension authorization, the Company was authorized to complete the repurchase through open market transactions or through an accelerated share repurchase program, in each case to be executed at management's discretion based on business and market conditions, stock price, trading restrictions, acquisition activity and other factors. The repurchase program may be suspended or discontinued at any time without prior notice. The transactions effectuated to date occurred in open market purchases.

During the three months ended December 31, 2017 we acquired the following shares of common stock under the current stock repurchase program:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in $ millions)
October 2017	19,460	$ 7.47	19,460	$ 6.5
November 2017	29,855	7.01	29,855	6.3
December 2017	69,229	8.88	69,229	5.7
Total	118,544	8.18	118,544	

From March 11, 2016 to March 17, 2017, the Company offered to repurchase eligible vested options to purchase shares under the 1998 Plan and the 2007 Plan from employees and directors. The Company repurchased delivered options at a repurchase price equal to the difference between the closing market price on the date of the employee's communication of accepting the repurchase offer and the exercise price of such employee's delivered options, subject to applicable withholding taxes and charges. The Company repurchased 225,542 stock options from employees and directors between March 11, 2016 and March 17, 2017 at an average purchase price of $7.77. The repurchase program expired on March 8, 2018 and the Board of Directors determined not to renew or extend it at that time.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Selected Financials

(Dollar in thousands, except per share data)

Year Ended December 31,	2017	2016	2015	2014	2013
Revenue	$ 41,804	$ 48,637	$ 57,796	$ 57,909	$ 49,592
Gross profit	24,009	29,487	36,719	35,323	29,897
Operating income/(loss)	(16,193)	3,566	10,292	7,975	7,622
Net income/(loss)	(14,172)	2,444	6,776	5,596	5,179
Diluted earnings/(loss) per share	(1.65)	0.26	0.71	0.58	0.55
Cash dividends declared per share	0.26	0.20	0.155	0.10	0.00
Cash, cash equivalents, and short-term investments	8,260	17,130	20,573	14,434	20,392
Working capital	23,286	30,819	36,539	30,202	39,417
Total assets	67,877	88,124	93,529	88,860	81,061
Long-term obligations	710	1,354	1,353	2,089	2,077
Stockholders' equity	56,567	77,449	82,569	76,016	70,335

	Quarterly Data for 2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 11,678	$ 10,311	$ 10,560	$ 9,255
Gross profit	6,678	6,069	6,509	4,753
Net loss	(469)	(820)	(9,276)	(3,607)
Diluted loss per common share	(0.05)	(0.09)	(1.09)	(0.43)

	Quarterly Data for 2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 13,033	$ 11,966	$ 12,908	$ 10,730
Gross profit	8,465	7,664	7,668	5,590
Net income (loss)	1,368	955	1,209	(1,088)
Diluted earnings(loss) per common share	0.14	0.10	0.13	(0.12)

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

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

OVERVIEW

ClearOne is a global Company that designs, develops and sells conferencing, collaboration, and network streaming solutions for voice and visual communications. The performance and simplicity of our advanced, comprehensive solutions offer a high level of functionality, reliability and scalability.

We derive most of our revenue from professional audio conferencing products by promoting our products in the professional audio-visual channel. We have extended our total addressable market from installed audio conferencing market to adjacent complementary markets – microphones, video collaboration and networked audio and video streaming. We have achieved this through strategic technological acquisitions as well as by internal product development.

During 2017, we devoted most of our attention to the transition of our flagship professional audio conferencing products from CONVERGE Pro and Beamforming Microphone Array platform to CONVERGE Pro 2, our full line of next-gen DSP conferencing platform and Beamforming Microphone Array 2 platform. A number of CONVERGE Pro 2 SKUs were introduced and shipped during 2017 along with accessories like touch panel controllers, GPIO expansion box and USB expansion box. On the operations side, we successfully transitioned the manufacture of our professional audio conferencing products by our Electronics Manufacturer Services provider in the US to outside the US. On the sales and marketing front, our initiatives included focusing on smaller regional arenas, adding headcount to the sales team for increased feet on the street, and bringing on new regional channel partners to boost sales opportunity funnels.

Overall revenue declined in 2017 despite a significant increase in revenue from video products. The declines in revenue from professional audio products and unified communications end points more than offset the increase in revenue from video products. Our revenue decline in professional audio products reflects the challenges in transition to the next generation professional audio conferencing platform, and the on-going harm of infringement of ClearOne's patents to our professional audio conferencing products.

Our gross profit margin decreased in 2017 to 57% compared to 61% in 2016 primarily due to the reduced margins associated with CONVERGE Pro 1 consequent to price reductions announced in the fourth quarter of 2016. Net income decreased from $2.4 million in 2016 to a loss of $14.2 million in 2017. Net loss in 2017 was primarily due to $13.5 million in impairment of goodwill and intangible assets.

Industry conditions

We operate in a very dynamic and highly competitive industry which is dominated on the one hand by a few players with respect to certain products like traditional video conferencing appliances while on the other influenced heavily by a fragmented reseller market consisting of numerous regional and local players. The industry is also characterized by the influx of venture capitalist funded start-ups and private companies keen to win market share even at the expense of mounting financial losses.

Economic conditions, challenges and risks

The audio-visual products market is characterized by intense competition and rapidly evolving technology. Our competitors vary within each product category. Our professional audio communication products, which contribute the most to our revenue, continues to be ahead of the competition despite the reduction in revenues through our transition from the CP1 platform to the next generation CP2 platform. Our strength in this space is largely due to our fully integrated suite of products consisting of DSP mixers, wide range of professional microphone products and video collaboration products. Despite our strong leadership position in the professional audio communications products market, we face challenges to revenue growth due to the limited size of the market and pricing pressures from new competitors attracted to the commercial market due to higher margins.

Revenue from our video products in the overall revenue mix has been improving on the back of a strong growth for our media collaboration products in 2017. We face intense competition in this market from well-established market leaders as well as emerging players rich with marketing funds. We expect our strategy of combining Spontania, our cloud-based video conferencing product, Collaborate, our appliance-based media collaboration product and our high-end audio conferencing technology to continue to generate high growth in revenue. We believe we are also well positioned to capitalize on the continuing migration away from the traditional hardware-based video conferencing systems to software-based video conferencing applications.

We derive a major portion of our revenue (approximately 39% for the year ended December 31, 2017) from international operations and expect this trend to continue in the future. Most of our revenue from outside the U.S. is billed in US dollars and is not exposed to any significant currency risk. However, we are exposed to foreign exchange risk if the US dollar is strong against other currencies as it will make U.S. Dollar denominated prices of our products less competitive.

Deferred Revenue

Each quarter-end, we evaluate the inventory in the distribution channel through information provided by certain of our distributors. The level of inventory in the channel fluctuates up or down each quarter based upon our distributors' individual operations. Accordingly, each quarter-end revenue deferral is calculated and recorded based upon the underlying channel inventory at quarter-end. Deferred revenue increased by $0.7 million to $4.6 million in 2017, due to higher orders placed in December. In 2016 deferred revenue decreased by $0.7 million from $4.6 million at the end of 2015 to $3.9 million at the end of 2016.

DISCUSSION OF RESULTS OF OPERATIONS

The following table sets forth certain items from our consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015, together with the percentage change each item represents. Throughout this discussion, we compare results of operations for the year ended December 31, 2017 ("2017") to the year ended December 31, 2016 ("2016" or "the comparable period") and to the year ended December 31, 2015 ("2015" or "the comparable period").

(In thousands, except percentages)	2017	2016	2015	Percentage Change 2017 vs 2016	Percentage Change 2016 vs 2015
Revenue	$ 41,804	$ 48,637	$ 57,796	-14%	-16%
Cost of goods sold	17,795	19,150	21,077	-7%	-9%
Gross profit	24,009	29,487	36,719	-19%	-20%
Sales and marketing	10,996	10,032	10,646	10%	-6%
Research and product development	9,342	8,564	8,318	9%	3%
General and administrative	7,161	7,325	7,493	-2%	-2%
Impairment of intangible assets	769	-	-	100%	-%
Impairment of goodwill	12,724	-	-	100%	-%
Legal settlement	790	-	-	-100%	_%
Operating expenses	40,202	25,921	26,457	55%	-2%
Operating income/(loss)	(16,193)	3,566	10,262	-554%	-65%
Income/(loss) before income taxes	(15,893)	3,878	10,551	-510%	-63%
Provision for/(benefit from) income taxes	(1,721)	1,434	3775	-220%	-62%
Net income/(loss)	(14,172)	2,444	6,776	-680%	-64%

Revenue

Our revenue decreased to $41.8 million in 2017 compared to $48.6 million in 2016. The 38% increase in revenue from video products was more than offset by a 19% decline in professional audio conferencing revenue and a 27% decline in revenue from unified communication end points. Premium products consisting of Interact AT line of products declined the most while media collaboration products increased the most. The decline in revenue from professional audio conferencing products was mostly due to price reductions to CONVERGE Pro 1 platform in the fourth quarter of 2016, delay in transitioning to the next generation professional audio conferencing platform, and the on-going harm of infringement of ClearOne's patents to our professional audio conferencing products. The share of professional audio communications products (which includes microphone products but not premium products) in our product mix declined from 77% in 2016 to 72% in 2017. Share of video products in the revenue mix increased from 11% in 2016 to 17% in 2017. The increase in revenue from video products was due to the success of media collaboration products, especially Unite camera, and increasing acceptance of View Pro in major projects, especially in Asia and Middle East. Share of UC end points declined marginally from 12% in 2016 to 11% in 2017.

During 2017, revenue declined across all major markets except India, Middle East, China and parts of Europe. The decline was pronounced in the USA, Canada, South Asia, Korea and Northern Europe. Asia Pacific including Middle East increased by 18%, Europe and Africa declined by 12% and Americas declined by about 23%. The revenue decline was primarily caused by the delay in the transition to our next generation audio platform, CONVERGE Pro 2 and Beamforming Microphone Array 2 combined with price reduction effected to Converge Pro 1 platform in 2016 and the on-going harm of infringement of ClearOne's patents to our professional audio conferencing products. We believe, although there can be no assurance, that we will return to growth path when the transition from CONVERGE Pro 1 platform to CONVERGE Pro 2 platform is complete which we anticipate may happen in the next 12 months.

Our revenue decreased to $48.6 million in 2016 compared to $57.8 million in 2015. The 40% increase in revenue from video products was more than offset by a 19% decline in professional audio conferencing revenue and a 23% decline in revenue from unified communication end points. Tabletop audio conferencing products declined the most while media collaboration products increased the most. The decline in revenue from professional audio conferencing products was mostly due to overall weakness in the economy, decline in orders due to transition from CONVERGE Pro 1 to CONVERGE Pro 2 and reductions in CONVERGE Pro 1 pricing in the last quarter of 2016. The share of professional audio communications products (which includes microphone products but not premium products) in our product mix declined from 80% in 2015 to 77% in 2016. Share of video products in the revenue mix increased from 6.5% in 2015 to 11% in 2016. The increase in revenue from video products was due to the success of Unite camera, favorable reception to the new Collaborate SKUs containing integrated audio solutions and increasing acceptance of View Pro in major projects. Share of UC end points declined marginally from 13% in 2016 to 12% in 2015.

