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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

or

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

Commission file number: 001-33660

ClearOne.
CLEARONE, INC.

(Exact name of registrant as specified in its charter)

Utah

(State or other jurisdiction of incorporation or organization)

5225 Wiley Post Way, Suite 500, Salt Lake City, Utah

(Address of principal executive offices)

87-0398877

(I.R.S. employer identification number)

84116

(Zip Code)

+1 (801) 975-7200

(Registrant's telephone number, including area code)

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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

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

Emerging growth company

Accelerated Filer

Smaller Reporting 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 Exchange Act). Yes No

The number of shares of ClearOne common stock outstanding as of November 3, 2017 was 8,414,153.

CLEARONE, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,013	\$ 12,100
Marketable securities	3,953	5,030
Receivables, net of allowance for doubtful accounts of \$304 and \$187, as of September 30, 2017 and December 31, 2016 respectively	8,061	7,461
Inventories	19,695	11,377
Distributor channel inventories	1,394	1,530
Prepaid expenses and other assets	2,207	2,642
Total current assets	38,323	40,140
Long-term marketable securities	16,480	21,365
Long-term inventories, net	2,446	1,664
Property and equipment, net	1,587	1,513
Intangibles, net	5,283	5,677
Goodwill	—	12,724
Deferred income taxes	9,875	4,654
Other assets	378	387
Total assets	\$ 74,372	\$ 88,124
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,811	\$ 3,545
Accrued liabilities	1,852	1,894
Deferred product revenue	3,870	3,882
Total current liabilities	11,533	9,321
Deferred rent	39	103
Other long-term liabilities	1,216	1,251
Total liabilities	12,788	10,675
Shareholders' equity:		
Common stock, par value \$0.001, 50,000,000 shares authorized, 8,433,182 and 8,812,644 shares issued and outstanding as of September 30, 2017 and December 31, 2016 respectively	8	9
Additional paid-in capital	47,300	46,669
Accumulated other comprehensive loss	(49)	(205)
Retained earnings	14,325	30,976
Total shareholders' equity	61,584	77,449
Total liabilities and shareholders' equity	\$ 74,372	\$ 88,124

See accompanying notes

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS)**

(Dollars in thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue	\$ 10,560	\$ 12,908	\$ 32,549	\$ 37,907
Cost of goods sold	4,051	5,240	13,293	14,110
Gross profit	<u>6,509</u>	<u>7,668</u>	<u>19,256</u>	<u>23,797</u>
Operating expenses:				
Sales and marketing	3,006	2,389	8,393	7,695
Research and product development	2,268	2,116	6,947	6,481
General and administrative	1,281	1,739	5,597	4,904
Impairment of an intangible asset	736	—	736	—
Impairment of goodwill	12,724	—	12,724	—
Total operating expenses	<u>20,015</u>	<u>6,244</u>	<u>34,397</u>	<u>19,080</u>
Operating income (loss)	(13,506)	1,424	(15,141)	4,717
Other income, net	78	100	264	194
Income (loss) before income taxes	<u>(13,428)</u>	<u>1,524</u>	<u>(14,877)</u>	<u>4,911</u>
Provision for (benefit from) income taxes	(4,152)	315	(4,313)	1,379
Net income (loss)	<u>\$ (9,276)</u>	<u>\$ 1,209</u>	<u>\$ (10,564)</u>	<u>\$ 3,532</u>
Basic earnings (loss) per common share	\$ (1.09)	\$ 0.14	\$ (1.22)	\$ 0.39
Diluted earnings (loss) per common share	\$ (1.09)	\$ 0.13	\$ (1.22)	\$ 0.37
Basic weighted average shares outstanding	8,520,041	8,921,480	8,641,173	9,076,305
Diluted weighted average shares outstanding	8,520,041	9,164,165	8,641,173	9,452,616
Comprehensive income:				
Net income (loss)	\$ (9,276)	\$ 1,209	\$ (10,564)	\$ 3,532
Other comprehensive income:				
Change in unrealized gains (losses) on available-for-sale securities, net of tax	10	(39)	68	179
Change in foreign currency translation adjustment	23	7	88	19
Comprehensive income (loss)	<u>\$ (9,243)</u>	<u>\$ 1,177</u>	<u>\$ (10,408)</u>	<u>\$ 3,730</u>

See accompanying notes

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands, except per share amounts)

