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

Form 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2023

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

Commission file number 001-33660

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

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

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

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

Title of each class	Trading Symbol(s)	Name on each exchange on which registered
Common Stock, $0.001 par value	CLRO	The Nasdaq Capital Market

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was 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 every Interactive Data File required to be submitted 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 such files). ☒Yes ☐No

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

Larger Accelerated Filer ☐
Accelerated Filer ☐
Non-Accelerated Filer ☒
Smaller Reporting Company ☒
Emerging Growth Company ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the shares of voting common stock held by non-affiliates was approximately $17.93 million at June 30, 2023**,** (the Company's most recently completed second fiscal quarter), based on the $0.83 closing price for the Company's common stock on the Nasdaq Capital Market on such date. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

The number of shares of ClearOne common stock outstanding as of March 29, 2024 was 23,969,148.

Documents Incorporated by Reference: None

CLEARONE, INC.

Annual Report on Form 10-K For the year ended December 31, 2023

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

PART I

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

ITEM 1. BUSINESS

GENERAL

ClearOne, Inc. (the Company) was incorporated in Utah in 1983 and reincorporated in Delaware on October 25, 2018. The Company is headquartered in Salt Lake City, Utah. The Company has other locations in Gainesville, Florida; Zaragoza, Spain; Chennai, India; and Dubai, United Arab Emirates.

We compete in a global market with our conferencing, collaboration, and network streaming solutions. We design, develop and sell conferencing, collaboration and network streaming solutions for voice and visual communications. The performance and simplicity of our advanced comprehensive solutions offer unprecedented levels of functionality, reliability and scalability.

Our comprehensive line of high-quality conferencing and collaboration products are targeted for large, medium and small businesses, as well as for personal use. We have been a global market leader in the installed professional audio conferencing market, where our products are used in numerous industries such as enterprise, healthcare, education, government, legal and finance.

We have an established history of product innovation and plan to continue to apply our expertise in audio, video and networked AV to design, develop and introduce innovative new products and enhance our existing products. Our end-users range from some of the world's largest and most prestigious companies and institutions to small and medium-sized businesses, higher education and government organizations, as well as individual consumers. We sell our commercial products to these end-users through a global network of independent distributors who, in turn, sell our products to dealers, systems integrators and other value-added resellers. We also sell directly to dealers, systems integrators and other value-added resellers. Our solutions save end-users time and money by creating a natural environment for collaboration and communication. Our partners, who are involved in system integration benefit from simpler project designs and lower support costs because our products are designed and built to work with each other seamlessly.

Company Information

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

ITEM 1 - BUSINESS

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

Our Business Strategy

The Company's primary challenge is the loss in revenue and consequent reduction in cash flows due to operating losses. Our current strategy consists of the following elements to overcome this adverse situation:

- Continue our product innovation to bring to market products that are needed by our partners and end-users
- Cut costs to operate efficiently
- Focus on our core products and improve the quality of our products
- Develop products that have improved interoperability with products from other suppliers.
- Provide continually improving levels of support to our channel partners

We currently participate in the following markets:

- All aspects of audio conferencing including installed professional audio conferencing through DSP mixers, USB based speakerphones and table-top conferencing;
- Professional microphones to support audio and video collaboration through patented beamforming microphones, ceiling microphones and wireless microphones;
- Visual collaboration in all forms including low-cost room appliances, professional cameras, Bring-Your-Own-Device and cloud video services; and
- Audio Visual Networking which includes network media streaming, video walls, sound reinforcement and audio distribution.

Our business goals are to:

- Improve our global market share in professional installed audio conferencing products for large businesses and organizations;
- Position ClearOne as the preferred AV channel partner uniquely offering a complete value-chain of natively integrated solutions from audio to video maximizing AV channel partner profitability;
- Extend total addressable market from our traditional stronghold of installed audio conferencing and microphones to adjacent complementary markets – video collaboration and AV networking;
- Continue to leverage the video conferencing, collaboration and AV networking technologies to enlarge our current market share;
- Focus on the small and medium business market with appropriately scaled, lower cost and less complex products and solutions;
- Capitalize on the growing influence of information technology channels in the audio-visual market and introduce more solutions to these channels;
- Capitalize on the convergence of audio visual and information technology to meet enterprise and commercial multimedia needs and the end-users' transition from high-priced systems to low cost, complete AV room solutions and cloud services;
- Improve the interoperability of our products to increase the ability of our products to work with wider range of other audio-visual products in the market;
- Pursue certifications and partnerships to position our products favorably in the burgeoning Microsoft Teams eco-system;
- Leverage software-based platforms across all our product lines; and
- Expand and strengthen our sales channels.

ITEM 1- BUSINESS

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

- Providing a superior conferencing and collaboration experience;
- Delivering the complete value chain for audio visual communication;
- Extending our capabilities in product innovation through software-based video collaboration and AV networking
- Offering greater innovation, interoperability and value to our end-users and channel partners;
- Leveraging and extending ClearOne technology, leadership and innovation;
- Focusing on our core products and improving the quality of our products to attain higher levels of customer satisfaction;
- Leveraging our strong domestic and international channels to distribute new products; and
- Strengthening existing end-user and channel partner relationships through dedicated and comprehensive support.

PRODUCTS

Our products can be broadly categorized into the following:

- Audio conferencing including installed DSP based professional audio conferencing, USB-based speakerphones and table-top audio conferencing
- Professional microphones consisting of patented beamforming microphones, ceiling microphones and wireless microphones; and
- Video products including video collaboration and AV networking

AUDIO CONFERENCING

Our full range of audio conferencing products include (i) professional installed DSP based audio conferencing and sound-reinforcement products used in enterprise, healthcare, education and distance learning, government, legal and finance organizations, (ii) mid-tier premium conferencing products for smaller rooms and small and medium businesses which interface with video and web conferencing systems, (iii) affordable USB-based speakerphones that can be used with PCs, laptops, tablets, smartphones, and other portable devices, and (iv) traditional tabletop conferencing phones used in conference rooms and offices.

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

Our audio conferencing products contributed 45% and 47% of our consolidated revenue in 2023 and 2022, respectively.

Professional installed audio conferencing and sound reinforcement

We compete in the global professional installed audio conferencing market. We are a pioneer in the development of high-end, professional conferencing products and we have established strong brand recognition for these products worldwide. Our installed professional conferencing products include the CONVERGE® Pro 2 and CONVERGE Pro 2 SR product lines.

Our flagship CONVERGE Pro 2 product line lead our professionally installed audio products line. The CONVERGE Pro 2 product line currently includes CONVERGE Pro 2 128, CONVERGE Pro 2 128VT, CONVERGE Pro 2 128VTD, CONVERGE Pro 2 120, CONVERGE Pro 2 012, CONVERGE Pro 2 48VT and CONVERGE Pro 2 48VTD. CONVERGE Pro 2 SR product line currently includes CONVERGE Pro 2 128SR, and CONVERGE Pro 2 128SRD. CONVERGE Pro 2 and CONVERGE Pro 2 SR together offer various levels of integration and features to allow a commercial system integrator to optimize a system to fit diverse conferencing applications and environments. CONVERGE Pro 2 product line succeeded the original CONVERGE Pro product line, which is currently being phased out as our customers transition fully to CONVERGE Pro 2 product line.

CONVERGE Pro 2's broad DSP platform satisfies clients' diverse audio needs with these features:

- Best-in-class audio delivered through next-gen Acoustic Echo Cancellation and Noise Cancellation processing with Acoustic Intelligence, advanced microphone gating and built-in DARE™ feedback elimination.

- Powerful architecture – Up to 12 mic/line inputs per unit, built-in USB audio interface, built-in optional Dante™ for networked audio.

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- Daisy-chainable design to support up to 144 Mic/line inputs, C-Link expansion bus with 150 channels and P-Link bus for scalable connection of peripheral devices including any combination of ClearOne peripheral devices, such as the Beamforming Microphone Array 2, BMA CT, BMA 360, USB Expander, GPIO Expander and/or the DIALOG® 20 Wireless Microphone system.
- Supports video conferencing, audio and web conferencing, in-room meetings, wireless presentation, and more.
- Integration of VoIP or telephony, USB, and Dante™ for maximum functionality.
- Ability to control local meeting rooms and audio distribution applications with flexible options – touch panel controller, BYOD dialer apps or 3rd party control modules.
- Configure, manage, monitor and troubleshoot the entire system of auto-discovered devices with MatrixView™ and FlowView™ in CONSOLE AI for visualized audio signal paths.

The CONVERGE Pro 2 line of products is ably supported by a touch panel controller, a GPIO expansion box, a USB expansion box and a wall-mount Bluetooth Expander. CONVERGE Pro 2 VoIP SKUs are certified to interoperate with Cisco, Avaya and ShoreTel SIP based VoIP systems and also interoperate with Microsoft Teams, Zoom, Google Meet, and other popular collaboration applications.

Our CONVERGENCE Cloud software is a unified AV network management platform to monitor, control, and audit ClearOne Pro Audio and Video products and services. Remote real-time system access provides at-a-glance and all-inclusive dashboard views with auto-discovery of Pro Audio devices and unlimited scalability designed to support organizations of any size. With the new Cloud option, AV Practitioners can profit on value-added MaaS opportunities to easily support multiple clients and multiple networks with fully secure, real-time remote system access on a single multi-tenant platform. The powerful and elegant user interface, in twelve languages, works on any browser and will allow full support of the AV Network with built-in video, audio, and chat tools for real-time communications as well as email and immediate SMS text alerts. Relevant information is quickly found with search, sort, and filter options. CONVERGENCE AV Cloud can be virtually partitioned for AV management by location such as building, floor, room, or any desired global topology. Practitioners can easily manage accounts, assigning three levels of access with Owner, Administrator, and Monitor roles; all housed on encrypted secure cloud servers. Client tenant usage can be conveniently tracked for invoicing and optional auto-payment reminders.

Our CONVERGENCE® InSite server network hardware enables remote device management by facilitating bi-directional communications between its Cloud or Enterprise AV Manager and on-site ClearOne Pro Audio products.

Mid-Tier Premium Conferencing

Our premium conferencing offerings consist of the CONVERGE Huddle and INTERACT® product lines. Premium conferencing solutions are mid-tier, lower cost, conferencing product solutions designed to meet the needs of our larger customers with smaller conferencing rooms as well as small and medium businesses. CONVERGE Huddle is a versatile solution for multiple use huddle room environments at a price point that meets budget requirements for audio and video collaboration applications. CONVERGE Huddle connects to ClearOne or third-party peripheral devices, such as microphones, speakers, cameras, and display screens and applications such as Microsoft Teams, Zoom, Google Meet, GoToMeeting ™, and WebEx® through a single clutter-free connection via USB 3.0 to a laptop. It comes with professional quality Acoustic Echo Cancellation and Noise Cancellation algorithms and user-friendly CONSOLE® software. It can be mounted easily under a table, behind a display, on a wall or in a rack. The INTERACT product series is comprised of INTERACT AT and INTERACT Pro. Both systems can be easily connected to enterprise telephones, analog POTS lines, existing HD video codecs and soft video clients. These INTERACT systems also include a USB audio interface to connect to PCs, laptops and tablets, as well as to rich multimedia devices, such as video or web conferencing systems and unified communication systems for enhanced collaboration.

Speakerphones

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

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CHAT 50 personal speakerphones are approximately the size of a deck of cards, and connect to PCs and Macs for rich, clear, hands-free audio and playback. CHAT 150 group speakerphones are designed for small group use. These can connect to the same devices and applications as the CHAT personal speakerphones but feature three microphones in larger design for use by a larger number of participants. CHAT group speakerphones make it possible to introduce rich, crystal clear conferencing capability without the need for introducing a separate traditional conference phone. CHATAttach® is comprised of two CHAT 150 group speakerphones which can be daisy-chained together to function as a single conferencing system for much larger coverage than a single CHAT 150. CHAT group speakerphones are integral to our media collaboration product line.

On January 30, 2023, we introduced the new CHAT® 150 BT group speakerphone with USB and Bluetooth connectivity that enhances the conferencing experience for the ultimate in business class performance. With simple, instant connection to personal computers, mobile devices or Bluetooth-enabled desk phones, the CHAT® 150 BT group speakerphone provides users with an affordable way to upgrade home offices, executive offices, and mid-size meeting rooms with BYOD convenience and superior audio clarity for audio conferences and video meetings. The CHAT® 150 BT speakerphone also has an audio bridging feature that allows far end conference participants connected via a software conferencing application through USB, local users of the speakerphone, and far end callers on a mobile call connected through Bluetooth to all join the same call and hear each other clearly. Featuring a steerable microphone array with first-mic priority, the CHAT® 150 BT speakerphone intelligently activates the microphone closest to the person speaking, reducing interference from ambient noise. Like all ClearOne microphone products, the CHAT® 150 BT speakerphone is compatible with popular collaboration platforms including Microsoft® Teams, Zoom™, WebEx™, Google® Meet™, and many more. The new BT model retains all the class-leading features of the original CHAT® 150 speakerphone, including Advanced Noise Cancellation, Full Duplex Distributed Echo Cancellation™ and Automatic Level Control algorithms, to ensure highly intelligible, natural audio capture and playback. It also supports NFC tap-to-pair and includes a wired USB connection for compatibility with the full variety of modern devices.

PROFESSIONAL MICROPHONES

Our microphones contributed 41% and 39% of our consolidated revenue in 2023 and 2022, respectively.

Beamforming Microphone Array

ClearOne began shipping the first generation Beamforming Microphone Array in March 2013. This product works with CONVERGE Pro products. Beamforming Microphone Array 2, the next generation Beamforming Microphone Array started shipping in the last quarter of 2017. It works with CONVERGE Pro2. It affirmed ClearOne's clear industry leadership with the following outstanding features:

- Significantly enhanced and new echo cancellation, with improved performance in demanding acoustic environments.
- Acoustic intelligence with adaptive ambience - faster convergence and better adaptation to changes in room acoustics, such as ambient noise from chairs moving, doors closing, chatter in the background, using separate acoustic echo cancellation for each fixed beam and inhibiting changes in beam selection when only the far end is active.
- Dramatically better mic pickup, including using an augmenting microphone signal, improving overall sound quality.
- Natural and clearly intelligible audio, even when two people speak at once.
- Zero consumption of analog I/O and signal processing in the DSP mixer leaving those resources available for other needs.
- Single cable for power, audio and control.
- Two power options – P-Link and POE.
- Daisy-chains with all ClearOne P-Link devices and works with CONVERGE Pro 2 DSP AEC mixers.
- Easy configuration and management through CONSOLE software.

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During the first quarter of 2019, the Company began shipping our patented Beamforming Microphone Array Ceiling Tile (BMA CT) to our partners. All of the innovations developed for the BMA CT make the integrator's job easier and more profitable. The BMA CT dramatically transforms how integrators can approach system design for ceiling tile installations, allowing for multi-array setups that can utilize a single, low-channel count DSP mixer while maintaining ClearOne's high level of performance and reliability. Further simplification comes from the array's built-in power amplifier, which allows each array to drive two 10-Watt, 8-Ohm loudspeakers. The BMA CT also features ClearOne's proprietary adaptive steering technology (think of it as smart switching). This provides impeccable room coverage while eliminating the need to adjust individual beams. Integrators can daisy chain ceiling tiles via P-Link (ClearOne's proprietary peripheral link) for larger conference setups – for simpler wiring and longer distances compared to networked home-run connections. P-Link also allows integrators to daisy chain additional peripherals such as wireless mics, USB Expanders, and GPIO Expanders. The system supports all of this functionality with zero consumption of analog I/O and signal processing in the DSP mixer leaving those resources available for other needs.

During the first quarter of 2020, we announced two new additions to our COLLABORATE Versa family of products. COLLABORATE® Versa Room CT, provides all the equipment and accessories needed for exceptional room cloud-based conferencing. At the heart of the system, is the USB audio-enabled Beamforming Mic Array Ceiling Tile (BMA CTH). Thanks to its onboard processing, the BMA CTH performs acoustic echo cancellation, noise cancellation, and beam selection, so no external DSP mixer is required. The array's adaptive steering (think of it as smart switching) provides impeccable room coverage. The Versa Room CT brings cost-effective professional conferencing audio to small and mid-sized meeting rooms. COLLABORATE Versa Lite CT is a USB audio enabled BMA CTH room solution. This solution dramatically enhances the audio experience for any cloud-collaboration application such as Zoom, Microsoft Teams, and Webex, without the need for a DSP mixer. The system can be easily and quickly configured using ClearOne's CONSOLE® AI Lite software with Audio Intelligence™ and Auto Connect™. A laptop or a desktop PC can be connected to the BMA CTH directly through the USB port on the Versa USB to share room audio. The included 50-foot CAT6 cable connects the Versa USB Expander to the BMA CTH.

During October 2020, we announced BMA 360, the world's most technologically advanced Beamforming Microphone Array Ceiling Tile, delivering unequaled audio performance and deployment ease. The ClearOne BMA 360 is the world's first truly wideband, frequency invariant beamforming mic array with uniform gain response across all frequency bands. With FiBeam™ technology, conference participants will experience the ultimate in natural and full fidelity audio across all beams and within a single beam. Deep sidelobe beamforming, DsBeam™, provides unparalleled maximum sidelobe depth, below -40 dB, resulting in superior rejection of reverberation and noise in difficult spaces for superb clarity and intelligibility.

The BMA 360 is based on a dramatically new approach to beamforming that provides a new beam topology to easily achieve distortion-free, full 360-degree coverage of any room shape and any seating arrangement using ClearOne Audio Intelligence™. Further advancements in adaptive steering (think of it as smart switching) provide impeccable coverage of each conference participant as well as support for camera tracking. In addition to the advancements in beamforming technology, the 6G Acoustic Echo Cancellation (AEC) delivers unmatched per-beam full-duplex audio performance. On-board audio algorithms, like noise reduction, filtering, and Automatic Level Control, eliminate the need for per-beam processing in a DSP mixer - requiring fewer DSP mixer resources. Finally, robust built-in amplifiers, configurable as 4 x 15 Watt or 2 x 30 Watt, provide flexibility for driving loudspeakers. ClearOne's breakthrough technologies, FiBeam, DsBeam, and 6G AEC combine to create VividVoice™, a significant advancement for professional conferencing. The integrated features in the BMA 360 significantly reduce system design complexity, simplify installation, consume less rack space, and lower system cost. The BMA 360 also supports daisy-chaining of up to three ceiling tiles via P-Link for divisible rooms, or larger conference setups – for simpler wiring, longer distances, and lower-cost deployments compared to networked "home-run" connections via Ethernet. ClearOne's BMA technology is protected by at least a dozen patents and pending patent applications.

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During February 2021, we expanded the applications for our BMA 360, Beamforming Microphone Array Ceiling Tile with the addition of a new Voice Lift feature that allows its impeccable audio to be locally amplified and heard throughout classrooms, lecture halls, and large meeting rooms. ClearOne's powerful breakthrough technologies, FiBeam™ and DsBeam™, already found on the BMA 360, enable exceptional new levels of Voice Lift performance. FiBeam technology makes the BMA 360 the world's first truly wideband, frequency-invariant beamforming mic array that provides the ultimate in natural and full-fidelity sound. DsBeam provides unparalleled sidelobe depth below -40 dB, resulting in superior rejection of reverb and noise and providing superb clarity and intelligibility. With the addition of the new Voice Lift feature, the BMA 360 offers everything desired in a beamforming microphone array ceiling tile—superior beamformed audio, echo cancellation, noise cancellation, auto-mixing, power amplifiers, and camera-tracking functions. The ClearOne architecture offers easy setup and configuration for foolproof installation which benefits AV practitioners. End-users also benefit from the BMA 360's reduced overall system cost for maximum return on investment. Each BMA 360 can have up to four Voice Lift zones to provide a simple and intuitive way to drive multiple speaker groups, allowing everyone to easily hear and be heard. Built-in 4 channel power amplifiers make wiring simple, convenient, and provide a large cost savings. ClearOne's innovative combination of built-in power amplifiers and mix-minus zones makes the Voice Lift feature extremely simple to create and deploy. The BMA 360, now with Voice Lift, sets another industry standard for exceptional mic pickup distance and system gain.

At Infocomm 2023, we unveiled the BMA 360D, the newest member of the world's most advanced beamforming microphone array ceiling tile family. The BMA 360D offers unrivaled audio performance and native compatibility with any Dante-enabled DSP mixer. The new Dante-compatible beamforming microphone array allows integrators and users to leverage ClearOne's industry-leading microphone innovations in more projects and spaces than ever before. The BMA 360D takes our groundbreaking product to the next level by leveraging standard IP networking infrastructure in an enterprise, empowering AV and IT practitioners to upgrade existing room solutions to use more powerful microphones and expanding flexibility that enables third-party DSP integrations in new system designs. The added power and advanced beamforming also enhance the performance of critical modern functions such as voice lift and camera tracking. Dante integration in the BMA 360D enhances the array's functionality by delivering unprocessed beam audio on individual Dante transmit channels. Additionally, a smart-switched output is delivered on a separate Dante channel to provide the optimal mix of active inputs while enabling ClearOne's full suite of audio enhancements, which include echo cancellation, noise cancellation, and level control. The BMA 360D incorporates the industry's only ultra-wideband, frequency-invariant beamforming mic array technology with uniform gain response across all frequency bands. With proprietary FiBeam™ and DsBeam™ technology, participants experience natural and full-fidelity audio across all beams and within a single beam. DsBeam delivers superb clarity and intelligibility through unparalleled sidelobe depth below -40 dB, resulting in superior rejection of reverb and noise even in challenging environments. Integrator setup is simplified by convenient preset beam patterns for common room layouts, while custom beam patterns can be created for unique floor plans. Combined with adaptive steering that focuses audio pickup on active speakers, the adjustable beam patterns provide impeccable coverage of every meeting or conference participant. The exceptional accuracy of ClearOne's beamforming and adaptive steering technologies also enhance the performance of voice lift and camera tracking functions for any attached DSP mixer.