Cost of Goods Sold and Gross Profit

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

Our gross profit during 2017 was approximately $24.0 million or 57% compared to approximately $29.5 million or 61% in 2016. Gross margin declined mainly due to the price reductions made to CONVERGE Pro 1 products in the fourth quarter of 2016 and the decline in higher margin professional audio conferencing products in the mix

Our gross profit during 2016 was approximately $29.5 million or 61% compared to approximately $36.7 million or 64% in 2015. This increase in margin was mainly due to favorable change in product mix and contribution of licensing fees to the revenue.

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

Operating Expenses and Profits (Losses)

Operating income/(loss), or income/(loss from operations, is the surplus or deficit after operating expenses are deducted from gross profits. Operating expenses include sales and marketing ("S&M") expenses, research and product development ("R&D") expenses and general and administrative ("G&A") expenses. Total operating expenses were $40.2 million in 2017, which included $13.5 million in impairment of goodwill and intangible assets, compared to $25.9 million in 2016 and $26.5 million in 2014. The following contains a more detailed discussion of expenses related to sales and marketing, research and product development, general and administrative, and other items.

Sales and Marketing S&M expenses include sales, customer service, and marketing expenses such as employee-related costs, allocations of overhead expenses, trade shows, and other advertising and selling expenses.

S&M expenses in 2017 increased by 10% from $10.0 million in 2016 to $11 million in 2017 mainly due to an augmentation in headcount and employee-related salaries, and benefits.

S&M expenses in 2016 declined by 6% from $10.6 million in 2015 to $10.0 million in 2016 mainly due to reductions in commissions paid to independent agents and reductions in employee-related salaries, benefits.

Research and Product Development R&D expenses include research and development, product line management, engineering services, and test and application expenses, including employee-related costs, outside services, expensed materials, depreciation, and an allocation of overhead expenses.

R&D expenses increased during 2017 to $9.3 million from $8.6 million in 2016. The increase was primarily due to an increase in R&D project costs and employee-related costs partially offset by a reduction in overhead allocated to R&D.

R&D expenses increased marginally during 2016 to $8.6 million from $8.3 million in 2015. The increase was primarily due to an increase in R&D project costs and employee-related costs partially offset by a reduction in overhead allocated to R&D.

General and Administrative G&A expenses include employee-related costs, professional service fees, allocations of overhead expenses, litigation costs, and corporate administrative costs, including costs related to finance and human resources.

G&A expenses were approximately $7.2 million in 2017 compared with approximately $7.3 million in 2016. G&A expenses was practically unchanged with main expenses relating to audit, accounting fees and legal expenses.

G&A expenses were approximately $7.3 million in 2016 compared with approximately $7.5 million in 2015. The decrease in G&A expenses was primarily due to a reduction in audit and accounting fees and employee-related costs partially offset by an increase in legal expenses, especially in the fourth quarter.

Impairment of Goodwill and Intangibles

We recognized impairment of goodwill of $12.7 million and intangibles of $0.7 million during the twelve months ended December 31, 2017. There were no such impairment charges during the years ended December 31, 2016 and 2015. The analysis for impairment was mainly triggered due to the decrease of our market capitalization. We recorded impairment charges upon determination that the carrying value of certain intangibles and goodwill is in excess of the implied fair value of such assets.

Provision for income taxes

The tax benefit of $1.7 million during 2017 was primarily the result of the tax benefit on current year losses, offset by additional tax expense related to the impact of the tax rate change on net deferred tax assets. This compared to tax expense of $1.4 million during 2016, which was primarily the result of tax on current year income. This increase in tax benefit of $3.1 million resulted primarily from changing from income in 2016 to losses in 2017.

The tax expense of $1.4 million during 2016 was primarily the result of tax on current year income. This compared to tax expense of $3.8 million during 2015, also primarily the result of tax on current year income. This decrease of $2.4 million resulted primarily from a decrease in the overall pre-tax income for the period, as well as reduced R&D tax credit utilization.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

As of December 31, 2017, our cash and cash equivalents were approximately $5.6 million compared to $12.1 million as of December 31, 2016. Our working capital was $23.3 million and $30.8 million as of December 31, 2017 and 2016, respectively.

Net cash flows used by operating activities were approximately $9.3 million during 2017, a decrease of approximately $17.1 million from $7.8 million provided by operating activities in 2016. The decrease was primarily due to reduction in net income of $16.6 million and an increase in inventory of $12.6 million partially offset by an increase in non-cash charges of $11.6 million consisting mostly of impairment charges.

Net cash flows provided by investing activities were $10.2 million during 2017 compared to net cash flows used in investing activities of $0.9 million during 2016, an increase of $11.1 million during 2017. The increase was primarily due to an increase in net sales of marketable securities of $13.4 million partially offset by $2.3 million of capitalized patent defense costs.

Net cash used in financing activities increased in 2017 by $0.7 million primarily due to a decrease in payments for stock repurchases and cancellation of stock options of $2.4 million offset by an increase in dividend payments of $0.4 million and an increase in proceeds from equity-based compensation programs and related tax benefits of $1.3 million.

Net cash flows provided by operating activities were approximately $7.8 million during 2016, an increase of approximately $0.2 million from $7.6 million provided by operating activities in 2015. The increase was primarily due to increase in cash inflows due to change in operating assets and liabilities of $4.8 million mostly offset by a decrease in non-cash charges of $0.2 million and a reduction in net income of $4.3 million.

Net cash flows used in investing activities were $0.9 million during 2016 compared to net cash flows used in investing activities of $0.6 million during 2015, an increase of $0.3 million during 2016. The increase was primarily due to an increase of $0.5 million in purchases of property, plant and equipment and intangibles partially offset by a reduction in net purchases of marketable securities. Net cash used in financing activities increased in 2016 by $7.3 million primarily due to payments for stock repurchases and cancellation of stock options of $7.8 million and increased dividend payments of $0.4 million partially offset by increased proceeds from equity-based compensation programs and related tax benefits of $1.0 million. Please refer to Note 3 - Business Combinations, Goodwill and Intangibles in the Notes to Consolidated Financial Statements (Part IV) for details on the Company's acquisitions.

Net cash used in financing activities in 2016 consisted of proceeds received from the exercise of stock options amounting to $0.5 million and associated tax benefits of $41 thousand, offset by cash dividends of $1.4 million. Net cash used in financing activities in 2015 consisted of proceeds from the exercise of stock options totaling $1.3 million and associated tax benefits totaling $0.2 million, offset by the acquisition of outstanding stock totaling $2.6 million under the stock repurchase program.

We believe that future income from operations and effective management of working capital will provide the liquidity needed to meet our short-term and long-term operating requirements and finance our growth plans. We also believe that our strong financial position and sound business structure will enable us to raise additional capital if and when needed to meet our short and long-term financing needs. In addition to capital expenditures, we may use cash in the near future for selective infusions of technology, sales and marketing, infrastructure, and other investments to fuel our growth, as well as acquisitions that may strategically fit our business and are accretive to our performance. We also intend to use cash to pay quarterly cash dividends and repurchase stock under our repurchase program expired in March 2018.

At December 31, 2017, we had open purchase orders related to our electronics manufacturing service providers of approximately $3.4 million, primarily related to inventory purchases.

At December 31, 2017, we had inventory totaling $23.1 million, of which non-current inventory accounted for $8.7 million. This compares to total inventories of $13.0 million and non-current inventory of $1.7 million as of December 31, 2016.

Off-Balance Sheet Arrangements

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our results of operations and financial position are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We evaluate our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. We believe that the estimates we use are reasonable; however, actual results could differ from those estimates. Our significant accounting policies are described in Note 1 - Business Description, Basis of Presentation and Significant Accounting Policies to the Consolidated Financial Statements included in Part IV of this report. We believe the following critical accounting policies identify our most critical accounting policies, which are the policies that are both important to the representation of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Revenue and Associated Allowances for Revenue Adjustments and Doubtful Accounts

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

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

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

The accuracy of the deferred revenue and costs depend to a large extent on the accuracy of the inventory reports provided by our distributors and other resellers, and any material error in those reports would affect our revenue deferral. However, we believe that the controls we have in place, including periodic physical inventory verifications and analytical reviews, would help us identify and prevent any material errors in such reports. As part of these controls, we sample test the inventory of a limited number of distributors on an annual basis, most recently in the fourth quarter of 2017, to verify inventory levels reported.

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

	As of December 31,		
	2017	2016	2015
Deferred revenue	$ 4,635	$ 3,882	$ 4,549
Deferred cost of goods sold	1,555	1,530	1,628
Deferred gross profit	$ 3,080	$ 2,352	$ 2,921

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

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

Impairment of Goodwill and Intangible Assets

We perform impairment tests of goodwill and intangible assets with indefinite useful lives on an annual basis in the fourth fiscal quarter, or sooner if a triggering event occurs suggesting possible impairment of the values of these assets. Impairment testing for these assets involves a two-step process. In the first step, the fair value of the reporting unit holding the assets is compared to its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of the impairment loss, if any. In the second step, the fair value of the reporting unit is allocated to all of its assets and liabilities, including intangible assets and liabilities not recorded on the balance sheet. The excess, if any, of the fair value of the reporting unit over the sum of the fair values allocated to identified assets and liabilities is the value of goodwill to be compared to its carrying value.

Based on the third quarter results of the Company's recent impairment analysis triggered by the fall in the Company's stock price and recent financial results, the Company determined that goodwill and an intangible asset consisting of customer relationships were impaired and recognized a charge of $12.7 million towards goodwill impairment and $0.7 million towards the intangible asset impairment for the three and nine months ended September 30, 2017.

Impairment of Long-Lived Assets

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

Accounting for Income Taxes

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

To the extent we establish a valuation allowance in a period, we must include and expense the allowance within the tax provision in the consolidated statement of operations. In accordance with ASC Topic 740, "Accounting for Income Taxes", we analyzed our valuation allowance at December 31, 2017 and determined that based upon available evidence it is more likely than not that certain of our deferred tax assets related to foreign net operating loss carryovers, foreign intangible assets, state R&D tax credit carryovers, and capital loss carryovers will not be realized and, accordingly, we have recorded a valuation allowance against these deferred tax assets in the amount of $2.2 million. Please refer to Note 12 - Income Taxes in the Notes to Consolidated Financial Statements for additional information.

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

Share-Based Payments

We estimate the fair value of stock options using the Black-Scholes option pricing model, which requires certain estimates, including an expected forfeiture rate and expected term of options granted. We also make decisions regarding the method of calculating expected volatilities and the risk-free interest rate used in the option-pricing model. The resulting calculated fair value of stock options is recognized as compensation expense over the requisite service period, which is generally the vesting period. When there are changes to the assumptions used in the option-pricing model, including fluctuations in the market price of our common stock, there will be variations in the calculated fair value of our future stock option awards, which results in variation in the compensation cost recognized.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

For descriptions of recently issued accounting standards, see Note 1. Business Description, Basis of Presentation and Significant Accounting Policies of our Notes to Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Financial instruments which potentially expose us to concentrations of credit risk primarily consist of cash and cash equivalents, short-term and long-term investments, accounts receivable and unbilled accounts receivable.