	Nine months ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income (loss)	\$ (10,564)	\$ 3,532
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	1,172	1,408
Impairment of goodwill and intangible assets	13,460	—
Amortization of deferred rent	(53)	(57)
Stock-based compensation expense	514	494
Provision for (recovery of) doubtful accounts, net	106	(6)
Write-down of inventory to net realizable value	—	458
Loss on disposal of assets	1	54
Tax benefit from exercise of stock options	—	(721)
Deferred income taxes	(5,221)	107
Changes in operating assets and liabilities:		
Receivables	(649)	234
Inventories	(8,964)	1,353
Prepaid expenses and other assets	(226)	(147)
Accounts payable	2,257	770
Accrued liabilities	(67)	(134)
Income taxes payable	699	429
Deferred product revenue	(23)	(284)
Other long-term liabilities	(61)	(51)
Net cash provided by (used in) operating activities	<u>(7,619)</u>	<u>7,439</u>
Cash flows from investing activities:		
Purchase of property and equipment	(537)	(544)
Purchase of intangibles	(203)	—
Proceeds from maturities and sales of marketable securities	9,946	5,371
Purchase of marketable securities	(3,915)	(6,608)
Capitalized patent defense costs	(845)	—
Net cash provided by (used in) investing activities	<u>4,446</u>	<u>(1,781)</u>
Cash flows from financing activities:		
Net proceeds from equity-based compensation programs	117	736
Tax benefit from equity-based compensation programs	—	721
Repurchase and cancellation of stock options	(285)	(1,752)
Dividend payments	(1,650)	(1,373)
Repurchase and cancellation of stock	(4,151)	(5,139)
Net cash used in financing activities	<u>(5,969)</u>	<u>(6,807)</u>
Effect of exchange rate changes on cash and cash equivalents	55	10
Net decrease in cash and cash equivalents	(9,087)	(1,139)
Cash and cash equivalents at the beginning of the period	12,100	13,412
Cash and cash equivalents at the end of the period	<u>\$ 3,013</u>	<u>\$ 12,273</u>

See accompanying notes

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands, except per share amounts)

The following is a summary of supplemental cash flow activities:

	<u>Nine months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 6	\$ 893

See accompanying notes

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited - Dollars in thousands, except 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, streaming and digital signage solutions for audio and visual communications. The performance and simplicity of its advanced comprehensive solutions offer unprecedented levels of functionality, reliability and scalability.

Basis of Presentation:

The fiscal year for ClearOne is the 12 months ending on December 31st. The consolidated financial statements include the accounts of ClearOne and its subsidiaries. All significant inter-company accounts and transactions have been eliminated.

These accompanying interim unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and are not audited. Certain information and footnote disclosures that are usually included in financial statements prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) have been either condensed or omitted in accordance with SEC rules and regulations. The accompanying condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial position as of September 30, 2017 and December 31, 2016, the results of operations for the three and nine months ended September 30, 2017 and 2016, and the cash flows for the nine months ended September 30, 2017 and 2016. The results of operations for the three months and nine months ended September 30, 2017 and 2016 are not necessarily indicative of the results for a full-year period. These interim unaudited condensed consolidated financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC.

Significant Accounting Policies:

The significant accounting policies were described in Note 1 to the audited consolidated financial statements included in the Company’s annual report on Form 10-K for the year ended December 31, 2016. There have been no changes to these policies during the nine months ended September 30, 2017 that are of significance or potential significance to the Company except for the treatment of patent defense costs described below.

Patent Defense Costs - The Company relies on patents and proprietary technology and seeks patent protection for products and production methods. The Company capitalizes external legal costs incurred in the defense of its patents when it believes that a future economic benefit will result from the defense and a successful outcome of the legal action is probable. These costs are amortized over the remaining estimated useful life of the patent, which is 15 to 17 years. The Company’s assessment of future economic benefit and/or the successful outcome of legal action related to patent defense involves considerable management judgment and a different outcome could result in material write-offs of the carrying value of these assets.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited - Dollars in thousands, except per share amounts)

Recent Accounting Pronouncements:

In May 2014, the FASB released Accounting Standards Update (ASU) No. 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. We plan to adopt the standard when it becomes effective for us beginning January 1, 2018. We currently anticipate adopting the standard using the modified retrospective method with a cumulative catch up adjustment and providing additional disclosures comparing results to previous rules. We continue to evaluate the impact of the new standard on our consolidated financial statements but anticipate this standard will have a material impact on our consolidated financial statements.

In February 2016, the FASB released 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 released 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 released 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 we are currently evaluating the impact that ASU 2016-15 will have on our 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited - Dollars in thousands, except per share amounts)

2. Earnings (Loss) Per Share

Earnings (loss) per common share is computed based on the weighted-average number of common shares outstanding and, when appropriate, dilutive potential common stock outstanding during the period. Stock options are considered to be potential common stock. The computation of diluted earnings (loss) per share does not assume exercise or conversion of securities that would have an anti-dilutive effect.

Basic earnings (loss) per common share is the amount of net earnings (loss) for the period available to each weighted-average share of common stock outstanding during the reporting period. Diluted earnings (loss) per common share is the amount of earnings (loss) for the period available to each weighted-average share of common stock outstanding during the reporting period and to each share of potential common stock outstanding during the period, unless inclusion of potential common stock would have an anti-dilutive effect.