Ceiling Microphone Array

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

This product line was further strengthened in 2018 by the introduction of the Ceiling Microphone Array Analog-X series of ceiling microphones. These products feature superior sound quality, adjustability for desired height from 0 to 7 feet and numbered microphone elements for easy identification. This product line was further expanded with the introduction of Ceiling Microphone Array Dante, a tri-element ceiling microphone array with built-in Dante audio networking for conferencing and sound reinforcement applications. Each Ceiling Microphone Array Dante utilizes three premium quality microphone elements to deliver 360-degree room coverage for boardrooms, conference rooms, telemedicine facilities and more. Dante networking technology offers simple installation with CAT5 or CAT6 cabling, and delivers uncompressed, multi-channel audio with near-zero latency and sample accurate time synchronization throughout the network.

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Wireless Microphones

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

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

In January 2022 we introduced DIALOG® 10 USB, the industry's only single-channel wireless microphone system offering professional-quality audio with USB connectivity. Offering plug-and-play simplicity and wireless convenience, DIALOG 10 USB is an ideal solution for webcasting and cloud-based collaboration. Setup is a breeze with the included USB Type C cable that connects to any PC for audio, power, and control. With no external power source or additional audio cables required, DIALOG 10 USB is one of the easiest and fastest ways to enjoy high-quality audio in any application.

In June 2023 we introduced the DIALOG UVHF wireless microphone system that combines class-leading flexibility, Power over Ethernet (PoE) simplicity, Dante technology and up to 350 usable frequencies. The DIALOG UVHF is a highly flexible wireless microphone system that delivers incredibly robust reception and more available spectrum on-demand than any other product in its class. The system has the only wireless access point to offer antenna redundancy and antenna diversity. Dual integral antennas with spatial and polarization diversity help to maintain high audio quality in harsh environments.

VIDEO

Our video products include video collaboration and AV networking products. Our video products contributed 14% of our consolidated revenue in 2023 and 2022.

Video Collaboration:

Our Media Collaboration suite of products is led by our comprehensive portfolio of COLLABORATE® branded videoconferencing and collaboration solutions.

Our Media Collaboration series includes COLLABORATE Space, a suite of solutions that unifies messaging, calls, meetings and, perhaps most importantly, minds in a way that will energize workflows and increase productivity for everyone involved in the enterprise. Designed as a persistent, user-friendly collaboration suite, COLLABORATE Space contains many powerful UCC capabilities, as well as the seamless ability to make calls outside the network. By adding phone credits on the account, customers can reach anyone in the world on a standard landline or mobile phone with the system's integrated phone dialer.

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With COLLABORATE Space, users can work together one-on-one, or in groups of hundreds, with integrated file sharing, searchable archives, and user presence information. They can connect with colleagues and contacts, via audio and video, with the most intuitive collaboration tools. Users can meet immediately or schedule a meeting and access a full suite of collaboration features, including file sharing, whiteboarding, annotation, chat, and meeting minutes. Team members wishing to move from email can also create searchable private and public channels, organized by topic, which can be accessed from anywhere. They can also search, access and store agendas, notes, messages, documents, whiteboards, session recordings, and more. Finally, COLLABORATE Space runs on any device, from desktop to mobile, and on any standards-based video endpoint.

COLLABORATE Space Enterprise has all the functionality people have come to expect from a full-featured cloud collaboration app, with the increased security and full, enterprise control associated with on-premises platforms. In addition to the “Enterprise” platform, COLLABORATE Space is available in cloud-based “Basic” and “Pro” versions.

COLLABORATE Space, our powerful cloud-based collaboration solution, added two valuable features in 2020 - webinar hosting and Web RTC. COLLABORATE Space Pro and Enterprise meeting plans can be upgraded to include the Webinar feature allowing session hosts to conduct video and audio presentations for up to 1,000 participants. The Web RTC feature works with all popular browsers including Microsoft Edge, Google Chrome, Safari and Mozilla Firefox. The Web RTC feature enables users to easily join full-featured COLLABORATE Space audio and video meetings using a browser with no downloads or plug-ins required. Users can accept meeting, webinar, and classroom invitations and join with a single click; easily sharing and viewing content within a browser window. COLLABORATE Space also added a feature where Microsoft Teams users can now enjoy a richer collaboration than that available within the Teams environment today. This richer collaboration experience includes better video quality, support for multiple cameras, support for multiple displays, and a persistent meeting space where chats, audio and video recordings, documents, meeting minutes, whiteboard sessions, and more can be shared in private or public channels for later access. Users can easily initiate a Space video meeting or join an existing Space video meeting within the MS Teams environment.

Bring your own device and web conferencing

The COLLABORATE Versa series offer a USB PTZ camera, a speakerphone and USB hub that connects a laptop to the meeting room peripherals via a single USB 3.0 cable. COLLABORATE Versa, is compatible with Microsoft Teams, Zoom, WebEx, Google Meet, and more. This solution is targeted at huddle spaces and medium conference rooms.

COLLABORATE Versa 50 features a ClearOne UNITE® 50 EPTZ 3x zoom 1080p30 camera to capture all participants in the room; a USB hub for connecting to dual displays, cameras, audio endpoints, networks and other peripherals, and a CHAT® 150 speakerphone with advanced audio processing for a rich conferencing experience.

The COLLABORATE Versa Pro 50 addresses today’s AV collaboration needs for COLLABORATE Space, MS Teams, Zoom, WebEx, GoToMeeting and other applications with a complete huddle space solution. It features a CONVERGE® Huddle audio DSP mixer for a professional audio experience, a ClearOne UNITE® 50 EPTZ 3x zoom 1080p30 camera, and a ceiling microphone array with 360-degree coverage reducing reverberation and noise. Customers purchasing the COLLABORATE Versa Pro 150 get upgraded to a 1080p30 UNITE® 150 PTZ camera with 12x optical zoom.

COLLABORATE Versa Pro CT, includes a Huddle DSP mixer and the Huddle-compatible and patented BMA CTH that is a perfect fit for small-to medium-sized rooms. The COLLABORATE Versa Pro CT is a great room solution for Bring Your Own Device (BYOD) collaboration using any cloud-based service. such as Microsoft Teams, WebEx, Zoom, and more. The system includes the Company’s new BMA CTH Beamforming Microphone Array Ceiling Tile with built-in AEC, providing the same impeccable room coverage as the BMA CT using adaptive steering (think of it as smart switching). The COLLABORATE Versa Pro CT system also includes mic/line inputs with AEC, line outputs, 4x10 Watt power amps, USB audio, and HDMI. The system comes preloaded with a project file ready for the most common room configuration. Or it can be further configured using CONSOLE® AI software, now with enhanced visualization and Audio Intelligence.

Additionally, both COLLABORATE Versa Pro 50 and Versa Pro 150 solutions feature a CONVERGE® Huddle audio DSP mixer for a professional audio experience, and a Ceiling Microphone Array with 360-degree coverage that reduces reverberation and noise.

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In May 2023, we launched eight new COLLABORATE® Versa® packaged hardware systems to provide optimized audio and video performance for conference rooms and personal office spaces. The updated lineup of bundled solutions empowers businesses of all sizes and means to leverage powerful conferencing capabilities that include automatic voice tracking, face tracking and echo cancellation. The new lineup of COLLABORATE Versa solutions offers an ideal package for every small-to-medium sized conferencing space or personal office, giving business owners and IT staff mission-specific options that ensure maximum value, utility and performance in any room. The solutions launched were COLLABORATE Versa Room CT 160, COLLABORATE Versa Room CT, COLLABORATE Versa 20, COLLABORATE Versa 20 Plus, COLLABORATE Versa 160, COLLABORATE Versa 60, COLLABORATE Versa Pro 160, and COLLABORATE Versa Pro 60.

In April 2023 we announced the immediate market availability of the Versa UCS2100 Collaboration Switcher Kit. Designed for use in small to mid-sized meeting rooms, board rooms, and executive offices, the Versa UCS2100 automatically detects HDMI and USB-C sources, such as a dedicated in-room PC or a Bring-Your-Own-Meeting (BYOM) laptop and offers the flexibility for users to access the same set of in-room AV peripherals, such as cameras and audio devices. Its USB-C input provides up to 60 watts charging and provides simultaneous 1 x HDMI output and 1 x HDBaseT output. When combined with ClearOne UNITE series PTZ cameras, INTERACT, CONVERGE® Pro 2, CONVERGE® HUDDLE, and CHAT series audio conferencing devices, the Versa UCS2100 delivers guaranteed performance and a streamlined user experience that supports automatic source detection and switching and is controllable via RS-232, TCP/IP, or front panel buttons.

In October 2023 at Infocomm India we provided our integration partners and end user customers with added flexibility in system connectivity with the introduction of our new Versa USB22 Dante adapter. This new product enables users to directly connect any computer to a Dante network without first requiring software installation and can be used with any audio application for playback or capture and is thus ideal for a wide range of small to mid-sized meeting spaces. The Versa USB 22D delivers bit-perfect audio reproduction, super-low latency, and sample-accurate synchronization across the entire Dante network. It connects any computer to the ClearOne BMA 360D through a Dante network.

Cameras

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

The UNITE 50 4K camera is plug-and-play ready with a 120-degree field-of-view, and digital zoom. It pairs easily with any microphone/speaker combination. The UNITE 50 4K camera’s ultra-wide-angle field-of-view is ideally suited for PC-based video conferencing, web conferencing and unified communications, and other collaboration experiences in huddle spaces and small conference rooms. The camera also supports the USB Video Class (UVC) 1.1 standard for maximum compatibility with a wide variety of cloud and room-based solutions. Along with 4K30 resolution, the autofocus camera features 3x digital zoom and a full-function USB 3.0 interface for video and power. Its wide dynamic range provides support for optimal image capture — critical for all video conferencing.

In April 2020, we introduced the UNITE 20 Pro Webcam, which easily mounts on a PC or laptop to provide full 1080p30 image with an ultra wide-angle field-of-view up to 120°. A super-high signal-to-noise ratio and advanced 2D and 3D noise reduction provides superior desktop camera video quality.

During the first quarter of 2021, we announced two powerful cameras that enhance the ease and visual quality of online collaboration beyond the capabilities of integrated laptop and PC cameras. With the ClearOne UNITE® 10, the Company’s most affordable camera ever, and the feature-rich ClearOne UNITE 50 4K AF that includes Auto-Framing technology for automatic single- or multi-person capture, everyone can communicate with the confidence provided by stunning video that puts them in the best possible light. The small, powerful webcam supports up to 1080p video quality and offers autofocus. The UNITE 10 can capture five-megapixel images with a field of view up to 87 degrees. The UNITE 10 attaches to any PC or laptop with a simple mounting bracket, and a 1.5m USB-A cable ensures simple connection to most modern computers.

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The new UNITE 50 4K AF camera is a major upgrade over traditional webcams and introduces ClearOne's new Auto-Framing technology that automatically frames meeting participants to maximize screen use through intelligent image algorithms and ePTZ automation (electronic pan, tilt and zoom). With 4K video quality at 30 Hz, auto-focus capability, 4x digital zoom, more than 8 megapixels of total resolution and an ultra-wide 110-degree field of view, the UNITE 50 4K AF ePTZ is equally capable of delivering incredible image quality from a home office as it is at capturing all participants in an office boardroom. The camera can be controlled through an IR remote, further simplifying use and enabling real-time control of pan, tilt and zoom to provide greater control when capturing multi-person meeting environments. A standard damping mount ensures fast, easy installation, while an included USB 3.0 cable provides both power and video. Both new ClearOne cameras enable life-like video quality to web-based conferencing applications including Microsoft Teams, WebEx, Google Meet, Zoom, and GoToMeeting.

During July 2021 we introduced the UNITE 180 ePTZ professional camera that provides a full 180-degree panoramic field-of-view with "real-time stitching" to achieve a variety of useful viewing modes for any application and environment. Designed for professional-quality visual collaboration, conferencing, UC applications, distance learning, and more, the new UNITE 180 camera provides six viewing mode options as well as panoramic view for the ultimate in camera flexibility. Real-time stitching creates a seamless 180-degree panoramic view of wide spaces by bringing the views of multiple lenses together as one complete image. Large classroom settings, training centers, or any wide conferencing area are all captured and presented with perfect clarity in any of the viewing mode options. A 4x zoom further enhances the UNITE 180 feature set. The UNITE 180 is compatible with all popular cloud-based video collaboration applications including Microsoft Teams, Zoom, WebEx, Google Meet, and others.

During July 2021 we also announced the market introduction of the Versa Mediabar™ video soundbar, the Company's first professional quality all-in-one audio and video capture device that combines the elegance and simplicity of a soundbar with the power of ClearOne's intelligent audio capture and 4K camera technologies. Versa Mediabar provides high-quality visual collaboration, audio conferencing, and UC applications from a single integrated device, offering the simplest solution available for offices, conference rooms and home offices with virtually no setup required. With a compact design that can be mounted on a wall or attached to a video display, the Versa Mediabar connects via a single USB cable to elevate the soundbar concept into a powerful tool for virtual collaboration that includes AI-enabled auto-framing and people tracking. The Versa Mediabar features a built-in 4K Ultra HD camera with a 110-degree ultra wide-angle field of view and a four-element microphone array with 360-degree voice pickup and intelligent DSP that provides acoustic echo cancellation (AEC) and automatic noise reduction to ensure crystal clear audio capture. The camera combines electronic pan, tilt and zoom functions (ePTZ) with artificial intelligence to enable auto-framing and people tracking that keeps the speaker in view even if they move around the room. From huddle spaces and small meeting rooms to executive offices and home offices, the compact Versa Mediabar delivers all the power and clarity needed for daily virtual communications. In addition to its professional-quality audio and video capture, the Versa Mediabar also features a powerful built-in speaker with Bluetooth connectivity that allows it to serve double duty as a fully-featured conferencing solution or a Bluetooth speaker for impromptu calls using any Bluetooth device. These attributes make the Versa Mediabar perfect for popular cloud-based collaboration applications such as Microsoft Teams, Zoom, WebEx, and Google Meet. The Versa Mediabar supports standard UVC commands for control, making it a great addition to existing systems, while dual wall and display mounting options deliver freedom of placement and movement.

At the end of October 2022, we announced the introduction of the UNITE® 60 camera, a new wide angle 4K USB camera featuring AI-powered smart face and voice tracking, along with electronic PTZ (pan/tilt/zoom) capabilities. With a 120-degree field of view, and a plug-and-play USB 3.0 connection for video, control, and power, the new UNITE 60 camera is ideally suited for rooms such as executive offices, huddle rooms, or smaller conference rooms. The UNITE 60 camera leverages a wide dynamic range and super-high SNR with advanced 2D and 3D noise reduction to deliver excellent visuals across varied lighting conditions. In addition to the AI auto-tracking feature, the camera can also be controlled via IR remote or UVC protocol. The camera can be paired with a wide variety of microphones and speakers.

In November 2022, we announced the introduction of UNITE 160, a new camera that offers cutting-edge 4K UHD performance with 12x optical zoom capabilities, remote-controlled mechanical pan and tilt as well as AI-powered smart face tracking and auto framing. This camera is designed to capture all participants in large rooms while enabling automated focus on a moving presenter, making it ideal for larger spaces including board rooms, training centers, conference rooms and classrooms. This new camera offers an integrated AI-based camera tracking solution for rooms that are a fit for ClearOne's Versa Lite CT and a single camera. This new lower-cost camera tracking configuration eliminates the need for a DSP mixer and a control system.

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On January 16, 2023, we introduced UNITE 260 Pro camera, a professional grade 4K Ultra HD camera featuring both a 20X optical zoom and 16X digital zoom that allows users to capture every participant in all meeting, training, and learning environments it is deployed in. Compatible with all popular meeting applications like Microsoft® Teams, Zoom™, WebEx™, and Google® Meet™, the new camera features an AI-based smart face tracking mode that keeps a selected presenter in the frame as they move about the room. Alternatively, the camera's AI-based auto framing mode always keeps an entire group in perfect view. With dual video outputs HDMI and IP, the UNITE 260 Pro Camera is an excellent choice for a hybrid environment: streaming content while simultaneously showing it live where the presentation is occurring.

AV Networking

Our AV networking products are primarily sold under VIEW® Pro and VIEW Lite brands and deliver the ultimate IP A/V experience by streaming time sensitive high definition audio and video and control over TCP/IP networks. By combining audio and/or video content, meta-data and control signals into one digital stream in harmony with industry standards, its distributed, edge of the network architecture allows the hardware and the processing power to be distributed across any existing TCP/IP network. This leverages many of the advantages of using TCP/IP over traditional analog systems and other centrally controlled IP-based systems.

PROFESSIONAL AUDIO AND VIDEO HOME OFFICE SOLUTIONS

During November 2020, we introduced Aura™, a comprehensive range of Good, Better and Best packages of enterprise quality audio, video, audio-video options to meet the home office market demand for professional audio and video collaboration solutions that match the quality found in a traditional corporate office.

With the post-pandemic demand for work from home and learn from home markets plateauing, we have decided to deemphasize the Aura product line and continue our focus on our core product lines and our key channels including the professional audiovisual channel.

MARKETING AND SALES

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

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

Revenue in millions	2023		2022	
	Revenue	%	Revenue	%
In the United States	$ 8.2	44%	$ 12.1	48%
Outside United States	10.5	56%	13.1	52%
	$ 18.7	100%	$ 25.2	100%

We sell directly to our distributors and resellers in approximately 38 countries worldwide. We anticipate that the portion of our total product revenue from international sales will continue to be a significant portion of our total revenue as we further enhance our focus on developing new products, establishing new channel partners, strengthening our presence in key growth areas, complying with regional environmental regulatory standards, and improving product localization with country-specific product documentation and marketing materials.

Distributors, Resellers and Independent Integrators

We sold our products directly to approximately 263 distributors and direct resellers throughout the world during 2023. Distributors and resellers purchase our products at a discount from list price and resell them worldwide to hundreds of independent systems integrators, telephony value-added resellers, IT value-added resellers, and PC dealers on a non-exclusive basis. Our distributors maintain their own inventory and accounts receivable and are required to provide technical and non-technical support for our products to the next level of distribution participants. We work with our distributors and resellers to establish appropriate inventory stocking levels. We also work with our distributors and resellers to maintain relationships with our existing systems integrators, dealers, and other value-added resellers.

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

Marketing

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

Customers

Since we sell through distributors and value-added resellers, we do not have comprehensive information on end-users who ultimately use our products. As a result, we do not know whether any end-user accounted for more than 10% of our total revenue during any of the periods reported in this Annual Report. Our customers are distributors and value-added resellers. During the years ended December 31, 2023 and 2022 no distributor accounted for more than 10% of our total consolidated revenue.

As discussed above, distributors facilitate product sales to a large number of independent systems integrators, dealers, and value-added resellers, and subsequently to their end-users. The loss of one or more distributors could reduce revenue and have a material adverse effect on our business and results of operations. Our orders fulfilled on which we had not recognized revenue were $30 thousand and $63 thousand as of December 31, 2023 and 2022, respectively. We had a backlog of unfulfilled orders of approximately $0.4 million and $2.9 million as of December 31, 2023 and 2022, respectively.

Competition

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

We believe the following principal factors drive our sales:

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

In the professional audio conferencing system and sound reinforcement markets our main competitors include AcousticMagic, Biamp, BOSE, Crestron, Extron, Harman (Samsung), Peavey, Poly, QSC, Shure, Symetrix, Vaddio, Xilica, and Yamaha and any original equipment manufacturing (OEM) partners, along with several other companies potentially poised to enter the market.

Our primary competitors in the USB-based speakerphones market are Jabra, Logitech, Poly, Sennheiser, Yamaha and Yealink and any OEM partners.

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

Our video conferencing products face tremendous competition from well established players as well as emerging players, including Acano/CISCO, Adobe Connect, Amazon Chime, Avaya (Radvision), Aver, Barco, Blackboard Collaborate, Cisco, Citrix, Fuze, Huawei, InFocus, Kramer, LifeSize, Magor, Pexip, Poly, Microsoft, Starleaf, UNIFY, Vidyo, Yealink, Zoom and ZTE.

ITEM 1 - BUSINESS

Sources and Availability of Raw Materials

We manufacture our products through electronics manufacturing services ("EMS") providers, who are generally responsible for sourcing and procuring required raw materials and components. Most of the components that our EMS providers require for manufacturing our products are readily available from a number of sources. During 2020 and 2021, we witnessed a significant tightening of the electronics market with demand for electronic products especially for semiconductors which include memories and processors, far exceeding the supply along with surging inflation that caused price increases and longer fulfillment cycles. COVID-19 completely disrupted the entire supply chain and extended the already lengthy fulfillment cycles. Continuing tariff wars between USA and China has created more uncertainty with respect to pricing and has consequently affected the supply chain. During 2023, we experienced a revenue decline partially due to our inability to source adequate inventory to meet the demand for professional audio products and BMA due to the transition of manufacturing of our products from China to Singapore by our electronics manufacturing services provider. The challenges with the manufacturing transition from China to Singapore was successfully resolved in the fourth quarter of 2023.

Extended lead times for component purchases and component cost increases persisted throughout 2021 and 2022. Lead times shortened for many components in 2023, and although component costs moderated somewhat in 2022 and 2023 compared to 2021, several component suppliers have made cost increases permanent.

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

Manufacturing

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

Seasonality

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

Research and Product Development

We are committed to research and product development and view our continued investment in research and product development as a key ingredient to our long-term business success. Our research and product development expenditures were approximately $3.7 million and $4.4 million during the years ended December 31, 2023 and 2022, respectively.

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

Intellectual Property and Other Proprietary Rights

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

As of December 31, 2023, we had approximately 79 patents and 4 pending patent applications, including foreign counterpart patents and foreign applications. Our patents and pending patent applications cover a wide range of our products and services including, but not limited to acoustic echo cancellation, beamforming microphone arrays, systems that enable streaming media over IP networks, algorithms for video processing, wireless conferencing systems, spatial audio, and technologies for the Internet of Things. The durations of our patents are determined by the laws of the country of issuance. For the U.S., patents may be 17 years from the date of issuance of the patent or 20 years from the date of its filing, depending upon when the patent application was filed. In addition, we hold numerous U.S. trademarks. The laws of foreign countries may not protect our intellectual property to the same degree as the laws of the United States.

ITEM 1 - BUSINESS

We will obtain patents and other intellectual property rights used in connection with our business when practicable and appropriate. Our intellectual property policy is to protect our products, technology and processes by asserting our intellectual property rights where appropriate and prudent. From time to time, assertions of infringement of certain patents or other intellectual property rights of others have been made against us. In addition, the Company was involved in patent infringement lawsuits against Shure Inc. ("Shure"). See Note 8– Commit ments and Contingencies – Legal Proceedings – Intellectual Property Litigation for a discussion of these legal proceedings.