Our fixed-income portfolio consisting primarily of investment-grade securities is managed by professional money managers. Our investment securities also consist of triple-A rated short-term money market funds that typically invest in U.S. Treasury, U.S. government agency, and highly rated corporate securities. Since these funds are managed in a manner designed to preserve capital we do not expect any material changes in market values, as a result of increase or decrease in interest rates.

We believe that our credit policies reflect normal industry terms and business risk. We do not anticipate non-performance by the counterparties and, accordingly, do not require collateral. Credit losses and write-offs of accounts receivable balances have historically not been material to our financial statements and have not exceeded our expectations.

We did not have any notes payable and capital lease obligations as of December 31, 2017. Accordingly, we do not have significant exposure to changing interest rates. We have not undertaken any additional actions to cover market interest rate market risk and are not a party to any other interest rate market risk management activities. We do not purchase or hold any derivative financial instruments.

Although we enter into non-US Dollar transactions, foreign currency exposures arising from these transactions are not material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements and supplementary data required by this are included herein as a separate section of this Form 10-K, beginning on page F-1, and are incorporated in this Item 8 by reference.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the required time periods, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Senior Vice President of Finance, as appropriate, to allow for timely decisions regarding required disclosure. As required by Rule 13a-15 under the Exchange Act, we have completed an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Senior Vice President of Finance, of the effectiveness and the design and operation of our disclosure controls and procedures as of December 31, 2017. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Based upon this evaluation, our Chief Executive Officer and Senior Vice President of Finance concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were not effective at a reasonable assurance level as of December 31, 2017 due to the material weakness in internal control over financial reporting as described below. Despite the existence of this material weakness, the Company believes the financial information presented herein is materially correct and in accordance with generally accepted accounting principles in the United States of America, and do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made. The consolidated financial statements together with the other financial information included in the consolidated financial statements and this Annual Report on Form 10-K fairly present, in all material respects, the financial condition, financial performance and cash flows of the Company for the year ended December 31, 2017.

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

Management's Annual Report on Internal Control Over Financial Reporting

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

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

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017 based on the framework set forth in *Internal Control - Integrated Framework* (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Public Company Accounting Oversight Board's Auditing Standard No. 5 defines a material weakness as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. Management identified a material weakness in the operating effectiveness of internal control over financial reporting relating to the accurate and timely reporting of its financial results and disclosures for the fiscal year ended December 31, 2017 and its testing and assessment of the design and effectiveness of internal controls over financial reporting in a timely manner. This material weakness was identified prior to the issuance of our consolidated financial statements for the year ended December 31, 2017, and could result in material misstatements in the Company's annual or interim consolidated financial statements that would not be prevented or detected.

As a result of the material weakness described above, management concluded that our internal control over financial reporting was not effective as of December 31, 2017. The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by Tanner, LLC, our independent registered public accounting firm, as stated in their report appearing on page F-1.

Changes in Internal Control Over Financial Reporting

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

Remediation Activities

To address the material weakness, management is working with our third party internal controls consultant to assist with the implementation of a remediation plan which will supplement the existing controls. The remediation plan will include an assessment of personnel levels and responsibilities, additional training of financial reporting personnel and ability to handle new requirements and projects on a timely basis with respect to the preparation of the consolidated financial statements and public company reporting requirements and timelines. The material weakness will be fully remediated when, in the opinion of management, the control processes have been operating for a sufficient period of time to provide reasonable assurance as to their effectiveness. The remediation and ultimate resolution of the material weakness will be reviewed with the Audit Committee of the Board of Directors.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference to the definitive proxy statement for our 2017 annual meeting of shareholders or an amendment to this Annual Report on Form 10-K, which will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year covered by this Annual Report on form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the definitive proxy statement for our 2017 annual meeting of shareholders or an amendment to this Annual Report on Form 10-K, which will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year covered by this Annual Report on form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to the definitive proxy statement for our 2017 annual meeting of shareholders or an amendment to this Annual Report on Form 10-K, which will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year covered by this Annual Report on form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the definitive proxy statement for our 2017 annual meeting of shareholders or an amendment to this Annual Report on Form 10-K, which will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year covered by this Annual Report on form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated herein by reference to the definitive proxy statement for our 2017 annual meeting of shareholders or an amendment to this Annual Report on Form 10-K, which will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year covered by this Annual Report on form 10-K.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. Financial Statements: Financial statements set forth under Part II, Item 8 of this Annual Report on Form 10-K are filed in a separate section of this Form 10-K. See the "Index to Consolidated Financial Statements".

2. Financial Statement Schedules: All schedules are omitted since they either are not required, not applicable or the information is presented in the accompanying consolidated financial statements and notes thereto.

3. Exhibits: The exhibits listed under the Index of exhibits in the next page are filed or incorporated by reference as part of this Form 10-K.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Form	Exhibit Incorporated Herein by Reference	Filing Date
2.1	Agreement and Plan of Merger, dated as of November 3, 2009, by and among ClearOne Communications, Inc., Alta-Wasatch Acquisition Corporation, NetStreams, Inc., Austin Ventures VIII, L.P., and Kevin A. Reinis.	8-K	2.2	11/09/09
3.1	Amended and Restated Articles of Incorporation of ClearOne, Inc.	10-K	3.1	03/25/13
3.2	Bylaws	10-K	3.2	03/31/11
10.1	1997 Employee Stock Purchase Plan	S-8	4.9	10/06/06
10.2	1998 Stock Option Plan	S-8	4.8	10/06/06
10.3	2007 Equity Incentive Plan	S-8	4.7	01/22/08
10.4	ClearOne, Inc. Equity Incentive Plan	S-8	4.8	01/26/16
10.5	Amendment No. 1 to the ClearOne, Inc. Equity Incentive Plan	S-8	4.11	06/30/15
10.6	ClearOne, Inc. Employee Stock Purchase Plan	S-8	4.3	06/30/15
10.7	Office Lease between Edgewater Corporate Park, LLC and ClearOne Communications, Inc. dated June 5, 2006	10-K	10.19	09/14/06
10.8	Stock Purchase Agreement Between ClearOne, Inc. and Doran M. Oster Dated March 4, 2014 for the Sabine Acquisition.	10-K	10.7	03/20/14
10.9	Manufacturing Services Agreement between Flextronics Industrial, Ltd. and ClearOne Communications, Inc. dated November 3, 2008	10-K	10.21	10/13/09
10.10	Framework Agreement between ClearOne, Inc. and Dialcom Networks S.L., dated December 20, 2013	8-K	10.1	04/07/14
10.11	Amendment to Framework Agreement between ClearOne, Inc. and Dialcom Networks S.L., dated March 31, 2014	8-K	10.2	04/07/14
10.12	Purchase Agreement between ClearOne, Inc. and Dialcom Networks S.L., dated March 31, 2014	10-Q	10.3	05/14/14
10.13	Form of Offer to Repurchase Eligible Options for Cash	10-Q	10.1	05/10/16
14.1	Code of Ethics, approved by the Board of Directors on August 23, 2006	10-K	14.1	09/14/06
21.1†	Subsidiaries of the registrant			
23.1†	Consent of Tanner LLC, Independent Registered Public Accounting Firm			
31.1†	Section 302 Certification of Chief Executive Officer			
31.2†	Section 302 Certification of Chief Financial Officer			
32.1†	Section 906 Certification of Chief Executive Officer			
32.2†	Section 906 Certification of Chief Financial Officer			
101.INS‡	XBRL Instance Document			
101.SCH‡	XBRL Taxonomy Extension Schema			
101.CAL‡	XBRL Taxonomy Extension Calculation Linkbase			
101.DEF‡	XBRL Taxonomy Extension Definitions Linkbase			
101.LAB‡	XBRL Taxonomy Extension Label Linkbase			
101.PRE‡	XBRL Taxonomy Extension Presentation Linkbase			

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* Constitutes a management contract or compensatory plan or arrangement.
† Filed herewith
‡ Information furnished herewith shall not be deemed to be “filed” for the purposes of Section 18 of the 1934 Act

SIGNATURES

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

CLEARONE, INC.
Registrant

/s/ Zeynep Hakimoglu
Zeynep Hakimoglu
President, Chief Executive Officer and Chairman of the Board
April 20, 2018

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

/s/ Zeynep Hakimoglu
Zeynep Hakimoglu
President, Chief Executive Officer and Chairman of the Board
(principal executive officer)
April 20, 2018

/s/ Narsi Narayanan
Narsi Narayanan
Senior Vice President of Finance
(principal accounting and principal financial officer)
April 20, 2018

/s/ Brad R. Baldwin
Brad R. Baldwin
Director
April 20, 2018

/s/ Larry R. Hendricks
Larry R. Hendricks
Director
April 20, 2018

/s/ Eric L. Robinson
Eric L. Robinson
Director
April 20, 2018

CLEARONE, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
ClearOne, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of ClearOne, Inc. and subsidiaries (collectively, ClearOne) as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes to the consolidated financial statements (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material aspects, the financial position of ClearOne as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April XX, 2018 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since October 14, 2015.
/s/ TANNER LLC

Salt Lake City, Utah
April 20, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
ClearOne, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited ClearOne, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weakness noted below, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the each of the years in the three-year period ended December 31, 2017, and the related notes to the consolidated financial statements (collectively referred to as the "consolidated financial statements"), and our report dated April 20, 2018 expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness related to the accurate and timely reporting of its financial results and disclosures for the fiscal year ended December 31, 2017 and its testing and assessment of the design and effectiveness of internal controls over financial reporting in a timely manner has been identified and included in management's assessment. The material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2017 consolidated financial statements, and this report does not affect our report on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ TANNER LLC
Salt Lake City, Utah
April 20, 2018

CLEARONE, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except par value)

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,571	$ 12,100
Marketable securities	2,689	5,030
Receivables, net of allowance for doubtful accounts of $472 and $187, as of December 31, 2017 and 2016 respectively	7,794	7,461
Inventories	14,415	11,377
Distributor channel inventories	1,555	1,530
Prepaid expenses and other assets	1,862	2,642
Total current assets	33,886	40,140
Long-term marketable securities	10,349	21,365
Long-term inventories, net	8,708	1,664
Property and equipment, net	1,549	1,513
Intangible assets, net	6,543	5,677
Goodwill	—	12,724
Deferred income taxes	6,531	4,654
Other assets	311	387
Total assets	$ 67,877	$ 88,124
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,122	$ 3,545
Accrued liabilities	1,843	1,894
Deferred product revenue	4,635	3,882
Total current liabilities	10,600	9,321
Deferred rent	103	103
Other long-term liabilities	607	1,251
Total liabilities	11,310	10,675
Shareholders' equity:		
Common stock, par value $0.001, 50,000,000 shares authorized, 8,319,022 and 8,812,644 shares issued and outstanding as of December 31, 2017 and 2016 respectively	8	9
Additional paid-in capital	47,464	46,669
Accumulated other comprehensive loss	(65)	(205)
Retained earnings	9,160	30,976
Total shareholders' equity	56,567	77,449
Total liabilities and shareholders' equity	$ 67,877	$ 88,124