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

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Numerator:				
Net income (loss)	\$ (9,276)	\$ 1,209	\$ (10,564)	\$ 3,532
Denominator:				
Basic weighted average shares outstanding	8,520,041	8,921,480	8,641,173	9,076,305
Dilutive common stock equivalents using treasury stock method	—	242,686	—	376,312
Diluted weighted average shares outstanding	<u>8,520,041</u>	<u>9,164,165</u>	<u>8,641,173</u>	<u>9,452,616</u>
Basic earnings (loss) per common share	\$ (1.09)	\$ 0.14	\$ (1.22)	\$ 0.39
Diluted earnings (loss) per common share	\$ (1.09)	\$ 0.13	\$ (1.22)	\$ 0.37
Weighted average options outstanding	782,012	832,766	832,953	900,687
Anti-dilutive options not included in the computations	782,012	312,372	832,953	312,477

3. 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 stockholders' 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 securities at September 30, 2017 and December 31, 2016 were as follows:

	<u>Amortized cost</u>	<u>Gross unrealized holding gains</u>	<u>Gross unrealized holding losses</u>	<u>Estimated fair value</u>
September 30, 2017				
Available-for-sale securities:				
Corporate bonds and notes	\$ 14,446	\$ 65	\$ (52)	\$ 14,459
Municipal bonds	5,974	8	(8)	5,974
Total available-for-sale securities	<u>\$ 20,420</u>	<u>\$ 73</u>	<u>\$ (60)</u>	<u>\$ 20,433</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited - Dollars in thousands, except per share amounts)

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
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	<u>\$ 26,491</u>	<u>\$ 70</u>	<u>\$ (166)</u>	<u>\$ 26,395</u>

Maturities of marketable securities classified as available-for-sale securities were as follows at September 30, 2017:

	Amortized cost	Estimated fair value
September 30, 2017		
Due within one year	\$ 3,945	\$ 3,953
Due after one year through five years	16,475	16,480
Total available-for-sale securities	<u>\$ 20,420</u>	<u>\$ 20,433</u>

Debt securities in an unrealized loss position as of September 30, 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, although there can be no assurance that such recovery will occur. The available-for-sale marketable securities with continuous gross unrealized loss position for less than 12 months and 12 months or greater and their related fair values were 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
<i>(In thousands)</i>						
As of September 30, 2017						
Corporate bonds and notes	\$ 4,288	\$ (24)	\$ 2,148	\$ (27)	\$ 6,436	\$ (51)
Municipal bonds	3,157	(5)	566	(4)	3,723	(9)
Total	<u>\$ 7,445</u>	<u>\$ (29)</u>	<u>\$ 2,714</u>	<u>\$ (31)</u>	<u>\$ 10,159</u>	<u>\$ (60)</u>

4. Goodwill and Intangible Assets

Goodwill

There was a decrease in goodwill during the three and nine months ended September 30, 2017 from \$12,724 as of December 31, 2016 to \$0 as of September 30, 2017 due to the impairment of goodwill. During the three months 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 three months ended September 30, 2017.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited - Dollars in thousands, except per share amounts)

Intangible Assets

Intangible assets as of September 30, 2017 and December 31, 2016 consisted of the following:

	Estimated useful lives	September 30, 2017	December 31, 2016
Tradename	5 to 7 years	\$ 555	\$ 555
Patents and technological know-how	10 years	7,058	6,010
Proprietary software	3 to 15 years	2,981	4,341
Other	3 to 5 years	324	324
Total intangible assets		10,918	11,230
Accumulated amortization		(5,635)	(5,553)
Total intangible assets, net		<u>\$ 5,283</u>	<u>\$ 5,677</u>

The amortization of intangible assets for the three and nine months ended September 30, 2017 and 2016 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Amortization of intangible assets	\$ 231	\$ 328	\$ 699	\$ 458

During the three and nine months ended September 30, 2017 we recorded a \$0.7 million charge for impairment of an intangible asset consisting of customer relationships.

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

Years ending December 31,

2017 (remainder)	\$ 246
2018	829
2019	725
2020	546
2021	546
Thereafter	2,391
	<u>\$ 5,283</u>

5. Inventories

Inventories, net of reserves, as of September 30, 2017 and December 31, 2016 consisted of the following:

	As of	
	September 30, 2017	December 31, 2016
Current:		
Raw materials	\$ 4,097	\$ 2,291
Finished goods	15,598	9,086
	<u>\$ 19,695</u>	<u>\$ 11,377</u>
Long-term:		
Raw materials	\$ 423	\$ 599
Finished goods	2,023	1,065
	<u>\$ 2,446</u>	<u>\$ 1,664</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited - Dollars in thousands, except per share amounts)

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 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, although there can be no assurance of the timing or amount of any sales.

Current finished goods do not include distributor channel inventories in the amounts of approximately \$1,394 and \$1,530 as of September 30, 2017 and December 31, 2016, respectively. Distributor channel inventories represent inventories at distributors and other customers where revenue recognition criteria have not yet been achieved.

Net loss incurred on valuation of inventory at lower of cost or market value and write-off of obsolete inventory during the three months ended September 30, 2016 was \$328. During the three months ended September 30, 2017 there was no write off on the valuation of inventory.

6. Share-based Compensation

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 were 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 September 30, 2003. Subsequent to December 1999 and through March 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 September 30, 2005.

The Company's 2007 Equity Incentive Plan (the "2007 Plan") was restated and approved by the shareholders on December 12, 2015. 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 March 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 September 30, 2017 had contractual lives of ten years.

Under the 1998 Plan, 2,500,000 shares were authorized for grant. As of September 30, 2017, there are no options outstanding under the 1998 Plan. The remaining 50,000 of these options were exercised on July 11, 2017.