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

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

Employees

As of December 31, 2023, we had 82 full-time employees. Of these employees, 44 were located in the U.S. and 38 in locations outside the U.S. None of our employees are subject to a collective bargaining agreement and we believe our relationship with our employees is good. We also hire contractors with specific skill sets to meet our operational needs.

ITEM 1A. RISK FACTORS

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

Risks Relating to Our Business

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

The markets for our products and services are characterized by intense competition, pricing pressures and rapid technological change. Our competitive landscape continues to rapidly evolve, in particular with respect to our video-related services and products, as we move into new markets for video collaboration such as mobile, social and cloud-delivered video. We compete with businesses having substantially greater financial, research and product development, manufacturing, marketing, and other resources than we do. In addition, many of our current competitors, as well as many of our potential competitors, are private companies not subject to the costs and disclosure requirements applicable to us as a public company, have longer operating histories, significantly greater resources to invest in new technologies and more substantial experience in new product development, regulatory expertise, manufacturing capabilities and the distribution channels to deliver products to customers. If we are not able to continually design, manufacture, and successfully introduce new or enhanced products or services that are comparable or superior to those provided by our competitors and at comparable or better prices, we could experience pricing pressures and reduced sales, gross profit margins, profits, and market share, each of which could have a materially adverse effect on our business.

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

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

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

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

ITEM 1A - RISK FACTORS

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

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

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

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

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

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

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

In connection with the audit of our consolidated financial statements as of December 31, 2017, our independent registered public accounting firm identified deficiencies in our system of internal control over financial reporting that it considered to be a material weakness related to the accurate and timely reporting of our financial results and disclosures for the fiscal year ended December 31, 2017 and our testing and assessment of the design and operating effectiveness of internal controls over financial reporting in a timely manner. The Public Company Accounting Oversight Board's Auditing Standard No. 5 defines a material weakness as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. See Part II, Item 9A, “Controls and Procedures.”

We initiated remedial measures and conducted an evaluation of the effectiveness of our internal control over financial reporting for the years 2019, 2020, and 2021 based on the framework set forth in *Internal Control - Integrated Framework* (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and concluded that remediation of the material weakness identified during the 2017 audit has been completed. We also concluded under this evaluation that our internal control over financial reporting was effective as of December 31, 2022 and December 31, 2023, respectively.

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

ITEM 1A - RISK FACTORS

We have identified two significant deficiencies in internal control over financial reporting, and if we fail to maintain effective internal controls over financial reporting, the price of our common stock may be adversely affected.

We are required to establish and maintain appropriate internal controls over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely impact our public disclosures regarding our business, financial condition or results of operations. Any failure of these controls could also prevent us from maintaining accurate accounting records and discovering accounting errors and financial fraud.

In the course of completing its assessment of internal control over financial reporting as of December 31, 2021, management did not identify any material weaknesses but did identify the continued existence of two significant deficiencies in the lack of end user segregation in our accounting system and a failure to perform user access audits for certain system applications. Specifically, management believes that we may not be able to adequately segregate responsibility over financial transaction processing and reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting, that is less severe than a material weakness yet important enough to merit attention by those responsible for oversight of the Company’s financial reporting. Although we are unable to remediate the end user segregation significant deficiency with current personnel, we are mitigating its potential impact, primarily through a review of all employee’s access rights in our accounting system.

In addition, management’s assessment of internal controls over financial reporting may identify additional weaknesses and conditions that need to be addressed or other potential matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in our internal control over financial reporting or disclosure of management’s assessment of our internal controls over financial reporting may have an adverse impact on the price of our common stock.

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

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

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

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

We are substantially dependent on our sales force to effectively execute our sales, pricing and business strategies.

We believe that there is significant competition for skilled sales personnel with technical knowledge. Our ability to grow our business depends on our success in recruiting, training, and retaining sales personnel to support our sales. We periodically adjust our sales organization and our compensation programs to optimize our sales operations, to increase revenue, and to support our business model. If we have not structured our sales organization or compensation for our sales personnel in a way that properly supports our business objectives, or if we fail to make changes in a timely fashion or do not effectively manage changes, our performance and results of operations could be adversely affected.

ITEM 1A - RISK FACTORS

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

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

The success of our new product introductions depends on a number of factors, including proper new product definition, product cost, infrastructure for services and cloud delivery, timely completion and introduction of new products, proper positioning and pricing of new products in relation to our total product portfolio and their relative pricing, differentiation of new products from those of our competitors and other products in our own portfolio, market acceptance of these products and the ability to sell our products. Once new products reach the market, they may have defects, or may be met by unanticipated new competitive products, which could adversely affect market acceptance of these products and our reputation. Other factors that may affect our success include properly addressing the complexities associated with compatibility issues, channel partner and sales strategies, sales force integration and training, technical and sales support, and field support. As a result, it is possible that investments that we are making in developing new products and technologies may not yield the planned financial results. If we are not able to manage and minimize such potential difficulties, our business and results of operations could be negatively affected.

We depend on an outsourced manufacturing strategy, and we may face increased risks and costs associated with volatility in commodity and labor prices or as a result of supply chain or procurement disruptions, which could negatively impact our product availability and revenues.

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

Switching from one EMS provider to another or switching from one location of manufacturing to another location similar to our recent transition from China to Singapore, is an expensive, difficult and a time-consuming process, with serious risks to our ability to successfully transfer our manufacturing operations. Our operations, and consequently our revenues and profitability, were impacted materially in 2021, 2022 and 2023 due to switching of manufacturing from one location to another. Our operations, and consequently our revenues and profitability could be materially adversely affected in the future if we are forced to switch from any of our EMS providers to another EMS provider due to any number of factors, including financial difficulties faced by the manufacturer, disagreements in pricing negotiations between us and the manufacturer or organizational changes in the manufacturer. If our EMS providers experience disruptions in their operations, it is uncertain whether we would be able to source the essential commodities, supplies, materials, and skilled labor timely or at all without incurring significant costs or delays, particularly during times of economic uncertainty resulting from events outside of our control, including, but not limited to, effects of COVID-19. We may be forced to purchase supplies and materials in larger quantities or in advance of when we would typically purchase them. This may cause us to require use of capital sooner than anticipated. Alternatively, we may also be forced to seek new third-party suppliers or contractors, whom we have not worked with in the past, and it is uncertain whether these new suppliers will be able to adequately meet our materials or labor needs. In addition, we may be unable to compete with entities that may have more favorable relationships with their suppliers and contractors or greater access to the required raw materials and skilled labor.

ITEM 1A - RISK FACTORS

The cost of delivered product from our EMS providers is a direct function of their ability to buy components at a competitive price and to realize efficiencies and economies of scale within their overall business structures. During 2021 there was a worldwide shortage of semiconductor, memory and other electronic components affecting many industries, from automotive to technology providers. Even though this shortage has eased in 2022, the shortage continues to impact our operation. If the shortage continues or worsens it will impact our EMS providers significantly. If our EMS providers are unsuccessful in obtaining component parts at efficient costs or at all, our delivered costs could rise or we may not be able to fulfill orders on time or at all, affecting our gross margins, profitability and ability to compete. In addition, if the EMS providers are unable to achieve greater operational efficiencies, delivery schedules for new product development and current product delivery could be negatively impacted.

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

Additionally, the sourcing and availability of raw materials necessary for our EMS providers to manufacture certain of our products, including "conflict minerals" has been and could continue to be significantly constrained, which is likely to result in continued elevated price levels. Furthermore, compliance with SEC disclosure and reporting requirements in the future regarding the use of "conflict minerals" mined from the Democratic Republic of Congo and adjoining countries could adversely affect the sourcing, supply and pricing of materials used in our products. As a result, we may not be able to obtain the materials necessary to manufacture our products, which could force us to cease production or search for alternative supply sources, possibly at a higher cost. Such disruptions may have a material adverse effect on our business, financial condition, results of operations and cash flows.

COVID-19 has caused and may continue to cause unanticipated fluctuations in our gross margins, which can result in unanticipated fluctuations in our operating results.

Our gross margins can vary due to customer demand, competition, product pricing, product lifecycle, product mix, new product introductions, unit volumes, acquisitions and divestitures, commodity, supply chain and logistics costs, capacity utilization, geographic sales mix, currency exchange rates, trade policy and tariffs, and the complexity and functionality of new product innovations and other factors. If we are not able to introduce new products in a timely manner at the product cost we expect, or if customer demand for our products is less than we anticipate, or if there are product pricing, marketing and other initiatives by our competitors to which we need to react or that are initiated by us to drive sales that lower our margins, then our overall gross margin will be less than we project.

Moreover, growth in the hybrid work environment is likely to create greater pressures on us and our suppliers to accurately project overall and specific product categories of component and product demand and to establish optimal levels and manufacturing capacity. If we are unable to secure enough components and/or finished products at reasonable prices or of acceptable quality to build new products in a timely manner in the quantities or configurations needed, our revenue and gross margins could suffer until other sources can be developed. In addition, our gross margins vary significantly by product line, sales geography and customer type, as well as within product lines. When the mix of products sold shifts from higher margin product lines to lower margin product lines, to lower margin sales geographies, or to lower margin products within product lines, our overall gross margins and our profitability may be adversely affected. Moreover, as we expand within and into new product categories, our products in those categories may have lower gross margins than in our traditional product categories. If we are unable to offset these potentially lower margins by enhancing the margins in our more traditional product categories, our profitability may be adversely affected.

As our global manufacturing partners and a significant number of distributors are located outside of the United States, we rely upon logistics providers to transport goods around the world. As supply chains have become more constrained, the need to expedite shipments to manufacturing facilities and customers has increased. Further, we continue to experience higher transportation and fuel costs which has resulted in decreased margins and may result in the future in increased inventory and further margin decline, which would adversely affect our results of operations and financial condition.

Changes in trade policy, including tariffs and the tariffs focused on China in particular, and currency exchange rates also have adverse impacts on our gross margins. The COVID-19 pandemic put pressure on our gross margins and caused us to face uncertain product demand and incur increased air freight and other costs to fulfill sell through demand, replenish channel inventory, and maintain market share.

The impact of these factors on gross margins can create unanticipated fluctuations in our operating results, which may cause volatility in the price of our stock.

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

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

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

Our operations may be impacted by the Russian invasion of Ukraine.

On February 24, 2022, Russia launched an invasion of Ukraine which has resulted in increased volatility in various financial markets and across various sectors. The United States and other countries, along with certain international organizations, have imposed economic sanctions on Russia and certain Russian individuals, banking entities and corporations as a response to the invasion. The extent and duration of the military action, resulting sanctions and future market disruptions in the region are impossible to predict. Moreover, the ongoing effects of the hostilities and sanctions may not be limited to Russia and Russian companies and may spill over to and negatively impact other regional and global economic markets of the world, including Asia, Europe and the United States. The ongoing military action along with the potential for a wider conflict could further increase financial market volatility and cause negative effects on regional and global economic markets, industries, and companies. It is not currently possible to determine the severity of any potential adverse impact of this event on our financial condition or results of operations.

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

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

Difficulties in integrating future acquisitions could adversely affect our business.

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

ITEM 1A - RISK FACTORS

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

As of December 31, 2023 we held approximately $3.1 million in long-term inventories. There can be no assurance that we will be able to successfully anticipate changing consumer preferences and product trends or economic conditions and, as a result, we may not successfully monetize our long-term inventory. Inventory levels in excess of consumer demand may result in inventory write-downs and the sale of excess inventory at discounted prices, which could have an adverse effect on the image and reputation of our brands and negatively impact profitability.

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

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

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

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

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

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

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

ITEM 1A - RISK FACTORS

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

We depend on our ability to hire and retain qualified key and highly skilled employees to manage, research and develop, market, and service new and existing products. Competition for such key and highly-skilled employees is intense, and we may not be successful in attracting or retaining such personnel. To succeed, we must hire and retain employees who are highly skilled in the rapidly changing communications and Internet technologies. Individuals who have the skills and can perform the services we need to provide our products and services are in great demand. Because the competition for qualified employees in our industry is intense, hiring and retaining employees with the skills we need is both time-consuming and expensive. We may not be able to hire enough skilled employees or retain the employees we do hire. In addition, provisions of the Sarbanes-Oxley Act of 2002 and related rules of the SEC impose heightened personal liability on some of our key employees. The threat of such liability could make it more difficult to identify, hire and retain qualified key and highly-skilled employees.

We have relied on our ability to grant stock options as a means of recruiting and retaining key employees. Accounting regulations requiring the expensing of stock options will impair our future ability to provide these incentives without incurring associated compensation costs. If we are unable to hire and retain employees with the skills we seek, our ability to sell our existing products, systems, or services or to develop new products, systems, or services could be hindered with a consequent adverse effect on our business, results of operations, financial position, or liquidity. In addition, given the current political climate regarding the U.S. immigration laws, we may not be able to attract highly-skilled technical employees from abroad.

We are dependent on our key personnel whose continued service is not guaranteed.

We are dependent upon key personnel for the execution of our business strategies, including our chief executive officer and chief financial officer, neither of whom is subject to an employment agreement with us and we do not have key man life insurance for any of our executive officers. Accordingly, the loss of services of our executive officers could have a material adverse effect on our financial condition and results of operations.

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

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

We may have difficulty in collecting outstanding receivables.

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

Interruptions to our business could adversely affect our operations.

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

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

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

We may require additional financing to fund future operations, which may not be available to us on acceptable terms or at all.

As of December 31, 2023, we had approximately $17.8 million of cash and cash equivalents and $4.4 million of marketable securities. Although we anticipate having sufficient cash on hand, cash from future operations and cash from the sale of marketable securities to fund our operations for the next twelve months, there can be no assurance that efforts to enforce our patents will be successful or that our marketing and sales efforts will progress as anticipated or that our cash generated from operations will be as expected, and we may need additional debt or equity financing in the next twelve months to execute our business plan and to be able to continue as a going concern. If in the future, we fail to satisfy the continued listing standards of Nasdaq, we may not be able to sell shares of our common stock. Accordingly, if additional debt or equity financings are needed, market conditions may limit our ability to raise capital on favorable terms, or at all, and the terms of any public or private offerings of debt or equity securities likely would be significantly dilutive to existing shareholders.

Risks Relating to Share Ownership

As a result of Edward D. Bagley's *significant share ownership position in the Company, he is able to influence corporate matters.*

Based solely on filings by Edward D. Bagley under Regulation 13D and Section 16 of the Exchange Act, Mr. Bagley beneficially owns approximately 44% of our issued and outstanding shares of common stock. Mr. Bagley's daughter, Lisa Higley, is a member of our board of directors. Based on Mr. Bagley's significant share ownership, Mr. Bagley will be able to significantly influence who serves on our board of directors and the outcome of matters required to be submitted to our stockholders for approval, including, without limitation, decisions relating to the outcome of any proposed merger or consolidation of our company and Mr. Bagley's significant interest in us may discourage third parties from seeking to acquire control of us, which may adversely affect the market price of our common stock. In addition, based solely on filings by other members of Mr. Bagley's family and their family trusts under Regulation 13D and Section 16 of the Exchange Act, such family members and their family trusts collectively beneficially own an additional 16% of our outstanding shares of common stock, however, Mr. Bagley asserts he does not have control over and disclaims beneficial ownership of such shares. Mr. Bagley's interests and the interests of his family and their family trusts may not be consistent with those of our other stockholders.

Global Financial, Economic and Social Conditions Could Deteriorate.

Our business could be materially affected by conditions in the global financial markets and economic conditions generally. The recent outbreak of a novel coronavirus, which causes the disease now known as COVID-19, was first identified in December 2019 in China, and has since spread globally. Government efforts to contain the spread of the coronavirus through lockdowns of cities, business closures, restrictions on travel and emergency quarantines, among others, and responses by businesses and individuals to reduce the risk of exposure to infection, including social distancing in the form of reduced travel, cancellation of meetings and public and private events, and implementation of work-at-home policies, among others, have caused significant disruptions to the global economy and normal business operations across a growing list of sectors and countries, including in the United States.

ITEM 1A - RISK FACTORS

The foregoing have, and are likely to continue to adversely affect business confidence and consumer sentiments, and have been, and may continue to be, accompanied by significant volatility and declines in financial markets and asset values. The spread of the coronavirus, particularly if its development into a worldwide health crisis worsens, also may have broader macro-economic implications, including reduced levels of economic growth and possibly a global recession, the effects of which could be felt well beyond the time the pandemic is contained, and which could adversely affect demand for our products and our results of operations and financial condition. The impact of COVID-19 on any of our suppliers, co-manufacturers, distributors or transportation or logistics providers may negatively affect the price and availability of our products and impact our supply chain. If the pandemic continues to evolve into a severe worldwide health crisis, the disease could have a material adverse effect on our business, results of operations, financial condition and cash flows and adversely impact the trading price of our common stock.

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

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

- statements or changes in opinions, ratings, or earnings estimates made by brokerage firms or industry analysts relating to the market in which we do business or relating to us specifically;
- disparity between our reported results and the projections of analysts;
- the shift in sales mix of products that we currently sell to a sales mix of lower-gross profit product offerings;
- the level and mix of inventory held by our distributors;
- the announcement of new products or product enhancements by us or our competitors;
- technological innovations by us or our competitors;
- success in meeting targeted availability dates for new or redesigned products;
- the ability to profitably and efficiently manage our supply of products and key components;
- the ability to maintain profitable relationships with our customers;
- the ability to maintain an appropriate cost structure;
- quarterly variations in our results of operations;
- general consumer confidence or market conditions, or market conditions specific to technology industry;
- domestic and international economic conditions;
- unexpected changes in regulatory requirements and tariffs;
- our ability to report financial information in a timely manner;
- the markets in which our stock is traded;
- our ability to integrate the companies we have acquired; and
- our ability to successfully utilize our cash reserves resulting from the settlement of litigation and arbitration matters.

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

As of December 31, 2023, there were outstanding options to acquire approximately 607,810 shares of our common stock at a weighted average exercise price of $5.03 per share. In addition, as of December 31, 2023 there were outstanding warrants to acquire approximately 5,022,123 shares at weighted average exercise price of $2.54. During the terms of these options and warrants the holders thereof will have the opportunity to profit from an increase in the market price of the common stock. The existence of these derivatives may adversely affect the terms on which we can obtain additional financing, and the holders of these derivatives can be expected to exercise such options at a time when we, in all likelihood, would be able to obtain additional capital by offering shares of our common stock on terms more favorable to us than those provided by the exercise of these derivatives.

ITEM 1A - RISK FACTORS

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

The sale of substantial amounts of our common stock in the public market, such as the Rights Offering that we completed in December 2018, Notes and Warrants that we issued in December 2019, Common Stock and Warrants that we issued in 2020 and 2021, and exchange of common stock for the cancellation of short-term bridge loan could adversely affect prevailing market prices and could impair our ability to raise capital through the sale of our equity securities. Most shares of common stock currently outstanding are eligible for sale in the public market, subject in certain cases to compliance with the requirements of Rule 144 under the securities laws. Shares issued upon the exercise of stock options granted under our stock option plan generally will be eligible for sale in the public market. We also have the authority to issue additional shares of common stock and shares of one or more series of preferred stock. The issuance of such shares could dilute the voting power of the currently outstanding shares of our common stock and could dilute earnings per share.

Because we have suspended regular payment of dividends on our common stock and pay only special dividends, stockholders will benefit from an investment in our stock only if it appreciates in value unless a decision is made to reinstate paying regular dividend payments.

Any future determination as to the declaration and payment of cash dividends will be at the discretion of our board of directors and will depend on factors the board of directors deems relevant, including among others, our results of operations, financial condition and cash requirements, business prospects, and the terms of our secured convertible notes and other financing arrangements. Accordingly, unless a declaration and payment of cash dividends is made, realization of a gain on stockholders' investments will depend on the appreciation of the price of our stock. There is no guarantee that our stock will appreciate in value or a dividend declaration will be made.

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

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

Our certification of incorporation designates the Court of Chancery in the State of Delaware as the sole and exclusive forum for certain actions or proceedings that may be initiated by our stockholders, which could discourage claims or limit stockholders' ability to make a claim against the Company, our directors, officers, and employees.

Our certificate of incorporation states that unless we consent in writing to the selection of an alternative forum, the Court of Chancery in the State of Delaware shall be the sole and exclusive forum for any stockholder to bring (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim for breach of a fiduciary duty owed by any director, officer, employee or agent of the Company to the Company or the Company's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our certificate of incorporation or our bylaws or (iv) any action asserting a claim governed by the internal affairs doctrine, in each case subject to the Delaware Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein.

These exclusive forum provisions do not apply to claims under the Securities Act or the Exchange Act. The exclusive forum provision may discourage claims or limit stockholders' ability to submit claims in a judicial forum that they find favorable and may create additional costs as a result. If a court were to determine the exclusive forum provision to be inapplicable and unenforceable in an action, we may incur additional costs in conjunction with our efforts to resolve the dispute in an alternative jurisdiction, which could have a negative impact on our results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 1C. CYBERSECURITY

The Company's information technology, communication networks, system applications, accounting and financial reporting platforms and related systems are integral to the operation of the business. The Company utilizes these systems, among others, for financial analysis, management, and reporting, and for various other aspects of the business.

The Company's cybersecurity strategy is focused on detection, protection, incident response, security risk management and mitigation, and resiliency of the cybersecurity infrastructure. The Company relies primarily on its qualified internal team to operate and maintain its information technology infrastructure and systems and to evaluate, test and update various information security processes and to manage material risks from cybersecurity threats to the Company's critical computer networks, third party hosted services, communications systems, hardware and software, and critical data, including confidential information that is proprietary, strategic or competitive in nature, as well as any personally identifiable information related to any tenants' and employees' personal data.

The Company's employees identify and assess risks from cybersecurity threats by monitoring and evaluating the cybersecurity threat environment and the Company's risk profile. The Company is not currently aware of any risks from cybersecurity threats nor has the Company had a previously cybersecurity incident that in either case have materially affected or are reasonably likely to materially affect the Company, its business strategy, results of operations or financial condition.