See accompanying notes

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

	Year ended December 31,		
	2017	2016	2015
Revenue	$ 41,804	$ 48,637	$ 57,796
Cost of goods sold	17,795	19,150	21,077
Gross profit	24,009	29,487	36,719
Operating expenses:			
Sales and marketing	10,996	10,032	10,646
Research and product development	9,342	8,584	8,318
General and administrative	7,161	7,325	7,493
Impairment of an intangible asset	769	—	—
Impairment of goodwill	12,724	—	—
Legal settlement	(790)	—	—
Total operating expenses	40,202	25,921	26,457
Operating income/(loss)	(16,193)	3,566	10,262
Other income, net	300	312	289
Income/(loss) before income taxes	(15,893)	3,878	10,551
Benefit from/(provision for) income taxes	1,721	(1,434)	(3,775)
Net income/(loss)	$ (14,172)	$ 2,444	$ 6,776
Basic earnings/(loss) per common share	$ (1.65)	$ 0.27	$ 0.74
Diluted earnings/(loss) per common share	$ (1.65)	$ 0.26	$ 0.71
Basic weighted average shares outstanding	8,576,588	9,021,980	9,127,385
Diluted weighted average shares outstanding	8,576,588	9,306,034	9,594,659
Comprehensive income:			
Net income/(loss)	$ (14,172)	$ 2,444	$ 6,776
Other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities, net of tax	36	(1)	(81)
Change in foreign currency translation adjustment	104	(38)	(77)
Comprehensive income/(loss)	$ (14,032)	$ 2,405	$ 6,618

See accompanying notes

CLEARONE, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands, except per share data)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	Total Shareholders'
	Shares	Amount	Capital	Income (Loss)	Earnings	Equity
Balances at December 31, 2014	9,097,827	9	44,939	(8)	31,076	76,016
Exercise of stock options	56,143	-	308	-	-	308
Cash dividends, $0.155 per share	-	-	-	-	(1,417)	(1,417)
Tax benefit - stock option exercises	-	-	41	-	-	41
Stock-based compensation expense	15,005	-	848	-	-	848
Proceeds from employee stock purchase plan	14,982	-	155	-	-	155
Unrealized loss on available-for-sale securities, net of tax	-	-	-	(81)	-	(81)
Foreign currency translation adjustment	-	-	-	(77)	-	(77)
Net income	-	-	-	-	6,776	6,776
Balances at December 31, 2015	9,183,957	9	46,291	(166)	36,435	82,569
Exercise of stock options	149,315	-	686	-		686
Repurchased and cancellation of stock options	-	-	(1,752)	-	-	(1,752)
Stock repurchased	(542,259)	-	-	-	(6,086)	(6,086)
Cash dividends, $0.20 per share	-	-	-	-	(1,817)	(1,817)
Stock-based compensation expense	12,491	-	667	-	-	667
Tax benefit - stock option exercises	-	-	690	-	-	690
Proceeds from employee stock purchase plan	9,140	-	87	-	-	87
Unrealized loss on available-for-sale securities, net of tax	-	-	-	(1)	-	(1)
Foreign currency translation adjustment	-	-	-	(38)	-	(38)
Net income	-	-	-	-	2,444	2,444
Balances at December 31, 2016	8,812,644	9	46,669	(205)	30,976	77,449
Exercise of stock options	45,260	-	64	-	-	64
Stock repurchased	(551,936)	(1)	-	-	(5,118)	(5,119)
Restricted stock granted	5,000	-	-	-	-	-
Cash dividends, $0.26 per share	-	-	-	-	(2,239)	(2,239)
Stock-based compensation expense	-	-	665	-	-	665
Cancellation of restricted stock and stock options	(1,056)	-		-	(287)	(287)
Proceeds from employee stock purchase plan	9,110	-	66	-	-	66
Unrealized loss on available-for-sale securities, net of tax	-	-	-	36	-	36
Foreign currency translation adjustment	-	-	-	104	-	104
Net loss	-	-	-	-	(14,172)	(14,172)
Balances at December 31, 2017	8,319,022	$ 8	$ 47,464	$ (65)	$ 9,160	$ 56,567

See accompanying notes

CLEARONE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Cash flows from operating activities:			
Net income	$ (14,172)	$ 2,444	$ 6,776
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	1,531	1,873	2,058
Impairment of goodwill and intangible assets	13,493	-	-
Amortization of deferred rent	(44)	(73)	(95)
Stock-based compensation expense	665	667	848
Provision for (recoveries of) doubtful accounts, net	252	132	(4)
Write-down of inventory to net realizable value	649	653	496
Loss on disposal of assets	7	54	7
Tax benefit from exercise of stock options	-	(690)	(41)
Deferred income taxes	(1,877)	439	(4)
Changes in operating assets and liabilities:			
Receivables	(526)	1,085	1,201
Inventories	(10,756)	1,869	(2,249)
Prepaid expenses and other assets	9	(209)	824
Accounts payable	572	733	(242)
Accrued liabilities	(23)	(319)	(1,219)
Income taxes payable	853	(207)	323
Deferred product revenue	740	(665)	(447)
Other long-term liabilities	(644)	48	(638)
Net cash provided/(used) by operating activities	(9,271)	7,834	7,594
Cash flows from investing activities:			
Capitalized patent defense costs	(2,289)	-	-
Purchase of property and equipment	(638)	(730)	(359)
Purchase of intangible assets	(278)	(161)	-
Proceeds from maturities and sales of marketable securities	17,640	9,795	7,341
Purchase of marketable securities	(4,248)	(9,826)	(7,630)
Net cash used/(provided) in investing activities	10,187	(922)	(648)
Cash flows from financing activities:			
Net proceeds from equity-based compensation programs	130	773	463
Repurchase and cancellation of stock options	(287)	(1,752)	-
Tax benefits from equity-based compensation programs	-	690	41
Dividend payments	(2,239)	(1,817)	(1,417)
Payments for stock repurchases	(5,119)	(6,086)	-
Net cash used in financing activities	(7,515)	(8,192)	(913)
Effect of exchange rate changes on cash and cash equivalents	70	(32)	(61)
Net increase (decrease) in cash and cash equivalents	(6,529)	(1,312)	5,972
Cash and cash equivalents at the beginning of the year	12,100	13,412	7,440
Cash and cash equivalents at the end of the year	$ 5,571	$ 12,100	$ 13,412

CLEARONE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2017	**2016**	**2015**
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 6	$ 1,154	$ 3,730

See accompanying notes

CLEARONE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share and per share amounts)

1. Business Description, Basis of Presentation and Significant Accounting Policies

Business Description:

ClearOne, Inc., together with its subsidiaries (collectively, "ClearOne" or the "Company"), is a global Company that designs, develops and sells conferencing, collaboration, network streaming and digital signage solutions for audio and visual communications. The performance and simplicity of our advanced comprehensive solutions offer unprecedented levels of functionality, reliability, and scalability.

Basis of Presentation:

Fiscal Year – This report on Form 10-K includes consolidated balance sheets for the years ended December 31, 2017 and 2016 and the related consolidated statements of operations and comprehensive income/(loss), cash flows, and shareholders' equity for each of the years 2017, 2016 and 2015.

Consolidation – These consolidated financial statements include the financial statements of ClearOne, Inc. and its wholly owned subsidiaries. All inter-Company accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation.

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

Foreign Currency Translation – We are exposed to foreign currency exchange risk through our foreign subsidiaries. Other than our Spain subsidiary, our foreign subsidiaries are U.S. dollar functional, for which gains and losses arising from remeasurement are included in earnings. Our Spain subsidiary is Euro functional, for which gains and losses arising from translation are included in accumulated other comprehensive income or loss. We translate and remeasure foreign assets and liabilities at exchange rates in effect at the balance sheet dates. We translate revenue and expenses using average rates during the year.

Concentration Risk – We depend on an outsourced manufacturing strategy for our products. We outsource the manufacture of all of our products (except digital signage products) to third party manufacturers located in both the U.S. and Asia. If any of these manufacturers experience difficulties in obtaining sufficient supplies of components, component prices significantly exceeding the anticipated costs, an interruption in their operations, or otherwise suffer capacity constraints, we would experience a delay in production and shipping of 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, transportation restrictions, acts of terror, quarantine or other restrictions associated with infectious diseases, or other similar events, or any other reason, such disruption may 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 a portion of our products.

Significant Accounting Policies:

Cash Equivalents – The Company considers all highly-liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. The Company places its temporary cash investments with high-quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limits.

(Dollars in thousands, except share and per share amounts)

Marketable Securities - The Company has classified its marketable securities as available-for-sale securities. These securities are carried at estimated fair value with unrealized holding gains and losses included in accumulated other comprehensive income/(loss) in shareholders' equity until realized. Gains and losses on marketable security transactions are reported on the specific-identification method. Dividend and interest income are recognized when earned.

A decline in the market value of any available-for-sale security below cost that is deemed other than temporary results in a charge to earnings and establishes a new cost basis for the security. Losses are charged against "Other income" when a decline in fair value is determined to be other than temporary. We review several factors to determine whether a loss is other than temporary. These factors include, but are not limited to: (i) the extent to which the fair value is less than cost and the cause for the fair value decline, (ii) the financial condition and near term prospects of the issuer, (iii) the length of time a security is in an unrealized loss position and (iv) our ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. There were no other-than-temporary impairments recognized during the years ended December 31, 2017, 2016 and 2015.

Accounts Receivable – Accounts receivable are recorded at the invoiced amount. Generally, credit is granted to customers on a short-term basis without requiring collateral, and as such, these accounts receivable, do not bear interest, although a finance charge may be applied to such receivables that are past due. The Company extends credit to customers who it believes have the financial strength to pay. The Company has in place credit policies and procedures, an approval process for sales returns and credit memos, and processes for managing and monitoring channel inventory levels.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Management regularly analyzes accounts receivable including current aging, historical write-off experience, customer concentrations, customer creditworthiness, and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. We review customer accounts quarterly by first assessing accounts with aging over a specific duration and balance over a specific amount. We review all other balances on a pooled basis based on past collection experience. Accounts identified in our customer-level review as exceeding certain thresholds are assessed for potential allowance adjustment if we conclude the financial condition of that customer has deteriorated, adversely affecting their ability to make payments. Delinquent account balances are written off if the Company determines that the likelihood of collection is not probable. If the assumptions that are used to determine the allowance for doubtful accounts change , the Company may have to provide for a greater level of expense in future periods or reverse amounts provided in prior periods.

The Company's allowance for doubtful accounts activity for the years ended as follows:

	Year Ended December 31,		
	2017	**2016**	**2015**
Balance at beginning of the year	$ 187	$ 54	$ 58
Allowance increase (decrease)	287	148	36
Write offs , net of recoveries	(2)	(15)	(40)
Balance at end of the year	$ 472	$ 187	$ 54

Inventories – Inventories are valued at the lower of cost or market, with cost computed on a first-in, first-out ("FIFO") basis. In addition to the price of the product purchased, the cost of inventory includes the Company's internal manufacturing costs, including warehousing, engineering, material purchasing, quality and product planning expenses and applicable overhead, not in excess of estimated realizable value. Consideration is given to obsolescence, excessive levels, deterioration, direct selling expenses, and other factors in evaluating net realizable value.

Distributor channel inventories include products that have been delivered to customers for which revenue recognition criteria have not been met.

The inventory also includes advance replacement units (valued at cost) provided by the Company to end-users to service defective products under warranty. The value of advance replacement units included in the inventory was $76 and $21, as of December 31, 2017 and 2016, respectively.