As of September 30, 2017, there were 767,156 options outstanding under the 2007 Plan. As of September 30, 2017, the 2007 Plan had 471,500 authorized unissued options.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited - Dollars in thousands, except per share amounts)

A summary of the stock option activity under the Company's plans for the nine months ended September 30, 2017 is as follows:

	<u>Number of shares</u>	<u>Weighted average exercise price</u>
Options outstanding at beginning of year	850,232	\$ 8.06
Granted	105,000	9.90
Less:		
Exercised	(178,662)	5.90
Forfeited prior to vesting	(7,103)	10.88
Canceled or expired	(2,311)	9.68
Options outstanding at September 30, 2017	<u>767,156</u>	<u>8.79</u>
Options exercisable at end of September 30, 2017	<u>502,940</u>	<u>\$ 7.71</u>

As of September 30, 2017, the total remaining unrecognized compensation cost related to non-vested stock options, net of forfeitures, was approximately \$975, which will be recognized over a weighted average period of 1.99 years.

Stock Option Repurchase

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. 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 at an average purchase price of \$7.77.

Employee Stock Purchase Plan

The Company issues shares to employees under the Company's 2014 Employee Stock Purchase Plan (the "ESPP"). The ESPP was approved by the Company's shareholders on December 12, 2014. As of September 30, 2017, 471,160 of the originally approved 500,000 shares were available for offerings under the ESPP. Offering periods under the ESPP commence on each January 1 and July 1, and continue for a duration of six months. The ESPP is available to all employees who do not own, or not are deemed to own, shares of stock making up an excess of 5% of the combined voting power of the Company and its subsidiaries. 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.

Share-based compensation expense related to ESPP has been recorded as follows:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Cost of goods sold	\$ 5	\$ 7	\$ 16	\$ 18
Sales and marketing	10	15	31	42
Research and product development	25	40	80	106
General and administrative	122	113	341	328
	<u>\$ 162</u>	<u>\$ 175</u>	<u>\$ 468</u>	<u>\$ 494</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited - Dollars in thousands, except per share amounts)

7. Shareholders' Equity

Stock Repurchase Program

On March 9, 2016, the Board of Directors of the Company authorized the repurchase of up to \$10,000 of the Company's outstanding shares of common stock under a 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 \$10,000 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.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in \$ millions)</u>
July 2017	11,794	\$ 9.69	11,794	\$ 7.6
August 2017	37,247	7.77	37,247	7.3
September 2017	90,529	7.62	90,529	6.6
Total	<u>139,570</u>	<u>7.84</u>	<u>139,570</u>	

Cash Dividends

On August 7, 2017, the Company declared a cash dividend of \$0.07 per share of ClearOne common stock paid September 7, 2017 to shareholders of record as of August 22, 2017.

Changes in Shareholders' Equity

The following table summarizes the change in shareholders' equity during the three and nine months ended September 30, 2017 and 2016, respectively:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Balance at the beginning of the period	\$ 72,444	\$ 79,783	\$ 77,449	\$ 82,569
Exercise of stock options, restricted stock and stock option cancelled	(113)	238	(225)	671
Stock repurchased	(1,094)	(1,024)	(4,151)	(5,139)
Options repurchased	—	—	—	(1,752)
Proceeds from stock purchase plan	15	21	55	65
Dividends	(599)	(449)	(1,650)	(1,373)
Share-based compensation	174	175	514	494
Tax benefit - stock option exercise	—	33	—	690
Unrealized gain or loss on investments, net of tax	10	(38)	68	179
Foreign currency translation adjustment	23	7	88	19
Net income/(loss) during the period	(9,276)	1,209	(10,564)	3,532
Balance at end of the period	<u>\$ 61,584</u>	<u>\$ 79,955</u>	<u>\$ 61,584</u>	<u>\$ 79,955</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited - Dollars in thousands, except per share amounts)

8. 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 observable input. The following table sets forth the fair value of the financial instruments re-measured by the Company as of September 30, 2017 and December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
September 30, 2017				
Corporate bonds and notes	\$ —	\$ 14,459	\$ —	\$ 14,459
Municipal bonds	—	5,974	—	5,974
Total	<u>\$ —</u>	<u>\$ 20,433</u>	<u>\$ —</u>	<u>\$ 20,433</u>
December 31, 2016				
Corporate bonds and notes	\$ —	\$ 19,970	\$ —	\$ 19,970
Municipal bonds	—	6,425	—	6,425
Total	<u>\$ —</u>	<u>\$ 26,395</u>	<u>\$ —</u>	<u>\$ 26,395</u>

9. Income Taxes

The Company's forecasted effective tax benefit rate at September 30, 2017 is 36.1%, a 0.9% decrease from the 37.0% effective tax rate recorded at December 31, 2016. The forecasted effective tax benefit rate of 36.1% excludes jurisdictions for which no benefit from forecasted current year losses is anticipated. Including losses from such jurisdictions results in a forecasted effective tax benefit rate of 30.1%. Our forecasted effective tax rate could fluctuate significantly on a quarterly basis and could change, to the extent that earnings in countries with tax rates that differ from that of the U.S. differ from amounts anticipated at September 30, 2017.

After a discrete tax expense of \$145, the effective tax benefit rate for the quarter ended September 30, 2017 is 29.0%. The discrete tax expense of \$145 is primarily attributable to changes in income tax reserves related to research and development tax credits.