The Company's Audit Committee holds oversight responsibility over the Company's cybersecurity strategy and risk management. The Audit Committee engages in regular discussions with management and, if and when deemed appropriate by management or the Audit Committee, third party service providers, regarding the Company's significant financial risk exposures and the measures implemented to monitor and control these risks, including those that may result from material cybersecurity threats.

ITEM 2. PROPERTIES

We occupy a 1,350 square-foot facility in Gainesville, Florida under the terms of an operating lease expiring in February 2028. The Gainesville facility is used primarily to support our research and development activities.

We occupy a 21,443 square-foot facility in Salt Lake City, Utah under the terms of an operating lease, which has been amended in February 2023 to expire in February 2028. Under the terms of this amendment, we reduced our space to approximately 9,402 square feet. The facility supports our principal administrative, sales, marketing, customer support, and research and product development activities.

We occupy a 6,175 square-foot facility in Chennai, India under the terms of an operating lease expiring in August 2024. This facility supports our administrative, marketing, customer support, and research and product development activities.

We occupy a 40,000 square-foot warehouse in Salt Lake City, Utah under the terms of an operating lease expiring in April 2025, which serves as our primary inventory fulfillment center.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

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

Market Information

Our common stock is traded on the NASDAQ Capital Market under the symbol CLRO. On March 29, 2024, there were 23,969,148 shares of our common stock issued and outstanding held by approximately 295 shareholders of record. Each broker dealer or a clearing corporation that holds shares for customers is counted as a single shareholder of record.

Dividends

The Company paid a special one-time cash dividend of $1.00 per share of ClearOne common stock or the eligible warrants on June 1, 2023.

The Company's Board of Directors has declared another special dividend of $0.50 per share of the Company's stock and eligible warrants to be paid on April 10, 2024 to shareholders and warrant holders of record on April 2, 2024.

Issuer Purchases of Equity Securities

None.

Sales of Unregistered Securities

None.

Equity Compensation Plan Information.

Information about the Company's equity compensation plans required by Item 201(d) of Regulation S-K is set forth under Part III, Item 12 of this Annual Report on Form 10-K.

ITEM 6. RESERVED

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

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

OVERVIEW

ClearOne is a global Company that designs, develops and sells conferencing, collaboration, and AV networking solutions for voice and visual communications. The performance and simplicity of our advanced, comprehensive solutions offer a high level of functionality, reliability and scalability. We derive a major portion of our revenue from audio conferencing products and microphones by promoting our products in the professional audio-visual channel. We have extended our total addressable market from the installed audio conferencing market to adjacent complementary markets – microphones, video collaboration and AV networking. We have achieved this historically through strategic technological acquisitions as well as by internal product development.

In early January 2022, we introduced DIALOG® 10 USB, the industry's only pro-quality, single-channel wireless USB microphone system offering professional-quality audio with USB connectivity for webcasting and cloud-based collaboration. In March 2022, this new USB wireless mic system won the 2022 NSCA Excellence in Product Innovation Award. One of only seven winners in this prestigious award program, the DIALOG 10 USB is the industry's only pro-quality single-channel wireless microphone system with USB connectivity for webcasting and cloud-based collaboration such as Microsoft Teams, Zoom, WebEx, and GotoMeeting. DIALOG 10 USB won its second award in May 2022 by winning the 2022 Top New Technology (TNT) Award in the Microphone category. In June 2022, at Infocomm 2022 in Las Vegas, Nevada, DIALOG 10 USB won two additional awards - Commercial Integrator 2022 BEST Award in the Microphones category and 2022 Sound & Video Contractor Magazine Infocomm Best in Market Award.

On January 30, 2023, we introduced the new CHAT® 150 BT group speakerphone with USB and Bluetooth connectivity that enhances the conferencing experience for the ultimate in business class performance. With simple, instant connection to personal computers, mobile devices or Bluetooth-enabled desk phones, the CHAT® 150 BT group speakerphone provides users with an affordable way to upgrade home offices, executive offices, and mid-size meeting rooms with BYOD convenience and superior audio clarity for audio conferences and video meetings. The CHAT® 150 BT speakerphone also has an audio bridging feature that allows far end conference participants connected via a software conferencing application through USB, local users of the speakerphone, and far end callers on a mobile call connected through Bluetooth to all join the same call and hear each other clearly. Featuring a steerable microphone array with first-mic priority, the CHAT® 150 BT speakerphone intelligently activates the microphone closest to the person speaking, reducing interference from ambient noise. Like all ClearOne microphone products, the CHAT® 150 BT speakerphone is compatible with popular collaboration platforms including Microsoft® Teams, Zoom™, WebEx™, Google® Meet™, and many more. The new BT model retains all the class-leading features of the original CHAT® 150 speakerphone, including Advanced Noise Cancellation, Full Duplex Distributed Echo Cancellation™ and Automatic Level Control algorithms, to ensure highly intelligible, natural audio capture and playback. It also supports NFC tap-to-pair and includes a wired USB connection for compatibility with the full variety of modern devices.

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

On January 16, 2023, we introduced UNITE 260 Pro camera, a professional grade 4K Ultra HD camera featuring both a 20X optical zoom and 16X digital zoom that allows users to capture every participant in all meeting, training, and learning environments it is deployed in. Compatible with all popular meeting applications like Microsoft® Teams, Zoom™, WebEx™, and Google® Meet™, the new camera features an AI-based smart face tracking mode that keeps a selected presenter in the frame as they move about the room. Alternatively, the camera's AI-based auto framing mode always keeps an entire group in perfect view. With dual video outputs HDMI and IP, the UNITE 260 Pro Camera is an excellent choice for a hybrid environment: streaming content while simultaneously showing it live where the presentation is occurring.

In April 2023 we announced the immediate market availability of the Versa UCS2100 Collaboration Switcher Kit. Designed for use in small to mid-sized meeting rooms, board rooms, and executive offices, the Versa UCS2100 automatically detects HDMI and USB-C sources, such as a dedicated in-room PC or a Bring-Your-Own-Meeting (BYOM) laptop and offers the flexibility for users to access the same set of in-room AV peripherals, such as cameras and audio devices. Its USB-C input provides up to 60 watts charging and provides simultaneous 1 x HDMI output and 1 x HDBaseT output. When combined with ClearOne UNITE series PTZ cameras, INTERACT, CONVERGE® Pro 2, CONVERGE® HUDDLE, and CHAT series audio conferencing devices, the Versa UCS2100 delivers guaranteed performance and a streamlined user experience that supports automatic source detection and switching and is controllable via RS-232, TCP/IP, or front panel buttons.

In May 2023, we launched eight new COLLABORATE® Versa® packaged hardware systems to provide optimized audio and video performance for conference rooms and personal office spaces. The updated lineup of bundled solutions empowers businesses of all sizes and means to leverage powerful conferencing capabilities that include automatic voice tracking, face tracking and echo cancellation. The new lineup of COLLABORATE Versa solutions offers an ideal package for every small-to-medium sized conferencing space or personal office, giving business owners and IT staff mission-specific options that ensure maximum value, utility and performance in any room. The solutions launched were COLLABORATE Versa Room CT 160, COLLABORATE Versa Room CT, COLLABORATE Versa 20, COLLABORATE Versa 20 Plus, COLLABORATE Versa 160, COLLABORATE Versa 60, COLLABORATE Versa Pro 160, and COLLABORATE Versa Pro 60.

In June 2023, we returned to Infocomm for the first time since 2019 with a complete suite of products, programs, and on-site demonstrations designed to help partners grow their business across every vertical market where increased collaboration is a priority. We exhibited our solutions in Booth #3061 in the Orange County Convention Center from June 14-16, 2023 in Orlando, Florida.

At Infocomm 2023, we unveiled the BMA 360D, the newest member of the world's most advanced beamforming microphone array ceiling tile family. The BMA 360D offers unrivaled audio performance and native compatibility with any Dante-enabled DSP mixer. The new Dante-compatible beamforming microphone array allows integrators and users to leverage ClearOne's industry-leading microphone innovations in more projects and spaces than ever before. The BMA 360D takes our groundbreaking product to the next level by leveraging standard IP networking infrastructure in an enterprise, empowering AV and IT practitioners to upgrade existing room solutions to use more powerful microphones and expanding flexibility that enables third-party DSP integrations in new system designs. The added power and advanced beamforming also enhance the performance of critical modern functions such as voice lift and camera tracking. Dante integration in the BMA 360D enhances the array's functionality by delivering unprocessed beam audio on individual Dante transmit channels. Additionally, a smart-switched output is delivered on a separate Dante channel to provide the optimal mix of active inputs while enabling ClearOne's full suite of audio enhancements, which include echo cancellation, noise cancellation, and level control. The BMA 360D incorporates the industry's only ultra-wideband, frequency-invariant beamforming mic array technology with uniform gain response across all frequency bands. With proprietary FiBeam™ and DsBeam™ technology, participants experience natural and full-fidelity audio across all beams and within a single beam. DsBeam delivers superb clarity and intelligibility through unparalleled sidelobe depth below -40 dB, resulting in superior rejection of reverb and noise even in challenging environments. Integrator setup is simplified by convenient preset beam patterns for common room layouts, while custom beam patterns can be created for unique floor plans. Combined with adaptive steering that focuses audio pickup on active speakers, the adjustable beam patterns provide impeccable coverage of every meeting or conference participant. The exceptional accuracy of ClearOne's beamforming and adaptive steering technologies also enhance the performance of voice lift and camera tracking functions for any attached DSP mixer.

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

We also introduced at Infocomm, our powerful new DIALOG® UVHF wireless microphone system that combines class-leading flexibility, Power over Ethernet (PoE) simplicity, Dante technology, and up to 350 usable frequencies to offer professional-quality audio conferencing, video collaboration, and sound reinforcement for any size room. The new DIALOG UVHF system offers businesses and institutions a flexible wireless microphone system that can address varying types of audio pickup needs for rooms of virtually any size. With up to 350 available frequencies across 160 MHz of RF range, the system also delivers incredibly robust reception. Now corporate boardrooms, training rooms, college lecture halls, courtrooms and other multi-use venues can ensure excellent audio pickup quality and meet varying pickup needs with the simplicity of PoE that enables installation virtually anywhere through a single CAT6 ethernet cable. ClearOne's free support for system design and remote commissioning makes it easier than ever to outfit any presentation space with a professional-quality multi-function audio pickup solution. The DIALOG UVHF system allows integrators, room designers and meeting hosts to address a wide range of audio pickup needs through five lavalier, lanyard and headset-type body microphones, two handheld microphones, a boundary microphone and three gooseneck microphones for podium use. Powering the microphones is simple and efficient, as all models use the same 12-hour off-the-shelf Li-ion battery that can be charged via USB-C or an optional eight-bay network-connected charging dock. Firmware updates can be done over the network, while the transmitters charge. The Dante-enabled system includes an eight-channel Dante Access Point to ensure optimal signal transmission and system reliability, while an optional DIALOG UVHF Dante interface provides eight Euroblock balanced analog outputs, including mixed output, USB audio output and eight GPIOs. The lightweight plenum-rated access point provides versatile mounting options for wall, ceiling, tabletop or pole mounting, including VESA mount holes. The DIALOG UVHF is the only system with a wireless access point that delivers antenna redundancy and diversity, with dual antennas providing spatial and polarization diversity that helps maintain high audio quality in harsh environments. A wired ethernet connection adds the ability to connect management software to the access point via a web browser. Secure RF connections are created using full-time standards-based FIPS 197 AES-256 encryption. ClearOne's solutions are designed to support all leading collaboration platforms, including Microsoft Teams, Google Meet, GoToMeeting, Zoom and WebEx.

In August 2023, we showcased our full range of conferencing, collaboration, and communications solutions at CEDIA 2023 held in Denver, Colorado. During the event, we highlighted the CHAT® 150 BT Speakerphone (USB and Bluetooth speakerphone), Versa® Mediabar™ (video soundbar), UNITE® 60 (4K ePTZ wide-angle tracking camera), COLLABORATE® Versa® Pro CT (product bundle consisting of Huddle DSP and BMA CTH beamforming mic array ceiling tile), COLLABORATE® Versa® Lite CT (USB Plug-N-Play beamforming mic array ceiling tile), and COLLABORATE® Versa® 60 (product bundle consisting of CHAT® 150 USB speakerphone, a UNITE® 60 wide angle 4K ePTZ camera, and a VERSA USB Hub).

In August 2023, we announced that our entire line of commercial and residential solutions is available for specification within the popular D-Tools software program for integrators. D-Tools' System Integrator software and D-Tools Cloud platform make it easier than ever for integrators to specify ClearOne solutions for any type of installation.

In September 2023, our new DIALOG® UVHF Wireless Microphone System was named a winner in the Higher Education category of the 2023 Tech & Learning Magazine Awards of Excellence. The annual Tech & Learning Awards of Excellence program, conducted by leading educational technology publication Tech & Learning, recognizes innovation in the edtech industry and celebrates the most impressive products and solutions that support learning environments.

In October 2023, we debuted the new Versa USB22D Dante Adapter at InfoComm India 2023. Versa USB22D enables users to seamlessly connect computers to a Dante network and use any audio application for playback or capture without installing software.

We also continued our programs to cut costs and to speed up product development that we believe will enable us to get back to a growth path.

During 2023, our overall revenue of $18.7 million decreased by 26% when compared to revenue of $25.2 million during 2022. The decrease in revenue was seen across all product categories and major regions. We believe the revenue decline was primarily due to the decline in demand for video products and due to our inability in the first half of 2023 to source adequate inventory to meet the demand for professional audio products and BMA due to the transition of manufacturing of our products from China to Singapore by our EMS provider. We believe that many of our channel partners who could not buy our products due to product shortages caused by our manufacturing transition issues are yet to resume their typical buying pattern with us. We also believe that the lack of Microsoft Teams certification for our products is increasingly impacting our ability to sell our conferencing and collaboration solutions.

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

Our gross profit margin decreased to 34% during 2023 from 38% in 2022. Net income of $20.6 million in 2022 changed to net loss of $0.6 million in 2023. The change from net income to net loss was primarily due to the recognition in 2022 of a gain of $33.6 million included under other income related to the one-time legal settlement receivable of $55 million net of unamortized capitalized legal expenses of $21.4 million. This gain was partially offset by (a) a decrease in the tax provision by $6.5 million (b) recognition of settlement gains from two separate settlements of $5.3 million, (c) increase in interest income by $1.7 million, and (d) increase in operating income by $0.4 million.

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 hand influenced heavily by a fragmented reseller market consisting of numerous regional and local players. The industry is also characterized by venture capitalist funded start-ups and private companies willing to fund cumulative cash losses in order to gain market share and achieve certain non-financial goals. It has become increasingly important to have higher interoperability with other products in the audio visual market as well as product certifications with leading video conferencing service providers like Microsoft and Zoom.

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 installed professional audio conferencing products, which is our flagship product category, continue to be ahead of the competition despite the reduction in revenues. Our strength in this space is largely due to our fully integrated suite of products consisting of DSP mixers, wide range of professional microphone products and video collaboration products. Despite our strong leadership position in the installed professional audio conferencing market, we face challenges to revenue growth due to the limited size of the market, pricing pressures from new competitors attracted to the commercial market due to higher margins, and the lack of certifications from Microsoft.

Our video products and beamforming microphone arrays, especially highly advanced BMA 360 and BMA-CT are critical to our long term growth. 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 making our products more interoperable with other audio-visual products, continuing to improve the quality of our high-end audio conferencing products and microphones, and offering a wide range of innovative professional cameras will generate high growth in the near future.

We derive a significant portion of our revenue (approximately 56% in 2023) from international operations and expect this trend to continue in the future. Most of our revenue from outside the U.S. is billed in U.S. dollars and is not exposed to any significant currency risk. However, we are exposed to foreign exchange risk if the U.S. dollar is strong against other currencies as it will make U.S. Dollar denominated prices of our products less competitive.

In December 2019, a novel strain of coronavirus (“COVID-19”) started spreading from China and was declared a pandemic. The COVID-19 pandemic caused severe global disruptions and had varying impact on our business. The installed audio conferencing market was negatively impacted due to lockdowns, postponement of projects and restrictions on installers to visit commercial sites. On the other hand, COVID-19 generated higher than normal demand in 2020 for our video products and personal conferencing products due to the significant expansion of work-from-home market. The extent of COVID-19’s effect on our operational and financial performance keeps evolving and depends on multiple factors including the severity and infectiousness of current and future virus strains, effectiveness of vaccines especially on novel strains of COVID-19, government regulations, etc., all of which are uncertain and difficult to predict considering the rapidly evolving landscape. Supply chain disruptions resulting from COVID-19 have caused significant fluctuations in our costs of goods resulting in a reduction of our gross margins. If the pandemic continues to be a severe worldwide health crisis, the disease could have a material adverse effect on our business, results of operations, financial condition and cash flows and adversely impact the trading price of our common stock.

Deferred Revenue

Deferred revenue decreased from $63 thousand in 2022 to $30 thousand in 2023 due to decrease in new subscriptions to the video conferencing software.

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

DISCUSSION OF RESULTS OF OPERATIONS

The following table sets forth certain items from our consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2023 and 2022, together with the percentage change each item represents. Throughout this discussion, we compare results of operations for the year ended December 31, 2023 ("2023") to the year ended December 31, 2022 ("2022" or "the comparable period").

(In thousands, except percentages)	2023	2022	Change Favorable (Adverse) in %
Revenue	$ 18,704	$ 25,205	(26)
Cost of goods sold	12,347	15,748	22
Gross profit	6,357	9,457	(33)
Sales and marketing	4,897	5,517	11
Research and product development	3,671	4,390	16
General and administrative	4,561	6,772	33
Total operating expenses	13,129	16,679	21
Interest expense	(537)	(420)	(28)
Other income, net	7,183	35,102	(80)
Operating loss	(6,772)	(7,222)	6
Income (loss) before income taxes	(126)	27,460	(100)
Provision for (benefit from) income taxes	434	6,904	94
Net income (loss)	$ (560)	$ 20,556	(103)

Revenue

Our revenue decreased by 26% to $18.7 million in 2023 compared to $25.2 million of revenue in 2022. Revenue from all product categories declined during the year with audio conferencing, microphones and video products declining by 29%, 21% and 27% respectively. Video products suffered a decline in revenues in 2023 compared to 2022 due to a lack of demand for video products due to bottoming of demand for the work from home and learn from home markets and due to extreme pricing pressures. Revenue decreases were also due to our inability in the first half of 2023 to source adequate inventory to meet the demand for professional audio products and BMA due to the transition of manufacturing of our products from China to Singapore by our EMS provider. We believe that many of our channel partners who could not buy our products due to product shortages caused by our manufacturing transition issues are yet to resume their typical buying pattern with us. We also believe that the lack of Microsoft Teams certification for our products is increasingly impacting our ability to sell our conferencing and collaboration solutions.

The share of audio conferencing products in our product mix decreased from 47% in 2022 to 45% in 2023. The share of microphones in the revenue mix increased slightly from 39% in 2022 to 41% in 2023. Share of video products in the revenue mix remained the same at 14% in 2022 and 2023.

During 2023, revenue decreased significantly in all regions of the world. Asia Pacific including the Middle East decreased by 6%, Europe and Africa decreased by 54% and the Americas decreased by approximately 26%.

We believe, although there can be no assurance, that we can return to revenue growth and generating operating profits through our strategic initiatives namely product innovation, focus on core products and cost reduction.

Cost of Goods Sold and Gross Profit

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

Our gross profit during 2023 was approximately $6.4 million or 34% compared to approximately $9.5 million or 38% in 2022. The gross profit margin was negatively impacted due to (a) an increase in freight and tariff costs as a percentage of revenue, (b) increased administration costs as a percentage of revenue, and (c) an increase in inventory obsolescence costs. These increases in cost of goods sold as a percentage of revenue was partially offset by reduction in material costs as a percentage of revenue.

Our profitability in the near-term continues to depend significantly on our revenues from 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. Our long-term inventory includes approximately $0.2 million of Converge Pro and Beamforming microphone array products, $1.0 million of cameras, and $1.6 million of raw materials that will be used primarily for manufacturing professional audio conferencing products and BMA microphones. Any business changes that are adverse to these product lines could potentially impact our ability to sell our long-term inventory in addition to our current inventory.

Operating Expenses and Profits (Losses)

Operating income (loss), or income (loss) from operations, is the surplus or deficit after operating expenses are deducted from gross profits. Operating expenses include sales and marketing ("S&M") expenses, research and product development ("R&D") expenses and general and administrative ("G&A") expenses. Total operating expenses were $13.1 million in 2023, compared to $16.7 million in 2022. The following contains a more detailed discussion of expenses related to sales and marketing, research and product development, general and administrative, and other items.

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

S&M expenses in 2023 decreased to $4.9 million, compared to $5.5 million in 2022. The decrease was primarily due to (a) decreases in employment expenses and consultant expenses, (b) a decrease in commissions paid to employees, full-time consultants and independent manufacturer representatives. This overall decrease was partially offset by (a) an increase in trade-show-related costs, and (b) an increase in travel expenses.

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 decreased from $4.4 million in 2022 to $3.7 million in 2023. The decrease was primarily due to (a) a decrease in project-related expenses, (b) a decrease in employment expenses including salaries and bonuses, and (c) a decrease in allocation of common expenses to R&D. This overall decrease was partially offset by an increase in legal expenses incurred on application for new patents.

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 to $4.6 million in 2023, compared to $6.8 million in 2022. The decrease was primarily due to (a) a decrease in amortization of capitalized legal costs related to patents litigation, and (b) a decrease in employment expenses including salaries and bonuses. This decrease was partially offset by (a) an increase in consulting expenses including investor relations costs, and (b) an increase in directors and officers insurance expenses.

Interest expense

Interest expense increased to $0.5 million in 2023 compared to $0.4 million in 2022. The increase was primarily due to interest associated with the prepayment of the $2 million bridge loan in January 2023.

Other income (expense), net

Other income (expense), net includes interest income, foreign currency changes and gain or loss on disposal of assets.

Other income in 2023 included (a) $5.3 million from two separate legal settlements, and (b) $1.9 million of interest income received on marketable securities. Other income in 2022 included (a) a gain recognized of $33.6 million related to the one-time legal settlement receivable of $55 million, net of unamortized capitalized legal expenses of $21.4 million (b) $1.5 million in gain from the forgiveness of CARES Act Paycheck Protection Program Loan, and (c) $1.9 million of interest income received on marketable securities.