The inventory consists of current inventory of $14,415 and long-term inventory of $8,708. Long term inventory represents inventory held in excess of our current (next 12 months) requirements based on our recent sales and forecasted level of sales.

Property and Equipment – Property and equipment are stated at cost less accumulated depreciation and amortization. Expenditures that materially increase values or capacities or extend useful lives of property and equipment are capitalized. Routine maintenance, repairs, and renewal costs are expensed as incurred. Gains or losses from the sale, trade-in, or retirement of property and equipment are recorded in current operations and the related book value of the property is removed from property and equipment accounts and the related accumulated depreciation and amortization accounts. Estimated useful lives are generally two to ten years. Depreciation and amortization are calculated over the estimated useful lives of the respective assets using the straight-line method. Leasehold improvement amortization is computed using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets.

Goodwill and Intangible Assets – Intangible assets acquired in a purchase business combination are amortized over their useful lives unless these lives are determined to be indefinite. Intangible assets are carried at cost, less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets, which are generally three to ten years. Goodwill represents the excess of costs over the fair value of net assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized.

Impairment of Goodwill - Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. In accordance with the provisions of FASB ASC Topic 350, *Intangibles – Goodwill and Other* the Company performs impairment tests of goodwill on an annual basis in the fourth fiscal quarter, or sooner if a triggering event occurs suggesting possible impairment of the values of these assets.

We assess the recoverability of our one reporting unit's carrying value of goodwill by making a qualitative or quantitative assessment. If we begin with a qualitative assessment and are able to support the conclusion that it is not more likely than not that the fair value of the Company is less than its carrying value, we are not required to perform the two-step impairment test. Otherwise, using the two−step approach is required (See Note 3 – Business Combinations, Goodwill and Intangibles). ClearOne and all of its subsidiaries are considered as one reporting unit for this purpose.

In the first step of the goodwill impairment test, we compare the carrying value the Company, including its recorded goodwill, to the estimated fair value. We estimate the fair value using an equity-value based methodology. The principal method used is an equity-value based method in which the Company's market-cap is compared to the net book value. This value is then compared to total net assets. If the fair value of the Company exceeds its carrying value, the goodwill is not impaired and no further review is required. However, if the fair value of the reporting unit is less than its carrying value, we perform the second step of the goodwill impairment test to determine the amount of the impairment charge, if any.

The second step involves a hypothetical allocation of the fair value of the Company to its net tangible and intangible assets (excluding goodwill) as if the business unit were newly acquired, which results in an implied fair value of goodwill. The amount of the impairment charge is the excess of the recorded goodwill over the implied fair value of goodwill.

During the third quarter ended September 30, 2017, we recorded $12,724, or the entire value of goodwill, as an impairment charge.

Impairment of Long-Lived Assets - Long-lived assets, such as property, equipment, and definite-lived intangible assets subject to depreciation and amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or asset group to estimated future undiscounted net cash flows of the related asset or group of assets over their remaining lives. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent of other groups of assets. 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.

During the twelve months ended December 31, 2017 we recorded $769 as a charge for impairment of an intangible asset consisting of customer relationships.

Revenue Recognition – Product revenue is recognized when (i) the products are shipped, (ii) persuasive evidence of an arrangement exists, (iii) the price is fixed and determinable, and (iv) collection is reasonably assured.

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

(Dollars in thousands, except share and per share amounts)

Revenue from product sales to distributors is not recognized until the return privilege has expired or until it can be determined with reasonable certainty that 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. At each quarter-end, the Company evaluates the inventory in the channel through information provided by our distributors. The level of inventory in the channel will fluctuate up-ward or down-ward each quarter, based upon its distributors' individual operations. Accordingly, at each quarter-end, the deferral for revenue and associated cost of goods sold are calculated and recorded based upon the actual channel inventory reported at quarter-end. Further, with respect to distributors and other channel partners not reporting the channel inventory, the revenue and associated cost of goods sold are deferred until the Company receives payment for the product sales made to such distributors or channel partners.

The amount of deferred cost of goods sold is included in distributor channel inventories.

The details of deferred revenue and associated cost of goods sold and gross profit are as follows:

	As of December 31,	
	2017	**2016**
Deferred revenue	$ 4,635	$ 3,882
Deferred cost of goods sold	1,555	1,530
Deferred gross profit	$ 3,080	$ 2,352

The Company offers rebates and market development funds to certain of its distributors, dealers/resellers, and end-users based upon the volume of product purchased by them. The Company records rebates as a reduction of revenue in accordance with GAAP.

The Company provides, at its discretion, advance replacement units to end-users on defective units of certain products under warranty. Since the purpose of these units is not revenue generating, the Company tracks the units due from the end-user, until the defective unit has been returned. Any amount due from the customer upon failure to return the products is accounted as receivable only after establishing customer's failure to return the products. The inventory due from the customer is accounted at cost or market value whichever is lower.

Sales and Similar Taxes - Taxes collected from customers and remitted to government authorities are reported on a net basis and thus are excluded from revenues.

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

Warranty Costs – The Company accrues for warranty costs based on estimated warranty return rates and estimated costs to repair. These reserve costs are classified as accrued liabilities on the consolidated balance sheets. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty returns, and repair cost. The Company reviews the adequacy of its recorded warranty accrual on a quarterly basis.

The details of changes in the Company's warranty accrual are as follows:

	Year Ended December 31,		
	2017	**2016**	**2015**
Balance at the beginning of year	$ 246	$ 288	$ 331
Accruals/additions	399	361	442
Usage/claims	(400)	(403)	(485)
Balance at end of year	$ 245	$ 246	$ 288

Advertising – The Company expenses advertising costs as incurred. Advertising costs consist of trade shows, magazine advertisements, and other forms of media. Advertising expenses for the years ended December 31, 2017, 2016 and 2015 totaled $1,079, $836, and $728, respectively, and are included under the caption "Sales and Marketing".

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

Income Taxes – The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry-forwards. These temporary differences will result in deductible or taxable amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets may not be realized. The Company evaluates the realizability of its net deferred tax assets on a quarterly basis and valuation allowances are provided, as necessary. Adjustments to the valuation allowance increase or decrease the Company's income tax provision or benefit. As of December 31, 2017 and 2016, the Company had a valuation allowance of $2,236 and $1,404, respectively against foreign net operating losses, foreign intangible assets, capital losses carryforwards, and state research and development credits.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act, which is generally effective for tax years beginning on January 1, 2018, makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) eliminating the corporate alternative minimum tax (AMT); (3) bonus depreciation that will allow for full expensing of qualified property; (4) creating a new limitation on deductible interest expense; (5) the repeal of the domestic production activity deduction; (6) the creation of the base erosion anti-abuse tax (BEAT), a new minimum tax; (7) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries and imposing a one-time repatriation tax on deemed repatriated earnings and profits of U.S.-owned foreign subsidiaries (the Transition Tax); (8) a new provision designed to tax global intangible low-taxed income (GILTI), which allows for the possibility of using foreign tax credits (FTCs) and a deduction of up to 50 percent to offset the income tax liability (subject to some limitations); and (9) changing rules related to uses and limitation of net operating loss carryforwards created in tax years beginning after December 31, 2017.

Shortly after enactment, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 ("SAB 118") which provided US GAAP guidance on the accounting for the Act's impact at December 31, 2017. A reporting entity may recognize provisional amounts, where the necessary information is not available, prepared or analyzed (including computations) in reasonable detail or where additional guidance is needed from the taxing authority to determine the appropriate application of the Act. A reporting entity's provisional impact analysis may be adjusted within the 12-month measurement period provided for under SAB 118.

The Transition Tax is based on the Company's post-1986 earnings and profits (E&P) of U.S.-owned foreign subsidiaries for which the Company had previously deferred U.S. income taxes. Due to the aggregate loss position of these subsidiaries, the Company estimates that the Transition Tax will not result in additional U.S. tax.

The reduction in the corporate tax rate to 21 percent due to the Tax Act is effective January 1, 2018. Consequently, the Company has recorded a decrease related to the net deferred tax assets of approximately $3.3 million with a corresponding net adjustment to deferred income tax expense of approximately $3.3 million for the year ended December 31, 2017.

The impact of the Tax Act may differ from amounts currently recorded, possibly materially, during the 12-month measurement period due to, among other things, further refinement of the Company's calculations, changes in interpretations and assumptions the Company has made, guidance that may be issued and actions the Company may take as a result of the Tax Act.

The Company follows the provisions contained in ASC Topic 740, *Income Taxes.* The Company recognizes the tax benefit from an uncertain tax position only if it is at least more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

Judgment is required in determining the provision for income taxes and related accruals, deferred tax assets and liabilities. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, the Company's tax returns are subject to audit by various tax authorities. Although the Company believes that its estimates are reasonable, actual results could differ from these estimates.

Earnings Per Share – The following table sets forth the computation of basic and diluted earnings per common share:

	Year Ended December 31, 2017	2016	2015
Numerator:			
Net income/(loss)	$ (14,172)	$ 2,444	$ 6,776
Denominator:			
Basic weighted average shares	8,576,588	9,021,980	9,127,385
Dilutive common stock equivalents using treasury stock method	-	284,054	467,274
Diluted weighted average shares	8,576,588	9,306,034	9,594,659
Basic earnings per common share:	$ (1.65)	$ 0.27	$ 0.74
Diluted earnings per common share:	$ (1.65)	$ 0.26	$ 0.71
Weighted average options outstanding	815,870	885,163	1,053,785
Anti-dilutive options not included in the computation	815,870	323,644	177,125

Share-Based Payment – We estimate the fair value of stock options using the Black-Scholes option-pricing model, which requires certain estimates, including an expected forfeiture rate and expected term of options granted. We also make decisions regarding the method of calculating expected volatilities and the risk-free interest rate used in the option-pricing model. The resulting calculated fair value of stock options is recognized as compensation expense over the requisite service period, which is generally the vesting period. When there are changes to the assumptions used in the option-pricing model, including fluctuations in the market price of our common stock, there will be variations in the calculated fair value of our future stock option awards, which results in variation in the compensation cost recognized.

Recent Accounting Pronouncements - Recent Accounting Standards Not Yet Effective as of Fiscal Year End. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is permitted. The updated standard becomes effective for the Company on January 1, 2018. The Company expects to adopt this accounting standard update on a modified retrospective basis in the first quarter of fiscal 2018, and it is currently evaluating the impact of this accounting standard update on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) to bring transparency to lessee balance sheets. The ASU will require organizations that lease assets (lessees) to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The standard will apply to both types of leases-capital (or finance) leases and operating leases. Previously, GAAP has required only capital leases to be recognized on lessee balance sheets. The standard is effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2018. Early application will be permitted for all organizations. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 was effective for the Company on January 1, 2017. As a result of the adoption of ASU 2016-09, excess tax benefits or deficiencies related to stock-based compensation are now reflected in the Consolidated Statements of Operations as a component of the provision for income taxes, whereas they previously were recognized in additional paid-in capital. In addition, our Consolidated Statements of Cash Flows will now present, on a prospective basis, excess tax benefits as an operating activity. Finally, we have elected to account for forfeitures as they occur, rather than estimate expected forfeitures.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 is effective for the Company beginning January 1, 2018 and the Company is currently evaluating the impact that ASU 2016-15 will have on the consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. The new guidance provides clarity and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The accounting standard update will be effective for The Company beginning January 1, 2018 on a prospective basis, and early adoption is permitted. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

(Dollars in thousands, except share and per share amounts)

2. Marketable Securities

The Company has classified its marketable securities as available-for-sale securities. These securities are carried at estimated fair value with unrealized holding gains and losses included in accumulated other comprehensive income/loss in shareholders' equity until realized. Gains and losses on marketable security transactions are reported on the specific-identification method. Dividend and interest income are recognized when earned.