10. Subsequent Events

On November 8, 2017 the Company announced a quarterly cash dividend for the third quarter of 2017 at \$0.07 per share to be paid on December 6, 2017 to shareholders of record as of November 22, 2017.

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

This report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements in this report, other than statements of historical fact, are forward-looking statements for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this report are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any forward-looking statement. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "intends," "believes," "estimates," "potential," or "continue," or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are based upon reasonable assumptions at the time made, there can be no assurance that any such expectations or any forward-looking statement will prove to be correct. Our actual results will vary, and may vary materially, from those projected or assumed in the forward-looking statements. Future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, many of which we cannot predict with accuracy and some of which we might not anticipate, including, without limitation, product recalls and product liability claims; infringement of our technology or assertion that our technology infringes the rights of other parties; termination of supplier relationships, or failure of suppliers to perform; inability to successfully manage growth; delays in obtaining regulatory approvals or the failure to maintain such approvals; concentration of our revenue among a few customers, products or procedures; development of new products and technology that could render our products obsolete; market acceptance of new products; introduction of products in a timely fashion; price and product competition, availability of labor and materials, cost increases, and fluctuations in and obsolescence of inventory; volatility of the market price of our common stock; foreign currency fluctuations; changes in key personnel; work stoppage or transportation risks; integration of business acquisitions; and other factors referred to in our reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2016. All subsequent forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Additional factors that may have a direct bearing on our operating results are discussed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016.

BUSINESS OVERVIEW

ClearOne is a global company that designs, develops and sells conferencing, collaboration, and network streaming & signage solutions for voice and visual communications. The performance and simplicity of our advanced, comprehensive solutions offer unprecedented levels 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 media streaming. We have achieved this through strategic technological acquisitions as well as by internal product development.

During the nine months ended September 30, 2017, we were awarded two new patents, one of which was our innovative patent on a system and method involving the combination of echo cancellation, beamforming microphone arrays, and smart beam selection—the technology underpinning the 'acoustic intelligence' of our ground-breaking Beamforming Microphone Array. We continued to take the necessary steps to enforce this strategic patent to remedy having to compete against our own patented technology, and to defend the validity of our patents.

During the nine months ended September 30, 2017, our efforts primarily centered on shipping remaining models in our newly introduced next-gen DSP conferencing platform and Beamforming Microphone Array, and promoting the transition from our legacy Converge Pro 1 (CP1) platform to the new Converge Pro 2 (CP2) platform.

Overall revenue declined in the three and nine months ended September 30, 2017 when compared to the three and nine months ended September 30, 2016 notwithstanding a large order that was fulfilled in the quarter ended September 30, 2017. The declines in revenue from professional audio products and unified communications end points more than offset the increase in revenue from video products. Our gross profit margin decreased to 59% from 63% for the nine months ended September 30, 2017 and 2016, respectively. Gross profit margin decrease was primarily due to the decrease in the mix of higher margin products and the price reductions associated with transition from CP1 to CP2 partially offset by the absence of inventory scrapping costs in 2017. Our gross profit margin increased to 62% from 59% for the three months ended September 30, 2017 and 2016, respectively. The increase is primarily due to the significantly higher margin enjoyed by the large order fulfilled in the third quarter of 2017 and the absence of inventory scrapping costs in the third quarter of 2017 compared to third quarter of 2016.

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

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 industry leading conferencing technologies and the full suite of professional microphone products, especially Beamforming Microphone Arrays. 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. Our revenues from our flagship professional audio conferencing products continue to suffer due to the delay in transitioning from our old CP1 platform to CP2 platform and due to increased competition for our beamforming microphones from competitors who are infringing our patents.

Revenue from our video products in the overall revenue mix has been improving on the back of a strong growth for our video products in 2016 that has continued 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 provide growth in revenue in the near future. 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 portion of our revenue (about 49%) 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. In spite of the U.S. dollar losing strength against other currencies, a strong U.S. dollar would make 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 was approximately \$3.9 million as of September 30, 2017, compared to \$3.8 million of deferred revenue as of June 30, 2017 and \$3.9 million of deferred revenue as of December 31, 2016.

A detailed discussion of our results of operations follows below.

Results of Operations for the three and nine months ended September 30, 2017 and 2016

The following table sets forth certain items from our unaudited condensed consolidated statements of operations (dollars in thousands) for the three and nine months ended September 30, 2017 ("2017-Q3") and 2016 ("2016-Q3"), respectively, together with the percentage of total revenue which each such item represents:

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

	Three months ended September 30,			Nine months ended September 30,		
	2017	2016	Percentage Change 2017 vs. 2016	2017	2016	Percentage Change 2017 vs. 2016
Revenue	\$ 10,560	\$ 12,908	(18)%	\$ 32,549	\$ 37,907	(14)%
Cost of goods sold	4,051	5,240	(23)%	13,293	14,110	(6)%
Gross profit	6,509	7,668	(15)%	19,256	23,797	(19)%
Sales and marketing	3,006	2,389	26%	8,393	7,695	9%
Research and product development	2,268	2,116	7%	6,947	6,481	7%
General and administrative	1,281	1,739	(26)%	5,597	4,904	14%
Impairment of an intangible asset	736	—	100%	736	—	100%
Impairment of goodwill	12,724	—	100%	12,724	—	100%
Operating income/(loss)	(13,506)	1,424	(1,048)%	(15,141)	4,717	(421)%
Other income	78	100	(22)%	264	194	36%
Income (loss) before income taxes	(13,428)	1,524	(981)%	(14,877)	4,911	(403)%
Provision for (benefit from) income taxes	(4,152)	315	(1,418)%	(4,313)	1,379	(413)%
Net income (loss)	\$ (9,276)	\$ 1,209	(867)%	\$ (10,564)	\$ 3,532	(399)%

Revenue

Our revenue decreased by \$2.3 million, or 18%, to \$10.6 million in 2017-Q3 compared to \$12.9 million in 2016-Q3. The 66% increase in revenue from video products was more than offset by a 30% decline in professional audio conferencing revenue and a 25% decline in revenue from unified communication (UC) end points. For the nine months ended September 30, 2017, revenue decreased by \$5.4 million, or 14%, to \$32.5 million, as compared to \$37.9 million for the nine months ended September 30, 2016. The 51% increase in revenue from video products was more than offset by a 21% decline in professional audio conferencing revenue and a 26% decline in revenue from unified communication (UC) end points. During the nine months ended September 30, 2017, premium 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 decline in revenue from legacy CP1 products and reductions in CP1 pricing effected 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 77% in 2016-Q3 to 66% in 2017-Q3. The increase in revenue from video products was due to the success of Unite camera and favorable reception to the new Collaborate SKUs containing integrated audio solutions. Share of video products in the revenue increased from 12% in 2016-Q3 to 24% in 2017-Q3, while share of UC end points in the revenue declined from 11% in 2016-Q3 to 10% in 2017-Q3.

During 2017-Q3, revenue declined in the US, Canada, South East Asia, Japan, Korea and some parts of Europe while revenue from China, the Middle East, India, Australia and some part of Europe grew. Asia Pacific including Middle East increased by 43%; Europe and Africa declined by 3% and Americas declined by about 37%. The revenue decline was primarily caused by the delay in the transition to our next generation audio platform, CP2, combined with price reduction offered to stimulate customer interest and sales in the legacy CP1 products. Revenue was also negatively affected by less than robust infrastructure and capital equipment spending. In spite of the generally less than robust infrastructure spending, we did complete the sale to a major project by a Chinese entity. This caused the revenue increase for the Asia Pacific region quarter-over-quarter. We believe we will return to a growth path once the transition from CP1 platform to the newer CP2 platform occurs. However, we anticipate that the growth will depend on the speed at which our customers transition to the new platform and the economic recovery in certain key markets which remains weak.

Costs 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 for the three months ended September 30, 2017 was approximately \$6.5 million or 62% compared to approximately \$7.7 million, or 59%, for the three months ended September 30, 2016. Gross margin for the three months ended September 30, 2017 improved primarily due to the significantly higher margin enjoyed by the large order fulfilled in the third quarter of 2017 and the absence of inventory scrapping costs in the third quarter of 2017. Our gross profit for the nine months ended September 30, 2017 was approximately \$19.3 million, or 59%, compared to approximately \$23.8 million, or 63%, for the nine months ended September 30, 2016. Gross margin declined for the nine months ended September 30, 2017 primarily due to the following reasons: (1) price reductions made to CP1 products to encourage CP1 sales and (2) decline in higher margin professional audio conferencing products in the mix partially offset by the absence of inventory scrapping costs in 2017.

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

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

Operating income, or income from operations, is the surplus after operating expenses are deducted from gross profits. Operating expenses include sales and marketing ("S&M") expenses, research and product development ("R&D") expenses and general and administrative ("G&A") expenses. Total operating expenses were \$20.0 million for the three months ended September 30, 2017 compared to \$6.2 million for the three months ended September 30, 2016. Total operating expenses were \$34.4 million for the nine months ended September 30, 2017, of which \$13.4 million was related to the impairment of the goodwill and intangibles in Q3 2017, compared to \$19.1 million for the nine months ended September 30, 2016. 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 for the three months ended September 30, 2017 increased to \$3.0 million from \$2.4 million for the three months ended September 30, 2016. The increase was mainly due to increases in inventories used for customer demonstrations, higher commission expenses booked in the third quarter of 2017, higher marketing expenses related to tradeshows, and increased spending in employee related expenses. S&M expenses for the nine months ended September 30, 2017 increased to \$8.4 million from \$7.7 million for the nine months ended September 30, 2016. The increase was primarily due to an increase in headcount and employee related expenses, increases in inventories used for customer demonstrations and increase in marketing expenses related to tradeshows partially offset by decline in commissions paid to independent agents.

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 were approximately \$2.3 million for the three months ended September 30, 2017, as compared to \$2.1 million for the three months ended September 30, 2016. The increase was primarily due to increase in employee costs related to salaries, benefits and patent bonuses. R&D expenses were approximately \$6.9 million for the nine months ended September 30, 2017, as compared to \$6.5 million for the nine months ended September 30, 2016. The increase was primarily due to an increase in employee-related costs mainly salaries and benefits expenses.