Provision for income taxes

The effective tax provision rate was below 0% in 2023, compared to 25% effective tax benefit rate during 2022. Income tax provision for 2023 was $0.4 million as compared to an income tax provision of $6.9 million in 2022. The significant change in income taxes was primarily due to a decrease in net income in 2023 compared to 2022. We have been recording a valuation allowance against net deferred tax assets since 2018 and have not been claiming tax benefit for our losses as we have concluded that it is more likely than not that our deferred tax assets were not realizable, primarily due to our recent pre-tax losses.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

As of December 31, 2023, our cash and cash equivalents were approximately $17.8 million compared to $1.0 million as of December 31, 2022. Our working capital was $39.1 million and $69.3 million as of December 31, 2023 and 2022, respectively.

Net cash flows used in operating activities were approximately $54.6 million during 2023, an increase of approximately $58.8 million from $4.2 million used in operating activities in 2022. The increase in cash provided was primarily due to receipt of settlement proceeds of $56.3 million from two separate settlements and income tax refunds, partially offset by change in operating assets and liabilities.

Net cash used in investing activities was $4.9 million in 2023 compared to $2.1 million provided by investing activities in 2022, an increase in cash used of $7.0 million. The increase in cash used in investing activities in 2023 was primarily due to an increase in net cash outflows from purchase of marketable securities net of sale of marketable securities of approximately $7.4 million partially offset by a decrease of $0.7 million in capitalized legal spending.

Net cash used in financing activities was $32.9 million during 2023 compared to net cash provided by financing activities of $2.1 million during 2022, a decrease in cash provided of $34.9 million. The decrease was primarily due to payment of a special dividend of $29.0 million and an increase in principal payments of debt. This decrease was further increased by lack of any capital raise in 2023 compared to capital raised through equity and debt issuances of $2.0 million in 2022.

In order to maintain liquidity, the Company has been actively engaged in preserving cash by implementing company-wide cost reduction measures and raising additional capital. The company raised additional capital in 2019 by issuing senior convertible notes, in 2020 by borrowing through the CARES Act Paycheck Protection Program and issuing common stock and warrants and in 2021 by issuing short-term notes and issuing common stock and warrants. In January 2022, the Company issued $2 million in common stock as consideration for the cancellation and termination of the short-term notes. In October 2022, the Company issued short term notes to raise $2 million. The Company paid a special one-time cash dividend of $1.00 per share of ClearOne common stock or the eligible warrants on June 1, 2023 amounting to $29 million. On March 11, 2024 the Company's Board of Directors declared another special dividend of $0.50 per share of the Company's stock and eligible warrants amounting to $14.5 million to be paid on April 10, 2024. The Company also believes that the Company's core strategies of product innovation and prudent cost management will bring the company back to profitability in the future. The Company believes, although there can be no assurance, that all of these measures and effective management of working capital, along with the current cash balance after the receipt of proceeds from legal settlement, will provide the liquidity needed to meet our operating needs through at least April 1, 2025.

As of December 31, 2023, we had open purchase orders of approximately $3.6 million mostly for purchase of inventory.

As of December 31, 2023, we had inventory totaling $13.8 million, of which non-current inventory accounted for $3.1 million. This compares to total inventories of $11.7 million and non-current inventory of $2.7 million as of December 31, 2022.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of December 31, 2023 (in millions):

	Payment Due by Period				
	Total	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 years**
Operating lease obligations	1.2	0.4	0.5	0.3	—
Purchase obligations	3.6	3.6	—	—	—
Total	$ 4.8	$ 4.0	$ 0.5	$ 0.3	$ —

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

Revenue and Associated Allowances for Revenue Adjustments and Doubtful Accounts

The Company recognizes revenue when it satisfies a performance obligation. The Company recognizes revenue from sales agreements upon transferring control of a product to the customer. This typically occurs when products are shipped or delivered, depending on the delivery terms, or when products that are consigned at customer locations are sold to dealers or end users. Revenue recognized during the twelve months ended December 31, 2023 for audio and video conferencing equipment sales was $18.6 million, and for software, licenses, etc. was $0.1 million. Sales returns and allowances are estimated based on historical experience. Provisions for discounts and rebates to customers, estimated returns and allowances, ship and credit claims and other adjustments are provided for in the same period the related revenues are recognized, and are netted against revenues. For returns, the Company recognizes a related asset for the right to recover returned products with a corresponding reduction to cost of goods sold. The Company reviews warranty and related claims activity and records provisions, as necessary.

Frequently, the Company receives orders with multiple delivery dates that may extend across reporting periods. Since each delivery constitutes a performance obligation, the Company allocates the transaction price of the contract to each performance obligation based on the stand-alone selling price of the products. The Company invoices the customer for each delivery upon shipment and recognizes revenues in accordance with delivery terms. Although payment terms vary, distributors typically pay within 45 days of invoicing and dealers pay within 30 days of invoicing. As scheduled delivery dates are within one year, revenue allocated to future shipments of partially completed contracts are not disclosed.

The Company has elected to record freight and handling costs associated with outbound freight after control over a product has transferred to a customer as a fulfillment cost and include it in cost of revenues. Taxes assessed by government authorities on revenue-producing transactions, including value-added and excise taxes, are presented on a net basis (excluded from revenues) in the Consolidated Statements of Operations and Comprehensive Income (Loss).

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

	As of December 31,	
	2023	2022
Deferred revenue	$ 30	$ 63
Deferred cost of goods sold	—	—
Deferred gross profit	$ 30	$ 63

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

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

Impairment of Long-Lived Assets

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

Accounting for Income Taxes

We are subject to income taxes in both the United States and in certain non-U.S. jurisdictions. We account for income taxes following ASC 740, *Accounting for Income Taxes,* recognizing deferred tax assets and liabilities using enacted tax rates for the effect of temporary differences between book and tax basis of recorded assets and liabilities. 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 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, 2023 and determined that based upon available evidence it is more likely than not that certain of our net deferred tax assets will not be realized and, accordingly, we have recorded a full valuation allowance against these deferred tax assets in the amount of $13.8 million. Please refer to Note 13 - Income Taxes in the Notes to Consolidated Financial Statements for additional information.

Share-Based Payments

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

Inventories

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

The inventory consists of current inventory of $10.6 million and long-term inventory of $3.1 million. 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. If we are unable to sell our long-term inventory including due to changes in business conditions, our profitability might be affected by inventory write-offs and price mark-downs.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the required time periods, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. As required by Rule 13a-15 under the Exchange Act, we have completed an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Interim Chief Financial Officer, of the effectiveness and the design and operation of our disclosure controls and procedures as of December 31, 2023. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Based upon this evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were effective at a reasonable assurance level as of December 31, 2023.

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

Management's Annual Report on Internal Control Over Financial Reporting

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

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

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2023 based on the framework set forth in *Internal Control - Integrated Framework* (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment using that criteria, management concluded that the design and operation of our internal control over financial reporting were effective as of December 31, 2023.

Changes in Internal Control Over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

(a) None
(b) None

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not Applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth certain information regarding our directors and executive officers as of April 1, 2024.

Name	Age	Position	Director or Officer Since
Derek L. Graham	56	Chief Executive Officer	2022
Larry R. Hendricks	80	Director *	2003
Lisa B. Higley	56	Director	2020
Eric L. Robinson	57	Chairman, and Director *	2015
Bruce Whaley	73	Director *	2019
Raghunathan Jayashree	53	Interim Chief Financial Officer	2024

* Member of the Audit and Compliance Committee, Compensation Committee and Nominating Committee

Derek Graham is our Chief Executive Officer. He was appointed as Interim CEO in May 2022 and was confirmed as the permanent CEO in January 2023. He joined our company in July 2003 as Lead Engineer for Conferencing Cameras. In 2004, he was promoted to Engineering Operations Manager. In 2006, he was promoted to Director of Research and Development. In 2007, he was promoted to Sr. Director of Research and Development. In 2009, he was promoted to Vice President of Research and Development. In 2011, he was promoted to Sr. Vice President of Research and Development. In those prior roles, Derek was responsible for funding, staffing, and execution of parallel engineering programs that resulted in successful development of professionally installed audio and video conferencing, video streaming, wireless microphone, digital signage, and camera products. Derek is a named inventor on 13 patents. Prior to joining ClearOne, Derek held engineering and management positions at Intel Corporation in the areas of audio conferencing and telephony technologies. Mr. Graham earned a Bachelor of Science in Electrical Engineering, with highest honors, and a Master's Degree in Electrical Engineering from the Georgia Institute of Technology.

Eric. L Robinson has served as a director of our company since July 2015 and was named Chairman of the Board in February 2022. Mr. Robinson spent fourteen years in private practice as a corporate attorney, including eleven years as a partner in the Salt Lake City, Utah law firm of Blackburn & Stoll, LC. Mr. Robinson's law practice focused on securities, corporate and other business transactions. For the past five years, Mr. Robinson has been principally employed by MicroPower Global Limited, a company in the semiconductor business, Operation Underground Railroad, Inc. and as a private attorney. At MicroPower, Mr. Robinson acted as General Counsel, Chief Financial Officer and a director. At Operation Underground Railroad, Inc. he acts as VP of Legal Affairs. Mr. Robinson also maintains a law practice and serves as counsel to a number of companies in the fields of regenerative medicine and commercial construction. Mr. Robinson previously served as chief financial officer, in-house counsel, secretary and treasurer of ActiveCare, Inc. from July 2016 until his voluntary resignation in June 2017, and subsequent to Mr. Robinson's departure, ActiveCare filed a voluntary bankruptcy petition under Chapter 11 of the U.S. Bankruptcy Code on July 15, 2018. His legal practice included working with companies in connection with public and private offerings of securities, corporate partnering, mergers and acquisitions, licensing technology transfer, contracts and construction. He graduated from the University of Utah with honors with a B.S. degree in accounting and he subsequently passed the CPA exam (unlicensed). He graduated from Vanderbilt University with a J.D. where he graduated Order of the Coif and acted as a Managing Editor of the Law Review. Mr. Robinson has previously served as corporate and securities legal counsel to the Company and the Company's largest shareholder, E. Dallin Bagley.

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

Lisa B. Higley was appointed a director of our Company effective July 20, 2020. Ms. Higley has been self-employed as a CPA since June 2009. Previously, she was the CFO for Daisy D's Paper Company from March 2007 until January 2009, where she managed all aspects of the company's financial and accounting responsibilities. Additionally, Ms. Higley was the CFO for Tunex International from April 2006 to March 2007 where she was accountable for all financial aspects of the corporation. Prior to that, Ms. Higley was a staff tax accountant at Wisen, Smith, Racker & Prescott LLP from February 2004 to April 2006. Ms. Higley earned her Bachelor of Science in Accounting from the University of Oregon and her MBA from Utah State University, and has been a Utah CPA since 2004. Ms. Higley is the daughter of Edward D. Bagley, our former Chairman of the Board. Mr. Edward D. Bagley beneficially owns 44% of our issued and outstanding common stock.

Bruce Whaley was appointed a director of our Company effective April 16, 2019. Mr. Whaley has extensive experience as a stockbroker for nearly five decades. Mr. Whaley is currently a broker trading at Wilson & Davis, a regional brokerage firm based in Salt Lake City, Utah. He has been with Wilson & Davis since 1988. Until March 2023, Mr. Whaley also held a real estate license and worked as a real estate agent for Coldwell Banker. Mr. Whaley attended the University of Utah between 1968 and 1971 and studied many subjects including business administration, accounting and finance. He did not graduate with a degree.

Raghunathan Jayashree was appointed as Interim CFO on February 27, 2024. Ms. Raghunathan joined the Company as a Senior Manager in July 2018 and has served as the Company's Controller since October 2019. Ms. Raghunathan, has been a Chartered Accountant in India since 1996 and has over twenty years of work experience in the field of accounting.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act, of 1934 as amended, requires our directors, executive officers and persons who own more than 10% of a registered class of our equity securities to file with the SEC initial reports of ownership on Form 3 and reports of changes of ownership of our equity securities on Forms 4 and 5. Officers, directors, and greater than 10% shareholders are required to furnish us with copies of all Section 16(a) reports they file. Based solely on a review of the reports furnished to us for the year ended December 31, 2023, we believe that each person who, at any time during such fiscal year was a director, officer, or beneficial owner of more than 10% of our common stock complied with all Section 16(a) filing requirements during such period.

Code of Ethics

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

Insider Trading Policies and Procedures

The Company has adopted a Statement of Policy Regarding Compliance with Insider Trading Laws (the "Insider Trading Policy) that establishes policies and procedures governing the purchase, sale, and/or other dispositions of the Company's securities by directors, officers and employees. The Insider Trading Policy requires compliance with all applicable laws, rules and regulations governing the offer and sale of securities and prohibits directors, officers and employees from engaging in transactions in the Company's securities while in possession of material nonpublic information. The Insider Trading Policy establishes quarterly blackout periods during which trading in the Company's securities is prohibited. These blackout periods begins 15 days prior to the end of each fiscal quarter and ends at the opening of trading on the first business day after the public dissemination of Company's financial results for that quarter for a full trading day. In addition, the Insider Trading Policy requires senior officers and key employees to obtain pre-approval of any transactions in Company securities from the Company's Compliance Officer under the Insider Trading Policy, which currently is the Interim Chief Financial Officer. A copy of the Company's Insider Trading Policy is filed as Exhibit 19.1 to this Annual Report on Form 10-K.

Nomination Procedures

No changes have been made to the procedures by which our shareholders may recommend nominees to our Board of Directors.

Audit and Compliance Committee

The Company has a separate Audit and Compliance Committee and its members are Eric L. Robinson (Chairman), Larry R. Hendricks and Bruce Whaley. The Board of Directors has determined that Eric L. Robinson is an "audit committee financial expert" and each member is independent in accordance with applicable rules and regulations of NASDAQ and the SEC.

ITEM 11. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

The following table sets forth the compensation paid or earned by each named executive officer for the years ended December 31, 2023 and 2022.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Salary	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Derek Graham, Chief Executive Officer[1]					
Year ended December 31, 2023	$ 244,147	$ 21,900	$ —	$ 100,000	$ 366,047
Year ended December 31, 2022	$ 221,625	$ —	$ —	$ —	$ 221,625
Narsi Narayanan - Chief Financial Officer[2]					
Year ended December 31, 2023	$ 250,340	$ 14,600	$ —	$ 100,000	$ 364,940
Year ended December 31, 2022	$ 230,000	$ —	$ —	$ —	$ 230,000

(1) Derek L. Graham was appointed as Interim CEO on May 24, 2022 and became permanent CEO on Jan 26, 2023.

(2) Narsi Narayanan served as CFO and Corporate Secretary till March 1, 2024, when his employment with ClearOne ended.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table provides information on the holdings of stock options by the named executive officers as of December 31, 2023.

Name	Number of Securities Underlying Unexercised Options		Option Exercise Price ($)	Option Grant Date	Option Expiration Date
	Exercisable	Unexercisable			
Derek Graham	1,250	—	8.340	9-12-2014	9-12-2024
	7,500	2,500	2.500	12-14-2020	12-14-2026
	—	30,000	1.010	6-15-2023	6-15-2029
Narsi Narayanan	20,000	—	8.340	9-12-2014	9-12-2024
	25,000	—	11.960	3-11-2016	3-11-2026
	2,500	—	11.000	12-14-2016	12-14-2026
	20,000	—	9.900	6-1-2017	6-1-2027
	20,000	—	2.500	12-14-2020	12-14-2026
	—	20,000	1.010	6-15-2023	6-15-2029

(1) One-third of the shares underlying each stock option vest on the first anniversary of the grant date and the remaining shares vest equally over a period of 24 months following the first anniversary of the grant date.

OPTION EXERCISES AND STOCK VESTED

There were no exercises of stock options by named executive officers during 2023.

DIRECTOR COMPENSATION

The following table summarizes the compensation paid to non-employee directors for the year ended December 31, 2023.

Name	Fees Earned or Paid in Cash	Option Awards	Other Compensation	Total
Larry R. Hendricks	$ 33,600	$ —	$ —	$ 33,600
Lisa B. Higley	54,000	—	—	54,000
Eric L. Robinson	64,800	—	—	64,800
Bruce Whaley	33,600	—	—	33,600

All directors are reimbursed by the Company for their out-of-pocket travel and related expenses, if any, incurred in attending all Board of Directors and committee meetings. However, during 2023 no expenses were reimbursed to any director.

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

The following table sets forth certain information regarding ownership of our common stock as of March 29, 2024, except as otherwise stated, by (i) each director and nominee for director, (ii) the named executive officers, (iii) all of our named executive officers and directors as a group, and (iv) each person known to us to be the beneficial owner of more than 5% of our outstanding common stock.

	Shares Beneficially Owned				
Name of Beneficial Owner (1)	Currently Owned (A)	Currently Owned Percent(2) (B)	Shares that could be acquired within 60 days (C)	Total (D)	Percent (E)
Directors and Executive Officers:					
Derek L. Graham	5,260	0.02%	9,791	15,051	0.06%
Larry R. Hendricks	18,048	0.08%	50,000	68,048	0.27%
Lisa B. Higley(3)	24,501	0.10%	10,000	34,501	0.14%
Eric L. Robinson	65	—%	38,333	38,398	0.15%
Bruce Whaley	12,000	0.05%	10,000	22,000	0.09%
Raghunathan Jayashree	—	—%	—	—	—%
Total (Directors and Officers)	59,874	0.25%	118,124	177,998	0.71%
5% Shareholders:					
Edward D. Bagley(4)	10,590,528	44.18%	723,628	11,314,156	45.60%

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

(2) The percentages shown in Column (B) are calculated based on 23,969,148 shares of common stock outstanding on March 29, 2024. The numbers shown in Column (D) and percentages shown in Column (E) include the shares of common stock actually owned as of March 29, 2024 and the shares of common stock that the identified person or group had the right to acquire within 60 days of such date. In calculating the percentage of ownership, all shares of common stock that each identified person or group had the right to acquire within 60 days of March 29, 2024 upon the exercise of the stock options, secured convertible notes and warrants shown in Column (C) are deemed to be outstanding for the purpose of computing the percentage of the shares of common stock owned by the persons or groups listed above.

(3) This information is based upon the Form 4 filed with the SEC as of June 2, 2023. Lisa Higley, who was appointed a Director effective July 20, 2020, is the daughter of Edward D. Bagley, and each of them has previously disclaimed beneficial ownership of common stock beneficially owned by the other. The share amounts indicated for Ms. Higley do not include any shares held by Edward D. Bagley. The share amounts indicated for Ms. Higley do not include 6,546 shares owned by her spouse and 2,252,636 shares held by a trust in which she is a co-trustee.

(4) Mr. Edward D. Bagley may be deemed to own an additional 2,252,636 shares of common stock that are deemed to be owned by his wife, Carolyn Bagley, as a result of her acting as one of four co-trustees of a trust. Mr. Bagley may be deemed to own an additional 355,257 shares of common stock that Carolyn Bagley owns individually. Mr. Bagley, however, disclaims beneficial ownership of these shares that may be indirectly beneficially owned by Mr. Bagley and they are excluded from the amounts reported in the table above. Mr. Edward D. Bagley has sole voting and dispositive power over 11,314,156 shares (including the shares that may be acquired pursuant to exercise of options to purchase 35,277 shares of common stock, and warrants to purchase 685,295 shares of common stock) and shared voting and dispositive power over the 355,257 shares held by Mr. Edward D. Bagley's spouse. This information is based upon a Form 4 as filed by Mr. Bagley with the SEC on December 15, 2023 and a Schedule 13D Amendment filed by Mr. Bagley with the SEC in September 2020. E. Bryan Bagley, who resigned as Director effective November 6, 2012, is the son of Edward D. Bagley, and each of them has previously disclaimed beneficial ownership of common stock beneficially owned by the other. Lisa Higley, who was appointed a Director effective July 20, 2020, is the daughter of Edward D. Bagley, and each of them has previously disclaimed beneficial ownership of common stock beneficially owned by the other. The share amounts indicated for Mr. Edward D. Bagley do not include any shares held by E. Bryan Bagley or Lisa Higley.

Equity Compensation Plan Information

The following table summarizes information, as of December 31, 2023, relating to equity compensation plans of the Company (including individual compensation arrangements) pursuant to which equity securities of the Company are authorized for issuance.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options and rights	(b) Weighted-Average Exercise Price of Outstanding Options and Rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
Equity Compensation Plans Approved by Stockholders	607,810	$5.03	857,044
Equity Compensation Plans Not Approved by Stockholders	—	—	—
Total	—	$—	—

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

Related Party Transactions: Consulting Agreement with Edward D. Bagley

On June 3, 2015, the Company entered into a Consulting Agreement with Edward D. Bagley, former Chairman of the Board and greater than 10% shareholder ("Consulting Agreement") which became effective on July 29, 2015 for an initial term of three years which was renewed in 2018 for an additional term of three years and renewed again in 2021 for an additional term of 3 years through 2024. Pursuant to the terms of the Consulting Agreement Mr. Bagley is paid a fee of $5,000 per month and is eligible to participate in our equity incentive programs and will be granted stock options commensurate with grants of stock options made to our directors. During 2023, he was paid $60,000 as consulting fees. During 2023, he did not receive any grant of stock options.

Director Independence

Our Board of Directors has determined, after considering all the relevant facts and circumstances, that Larry Hendricks, Eric Robinson and Bruce Whaley are independent directors, in accordance with the definition of "independence" under the listing standards of NASDAQ, because they have no relationship with us that would interfere with their exercise of independent judgment.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

amounts:

	2023	2022
Audit fees[1]	$ 256,386	$ 229,111
Audit-related fees[2]	—	—
Tax fees[3]	64,525	55,700
All other fees	—	—
Total	$ 320,911	$ 284,811

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

(2) Represents fees billed for consents provided with respect to registration statements and related amendments.