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for available-for-sale securities by major security type and class of security at December 31, 2017 and 2016 were as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
December 31, 2017				
Available-for-sale securities:				
Corporate bonds and notes	$ 8,458	$ 19	$ (49)	$ 8,428
Municipal bonds	4,637	1	(28)	4,610
Total available-for-sale securities	$ 13,095	$ 20	$ (77)	$ 13,038
December 31, 2016				
Available-for-sale securities:				
Corporate bonds and notes	$ 20,028	$ 64	$ (122)	$ 19,970
Municipal bonds	6,463	6	(44)	6,425
Total available-for-sale securities	$ 26,491	$ 70	$ (166)	$ 26,395

(Dollars in thousands, except share and per share amounts)

Maturities of marketable securities classified as available-for-sale securities were as follows at December 31, 2017:

	Amortized cost	Estimated fair value
Due within one year	$ 2,688	$ 2,688
Due after one year through five years	10,408	10,350
Total available-for-sale securities	$ 13,096	$ 13,038

Debt securities in an unrealized loss position as of December 31, 2017 were not deemed impaired at acquisition and subsequent declines in fair value are not deemed attributed to declines in credit quality. Management believes that it is more likely than not that the securities will receive a full recovery of par value. The available-for-sale marketable securities in a gross unrealized loss position as of December 31, 2017 are summarized as follows:

	Less than 12 months		More than 12 months		Total	
	Estimated fair value	Gross unrealized holding losses	Estimated fair value	Gross unrealized holding losses	Estimated fair value	Gross unrealized holding losses
As of December 31, 2017						
Corporate bonds and notes	$ 3,799	$ (20)	2,125	$ (30)	$ 5,924	$ (50)
Municipal bonds	3,341	(18)	657	(9)	3,998	(27)
	$ 7,140	$ (38)	$ 2,782	$ (39)	$ 9,922	$ (77)

(Dollars in thousands, except share and per share amounts)

3. Business Combinations, Goodwill and Intangible Assets

Goodwill impairment

There was a decrease in goodwill during the twelve months ended from $12,724 as of December 31, 2016 to $0 as of December 31, 2017 due to the impairment of goodwill. During the third quarter ended September 30, 2017, there was a decrease in the Company's market capitalization which was determined to be a triggering event for potential goodwill impairment. Accordingly, the Company performed a goodwill impairment analysis. The Company utilized the market capitalization to estimate the fair value. Our total stockholders' equity exceeded the estimated fair value. The failure of step one of the goodwill impairment test triggered a step two impairment test. As a result of step two of the impairment test, the Company determined the implied fair value of goodwill and concluded that the carrying value of goodwill exceeded its implied fair value as of September 30, 2017. Accordingly, an impairment charge of $12,724, which represents a full impairment charge, was recognized in the third quarter ended September 30, 2017.

Intangible Assets

Intangible assets as of December 31, 2017, and 2016 consisted of the following:

	Estimated useful lives (in years)	As of December 31, 2017	As of December 31, 2016
Tradename	5 to 7	$ 555	$ 555
Patents and technological know-how	10	8,578	6,010
Proprietary software	3 to 15	2,981	4,341
Other	3 to 5	323	324
Total intangible assets, gross		12,437	11,230
Accumulated amortization		(5,894)	(5,553)
Total intangible assets, net		$ 6,543	$ 5,677

During the years ended December 31, 2017, 2016 and 2015, amortization of these intangible assets were $932, $1,121, and $1,258 respectively.

The estimated future amortization expense of intangible assets is as follows:

Years ending December 31,	
2018	$ 935
2019	831
2020	652
2021	652
2022	652
Thereafter	2,821
Total	$ 6,543

(Dollars in thousands, except share and per share amounts)

4. Inventories

Inventories, net of reserves, consisted of the following:

	As of December 31, 2017	2016
Current:		
Raw materials	$ 197	$ 2,291
Finished goods	14,218	9,086
Total	$ 14,415	$ 11,377
Long-term:		
Raw materials	$ 2,682	$ 599
Finished goods	6,026	1,065
Total	$ 8,708	$ 1,664

Long-term inventory represents inventory held in excess of our current (next 12 months) requirements based on our recent sales and forecasted level of sales. We have developed programs to reduce the inventory to normal operating levels in the near future. We expect to sell the above inventory, net of reserves, at or above the stated cost and believe that no loss will be incurred on its sale.

Current finished goods do not include distributor channel inventories in the amounts of approximately $1,555 and $1,530 as of December 31, 2017 and 2016, respectively. Distributor channel inventories represent inventory at distributors and other customers where revenue recognition criteria have not been achieved.

The losses incurred on valuation of inventory at the lower of cost or market value and write-off of obsolete inventory amounted to $649, $653 and $496 during the years ended December 31, 2017, 2016 and 2015, respectively.

5. Property and Equipment

Major classifications of property and equipment and estimated useful lives were as follows:

	Estimated useful lives in years	**As of December 31, 2017**	**2016**
Office furniture and equipment	3 to 10	$ 4,904	$ 4,835
Leasehold improvements	1 to 6	1,509	1,495
Vehicles	5 to 10	160	-
Manufacturing and test equipment	2 to 10	2,577	2,537
		9,150	8,867
Accumulated depreciation and amortization		(7,601)	(7,354)
Property and equipment, net		$ 1,549	$ 1,513

Depreciation expense on property and equipment for the years ended December 31, 2017, 2016 and 2015 was $599, $723, and $801, respectively. During the twelve months ended December 31, 2017 we recorded $128 thousand for the disposal of fixed assets consisting of software, manufacturing equipment and furniture.

6. Leases and Deferred Rent

Rent expense is recognized on a straight-line basis over the period of the lease taking into account future rent escalation and holiday periods. Rent expense was $999, $1,099 and $1,420, including amortization of deferred rent of $44, $73, and $95 for the years ended December 31, 2017, 2016 and 2015, respectively.

We occupy a 5,000 square-foot facility in Gainesville, Florida under the terms of an operating lease that expires in February 2021 with the possibility of renewing the lease for 10 more years. The Gainesville facility was used primarily to support our research and development activities.

(Dollars in thousands, except share and per share amounts)

We lease a 4,700 square-foot office facility in Hod Hasharon, Israel under the terms of an operating lease expiring in December 2019 which serves to support our research and development activities. Upon expiration, we will have the option to extend the lease for two additional years.

We currently occupy a 31,000 square-foot facility in Salt Lake City, Utah under the terms of an operating lease expiring in May 2019, which supports our principal administrative, sales, marketing, customer support, and research and product development activities.

We occupy a 10,700 square-foot warehouse in Shenzhen, China under the terms of an operating lease expiring in September 2019, which serves as our primary inventory fulfillment and repair center for Asia.

We occupy a 7,070 square-foot facility in Austin, Texas - under the terms of an operating lease expiring in October 2019. This facility support our administrative, sales, marketing, customer support, and research and development activities.

We occupy a 40,000 square-foot warehouse in Salt Lake City, Utah under the terms of an operating lease expiring in April 2025, which serves as our primary inventory fulfillment and repair center. This facility also serves as our assembly workshop for digital signage products.

Future minimum lease payments under non-cancellable operating leases with initial terms of one year or more are as follows:

Years ending December 31,		
2018	$	762
2019		412
2020		182
2021		187
2022		193
Thereafter		472
Total minimum lease payments	$	2,208

7. Accrued Liabilities

Accrued liabilities consist of the following:

	As of December 31,			
	2017		**2016**	
Accrued salaries and other compensation	$	1,072	$	1,098
Sales and marketing programs		435		319
Product warranty		245		246
Other accrued liabilities		91		231
Total	$	1,843	$	1,894

8. Commitments and Contingencies

We establish contingent liabilities when a particular contingency is both probable and estimable. The Company is not aware of any pending claims or assessments, other than as described below, which may have a material adverse impact on the Company’s financial position or results of operations.

Outsource Manufacturers. We have manufacturing agreements with electronics manufacturing service (“EMS”) providers related to the outsourced manufacturing of our products. Certain manufacturing agreements establish annual volume commitments. We are also obligated to repurchase Company-forecasted but unused materials. The Company has non-cancellable, non-returnable, and long-lead time commitments with its EMS providers and certain suppliers for inventory components that will be used in production. The Company’s purchase commitments under such agreements is approximately $3,402 as of December 31, 2017.

Uncertain Tax Positions. As further discussed in Note 12, we had $652 of uncertain tax positions as of December 31, 2017. Due to the inherent uncertainty of the underlying tax positions, it is not possible to forecast the payment of this liability to any particular year.

Legal Proceedings.

Intellectual Property Litigation

On April 25, 2017, the Company was awarded a new patent, U.S. Patent No. 9,635,186 (the "186 Patent"), which relates to a system and method involving the combination of echo cancellation and beamforming microphone arrays. Also on April 25, 2017, the Company filed a lawsuit in the U.S. Federal District Court in the District of Utah against three parties—Shure, Inc. ("Shure"), Biamp Systems Corporation ("Biamp"), and QSC Audio Products, LLC ("QSC," together with Shure and Biamp, collectively, the "Defendants"), alleging that the Defendants were jointly and indirectly infringing the newly issued '186 Patent (the "Infringement Action"). On that same day, Shure filed a separate action in the U.S. Federal District Court in the Northern District of Illinois (the "Illinois Action") requesting a declaratory judgment as to the invalidity or non-infringement with respect to the '186 Patent. The Illinois Action also seeks the same declaratory judgment with respect to another Company patent, United States Patent No. 9,264,553 (the "553 Patent"), and which has not been asserted by the Company against any defendant and has been submitted to the USPTO for reissue. In early 2018, Shure added a claim that the '186 Patent is unenforceable.

On May 22, 2017, the U.S. Supreme Court issued its opinion in the TC Heartland LLC v. Kraft Foods Group Brands LLC, No. 16–341. That opinion changed the law on permissible venues for patent litigation from any district in which there was personal jurisdiction over a defendant to only districts in which a defendant was incorporated or had a regular and established place of business. Given that none of the Defendants were incorporated or had a regular and established place of business in the District of Utah, on May 30, 2017, the Company filed an answer to the Illinois Action and counterclaims substantially the same as those in the Company's Infringement Action, joining Biamp and QSC as counter-defendants with Shure in such counterclaims in the Illinois Action, and on May 31, 2017, the Company voluntarily dismissed the Infringement Action in Utah without prejudice. On November 14, 2017 the U.S. Federal District Court in the Northern District of Illinois granted Biamp's and QSC's motions to dismiss for lack of appropriate venue and followed up with a written opinion on March 16, 2018 consistent with its minute order on November 14, 2017. Also on March 16, the Court granted the Company's motion to dismiss Shure's declaratory judgment claim for noninfringement of the '553 Patent.