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 decreased approximately 26% to \$1.2 million for the three months ended September 30, 2017 compared with approximately \$1.7 million in 2016. The reduction was primarily due to the decrease in legal costs. G&A expenses increased approximately 14% to \$5.6 million for the nine months ended September 30, 2017 compared with approximately \$4.9 million in 2016. The increase in G&A expenses was primarily due to increases in legal expenses and consulting fees partially offset by a decline in salaries and bonuses.

Impairment of Goodwill and an intangible asset - Based on the 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.

Other income (expense), net

Other income (expense), net, includes interest income, interest expense, and foreign currency changes.

Provision for income taxes

During the nine months ended September 30, 2017, we accrued income taxes at the forecasted effective tax benefit rate of 36.1% as compared to the forecasted effective tax rate of 32.3% used during the nine months ended September 30, 2016. The 3.8% increase in the forecasted effective tax rate was primarily due to projected income in 2016, yet projected losses in 2017. As a result, tax benefits, such as the research and development tax credit, increased the benefit rate in 2017. In addition, a discrete tax expense of \$145 thousand is primarily attributable to changes in income tax reserves related to research and development tax credits.

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

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2017, our cash and cash equivalents were approximately \$3.0 million, a decrease of approximately \$9.1 million compared to cash and cash equivalents of approximately \$12.1 million as of December 31, 2016. Our working capital was \$26.8 million and \$30.8 million as of September 30, 2017 and December 31, 2016, respectively.

Net cash used in operating activities was approximately \$7.6 million for the nine months ended September 30, 2017, an increase of cash used of approximately \$15.0 million from \$7.4 million of cash provided by operating activities in the nine months ended September 30, 2016. The increase was primarily due to an increase in cash outflows due to change in operating assets and liabilities of \$9.2 million and a reduction in net income of \$14.1 million offset by an increase in non-cash charges of \$8.3 million.

Net cash provided by investing activities was \$4.4 million for the nine months ended September 30, 2017 compared to net cash flows used by investing activities of \$1.8 million during the nine months ended September 30, 2016, an increase in cash provided of \$6.2 million. The increase was primarily due to an increase in net sales of marketable securities of approximately \$7.2 million, offset by \$1.0 million in purchases of property and equipment and intangibles.

Capitalization of patent defense costs. We capitalize external legal costs incurred in the defense of our patents when we believe that a significant, discernible increase in value will result from the defense and a successful outcome of the legal action is probable. When we capitalize patent defense costs we amortize the costs over the remaining estimated useful life of the patent, which is 15 to 17 years. During the three and nine months ended September 30, 2017 we paid \$845 thousand, in gross legal costs related to the defense of our patents and \$845 thousand of such costs were capitalized.

Net cash used in financing activities was approximately \$5.9 million during the nine months ended September 30, 2017 primarily consisted of cash outflows of \$4.4 million on repurchase and cancellation of stock, \$1.7 million for dividend payments partially offset by \$0.1 million proceeds from stock based compensation programs. Net cash used in financing activities was approximately \$6.8 million during the nine months ended September 30, 2016 primarily consisted of cash outflows of \$6.9 million on repurchase and cancellation of stock and stock options, \$1.4 million for dividend payments offset by \$1.5 million proceeds from stock based compensation programs.

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.

At September 30, 2017, we had open purchase orders related to our electronics manufacturing service providers of approximately \$6.7 million, primarily related to inventory purchases.

At September 30, 2017, we had inventory totaling \$22.1 million, of which non-current inventory accounted for \$2.4 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 including those related to revenue recognition, income taxes and valuation of long-lived assets, goodwill and other intangible assets 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.

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

Our significant accounting policies are described in our Annual Report on Form 10-K for the year ended December 31, 2016. 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 or down each quarter based upon our distributors' individual operations. Accordingly, each quarter-end deferral of revenue and associated cost of goods sold are calculated and recorded based upon the actual channel inventory reported at quarter-end. Further, with respect to distributors and other channel partners not reporting the channel inventory, the revenue and associated cost of goods sold are deferred until we receive payment for the product sales made to such distributors or channel partners.

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

The amount of deferred cost of goods sold was included in distributor channel inventories. The following table details the amount of deferred revenue, cost of goods sold, and gross profit (in thousands) as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Deferred revenue	\$ 3,870	\$ 3,882
Deferred cost of goods sold	1,394	1,530
Deferred gross profit	<u>\$ 2,476</u>	<u>\$ 2,352</u>

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

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

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

Intangible and Long-Lived Assets:

Intangible assets with determinable lives consist primarily of customer relationships, unpatented technology, patents and trademarks and are amortized over their estimated useful lives, ranging from 5 to 15 years. We rely on patents and proprietary technology and seek patent protection for products and production methods. We capitalize external legal costs incurred in the defense of our patents when we believe that a significant, discernible increase in value will result from the defense and a successful outcome of the legal action is probable. These costs are amortized over the remaining estimated useful life of the patent, which is 15 and 17 years. We assess the future economic benefit and/or the successful outcome of legal action related to patent defense involves considerable management judgment and a different outcome could result in material write-offs of the carrying value of these assets. During the three and nine months ended September 30, 2017, we capitalized \$845 thousand in legal costs related to the defense of our patents.