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

Pre-Approval Policies and Procedures

The Audit and Compliance Committee ensures that we engage our independent registered public accounting firm to provide only audit and non-audit services that are compatible with maintaining the independence of our public accountants. The Audit and Compliance Committee approves or pre-approves all services provided by our public accountants. Permitted services include audit and audit-related services, tax services and other non-audit related services. Certain services are identified as restricted. Restricted services are those services that may not be provided by our external public accountants, whether identified in statute or determined to be incompatible with the role of an independent auditor. All fees identified in the preceding table were approved by the Audit and Compliance Committee. During 2023, the Audit and Compliance Committee reviewed all non-audit services provided by our independent registered public accounting firm and concluded that the provision of such non-audit services was compatible with maintaining the independence of the external public accountants.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

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

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

ITEM 16. FORM 10-K SUMMARY

Not applicable.

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Form	Exhibit Incorporated Herein by Reference	Filing Date
3.1	Certificate of Incorporation of ClearOne, Inc.	8-K	3.1	10/29/18
3.2	Bylaws	8-K	3.2	10/29/18
4.1	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934	10-K	4.1	03/30/20
10.1#	1997 Employee Stock Purchase Plan	S-8	4.9	10/06/06
10.2#	1998 Stock Option Plan	S-8	4.8	10/06/06
10.3#	2007 Equity Incentive Plan	S-8	4.7	01/22/08
10.4#	ClearOne, Inc. Equity Incentive Plan	S-8	4.8	01/26/16
10.5#	Amendment No. 1 to the ClearOne, Inc. Equity Incentive Plan	S-8	4.11	06/30/15
10.6#	ClearOne, Inc. Employee Stock Purchase Plan	S-8	4.3	06/30/15
10.7	Form of Securities Purchase Agreement	8-K	10.1	09/14/20
10.8	Form of Securities Purchase Agreement	8-K	10.1	09/13/21
10.9	Form of Registration Rights Agreement	8-K	10.2	09/13/21
10.10	Securities Purchase Agreement.	8-K	10.1	0104/22
10.11	Registration Rights Agreement.	8-K	10.2	01/04/22
10.12#	Confidential Separation Agreement and General Release.	8-K	10.1	08/17/22
10.13*	Confidential Settlement and License Agreement.	8-K	10.1	12/09/22
10.14*	Non-Exclusive Cross License Agreement effective December 23, 2023 by and between ClearOne, Inc. and Sennheiser electronic GmbH & C0. KG.	8-K	10.1	12/27/23
14.1	Code of Ethics, approved by the Board of Directors on August 23, 2006	10-K	14.1	09/14/06
19.1†	ClearOne Inc. Statement of Policy Regarding Compliance with Insider Trading Laws			
21.1†	Subsidiaries of the registrant			
23.1†	Consent of Tanner LLC, Independent Registered Public Accounting Firm			
31.1†	Section 302 Certification of Chief Executive Officer			
31.2†	Section 302 Certification of Chief Financial Officer			
32.1†	Section 906 Certification of Chief Executive Officer			
32.2†	Section 906 Certification of Chief Financial Officer			
101.INS‡	XBRL Instance Document			
101.SCH‡	XBRL Taxonomy Extension Schema			
101.CAL‡	XBRL Taxonomy Extension Calculation Linkbase			
101.DEF‡	XBRL Taxonomy Extension Definitions Linkbase			
101.LAB‡	XBRL Taxonomy Extension Label Linkbase			
101.PRE‡	XBRL Taxonomy Extension Presentation Linkbase			
104	The cover page from this Annual Report on Form 10-K formatted in Inline XBRL			

* Certain confidential portions of this exhibit have been excluded from this exhibit in accordance with Rule 24b-2 because such information is (1) not material, and (2) the Company customarily and actually treats that information as private or confidential.
† Filed herewith
‡ Information furnished herewith shall not be deemed to be "filed" for the purposes of Section 18 of the 1934 Act
#Management contract or compensatory plan or arrangement

SIGNATURES

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

CLEARONE, INC.
Registrant

/s/ Derek L. Graham
Derek L. Graham
Chief Executive Officer
April 1, 2024

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

/s/ Derek L. Graham
Derek L. Graham
President and Chief Executive Officer
(Principal Executive Officer)
April 1, 2024

/s/ Raghunathan Jayashree
Raghunathan Jayashree
Interim Chief Financial Officer
(Principal Accounting and Principal Financial Officer)
April 1, 2024

/s/ Eric L. Robinson
Eric L. Robinson
Director and Chairman of the Board
April 1, 2024

/s/ Larry R. Hendricks
Larry R. Hendricks
Director
April 1, 2024

/s/ Bruce Whaley
Bruce Whaley
Director
April 1, 2024

/s/ Lisa B. Higley
Lisa B. Higley
Director
April 1, 2024

CLEARONE, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of ClearOne, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of ClearOne, Inc. and subsidiaries (collectively, the Company) as of December 31, 2023 and 2022, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2023, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material aspects, the financial position of ClearOne as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the account or disclosure to which it relates.

Assessment of lower of cost or net realizable value of inventories
As described in Notes 1 and 4 to the consolidated financial statements, inventories totaling $13.8 million as of December 31, 2023 are stated at the lower of cost or market. The Company performs analyses to identify and estimate the net realizable value of excess or slow-moving inventories based on forecasted future product demand.

We identified the inventory valuation as a critical audit matter because of the significant balance of inventory held by the Company and because forecasting future product demand involves significant judgement by management. This required a high degree of auditor judgement, subjectivity and effort in performing procedures and evaluating audit evidence to evaluate management's assumptions related to estimating the reserve of obsolete and slow-moving inventory.

Addressing this critical audit matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures included, among others: (1) evaluating management's process for estimating obsolete and slow moving inventory levels, (2) comparing historical sales trends and inventory consumption reports for selected products to quantities on hand in order to evaluate potential excess or obsolete inventory, (3) evaluating and discussing forecasts and expectations with management as well as assumptions regarding alternative uses, and (4) evaluating the reasonableness of management's assumptions.

/s/ TANNER LLC

Salt Lake City, Utah
April 1, 2024

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

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

	December 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,835	$ 984
Marketable securities	3,480	—
Legal settlement receivable	4,000	55,000
Receivables, net of allowance for credit losses of $326	3,279	3,603
Inventories, net	10,625	8,961
Income tax receivable	36	1,071
Prepaid expenses and other assets	4,062	7,808
Total current assets	43,317	77,427
Long-term marketable securities	916	—
Long-term inventories, net	3,143	2,707
Property and equipment, net	530	383
Operating lease – right of use assets, net	990	1,047
Intangibles, net	1,689	2,071
Other assets	109	115
Total assets	$ 50,694	$ 83,750
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,945	$ 1,284
Accrued liabilities	2,290	3,041
Deferred product revenue	30	63
Short-term debt	—	3,732
Total current liabilities	4,265	8,120
Long-term debt	—	—
Operating lease liability, net of current	665	492
Other long-term liabilities	1,079	1,008
Total liabilities	6,009	9,620
Shareholders' equity:		
Common stock, par value $0.001, 50,000,000 shares authorized, 23,969,148 and 23,955,767 shares issued and outstanding, respectively	24	24
Additional paid-in capital	46,047	74,910
Accumulated other comprehensive loss	(310)	(288)
Accumulated deficit	(1,076)	(516)
Total shareholders' equity	44,685	74,130
Total liabilities and shareholders' equity	$ 50,694	$ 83,750

See accompanying notes

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

	Year ended December 31, 2023	Year ended December 31, 2022
Revenue	$ 18,704	$ 25,205
Cost of goods sold	12,347	15,748
Gross profit	6,357	9,457
Operating expenses:		
Sales and marketing	4,897	5,517
Research and product development	3,671	4,390
General and administrative	4,561	6,772
Total operating expenses	13,129	16,679
Operating loss	(6,772)	(7,222)
Interest expense	(537)	(420)
Other income, net	7,183	35,102
Income (loss) before income taxes	(126)	27,460
Provision for income taxes	434	6,904
Net income (loss)	$ (560)	$ 20,556
Basic income (loss) per common share	$ (0.02)	$ 0.86
Diluted income (loss) per common share	$ (0.02)	$ 0.83
Basic weighted average shares outstanding	23,958,184	23,937,962
Diluted weighted average shares outstanding	23,958,184	25,189,147
Comprehensive income (loss):		
Net income (loss)	$ (560)	$ 20,556
Other comprehensive income (loss):		
Unrealized loss on available-for-sale securities, net of tax	(15)	(2)
Change in foreign currency translation adjustment	(7)	(45)
Comprehensive income (loss)	$ (582)	$ 20,509

See accompanying notes

CLEARONE, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands)

	Year ended December 31, 2023	Year ended December 31, 2022
Common stock and paid-in capital		
Balance, beginning of year	$ 74,934	$ 72,817
Issuance of common stock	—	2,000
Dividends paid	(28,979)	—
Share-based compensation expense	109	113
Proceeds from employee stock purchase plan	7	4
Balance, end of year	$ 46,071	$ 74,934
Accumulated other comprehensive loss		
Balance, beginning of year	$ (288)	$ (241)
Unrealized loss on available-for-sale securities, net of tax	(15)	(2)
Foreign currency translation adjustment	(7)	(45)
Balance, end of year	$ (310)	$ (288)
Accumulated deficit		
Balance, beginning of year	$ (516)	$ (21,072)
Net income (loss)	(560)	20,556
Balance, end of year	$ (1,076)	$ (516)
Total shareholders' equity	$ 44,685	$ 74,130

See accompanying notes

CLEARONE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2023	2022
Cash flows from operating activities:		
Net income (loss)	$ (560)	$ 20,556
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	941	2,970
Amortization of right of use of assets	397	597
Share-based compensation expense	109	113
Change of inventory to net realizable value	281	120
Loss on disposal of assets	(47)	146
Gain recognized on Paycheck Protection Plan Loan forgiveness	—	(1,528)
Gain on legal settlement proceeds, net of capitalized legal costs less amortization	(4,000)	(33,623)
Changes in operating assets and liabilities:		
Receivables	324	1,388
Legal settlement receivable	55,000	—
Inventories	(2,381)	1,812
Prepaid expenses and other assets	3,752	684
Accounts payable	661	(4,104)
Accrued liabilities	(497)	485
Income taxes receivable	1,035	6,466
Deferred product revenue	(33)	9
Operating lease liabilities	(425)	(623)
Other long-term liabilities	71	353
Net cash provided by (used in) operating activities	54,628	(4,179)
Cash flows from investing activities:		
Purchase of marketable securities	(10,298)	—
Purchase of property and equipment	(375)	(51)
Purchase of intangibles	(135)	(137)
Capitalized patent defense costs	—	(737)
Proceeds from maturities and sales of marketable securities	5,925	3,010
Net cash provided by (used in) investing activities	(4,883)	2,085
Cash flows from financing activities:		
Dividend payment	(28,979)	—
Principal payments of long-term debt	(3,920)	(720)
Proceeds from issuance of short-term notes	—	2,000
Proceeds from Paycheck Protection Program loan	—	767
Proceeds from equity-based compensation programs	7	4
Net cash provided by (used in) financing activities	(32,892)	2,051
Effect of exchange rate changes on cash and cash equivalents	(2)	(44)
Net decrease in cash and cash equivalents	16,851	(87)
Cash and cash equivalents at the beginning of the year	984	1,071
Cash and cash equivalents at the end of the year	$ 17,835	$ 984

CLEARONE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2023	2022
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 6,905	$ 88
Cash paid for interest	343	226
Supplemental disclosure of non-cash investing and financing activities		
Right-of-use assets obtained in exchange for lease obligations	—	107
Issue of common stock in consideration of cancellation of debt	—	2,000

See accompanying notes

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

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

Business Description:

ClearOne, Inc., together with its subsidiaries (collectively, "ClearOne" or the "Company"), is a global market leader enabling conferencing, collaboration, and network streaming solutions. The performance and simplicity of our advanced, comprehensive solutions offer unprecedented levels of functionality, reliability and scalability.

Basis of Presentation:

Fiscal Year – This report on Form 10-K includes consolidated balance sheets for the years ended December 31, 2023 and 2022 and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years ended December 31, 2023 and 2022.

Consolidation – These consolidated financial statements include the financial statements of ClearOne, Inc. and its wholly owned subsidiaries. All inter-Company accounts and transactions have been eliminated in consolidation.

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

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

Concentration Risk – We depend on an outsourced manufacturing strategy for our products. We outsource the manufacture of all of our products to third party manufacturers located in Asia. If any of these manufacturers experience difficulties in obtaining sufficient supplies of components, component prices significantly exceeding the anticipated costs, an interruption in their operations, or otherwise suffer capacity constraints, we would experience a delay in production and shipping of these products, which would have a negative impact on our revenues. Should there be any disruption in services due to natural disaster, economic or political difficulties, transportation restrictions, acts of terror, quarantine or other restrictions associated with infectious diseases, or other similar events, or any other reason, such disruption may have a material adverse effect on our business. Operating in the international environment exposes us to certain inherent risks, including unexpected changes in regulatory requirements and tariffs, and potentially adverse tax consequences, which could materially affect our results of operations. Currently, we have no second source of manufacturing for most of our products.

Significant Accounting Policies:

Cash Equivalents – The Company considers all highly-liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. The Company places its temporary cash investments with high-quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limits. As of December 31, 2023, there were three cash accounts in the United States that exceeded federally insured limits, in the amount of $17,251. In addition, there were foreign cash accounts in the amount of $192 that were not covered by Federal Deposit Insurance Corporation insurance.

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

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

A decline in the market value of any available-for-sale security below cost that is deemed other than temporary results in a charge to earnings and establishes a new cost basis for the security. Losses are charged against "Other income" when a decline in fair value is determined to be other than temporary. We review several factors to determine whether a loss is other than temporary. These factors include, but are not limited to: (i) the extent to which the fair value is less than cost and the cause for the fair value decline, (ii) the financial condition and near term prospects of the issuer, (iii) the length of time a security is in an unrealized loss position and (iv) our ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. There were no other-than-temporary impairments recognized during the years ended December 31, 2023 and 2022.

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

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

The Company's allowance for doubtful accounts activity for the years ended December 31, 2023 and 2022 is as follows:

	Year Ended December 31,	
	2023	2022
Balance at beginning of the year	$ 326	$ 326
Allowance increase (decrease)	—	—
Write offs, net of recoveries	—	—
Balance at end of the year	$ 326	$ 326

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

The inventory also includes advance replacement units (valued at cost) provided by the Company to end-users to service defective products under warranty. The value of advance replacement units included in the inventory was $96 and $193, as of December 31, 2023 and 2022, respectively.

The inventory consists of current inventory of $10,625 and long-term inventory of $3,143. 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.

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

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

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

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

Leases: We determine if an arrangement is a lease at inception. Operating leases are included in operating lease - right of use ("ROU") assets, accrued liabilities, and operating lease liability in our consolidated balance sheets. As of adoption of ASC 842 and as of December 31, 2023 and December 31, 2022, the Company was not party to finance lease arrangements. ROU assets represent our right to use an underlying asset for the lease term and operating lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and operating lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense is recognized on a straight-line basis over the lease term. Under the available practical expedient, we account for the lease and non-lease components as a single lease component.

Revenue Recognition Policy: The Company generates revenue from sales of its audio and video conferencing equipment to distributors, system integrators and value-added resellers. The Company also generates revenue, to a much lesser extent, from sale of software and licenses to distributors, system integrators, value-added resellers and end-users. The Company recognizes revenue when it satisfies a performance obligation in an amount reflecting the consideration to which it expects to be entitled. For sales agreements, the Company has identified the promise to transfer products, each of which are distinct, to be the performance obligation. The Company applies a five-step approach in determining the amount and timing of revenue to be recognized: (1) identifying the contract with a customer, (2) identifying the performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations in the contract and (5) recognizing revenue when the performance obligation is satisfied. Substantially all of the Company's revenue is recognized at the time control of the products transfers to the customer.

Sales agreements with customers are renewable periodically and contain terms and conditions with respect to payment, delivery, warranty and supply, but typically do not require mandatory purchase commitments. In the absence of a sales agreement, the Company's standard terms and conditions at the time of acceptance of purchase orders apply. The Company considers the customer purchase orders, governed by sales agreements or the Company's standard terms and conditions, to be the contract with the customer. The Company evaluates certain factors including the customer's ability to pay (or credit risk).

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In determining the transaction price, the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. Sales to distributors, are typically made pursuant to agreements that provide return rights with respect to discontinued or slow-moving products, referred to as stock rotation. Sales to distributors can also be subject to price adjustment on certain products, primarily for distributors with drop-shipping rights. Although payment terms vary, most distributor agreements require payment within 45 days of invoicing.

The Company recognizes revenue when it satisfies a performance obligation. The Company recognizes revenue from sales agreements upon transferring control of a product to the customer. This typically occurs when products are shipped or delivered, depending on the delivery terms, or when products that are consigned at customer locations are sold to dealers or end users. Revenue recognized during the twelve months ended December 31, 2023 for equipment sales was $18,576, and for software, licenses, etc. was $128. Sales returns and allowances are estimated based on historical experience. Provisions for discounts and rebates to customers, estimated returns and allowances, ship and credit claims and other adjustments are provided for in the same period the related revenues are recognized, and are netted against revenues. For returns, the Company recognizes a related asset for the right to recover returned products with a corresponding reduction to cost of goods sold. The Company reviews warranty and related claims activity and records provisions, as necessary.

Frequently, the Company receives orders with multiple delivery dates that may extend across reporting periods. Since each delivery constitutes a performance obligation, the Company allocates the transaction price of the contract to each performance obligation based on the stand-alone selling price of the products. The Company invoices the customer for each delivery upon shipment and recognizes revenues in accordance with delivery terms. Although payment terms vary, distributors typically pay within 45 days of invoicing and dealers pay within 30 days of invoicing. As scheduled delivery dates are within one year, revenue allocated to future shipments of partially completed contracts are not disclosed.

The Company has elected to record freight and handling costs associated with outbound freight after control over a product has transferred to a customer as a fulfillment cost and include it in cost of revenues. Taxes assessed by government authorities on revenue-producing transactions, including value-added and excise taxes, are presented on a net basis (excluded from revenues) in the consolidated statements of operations and comprehensive income (loss).

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

	As of December 31,	
	2023	2022
Deferred revenue	$ 30	$ 63
Deferred cost of goods sold	—	—
Deferred gross profit	$ 30	$ 63

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

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

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

The following table disaggregates the Company's revenue into primary product groups:

	Year Ended December 31,	
	2023	2022
Audio Conferencing	$ 8,366	$ 11,829
Microphones	7,749	9,824
Video products	2,589	3,552
	$ 18,704	$ 25,205

The following table disaggregates the Company's revenue into major regions:

	Year Ended December 31,	
	2023	2022
North and South America	$ 9,047	$ 12,297
Asia (including Middle East) and Australia	7,338	7,828
Europe and Africa	2,319	5,080
	$ 18,704	$ 25,205

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

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

	Year Ended December 31,	
	2023	2022
Balance at the beginning of year	$ 194	$ 194
Accruals/additions	—	—
Usage/claims	—	—
Balance at end of year	$ 194	$ 194

Advertising – The Company expenses advertising costs as incurred. Advertising costs consist of trade shows, magazine advertisements, and other forms of media. Advertising expenses for the years ended December 31, 2023 and 2022 totaled $661 and $572, respectively, and are included in sales and marketing on the consolidated statements of operations and comprehensive income (loss).

Income Taxes – The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry-forwards. These temporary differences will result in deductible or taxable amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets may not be realized. On a quarterly basis, the Company tests the value of deferred tax assets for impairment at the taxpaying-component level within each tax jurisdiction. Significant judgment and estimates are required in determining whether valuation allowances should be established as well as the amount of such allowances.

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The valuation allowance is based on our estimates of future taxable income and the period over which we expect the deferred tax assets to be recovered. Our assessment of future taxable income is based on historical experience and current and anticipated market and economic conditions and trends. In 2018, as a result of negative evidence, principally three years of cumulative pre-tax operating losses, we concluded that it was more likely than not that net operating losses, tax credits and other deferred tax assets were not realizable and therefore, we recorded a full valuation allowance against those net deferred tax assets. We continue to record full valuation against our net deferred tax assets. Adjustments to the valuation allowance increase or decrease the Company’s income tax provision or benefit.

As of December 31, 2023 the Company had no net deferred tax assets due to valuation allowances recorded to account for the consecutive quarters with losses before taxes.

Recent changes: There were no changes that had a material impact on the Company's consolidated financial position, results of operations or cash flows.

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

	Year Ended December 31,	
	2023	2022
Numerator:		
Net income (loss)	$ (560)	$ 20,556
Interest adjustment under if-converted method	—	285
	(560)	20,841
Denominator:		
Basic weighted average shares	23,958,184	23,937,962
Dilutive common stock equivalents using if-converted method	—	1,251,185
Diluted weighted average shares	23,958,184	25,189,147
Basic income (loss) per common share:	$ (0.02)	$ 0.86
Diluted income (loss) per common share:	$ (0.02)	$ 0.83
Weighted average options, warrants and convertible portion of senior convertible notes outstanding	6,258,917	6,788,671
Anti-dilutive options, warrants and convertible portion of senior convertible notes not included in the computation	6,258,917	5,510,600

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

Other recent accounting pronouncements: The Company has determined that other recently issued accounting standards will not have a material impact on its consolidated financial position, results of operations or cash flows.

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

Liquidity:

As of December 31, 2023, cash and cash equivalents were approximately $17,835 compared to $984 as of December 31, 2022. Our working capital was $39,052 as of December 31, 2023 compared to $69,307 as of December 31, 2022. Net cash provided by operating activities was $54,628 for the twelve months ended December 31, 2023, an increase in cashflows of $58,807 from $4,179 of cash used in operating activities in the twelve months ended December 31, 2022.

In order to maintain liquidity, the Company has been actively engaged in preserving cash by implementing company-wide cost reduction measures and raising additional capital. The company raised additional capital in 2019 by issuing senior convertible notes, in 2020 by borrowing through the CARES Act Paycheck Protection Program and issuing common stock and warrants and in 2021 by issuing short-term notes and issuing common stock and warrants. In January 2022, the Company issued $2,000 in common stock as consideration for the cancellation and termination of the short-term notes. In October 2022, the Company issued short term notes to raise $2,000. The Company paid a special one-time cash dividend of $1.00 per share of ClearOne common stock or the eligible warrants on June 1, 2023 amounting to $28,979. On March 11, 2024 the Company's Board of Directors declared another special dividend of $0.50 per share of the Company's stock and eligible warrants amounting to estimated $14,500 to be paid on April 10, 2024. The Company also believes that the Company's core strategies of product innovation and prudent cost management will bring the company back to profitability in the future. The Company believes, although there can be no assurance, that all of these measures and effective management of working capital, along with the current cash balance, will provide the liquidity needed to meet our operating needs through at least April 1, 2025.