On July 14, 2017, Shure filed a petition with Patent Trial and Appeals Board ("PTAB") for inter partes review against the '553 Patent. On January 29, 2018, PTAB decided to institute inter partes review.

On August 6, 2017, the Company filed a motion seeking a preliminary injunction to enjoin the defendants from continuing to infringe on the Company's '186 Patent. On March 16, 2018 the Court denied the Company's motion for preliminary injunction.

On November 7, 2017, the U.S. Patent and Trademark Office awarded the Company U.S. Patent No. 9,813,806 ("the '806 Patent"). On February 6, 2018, the Company filed a motion for leave to file a Second Amended Counterclaim adding the '806 Patent to the case. The Court granted the motion the next day. On April 17, the Company filed a motion for preliminary injunction to enjoin Shure from continuing to infringe the Company's '806 Patent.

The Company intends to continue to vigorously enforce and defend its intellectual property rights in the Illinois Action.

During twelve months ended December 31, 2016 and 2016, the Company recorded $408 and $1,111 respectively, of pretax gross expenses related to this intellectual property litigation to prevent infringement of the Company's patents. In addition, the Company also capitalized $2,289 of litigation expenses related to this matter during the twelve months ended December 31, 2017.

Former Employee Litigation

On or about October 24, 2016, the Company received written notice from the United States Department of Labor, Occupational Health and Safety Administration ("OSHA") that a complaint had been filed against it by a former employee. Among other things, the former employee's OSHA complaint alleged harassment, retaliation, and violations of 18 U.S.C.A. Section 1514A, et seq. (the "Sarbanes-Oxley Act"), arising out of the termination of his employment with the Company on or about August 17, 2016 (the "OSHA Complaint"). By letter dated March 2, 2017, the Company received notice that the same former employee who initiated the OSHA Complaint filed a complaint with the Utah Labor Commission, Anti-Discrimination & Labor Division ("UALD"), alleging that the employee's termination was discriminatory based upon a disability or, in the alternative, retaliatory for substantially the same reasons alleged in the OSHA Complaint. The charge was also forwarded to the United States Equal Employment and Opportunity Commission ("EEOC") and was also recognized as a charge under the EEOC's federal jurisdiction.

Following negotiations between the parties, the parties executed a settlement agreement on December 7, 2017 ("the Agreement") with respect to the OSHA Complaint. Per the terms of the Agreement, the Company's signing of the Agreement in no way constitutes an admission of a violation of any law or regulation enforced by OSHA. Around the same time in December 2017, the parties executed a side settlement agreement by which the former employee acknowledged that he does not believe that the Company engaged in activities which would be construed as violations of securities-related laws and agreed to withdraw his charge against the Company from the UALD and the EEOC. The charge was effectively withdrawn on December 6, 2017.

During the twelve months ended December 31, 2016 and 2017, the Company recorded $927 and $152 respectively, of pretax gross expenses and settlement costs related to the defense of the OSHA Complaint and review of the allegations underlying the former employee's OSHA complaint. The amount recorded in 2017 is net of recoveries from the insurance company towards this matter.

The Company maintains an Employment Practices Liability policy with Chubb/Federal Insurance Company (the "EPL Policy"). Based on the allegations contained in the OSHA Complaint, the Company has tendered a claim for coverage under the EPL Policy.

(Dollars in thousands, except share and per share amounts)

In addition, the Company is also involved from time to time in various claims and 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, we do not believe any such other proceedings will have a material adverse effect on our business, results of operations, financial position, or liquidity.

Conclusion

We believe there are no other items that will have a material adverse impact on the Company's financial position or results of operations. Legal proceedings are subject to all of the risks and uncertainties of legal proceedings and there can be no assurance as to the probable result of any legal proceedings.

The Company believes it has adequately accrued for the aforementioned contingent liabilities. If adverse outcomes were to occur, our financial position, results of operations and cash flows could be negatively affected materially for the period in which the adverse outcomes are known.

9. Share-Based Payments

Employee Stock Option Plans

The Company's share-based incentive plans offering stock options primarily consists of two plans. Under both plans, one new share is issued for each stock option exercised. The plans are described below.

The Company's 1998 Incentive Plan (the "1998 Plan") was the Company's primary plan through November 2007. Under this plan shares of common stock was made available for issuance to employees and directors. 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.
The Company's 2007 Equity Incentive Plan (the "2007 Plan") was restated and approved by the shareholders on December 12, 2016. Provisions of the restated 2007 Plan include the granting of up to 2,000,000 incentive and non-qualified stock options, stock appreciation rights, restricted stock and restricted stock units. Options may be granted to employees, officers, non-employee directors and other service providers and may be granted upon such terms as the Compensation Committee of the Board of Directors determines in their sole discretion.

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, the Company's Board of Directors has the authority to elect that all unvested options shall vest and become exercisable immediately prior to the event or closing of the transaction. All options outstanding as of December 31, 2017 had contractual lives of ten years.

Under the 1998 Plan, 2,500,000 shares were authorized for grant. As of December 31, 2017, there were no options outstanding under the 1998 Plan.

As of December 31, 2017, there were 764,430 options outstanding under the 2007 Plan. As of December 31, 2017, the 2007 Plan had 774,456 authorized unissued options, while there were no options remaining that could be granted under the 1998 Plan.

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, and the expected dividends of the awards. The Company uses the Black-Scholes option pricing model to determine the fair value of share-based payments granted under the guidelines of ASC Topic 718.

In applying the Black-Scholes methodology to the options granted, the Company used the following assumptions:

	Year ended December 31,		
	2017	**2016**	**2015**
Risk-free interest rate, average	2.21%	1.52%	2.00%
Expected option life, average (in years)	7.9	6.1	6.1
Expected price volatility, average	40.71%	43.75%	44.30%
Expected dividend yield	2.83%	1.71%	1.10%

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.

Under guidelines of ASC Topic 718, the Company recognizes 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.

(Dollars in thousands, except share and per share amounts)

The following table shows the stock option activity:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
As of December 31, 2014	1,040,081	$ 5.65	5.60	$ 4,286
Granted	56,666	13.03		
Reinstated	4,583	4.47		
Expired and canceled	(1,000)	3.42		
Forfeited prior to vesting	(15,252)	7.85		
Exercised	(56,143)	5.51		
As of December 31, 2015	1,028,935	$ 6.03	4.73	$ 7,104
Granted	217,700	11.73		
Expired and canceled	(4,186)	12.03		
Forfeited prior to vesting	(17,360)	10.67		
Exercised	(374,857)	4.46		
As of December 31, 2016	850,232	$ 8.06	5.78	$ 3,001
Granted	105,000	9.90		
Expired and canceled	(3,144)	10.29		
Forfeited prior to vesting	(8,996)	11.01		
Exercised	(178,662)	5.90		
As of December 31, 2017	764,430	$ 8.78	6.48	$ 1,038
Vested and Expected to Vest at December 31, 2015	1,028,935	$ 6.03	4.73	$ 7,104
Vested at December 31, 2015	820,022	$ 5.10	3.74	$ 6,419
Vested and Expected to Vest at December 31, 2016	850,232	$ 8.06	5.78	$ 3,001
Vested at December 31, 2016	552,097	$ 6.33	4.09	$ 2,843
Vested and Expected to Vest at December 31, 2017	764,430	$ 8.78	6.48	$ 1,038
Vested at December 31, 2017	529,669	$ 7.89	5.50	$ 1,033

The weighted average per share fair value of options granted during the years ending December 31, 2017, 2016 and 2015 was $3.31, $4.27, and $ 5.27 respectively. The total intrinsic value of options exercised during the years ended December 31, 2017, 2016 and 2015 was $646, $2,824, and $404 respectively.

The total pre-tax compensation cost related to stock options recognized during the years ended December 31, 2017, 2016, and 2015 was $665, $667 and $848, respectively. Tax benefit from compensation cost related to stock options during the years ended December 31, 2017, 2016 and 2015 was $0, $107 and $41, respectively. As of December 31, 2017, the total compensation cost related to stock options not yet recognized and before the effect of any forfeitures was $829, which is expected to be recognized over approximately the next 1.80 years on a straight-line basis.

Employee Stock Purchase Plan

During 2017, the Company issued shares to employees under the Company's 2016 Employee Stock Purchase Plan (the "ESPP"). The ESPP was approved by the Company's shareholders on December 12, 2016. As of December 31, 2017, 466,783 of the originally approved 500,000 shares were available for offerings under the ESPP. Offering periods under the ESPP commence on each Jan 1 and July 1, and continue for a duration of six months. The ESPP is available to all employees who do not own, or are deemed to own, shares of stock making up an excess of 5% of the combined voting power of the Company, its parent or subsidiary.

During each offering period, each eligible employee may purchase shares under the ESPP after authorizing payroll deductions. Under the ESPP, each employee may purchase up to the lesser of 2,500 shares or $25 of fair market value (based on the established purchase price) of the Company's stock for each offering period. Unless the employee has previously withdrawn from the offering, his or her accumulated payroll deductions will be used to purchase common stock on the last business day of the period at a price equal to 85% (or a 15% discount) of the fair market value of the common stock on the first or last day of the offering period, whichever is lower.

Shares purchased and compensation expense associated with Employee Stock Purchase Plans were as follows:

	2017	2016	2015
Shares purchased under ESPP plans	9,110	9,140	14,982
Plan compensation expense	$ 13	$ 18	$ 31

Stock Repurchase Program and Cash Dividends

In May 2012, our Board of Directors authorized a stock repurchase program to purchase the Company's common stock in the open market. A total of 272,767 shares costing $2,598 were purchased under this program during the year ended December 31, 2014. The cost of shares purchased were recorded as a reduction to shareholders' equity. On December 2, 2016, the Company announced the discontinuance of the stock repurchase program along with the initiation of a cash dividend plan.

On March 9, 2016, the Board of Directors of the Company authorized the repurchase of up to $10 million of the Company's outstanding shares of common stock under a new stock repurchase program. In connection with the repurchase authorization, the Company was authorized to complete the repurchase through open market transactions or through an accelerated share repurchase program, in each case to be executed at management's discretion based on business and market conditions, stock price, trading restrictions, acquisition activity and other factors. The repurchase program may be suspended or discontinued at any time without prior notice. The transactions effectuated to date occurred in open market purchases.

On March 1, 2017, the Board of Directors of the Company renewed and extended the repurchase program for up to an additional $10 million of common stock over the next twelve months. In connection with the repurchase extension authorization, the Company was authorized to complete the repurchase through open market transactions or through an accelerated share repurchase program, in each case to be executed at management's discretion based on business and market conditions, stock price, trading restrictions, acquisition activity and other factors. The repurchase program may be suspended or discontinued at any time without prior notice. The transactions effectuated to date occurred in open market purchases. This program terminated in March 2018.