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. We perform 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. 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 three and nine months ended September 30, 2017 we recorded \$12.7 million or the entire value of goodwill as an impairment charge.

Impairment of Long-Lived Assets

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

During the three and nine months ended September 30, 2017 we recorded \$736 thousand as a charge for impairment of an intangible asset consisting of customer relationships.

Accounting for Income Taxes

We are subject to income taxes in both the United States and in certain foreign 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, 2016 and determined that based upon available evidence it is more likely than not that certain of our deferred tax assets related to capital loss carryovers, state research and development credits, and foreign net operating loss carryforwards will not be realized and, accordingly, we have recorded a valuation allowance against these deferred tax assets in the amount of \$1.4 million.

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

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

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

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

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 Compensation

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

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

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

Recent Accounting Pronouncements:

In May 2014, the FASB released Accounting Standards Update (ASU) No. 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. We plan to adopt the standard when it becomes effective for us beginning January 1, 2018. We currently anticipate adopting the standard using the modified retrospective method with a cumulative catch up adjustment and providing additional disclosures comparing results to previous rules. We continue to evaluate the impact of the new standard on our consolidated financial statements but anticipate this standard will have a material impact on our consolidated financial statements.

In February 2016, the FASB released 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.

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

In March 2016, the FASB released ASU No. 2016-09, Compensation - Stock Compensation: Improvements to Employee Shared-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 Income 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 released 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 we are currently evaluating the impact that ASU 2016-15 will have on our 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.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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.

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. Biamp and QSC have filed motions to dismiss in the Illinois Action based on lack of appropriate venue, which the Illinois court has not ruled on.

The parties are proceeding with discovery. On July 14, 2017, Shure filed a petition for *inter partes review* against the ‘553 Patent, and 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. A preliminary injunction hearing is currently set for January 9, 2018.

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

Except as set forth above, there have been no material developments in the legal proceedings described in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 1A. RISK FACTORS

There have been no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 except for the following.

If the costs of defense of our patents exceeds the benefits, such a determination would negatively impact our reported income

We capitalize our legal expenses relating to defense of our patents. Capitalizing these legal expenses removes the related legal costs from our Income Statement and moves them to our Balance Sheet as an asset. This treatment is based on the current determination that our future benefits from the patents will be larger than the associated costs and that success in defense of the patents is probable. If either one of these conditions doesn’t hold true, all or a portion of the capitalized costs may be written off in the quarter in which a new determination is made. Any such future adjustment will affect the profits reported in that quarter.

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

(a) None.

(b) Not applicable.

(c) 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 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.

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During the three months ended September 30, 2017 we acquired the following shares of common stock under the stock repurchase program:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in \$ millions)</u>
July 2017	11,794	\$ 9.69	11,794	\$ 7.6
August 2017	37,247	7.77	37,247	7.3
September 2017	90,529	7.62	90,529	6.6
Total	<u>139,570</u>	<u>7.84</u>	<u>139,570</u>	

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

<u>Exhibit No.</u>	<u>Title of Document</u>
31.1	Section 302 Certification of Chief Executive Officer (filed herewith)
31.2	Section 302 Certification of Principal Financial Officer (filed herewith)
32.1	Section 906 Certification of Chief Executive Officer (filed herewith)
32.2	Section 906 Certification of Principal Financial Officer (filed herewith)
101.INS	XBRL Instance Document (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (filed herewith)
101.DEF	XBRL Taxonomy Extension Definitions Linkbase (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (filed herewith)

SIGNATURES

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

ClearOne, Inc.,
(Registrant)

By: /s/ Zeynep Hakimoglu

Zeynep Hakimoglu
President, Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

November 14, 2017

By: /s/ Narsi Narayanan

Narsi Narayanan
Senior Vice President of Finance
(Principal Accounting and Principal Financial Officer)

November 14, 2017

CERTIFICATION

I, Zeynep Hakimoglu, certify that:

1. I have reviewed this quarterly report of ClearOne, Inc. on Form 10-Q;
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.

By: /s/ Zeynep Hakimoglu
Zeynep Hakimoglu
Chief Executive Officer
(Principal Executive Officer)

November 14, 2017

CERTIFICATION

I, Narsi Narayanan, certify that:

1. I have reviewed this quarterly report of ClearOne, Inc. on Form 10-Q;
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.

By: /s/ Narsi Narayanan

Narsi Narayanan
Senior Vice President of Finance
(Principal Accounting and Principal Financial Officer)

November 14, 2017

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 Quarterly Report of ClearOne, Inc. on Form 10-Q for the quarter ended September 30, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ClearOne, Inc.

By: /s/ Zeynep Hakimoglu
Zeynep Hakimoglu
Chief Executive Officer
(Principal Executive Officer)

November 14, 2017

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 Quarterly Report of ClearOne, Inc. on Form 10-Q for the quarter ended September 30, 2017, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ClearOne, Inc.

By: */s/ Narsi Narayanan*

Narsi Narayanan

Senior Vice President of Finance

(Principal Accounting and Principal Financial Officer)

November 14, 2017