2. Marketable Securities

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

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for available-for-sale securities by major security type and class of securities at December 31, 2023 were as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
December 31, 2023				
Available-for-sale securities:				
US Treasury securities	$ 1,804	$ —	$ (1)	$ 1,803
Mutual funds	1,498	7	—	1,505
Certificates of deposit	103	—	—	103
Corporate debt securities	1,007	—	(22)	985
Total available-for-sale securities	$ 4,412	$ 7	$ (23)	$ 4,396

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Maturities of marketable securities classified as available-for-sale securities were as follows at December 31, 2023:

	Amortized cost	Estimated fair value
Due within one year	$ 3,497	$ 3,480
Due after one year through five years	915	916
Total available-for-sale securities	$ 4,412	$ 4,396

There were no available-for sale securities as of December 31, 2022.

Debt securities in an unrealized loss position as of December 31, 2023 were not deemed impaired at acquisition and subsequent declines in fair value are not deemed attributed to declines in credit quality. Management believes that it is more likely than not that the securities will receive a full recovery of par value. The available-for-sale marketable securities in a gross unrealized loss position as of December 31, 2023 are summarized as follows:

	Less than 12 months		More than 12 months		Total	
	Estimated fair value	Gross unrealized holding losses	Estimated fair value	Gross unrealized holding losses	Estimated fair value	Gross unrealized holding losses
As of December 31, 2023						
US Treasury Securities	$ 1,803	$ (1)	-	$ -	$ 1,803	$ (1)
Mutual Funds	1,505	-	-	-	1,505	-
Certificates of Deposit	103	-	-	-	103	-
Corporate Debt securities	985	(22)	-	-	985	(22)
	$ 4,396	$ (23)	$ -	$ -	$ 4,396	$ (23)

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

3. Intangible Assets

Intangible assets as of December 31, 2023 and 2022 consisted of the following:

	Estimated useful lives (in years)	As of December 31, 2023	As of December 31, 2022
Tradename	5 to 7	$ 555	$ 555
Patents and technological know-how	10 to 20	7,187	7,053
Proprietary software	3 to 15	2,981	2,981
Other	3 to 5	324	323
Total intangible assets, gross		11,047	10,912
Accumulated amortization		(9,358)	(8,841)
Total intangible assets, net		$ 1,689	$ 2,071

During the years ended December 31, 2023 and 2022, amortization of these intangible assets were $517 and $2,512 respectively.

A gain of $33,623 was recognized and included under other income after deducting the entire capitalized legal costs amounting to $27,374 net of amortized costs of $5,997 from the one-time legal settlement amount of $55,000, which is included in the balance sheet under legal settlement receivable as of December 31, 2022.

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

Years ending December 31,	
2024	$ 257
2025	196
2026	195
2027	65
2028	21
Thereafter	955
Total	$ 1,689

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

4. Inventories

Inventories, net of reserves, consisted of the following:

	As of December 31, 2023	As of December 31, 2022
Current:		
Raw materials	$ 2,086	$ 4,499
Finished goods	8,539	4,462
Total	$ 10,625	$ 8,961
Long-term:		
Raw materials	$ 1,789	$ 1,068
Finished goods	1,354	1,639
Total	$ 3,143	$ 2,707

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

The losses incurred on valuation of inventory at the lower of cost or market value and write-off of obsolete inventory amounted to $281 and $120 during the years ended December 31, 2023 and 2022, respectively.

5. Property and Equipment

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

	Estimated useful lives in years	As of December 31, 2023	As of December 31, 2022
Office furniture and equipment	3 to 10	$ 70	$ 66
Leasehold improvements	2 to 7	193	121
Vehicles	5 to 10	57	41
Manufacturing and test equipment	2 to 10	1,442	1,146
		1,762	1,374
Accumulated depreciation and amortization		(1,232)	(991)
Property and equipment, net		$ 530	$ 383

Depreciation expense on property and equipment for the years ended December 31, 2023 and 2022 was $238 and $263, respectively.

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

6. Leases

Rent expense is recognized on a straight-line basis over the period of the lease taking into account future rent escalation and holiday periods.

Rent expense for the years ended December 31, 2023 and 2022 was as follows:

	Year ended December 31, 2023	Year ended December 31, 2022
Rent expense	$ 480	$ 684

We occupy a 1,350 square-foot facility in Gainesville, Florida under the terms of an operating lease that expires in February 2028. The Gainesville facility is used primarily to support our research and development activities.

We occupy a 9,402 square-foot facility in Salt Lake City, Utah under the terms of an operating lease, which expires in February 2028. The facility supports our principal administrative, sales, marketing, customer support, and research and product development activities.

We occupy a 6,175 square-foot facility in Chennai, India under the terms of an operating lease expiring in August 2024. This facility supports our administrative, marketing, customer support, and research and product development activities.

We occupy a 40,000 square-foot warehouse in Salt Lake City, Utah under the terms of an operating lease expiring in April 2025, which serves as our primary inventory fulfillment center.

Supplemental cash flow information related to leases was as follows:

	Year ended December 31, 2023	Year ended December 31, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 492	$ 680
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 397	$ 107

Supplemental balance sheet information related to leases was as follows:

	December 31, 2023	December 31, 2022
Operating lease right-of-use assets	$ 990	$ 1,047
Current portion of operating lease liabilities, included in accrued liabilities	$ 383	$ 641
Operating lease liabilities, net of current portion	665	492
Total operating lease liabilities	$ 1,048	$ 1,133
Weighted average remaining lease term for operating leases (in years)	3.39	2.12
Weighted average discount rate for operating leases	6.47%	5.93%

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The following represents maturities of operating lease liabilities as of December 31, 2023:

Years ending December 31,		
2024	$	439
2025		272
2026		210
2027		216
2028		37
Thereafter		—
Total lease payments		1,174
Less: Imputed interest		(126)
Total	$	1,048

7. Accrued Liabilities

Accrued liabilities consist of the following:

	As of December 31,	
	2023	**2022**
Accrued salaries and other compensation	$ 632	$ 1,148
Sales and marketing programs and customer credit balances	640	605
Product warranty	194	194
Current portion of operating lease liabilities	383	641
Other accrued liabilities	441	453
Total	$ 2,290	$ 3,041

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. Commitments and Contingencies

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

Outsource Manufacturers. We have manufacturing agreements with electronics manufacturing service ("EMS") providers related to the outsourced manufacturing of our products. Certain manufacturing agreements establish annual volume commitments. We are also obligated to repurchase Company-forecasted but unused materials. The Company has non-cancellable, non-returnable, and long-lead time commitments with its EMS providers and certain suppliers for inventory components that will be used in production. The Company's purchase commitments under such agreements is approximately $3,596 as of December 31, 2023.

Uncertain Tax Positions. As further discussed in Note 13 - Income Taxes, we had $968 of uncertain tax positions as of December 31, 2023. Due to the inherent uncertainty of the underlying tax positions, it is not possible to forecast the payment of this liability to any particular year.

Legal Proceedings.

Intellectual Property Litigation

The Company was involved in several litigation proceedings (collectively, the "Litigations") against Shure Incorporated ("Shure"). On December 9, 2022, the Company and Shure entered into a confidential settlement and license agreement (the "Agreement"). Under the terms of the Agreement:

- All of the Litigations between the parties were dismissed with prejudice and each of the Company and Shure released all claims against the other arising from or in connection with the matters that were subject to the Litigations;
- Shure made a one-time settlement payment to the Company in the amount of $55,000 within five days after the dismissal of the Litigations in accordance with the Agreement in January 2023; and
- The Company and Shure agreed to certain patent licenses and covenants not to sue.

The Company capitalized $0 and $737 of litigation expenses related to this matter during the twelve months ended December 31, 2023 and 2022, respectively.

A gain of $33,623 was recognized and included under other income after deducting the entire capitalized legal costs amounting to $27,374 net of amortized costs of $5,997 from the one-time legal settlement amount of $55,000, which is included in the balance sheet under legal settlement receivable as of December 31, 2022.

The Company also settled another intellectual property matter by entering into a cross licensing agreement in December 2023 and accepting a one-time payment of $4,000 in March 2024. The amount is recognized and included under other income in the consolidated statement of operations and in the consolidated balance sheet under legal settlement receivable as of December 31, 2023.

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

Conclusion

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

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

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

9. Debt

Senior Convertible Notes and Warrants

On December 17, 2019, the Company completed the issuance and sale of $3,000 aggregate principal amount of secured convertible notes of the Company (the “Notes”) and warrants (the “Warrants”) to purchase 340,909 shares of common stock, par value $0.001 per share of the Company (the “Common Stock”), in a private placement transaction. The Notes and Warrants were issued and sold to Edward D. Bagley, an affiliate of the Company, on the terms and conditions of a Note Purchase Agreement dated December 8, 2019 between the Company, certain subsidiary guarantors of the Company, and Mr. Bagley. Mr. Bagley is an affiliate of the Company and was the beneficial owner of approximately 46.6% of the Company’s issued and outstanding shares of Common Stock.

The Notes matured on December 17, 2023 (the “Maturity Date”) and accrued interest at a variable rate adjusted on a quarterly basis and equal to two and one-half percent (2.5%) over the greater of (x) five and one-quarter percent (5.25%) and (y) the Prime Rate as published in the Wall Street Journal (New York edition) as of the beginning of such calendar quarter. The Notes may be converted into shares of the Company’s Common Stock at any time at the election of Mr. Bagley at an initial conversion price of $2.11 per share (the “Conversion Price”), or 120% of the closing price of the Common Stock on December 6, 2019 as reported on the Nasdaq Capital Market. Also, the Company can cause a mandatory conversion of the Notes if the volume weighted average closing price of the Common Stock over 90 consecutive trading days exceeds 200% of the Conversion Price. In addition, the Notes may be redeemed by the Company for cash at any time after December 17, 2020 upon payment of the outstanding principal balance of the Notes and any unpaid and accrued interest. The Company also is required to redeem the Notes upon the occurrence of a change in control of the Company. The Notes were fully repaid as per the terms of the Note on December 17, 2023. No part of the Note was converted into a common stock.

The Warrants have an initial exercise price equal to $1.76, the closing price of the Common Stock on December 6, 2019 as reported on the Nasdaq Capital Market, and are exercisable until December 17, 2026. The Warrants must be exercised for cash, unless at the time of exercise there is not a then effective registration statement for the resale of the shares of Common Stock issuable upon exercise of the Warrants, in which case the Warrants may be exercised via a cashless exercise feature that provides for net settlement of the shares of Common Stock issuable upon exercise.

Concurrent with the issuance of the Notes and Warrants pursuant to the Note Purchase Agreement, the Company, the Guarantors and Mr. Bagley entered into a Guaranty and Collateral Agreement (the “Collateral Agreement”) pursuant to which the Company and the Guarantors granted Mr. Bagley a first priority lien interest in all of the Company’s assets as security for the Company’s performance of its obligations under the Notes and Warrants.

The net proceeds after original issue discount and issuance costs of $346 were approximately $2,654. The Company expects to use the proceeds from the sale of the Notes and Warrants for general corporate purposes and working capital.

In accounting for the issuance of the Notes, the Company separated Notes and Warrants into liability and equity components. The carrying amount of Warrants, being an equity component, was first calculated using Black-Scholes method with the following assumptions:

Risk-free interest rate	1.82%
Expected life of Warrants (years)	7
Expected price volatility	49.94%
Expected dividend yield	0%

The carrying amount of the Notes was then determined by deducting the fair value of the Warrants from the principal amount of the Notes. The carrying amount of the Notes was further separated into equity and liability components after separating the value of the conversion feature into an equity component and leaving the remaining value as liability. The equity component is not remeasured while the Notes and Warrants continue to meet the conditions for equity classification for equity components.

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

The original issue discount and issuance costs are netted against the liability. The following table represents the carrying value of Notes and Warrants:

	December 31, 2023	December 31, 2022
Liability component:		
Principal	$ —	$ 1,920
Less: debt discount and issuance costs, net of amortization	—	(188)
Net carrying amount	$ —	$ 1,732
Equity component[1]:		
Warrants	$ —	$ 318
Conversion feature	—	122
Net carrying amount	$ —	$ 440
Current portion of liability component included under short-term debt	$ —	$ 1,920
Long-term portion of liability component included under long-term debt	—	—
Liability component total	$ —	$ 1,920

(1) Recorded on the consolidated balance sheets as additional paid-in capital.

Debt discount and issuance costs are amortized over the life of the note to interest expense using the effective interest method. During the twelve months December 31, 2023 amortization of debt discount and issuance costs were $188 and $197 respectively.

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Paycheck Protection Program Loan

On April 18, 2020, the Company, entered into a loan agreement with U.S. Bank National Association Bank, which provided for a loan in the principal amount of $1,499 ("PPP Loan") pursuant to the Paycheck Protection Program under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The PPP Loan had a two-year term and bears interest at a rate of 1.0% per annum. Monthly principal and interest payments are deferred for approximately sixteen months after the date of disbursement.

The Company's Paycheck Protection Program Loan ("PPP Loan") under the CARES Act was forgiven by Small Business Administration effective April 29, 2022. With this forgiveness, the Company is not required to repay the principal amount of $1,499 and the interest of $31. The Company received $953 back that it had already paid towards principal and interest payments toward the PPP Loan. The Company treated the forgiveness as extinguishment of debt in this quarter ended September 30, 2022 and reported the entire principal amount forgiven of $1,499 along with interest already accounted for of $29 as a gain on extinguishment of debt included in other income.

Short-term Bridge Loans

On July 2, 2021, the Company obtained a bridge loan in the principal amount of $2,000 from Edward D. Bagley (the "2021 Bridge Loan"), an affiliate of the Company. The Bridge Loan was evidenced by a promissory note dated July 2, 2021 (the "Note") issued by the Company to Mr. Bagley. The Note bore interest at a rate of 8.0% per annum. On September 11, 2021, the Company amended and restated the terms of the Bridge Loan to extend the latest maturity date from October 1, 2021 to January 3, 2022. All other terms and conditions of the Bridge Loan remained the same. On January 4, 2022, the Company entered into a Securities Purchase Agreement with Edward D. Bagley, pursuant to which the Company issued and sold to Mr. Bagley, in a private placement 1,538,461 shares (the "Shares") of the Company's common stock, par value $0.001 per share, at a purchase price of $1.30 per share of Common Stock. The consideration for the Shares was the cancellation and termination of Mr. Bagley's outstanding bridge loan to the Company in the principal amount of $2,000 originally issued on July 2, 2021 and amended and restated on September 11, 2021. Mr. Bagley is an affiliate of the Company and the Company's single largest stockholder.

On October 28, 2022 the Company obtained a bridge loan in the principal amount of $2,000 from Edward D. Bagley (the "2022 Bridge Loan"), an affiliate of the Company. The 2022 Bridge Loan was evidenced by a promissory note dated October 28, 2022 (the "2022 Note") issued by the Company to Mr. Bagley. The 2022 Note bore interest at a rate of 12.0% per annum and had a maturity date of October 28, 2023. Mr. Bagley is an affiliate of the Company and the Company's single largest stockholder. This Bridge Loan of $2,000 is included under short-term debt as of December 31, 2022. In January 2023, the 2022 Bridge loan of $2,000 along with applicable interest was repaid in full.

10. Share-Based Payments

Employee Stock Option Plans

The Company's share-based incentive plan offering stock options is primarily through 2007 Equity Incentive Plan (the "2007 Plan"). Under this plan, one new share is issued for each stock option exercised. The plan is described below.

The 2007 Plan was restated and approved by the shareholders on December 12, 2016. Provisions of the restated 2007 Plan include the granting of up to 2,000,000 incentive and non-qualified stock options, stock appreciation rights, restricted stock and restricted stock units. Options may be granted to employees, officers, non-employee directors and other service providers and may be granted upon such terms as the Compensation Committee of the Board of Directors determines in their sole discretion.

All vesting schedules for options granted 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. As of December 31, 2023, the Company had 217,810 options with contractual lives of ten years and 390,000 options with contractual lives of six years.

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

As of December 31, 2023, there were 607,810 options outstanding under the 2007 Plan. As of December 31, 2023, the 2007 Plan had 857,044 authorized unissued options.

The Company uses judgment in determining the fair value of the share-based payments on the date of grant using an option-pricing model with assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the risk-free interest rate of the awards, the expected life of the awards, the expected volatility over the term of the awards, and the expected dividends of the awards. The Company uses the Black-Scholes option pricing model to determine the fair value of share-based payments granted under the guidelines of ASC Topic 718.

The Company did not grant any options during the year ended December 31, 2022.

In applying the Black-Scholes methodology to the 160,000 options granted during the year ended December 31, 2023, the Company used the following assumptions:

Risk free interest rate, average	3.91%
Expected option life, average	5 years
Expected price volatility, average	91.47%
Expected dividend yield	0%

The risk-free interest rate is determined using the U.S. Treasury rate in effect as of the date of the grant, based on the expected life of the stock option. The expected life of the stock option is determined using historical data.

The expected price volatility is determined using a weighted average of daily historical volatility of the Company's stock price over the corresponding expected option life.

Under guidelines of ASC Topic 718, the Company recognizes the associated compensation cost for only those awards expected to vest on a straight-line basis over the underlying requisite service period. The Company estimated the forfeiture rates based on its historical experience and expectations about future forfeitures.

The following table shows the stock option activity:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
As of December 31, 2021	831,071	$ 6.47	4.10	$ —
Granted	—	—		
Expired and canceled	(274,379)	7.44		
Forfeited prior to vesting	(68,215)	2.50		
Exercised	—	—		
As of December 31, 2022	488,477	$ 6.48	3.42	$ —
Granted	160,000	1.01		
Expired and canceled	(35,457)	7.29		
Forfeited prior to vesting	(5,210)	2.50		
Exercised	—	—		
As of December 31, 2023	607,810	$ 5.03	3.32	$ —
Vested and Expected to Vest at December 31, 2022	488,477	$ 6.48	3.42	$ —
Vested at December 31, 2022	373,612	$ 7.72	3.22	$ —
Vested and Expected to Vest at December 31, 2023	607,810	$ 5.03	3.32	$ —
Vested at December 31, 2023	403,365	$ 6.90	2.51	$ —

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The total pre-tax compensation cost related to stock options recognized during the years ended December 31, 2023 and 2022 was $106 and $112, respectively. Tax benefit from compensation cost related to stock options during the years ended December 31, 2023 and 2022, respectively was $27 and $28. As of December 31, 2023, the total compensation cost related to stock options not yet recognized and before the effect of any forfeitures was $157, which is expected to be recognized over approximately the next 2.32 years on a straight-line basis.

Employee Stock Purchase Plan

During the years ended December 31, 2023 and 2022, the Company issued shares to employees under the Company's 2016 Employee Stock Purchase Plan (the "ESPP"). The ESPP was approved by the Company's shareholders on December 12, 2016. As of December 31, 2023, and December 31, 2022, 382,143 and 395,524, respectively of the originally approved 500,000 shares were available for offerings under the ESPP. Offering periods under the ESPP commence on each Jan 1 and July 1 and continue for a duration of six months. The ESPP is available to all employees who do not own, or are deemed to own, shares of stock making up an excess of 5% of the combined voting power of the Company, its parent or subsidiary.

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

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

	2023	2022
Shares purchased under ESPP plan	13,381	7,180
Plan compensation expense	$ 3	$ 1

Issuance of Common Stock and Warrants

On September 13, 2020, the Company, entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain purchasers named therein (the "Purchasers"), pursuant to which the Company issued and sold, in a registered direct offering 2,116,050 shares (the "Shares") of the Company's common stock, par value $0.001 per share (the "Common Stock") at an offering price of $2.4925 per share, (the "Registered Offering"). The Company received gross proceeds of approximately $5,275 (4,764 net of issuance costs) in connection with the Registered Offering, before deducting placement agent fees and related offering expenses. In a concurrent private placement, the Company issued to the Purchasers who participated in the Registered Offering warrants exercisable for an aggregate of 1,058,025 shares of common stock at an exercise price of $2.43 per share. Each warrant became immediately exercisable and had an expiry term of five years from the issuance date.

On September 12, 2021, the Company entered into a securities purchase agreement with certain purchasers named therein, pursuant to which the Company issued 3,623,189 shares of the Company's common stock, par value $0.001 per share at an offering price of $2.76 per share. The Company received gross proceeds of approximately $10,000 and net proceeds of $9,288 after deducting placement agent fees and related offering expenses. In a concurring private placement the Company also issued to the same purchasers warrants exercisable for an aggregate of 3,623,189 shares of common stock at an exercise price of $2.64 per share. Each warrant became immediately exercisable and will expire on March 15, 2027.

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

11. Significant Customers

There were no sales to significant customers that represented more than 10 percent of total revenues during the years ended December 31, 2023 and 2022.

12. Fair Value Measurements

The fair value of the Company's financial instruments reflects the amounts that the Company estimates it will receive in connection with the sale of an asset or pay in connection with the transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value hierarchy prioritizes the use of inputs used in valuation techniques into the following three levels:

Level 1 - Quoted prices in active markets for identical assets and liabilities.

Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes U.S. Government and agency securities; municipal securities; mutual funds and securities sold and not yet settled.

Level 3 - Unobservable inputs.

The substantial majority of the Company's financial instruments are valued using quoted prices in active markets or based on other observable inputs.

There were no financial instruments that were re-measured by the Company as of December 31, 2022. The following tables set forth the fair value of the financial instruments re-measured by the Company as of December 31, 2023.