During the twelve months ended December 31, 2017, we acquired the following shares of common stock under the stock repurchase program authorized by the Board of Directors in March 2016 and renewed and extended in March 2017:

$ in thousands except per share price	Total Number of Shares Purchased (a)	Average Price Paid per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ($ thousands) (d)
January 1 to March 31	78,956	$ 11.75	78,956	$ 9.9
April 1 to June 30	214,866	9.91	214,866	7.7
July 1 to September 30	139,570	7.84	139,570	6.6
October 1 to December 31	118,544	8.18	118,544	5.7
Total	551,936	$ 9.28	551,936	

From March 11, 2016 to March 17, 2016, the Company offered to repurchase eligible vested options to purchase shares under the 1998 Plan and the 2007 Plan from employees and directors. The Company repurchased delivered options at a repurchase price equal to the difference between the closing market price on the date of the employee's communication of accepting the repurchase offer and the exercise price of such employee's delivered options, subject to applicable withholding taxes and charges. The Company repurchased 225,542 stock options from employees and directors at an average purchase price of $7.77.

(Dollars in thousands, except share and per share amounts)

10. Significant Customers

Sales to significant customers that represented more than 10 percent of total revenues are as follows:

	Year ended December 31,		
	2017	2016	2015
Customer A	16.1%	16.3%	14.2%
Customer B	-%*	-%*	10.4%
Total	16.1%	16.3%	24.6%

* Sales did not exceed 10% of the revenue.

The following table summarizes the percentage of total gross accounts receivable from significant customers:

	As of December 31,	
	2017	2016
Customer A	20.3%	13.4%
Customer B	11.0%	11.7%
Total	31.3%	25.1%

These customers facilitate product sales to a large number of end-users, none of which is known to account for more than 10 percent of the Company's revenue from product sales. Nevertheless, the loss of one or more of these customers could reduce revenue and have a material adverse effect on the Company's business and results of operations.

11. Fair Value Measurements

The fair value of the Company's financial instruments reflects the amounts that the Company estimates it will receive in connection with the sale of an asset or pay in connection with the transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value hierarchy prioritizes the use of inputs used in valuation techniques into the following three levels:

Level 1 - Quoted prices in active markets for identical assets and liabilities.

Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes U.S. Government and agency securities; municipal securities; mutual funds and securities sold and not yet settled.

Level 3 - Unobservable inputs.

The substantial majority of the Company's financial instruments are valued using quoted prices in active markets or based on other observable inputs. The following tables set forth the fair value of the financial instruments re-measured by the Company as of December 31, 2017 and 2016:

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Corporate bonds and notes	$ —	$ 8,428	$ —	$ 8,428
Municipal bonds	—	4,610	—	4,610
Total	$ —	$ 13,038	$ —	$ 13,038
December 31, 2016				
Corporate bonds and notes	$ —	$ 19,970	$ —	$ 19,970
Municipal bonds	—	6,425	—	6,425
Total	$ —	$ 26,395	$ —	$ 26,395

(Dollars in thousands, except share and per share amounts)

12. Income Taxes

Consolidated income before taxes for domestic and foreign operations consisted of the following:

	Year ended December 31,		
	2017	**2016**	**2015**
Domestic	$ (12,630)	$ 6,332	$ 13,295
Foreign	(3,263)	(2,454)	(2,744)
Total	$ (15,893)	$ 3,878	$ 10,551

The Company's (provision) for income taxes consisted of the following:

	Year ended December 31,		
	2017	**2016**	**2015**
Current:			
Federal	$ 577	$ (593)	$ (3,386)
State	(66)	63	(344)
Foreign	(682)	(37)	-
Total current	(171)	(567)	(3,730)
Deferred:			
Federal	1,497	(633)	(220)
State	480	(17)	(10)
Foreign	748	115	470
Total	2,725	(535)	240
Change in valuation allowance	(833)	(332)	(285)
Total deferred	1,892	(867)	(45)
Benefit/(provision) for income taxes	$ 1,721	$ (1,434)	$ (3,775)

The income tax benefit (provision) differs from that computed at the federal statutory corporate income tax rate as follows:

	Year ended December 31,		
	2017	2016	2015
Tax benefit (provision) at federal statutory rate	$ 5,403	$ (1,318)	$ (3,587)
State income tax benefit (provision), net of federal benefit	439	(148)	(408)
Research and development tax credits	411	423	456
Subpart F inclusion	(370)	-	-
Foreign earnings or losses taxed at different rates	(540)	(292)	(231)
Tax rate change	(3,161)	-	-
Other	372	233	280
Change in valuation allowance	(833)	(332)	(285)
Tax benefit (provision)	$ 1,721	$ (1,434)	$ (3,775)

(Dollars in thousands, except share and per share amounts)

The tax effects of significant temporary differences representing net deferred tax assets and liabilities consisted of the following:

	2017	2016
Deferred revenue	$ 738	$ 845
Basis difference in intangible assets	3,403	(56)
Inventory reserve	2,089	2,650
Net operating loss carryforwards	1,627	1,391
Research and development tax credits	163	88
Accrued expenses	75	92
Stock-based compensation	327	584
Allowance for sales returns and doubtful accounts	119	70
Difference in property and equipment basis	(212)	(350)
Other	438	743
Total net deferred income tax asset	8,767	6,057
Less: Valuation allowance	(2,236)	(1,403)
Net deferred income tax asset (liability)	$ 6,531	$ 4,654

The Company has not provided for U.S. deferred income taxes or foreign withholding taxes on undistributed earnings of its non-U.S. subsidiaries since these earnings are intended to be reinvested indefinitely, in accordance with guidelines contained in ASC Topic 740, *Accounting for Income Taxes*. It is not practical to estimate the amount of additional taxes that might be payable on such undistributed earnings.

In accordance with ASC Topic 740, the Company analyzed its valuation allowance at December 31, 2017 and determined that, based upon available evidence, it is more likely than not that certain of its deferred tax assets may not be realized and, as such, has established a valuation allowance against certain deferred tax assets. These deferred tax assets include foreign net operating loss carryforwards, foreign intangible assets, state R&D tax credit carryforwards, and capital loss carryforwards.

The Company has federal net operating loss (“NOL”) carryforwards of approximately $692 (pre-tax), and Spain NOL carryforwards of approximately $5,805. The federal NOL carryforwards will begin to expire in 2029. The Spain NOL carryforward does not expire.

Effective July 1, 2007, the Company adopted the accounting standards related to uncertain tax positions. This standard requires that tax positions be assessed using a two-step process. A tax position is recognized if it meets a “more likely than not” threshold, and is measured at the largest amount of benefit that is greater than 50 percent likely of being realized. Uncertain tax positions must be reviewed at each balance sheet date. Liabilities recorded as a result of this analysis must generally be recorded separately from any current or deferred income tax accounts.

The total amount of unrecognized tax benefits at December 31, 2017 and 2016, that would favorably impact our effective tax rate if recognized was $647 and $588, respectively. As of December 31, 2017 and 2016, we accrued $14 and $87, respectively, in interest and penalties related to unrecognized tax benefits. We account for interest expense and penalties for unrecognized tax benefits as part of our income tax provision.

Although we believe our estimates are reasonable, we can make no assurance that the final tax outcome of these matters will not be different from that which we have reflected in our historical income tax provisions and accruals. Such difference could have a material impact on our income tax provision and operating results in the period in which we make such determination.

(Dollars in thousands, except share and per share amounts)

A reconciliation of the beginning and ending amount of liabilities associated with uncertain tax positions is as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Balance - beginning of year	$ 1,189	$ 1,126
Additions based on tax positions related to the current year	67	16
Additions for tax positions of prior years	520	47
Reductions for tax positions of prior years	-	-
Settlements	(165)	-
Lapse in statutes of limitations	(959)	-
Uncertain tax positions, ending balance	$ 652	$ 1,189

The Company's U.S. federal income tax returns for 2014 through 2017 are subject to examination. The Company also files in various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to federal, state, or non-U.S. income tax examinations by tax authorities for years prior to 2014. The Company completed its audit by the Internal Revenue Service ("IRS") for its 2012 and 2013 tax returns in 2017. As a result of the audit by the IRS, there were no material adjustments made to the Company's tax return.

The Inland Revenue Department of Hong Kong, a Special Administrative Region (the "IRD"), commenced an examination of the Company's Hong Kong profits tax returns for 2009 through 2011 in the fourth quarter of 2012, which was completed subsequent to December 31, 2017. As a result of the audit, there were no material changes to the Company's financial position. During the next twelve months, it is reasonably possible that the amount of the Company's unrecognized income tax benefits could change significantly. These changes could be the result of our ongoing tax audits or the settlement of outstanding audit issues. However, due to the issues being examined, at the current time, an estimate of the range of reasonably possible outcomes cannot be made, beyond amounts currently accrued.

13. Geographic Sales Information

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:

	Year ended December 31, 2017	2016	2015
United States	$ 24,569	$ 31,838	$ 39,563
All other countries	17,235	16,799	18,233
Total	$ 41,804	$ 48,637	$ 57,796

14. Subsequent Events

On February 21, 2018, the Company declared a stock dividend of $0.07 per share of ClearOne common stock payable on March 21, 2018 to shareholders of record on March 7, 2018.

In March 2018, the Company did not renew its common stock repurchase program.

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

NetStreams, Inc. (DE)
NetStreams, LLC. (TX)
ClearOne Web Solutions, Inc. (DE)
ClearOne Communications Hong Kong Limited (Hong Kong)
ClearOne Ltd. (Israel)
ClearOne Middle East FZE (Dubai)
ClearOne DMCC Branch (Dubai)
ClearOne Innovation India Private Ltd. (India)
ClearOne Technology Ltd (China)
ClearOne Spain SL (Spain)
Gentner Communications Limited (Ireland)
Gentner Ventures, Inc. (UT)
E.mergent, Inc. (DE)
Sabine, Inc. (FL)

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements (Nos. 333-205356, 333-209130, 333-148789 and 333-137859) on Form S-8 and Registration Statement (No. 333-195591) on Form S-3 of ClearOne, Inc. of our report dated April 20, 2018, relating to our audit of the consolidated financial statements, which appears in this Annual Report on Form 10-K of ClearOne, Inc. for the year ended December 31, 2017 .

/s/ Tanner LLC

Salt Lake City, UT
April 20, 2018

EXHIBIT 31.1

CERTIFICATION

I, Zeynep Hakimoglu, certify that:

1. I have reviewed this annual report of ClearOne, Inc. on Form 10-K;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 20, 2018

By: */s/ Zeynep Hakimoglu*
Zeynep Hakimoglu
Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

CERTIFICATION

I, Narsi Narayanan, certify that:

1. I have reviewed this annual report of ClearOne, Inc. on Form 10-K;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 20, 2018

By: */s/ Narsi Narayanan*
Narsi Narayanan
Senior Vice President of Finance
(principal accounting and principal financial officer)

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to 18 U.S.C. Section 1350,
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Zeynep Hakimoglu, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the annual report of ClearOne, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2017 , fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such annual report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 20, 2018

By: */s/ Zeynep Hakimoglu*
Zeynep Hakimoglu
Chief Executive Officer
(principal executive officer)

This certification accompanies each Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by §906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

**Pursuant to 18 U.S.C. Section 1350,
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Narsi Narayanan, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the annual report of ClearOne, Inc. (the "Company") on Form 10-K for the year ended December 31, 2017 , fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such annual report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 20, 2018

By: */s/ Narsi Narayanan*
Narsi Narayanan
Senior Vice President of Finance
(principal accounting and principal financial officer)

This certification accompanies each Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by §906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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