	Level 1	Level 2	Level 3	Total
December 31, 2023				
Mutual funds	$ 1,505	$ —	$ —	$ 1,505
US Treasury securities	—	1,803	—	1,803
Certificates of deposit	—	103	—	103
Corporate debt securities	—	985	—	985
Total	$ 1,505	$ 2,891	$ —	$ 4,396

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

13. Income Taxes

Consolidated income (loss) before taxes for domestic and foreign operations consisted of the following:

	Year ended December 31,	
	2023	2022
Domestic	$ 1,043	$ 28,754
Foreign	(1,169)	(1,294)
Total	$ (126)	$ 27,460

The Company's provision for income taxes consisted of the following:

	Year ended December 31,	
	2023	2022
Current:		
Federal	$ (131)	$ (6,753)
State	(219)	(98)
Foreign	(84)	(53)
Total current	(434)	(6,904)
Deferred:		
Federal	(43)	1,132
State	78	(976)
Foreign	293	165
Total	328	321
Change in valuation allowance	(328)	(321)
Total deferred	—	—
Tax provision	$ (434)	$ (6,904)

The income tax provision differs from that computed at the federal statutory corporate income tax rate as follows:

	Year ended December 31,	
	2023	2022
Tax benefit (provision) at federal statutory rate	$ 26	$ (5,768)
State income tax benefit (provision), net of federal benefit	(10)	(1,093)
Research and development tax credits	66	457
Foreign earnings or losses taxed at different rates	(72)	(68)
Tax rate change	(116)	(60)
Other	—	(51)
Change in valuation allowance	(328)	(321)
Tax benefit (provision)	$ (434)	$ (6,904)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The tax effects of significant temporary differences representing net deferred tax assets and liabilities consisted of the following:

	2023	2022
Deferred revenue	$ 3	$ 11
Basis difference in intangible assets	6,080	6,604
Inventory reserve	880	2,258
Net operating loss carryforwards	4,730	3,075
Research and development tax credits	115	48
Accrued expenses	108	120
Stock-based compensation	210	215
Allowance for sales returns and doubtful accounts	81	81
Difference in property and equipment basis	(108)	(83)
Convertible debt	(110)	(110)
Capitalized research expenditure	1,507	922
Other	337	364
Total net deferred income tax asset	13,833	13,505
Less: Valuation allowance	(13,833)	(13,505)
Net deferred income tax asset (liability)	$ —	$ —

The Company has not provided for foreign withholding taxes on undistributed earnings of its non-U.S. subsidiaries since these earnings are intended to be reinvested indefinitely, in accordance with guidelines contained in ASC Topic 740, *Accounting for Income Taxes*. It is not practical to estimate the amount of additional taxes that might be payable on such undistributed earnings.

The Company routinely evaluates the likelihood of realizing the benefit of its deferred tax assets and may record a valuation allowance if, based on all available evidence, it determines that it is more likely than not some portion of the tax benefit will not be realized. As of December 31, 2023, the Company had an aggregate of approximately $13.8 million in deferred tax assets primarily related to intangible assets, net operating losses, tax credit carryforwards, and inventory basis differences. On a quarterly basis, the Company tests the value of deferred tax assets for impairment at the taxpaying-component level within each tax jurisdiction. Significant judgment and estimates are required in determining whether valuation allowances should be established as well as the amount of such allowances. When making such determination, consideration is given to, among other things, the following:

- sufficient taxable income within the allowed carryback or carryforward periods;
- future reversals of existing taxable temporary differences, including any tax planning strategies that could be utilized;
- nature or character (e.g., ordinary vs. capital) of the deferred tax assets and liabilities; and
- future taxable income exclusive of reversing temporary differences and carryforwards.

Based on the foregoing criteria, the Company determined that it does not meet the “more likely than not” threshold that net operating losses, tax credits and other deferred tax assets will be realized. Accordingly, the Company recorded a full valuation allowance at December 31, 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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As of December 31, 2023 the Company has federal net operating loss ("NOL") carryforwards of approximately $5.8 million (pre-tax), state NOL carryforwards of approximately 6.3 million (pre-tax) and Spain NOL carryforwards of approximately $12.7 million (pre-tax). The federal NOL carryforward expires in 2029. The Spain NOL carryforward does not expire. The state NOL carryforwards expire over various periods.

Effective July 1, 2007, the Company adopted the accounting standards related to uncertain tax positions. This standard requires that tax positions be assessed using a two-step process. A tax position is recognized if it meets a "more likely than not" threshold, and is measured at the largest amount of benefit that is greater than 50 percent likely of being realized. Uncertain tax positions must be reviewed at each balance sheet date. Liabilities recorded as a result of this analysis must generally be recorded separately from any current or deferred income tax accounts.

The total amount of unrecognized tax benefits at December 31, 2023 and 2022, that would favorably impact our effective tax rate if recognized was $1,034 and $976, respectively. As of December 31, 2023 and 2022, we accrued $111 and $44, respectively, in interest and penalties related to unrecognized tax benefits. We account for interest expense and penalties for unrecognized tax benefits as part of our income tax provision.

Although we believe our estimates are reasonable, we can make no assurance that the final tax outcome of these matters will not be different from that which we have reflected in our historical income tax provisions and accruals. Such difference could have a material impact on our income tax provision and operating results in the period in which we make such determination.

A reconciliation of the beginning and ending amount of liabilities associated with uncertain tax positions is as follows:

	Year ended December 31,	
	2023	2022
Balance - beginning of year	$ 962	$ 895
Additions based on tax positions related to the current year	18	75
Reductions for tax positions of prior years	(5)	—
Lapse in statutes of limitations	(7)	(8)
Uncertain tax positions, ending balance	$ 968	$ 962

The Company's U.S. federal income tax returns for 2018 through 2023 are subject to examination. The Company's U.S. 2018 federal income tax return is currently under examination. The Company also files in various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to federal, state, or non-U.S. income tax examinations by tax authorities for years prior to 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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14. Geographic Sales Information

The United States was the only country to contribute more than 10 percent of total revenues in each fiscal year. The Company's revenues are substantially denominated in U.S. dollars and are summarized geographically as follows:

	Year ended December 31,	
	2023	2022
United States	$ 8,186	$ 12,096
All other countries	10,518	13,109
Total	$ 18,704	$ 25,205

15. Subsequent events

On March 10, 2024 the Company's Board of Directors declared a special dividend of $0.50 per share of the Company's stock and eligible warrants to be paid on April 10, 2024. This is expected to result in a cash outflow of approximately $14,500.

EXHIBIT 19.1

CLEARONE, INC.

**STATEMENT OF POLICY REGARDING
COMPLIANCE WITH FEDERAL
SECURITIES LAWS**

THIS STATEMENT OF POLICY REGARDING COMPLIANCE WITH THE FEDERAL SECURITIES LAWS IS INTENDED TO FAMILIARIZE YOU WITH YOUR OBLIGATIONS AND RESPONSIBILITIES UNDER VARIOUS FEDERAL SECURITIES LAWS RELATING TO TRADING IN THE SECURITAS OF CLEARONE, INC. IN THE INTEREST OF BREVITY, THIS STATEMENT OF APPLICABLE STATUTES, RULES AND REGULATIONS HAS BEEN CONDENSED AND SUMMARIZED AND IS THEREFORE NOT COMPREHENSIVE. THE STATEMENT IS INTENDED TO PROVIDE A QUICK REFERENCE TO VARIOUS FEDERAL SECURITIES LAWS AND IS NOT INTENDED NOR SHOULD IT BE RELIED UPON AS A DEFINITIVE GUIDE WITH RESPECT TO TRANSACTIONS INVOLVING SECURITIES OF CLEARONE, INC.

FAILURE TO COMPLY WITH FEDERAL SECURITIES LAWS HAS THE POTENTIAL FOR SIGNIFICANT LIABILITY EXPOSURE NOT ONLY FOR YOU AS AN INDIVIDUAL BUT ALSO FOR THE COMPANY THAT YOU REPRESENT. THE SECURITIES AND EXCHANGE COMMISSION, THE U.S. ATTORNEY'S OFFICE AND PRIVATE ATTORNEYS VIGOROUSLY PURSUE VIOLATIONS OF FEDERAL SECURITIES LAWS. BY FEDERAL LAW, THE COMPANY MUST ALSO MONITOR AND ENFORCE VIOLATIONS OF FEDERAL SECURITIES LAWS BY COMPANY PERSONNEL. THE COMPANY MUST, UNDER CERTAIN CIRCUMSTANCES, DISCLOSE VIOLATIONS IN REPORTS ISSUED TO THE SECURITIES AND EXCHANGE COMMISSION AND THE COMPANY'S SHAREHOLDERS.

IN LIGHT OF THE COMPLEXITY OF FEDERAL SECURITIES LAWS AND THE SIGNIFICANT PENALTIES THAT MAY BE IMPOSED, THE COMPANY STRONGLY RECOMMENDS THAT ANY DIRECTOR, OFFICER OR EMPLOYEE CONTEMPLATING A TRANSACTION IN THE COMPANY'S SECURITIES FIRST CONTACT THE COMPANY'S COMPLIANCE OFFICER IN ORDER TO IDENTIFY ANY SECURITIES LAWS IMPLICATIONS OF THE PROPOSED TRANSACTION. ALL MATTERS INVOLVING THE COMPANY'S SECURITIES SHOULD BE COORDINATED, IN ADVANCE, WITH THE COMPANY'S COMPLIANCE OFFICER.

PLEASE READ THIS STATEMENT IN ITS ENTIRETY, THEN SIGN AND DATE THE APPROPRIATE CERTIFICATION SET FORTH AT THE CONCLUSION OF THE STATEMENT.

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1. EXECUTIVE SUMMARY.

This Statement of Policy Regarding Compliance with Federal Securities Laws (the "**Statement**") describes the most important features of federal statutes, rules and regulations (collectively the "**Securities Laws**") applicable to transactions involving the securities of ClearOne, Inc. (the "**Company**"). This Executive Summary highlights in summary fashion topics that are covered in greater detail in this Statement. You are urged to read the entire Statement in order to more fully understand what is required of you. It also provides the Company with the standards on trading, and causing the trading of, the Company's securities or securities of certain other publicly traded companies while in possession of confidential information. Topics discussed in this Statement are summarized as follows:

1.1 **Confidentiality of Inside Information**. Directors, officers and employees must maintain inside information about the Company in strict confidence and not communicate such information to any person unless such person has a need to know the information for legitimate Company-related reasons.

1.2 **Prohibition on Insider Trading**. No director, officer or employee may trade (purchase or sell) in Company securities while in the possession of material, non-public information concerning the Company or its affairs. This prohibition extends to relatives, friends and others to whom you have disclosed any material, non-public information or have made a recommendation to purchase or sell the Company's securities. Please see Section 5.2 for examples of material, non-public information.

1.3 **Section 16 Obligations**. Section 16 of the Securities Exchange Act of 1934 (the "**Exchange Act**") generally provides that directors and officers, and shareholders who own more than ten percent of the Company's outstanding securities, are required to (1) report to and on forms prescribed by the Securities and Exchange Commission (the "**SEC**") their ownership of and transactions in securities of the Company, (2) disgorge to the Company all profits obtained from a purchase and sale (or a sale and purchase) within a six-month time period and (3) refrain from engaging in any "short sale" of the Company's securities. Section 16 is a strict liability statute in that it applies without regard to improper motives or bad acts on the part of the person violating the statute. Reports of ownership and transactions in the Company's securities must be filed within specified time frames. The appropriate forms and time limitations are available from the Company's Compliance Officer.

1.4 **Restrictions on Resales of Company Securities**. Any person holding "restricted securities" (i.e., securities which have not previously been registered under the Securities Act of 1933 with the SEC) generally should make public resales of such securities in accordance with SEC Rule 144, which restricts the amount, manner of sale and timing of sales of the Company's restricted securities. Private resales may also be made subject to certain restrictions depending upon the circumstances.

1.5 **Restrictions on Purchases of Company Securities**. Securities Laws restrict the ability of persons to purchase Company securities while the Company is engaged in a public offering or a buy-back of its securities. The buy-back restrictions exist in part so that when the Company and/or directors, officers and other controlled individuals ("affiliated purchasers") are engaged in a buy-back/purchase of the Company's securities, the Company's securities are not improperly manipulated. The SEC has issued Rule 10b-18 which offers a "safe harbor" from liability under Securities Laws solely by reason of the manner, timing, price and volume of their repurchases. If as an affiliated purchaser you are interested in purchasing Company securities while the Company is engaged in a buy-back of its securities you must receive pre-clearance (as with any other desired transaction in the Company's securities) from the Company's Compliance Officer in order to ensure all affiliated purchases fall within the safe harbor rules described in more detail in Section 5.10 of this Statement.

Also, under certain circumstances, the Company will impose a "blackout" which means that purchases and sales of its securities during this period are prohibited because of the potential for misuse of insider information. (See, for example, Section 5.6, below.) The Securities Laws impose a separate "blackout" on trading by insiders if trading in individual account plans of the Company is suspended under certain conditions. (See Section 5.10, below.)

1.6 **Compliance Committee and Officer**. The Company has established a Compliance Committee and appointed a Compliance Officer to assist you in complying with Securities Laws. All questions relating to your compliance with Securities Laws should be addressed to the Company's Compliance Officer. The Company will be closely monitoring transactions in its securities to attempt to determine if directors, officers and employees are violating Securities Laws. You are strongly encouraged to report any violations of Securities Laws involving the Company's securities of which you become aware. With your cooperation and assistance, compliance with Securities Laws is achievable and will not only avoid harsh penalties but also keep the Company in good standing with the SEC, the Company's shareholders and the public securities markets. If investors perceive that the Company (including its directors, officers and employees) has a disregard for compliance with Securities Laws, the value of the Company and the price per share at which the Company's securities are sold will be diminished.

2. NEED FOR A POLICY STATEMENT.

The SEC, the U.S. Attorney's Office and private attorneys vigorously pursue violations of Securities Laws. The Securities Laws contain severe penalties for trading violations, and they place the burden on the Company and its "**controlling persons**" (e.g., officers, directors and certain supervisory personnel) for trading violations by Company employees. The Company has adopted this Statement in order to avoid even the appearance of questionable or improper conduct on the part of anyone employed by or associated in any way with the Company (not only directors and officers).

3. CONSEQUENCES OF FAILURE TO COMPLY.

The consequences of failure to comply with Securities Laws can be staggering not only for the individual involved but also for the Company and its controlling persons. Harsh civil and criminal penalties as well as criminal jail sentences may be imposed if violations occur. Penalties may also be imposed upon the Company (as well as possibly its controlling persons) in the event the Company fails to take adequate steps to prevent violations of Securities Laws.

Violation of Securities Laws may also subject the individuals involved to sanctions imposed by the Company including dismissal for cause. If you are a habitual violator, the SEC can remove you from your office at the Company and temporarily or permanently prevent you from serving as an officer or director of any other public company. Violations of Securities Laws will not only tarnish one's reputation but also that of the Company and may cause irreparable damage to a career and the Company's good standing in the securities markets resulting in damage and loss to all shareholders of the Company.

In the view of the extreme consequences imposed not only on you and the Company but potentially its controlling persons and shareholders, the Company intends to actively monitor compliance with Securities Laws by all persons associated with the Company.

4. CONFIDENTIALITY OF INSIDE INFORMATION.

4.1 **Liability for Misuse of Tipping**. Any director, officer or employee who comes into possession of material, non-public, information concerning the Company must safeguard the information and not intentionally or inadvertently communicate it to any person (including family members and friends) unless the person has a need to know the information for legitimate, Company-related reasons. A director, officer or employee who improperly uses or reveals material inside information to another person can be held liable under the antifraud provisions of the Securities Laws (primarily Section 10(b) of the Exchange Act and Rules 10b-5) for the trading activities of his or her "tippee" and any other person with whom the tippee shares the information.

4.2 **Liability for Misuse of Social Media**. Material, non-public information shall not be communicated in social media, whether intentionally or inadvertently. Social media includes any digital technology that enables people to create and share content and opinions in conversations over the internet. This includes Facebook, Twitter, LinkedIn, Google Plus, Snapchat, Youtube, Flickr and Instagram, among others, and blogs, wikis and comments included on websites reviewing products and services. Social media conduct should not be any different from your regular, everyday conduct as an employee, using sound judgment, common sense and by following the Code of Ethics. If you are not authorized to speak on behalf of the Company, the Company's name or logos should not appear in your social media screen names or posts. These guidelines are not intended to restrict communications or actions protected or required by state or federal law.

4.3 **Methods of Preserving Confidentiality**. Consistent with the foregoing, directors, officers and employees should divulge such inside information only to persons having a need to know it in order to carry out their job responsibilities. Directors, officers and employees should refrain from discussing such information in public places including, but not limited to, restaurants, rest rooms, lobbies, elevators, airplanes or other public places. To avoid even the appearance of impropriety, directors, officers and employees should refrain from providing advice or making recommendations regarding the purchase or sale of the Company's securities.

4.4 **Dissemination of Confidential Information**. Certain specified employees of the Company have been designated as the persons to communicate with analysts, stockholders and the press. The current identity of such employees may be obtained from the Company's Compliance Officer. Should you receive a request from someone for information regarding the Company's financial condition, products, product development, patents or any other information regarding the Company, the person requesting the information should be directed to the person(s) identified by the Company Compliance Officer.

5. PROHIBITION ON INSIDER TRADING.

5.1 **Insider Trading**. The antifraud provisions of the Securities Laws generally prohibit persons who are in possession of material, non-public information from trading in securities on the basis of such information. In addition, the antifraud provisions prohibit fraudulent, manipulative, or deceptive trading practices. Persons who violate these prohibitions are subject to liability for significant civil damages and criminal penalties. Such trading can also subject the Company to penalties and fines.

The SEC has authority to bring a civil action against any controlling person who knows of, or recklessly disregards, a likely insider trading violation by a person under his or her control and who fails to take appropriate steps to prevent the violation from occurring, a successful action by the SEC under this provision can result in significant civil penalties.

The Company (as well as its directors and officers, and supervisory personnel) could be deemed "controlling persons" subject to potential liability under these Securities Laws. Accordingly, it is incumbent upon those persons to maintain an awareness of possible insider trading violations by persons under their control and to take measures where appropriate to prevent such violations. In the event a director, officer or supervisory person becomes aware of the possibility of such violation, he or she should contact our Compliance Officer (or, in his or her absence, the President of the Company) immediately.

If an officer, director, or employee has material, non-public information relating to the Company or any subsidiary or affiliate, it is the Company's policy that neither that person nor any related person may buy or sell securities of the Company or engage in any other action to take advantage of, or pass along to another, that information. In addition, this policy applies to information relating to any other company obtained in the course of employment with the Company.

Transactions that may be necessary or justifiable for independent reasons (such as the need to raise money for an emergency) are no exception. Even the appearance of an improper securities transaction must be avoided. You are strongly encouraged to contact the Compliance Officer as soon as possible in the event an emergency arises and you have a need to sell the Company's securities during any period in which you may have access to inside information.

5.2 **Definition of Material and Non-Public Information**. "**Material information**" is any information that a reasonable investor would consider important in deciding whether to buy, sell or hold a security. In short, any information that could reasonably affect the price of a security is material information.

Examples of information that frequently is regarded as material include: (i) projections of future earnings or losses, (ii) news of a pending or proposed merger, acquisition, consolidation, divestiture, recapitalization, strategic alliance, joint venture, purchase or sale of substantial assets or tender offer, (iii) news of a significant sales of assets, (iv) changes in a dividend policy, the declaration of a stock split or the offering of additional securities, (v) changes in management, (vi) significant new products or discoveries, (vii) impending bankruptcy or financial liquidity problems, (viii) issuance of patents or other protections of intellectual property or the instigation of cancellation proceedings regarding the same, (ix) the gain or loss of a substantial customer or supplier, (x) significant write-downs in assets or increases in revenues; (xi) developments regarding significant litigation or government agency investigations; (xii) changes in auditors or notification from any auditor that the Company may no longer rely on an earlier audit report; (xiii) changes in control of the Company or changes in management; (xiv) extraordinary borrowings; (xv) changes in debt ratings; (xvi) events regarding debt or equity securities of the Company, including defaults on securities, calls of securities for redemption, accelerations of debt obligations, repurchase plans, stock splits or changes in dividends, changes to the rights of security holders and public or private sales of securities, including any securities issued in any subsidiary or joint venture or partnership transaction; and (xvii) entry into or termination of a material definitive agreement, including the incurrence of additional material indebtedness.

Both positive and negative information can constitute material information for purposes of the Securities Laws.

Financial information about the Company is particularly sensitive to classification as material information. For example, non-public information concerning the results of the Company's operations even for a portion of a fiscal quarter might be material. Possession of any non-public financial information should always be treated with caution.

Information is "**non-public information**" until it has been widely disseminated to the public markets and the public has had an opportunity to absorb and evaluate such information.

5.3 **Retrospective Analysis**. Remember, if your securities transactions become the subject of scrutiny, those transactions will be viewed after the fact and with the benefit of hindsight. As a result, before engaging in any securities transaction, you should carefully consider how regulators, courts and others might view those transactions with the benefit of hindsight.

5.4 **Transactions by Family Members**. The same restrictions that apply to Company employees also apply to family members and others living in your household. Employees are responsible for the compliance of their immediate family members and persons in their households.

5.5 **Tipping Information to Others**. Whether the information is proprietary information about the Company or information that has a potential impact on the price of the Company's securities, Company employees must not pass that information along to other people or discuss it so that others become aware of the information such that they could then trade in the securities of the Company or any other company. The above-listed penalties under the Securities Laws apply whether or not you personally derive any benefits from another's unlawful securities transactions.

5.6 **When Information Becomes Public**. It is also improper for any officer, director or employee to trade the Company's securities immediately after the earnings figures. **Because the Company's shareholders, as well as the investing public, should be afforded enough time to receive the information and evaluate it, you are not allowed to engage in any transactions in the Company's securities commencing 15 days prior to the end of each fiscal quarter and continuing until the opening of trading on the first business day after the quarterly information has been publicly released and available for a full trading day on the principal exchange on which the Company's common stock is trade or quoted.** Thus, if an announcement is made on a Monday prior to the opening of trading, generally the following Tuesday would be the first day on which you should trade. If the announcement is made on a Monday after the opening of trading, then the following Wednesday would be the first day on which you should trade. If the announcement is made prior to the opening of trading on a Friday, as a general rule, the following Monday would be the first day on which trades should be consummated. Notwithstanding the foregoing, the Company's Compliance Officer has the authority to impose temporary blackout periods, with the beginning and end dates of such temporary blackout periods to be determined by the Company's Chief Executive Officer.

5.7 **Dissemination of Confidential Information**. Certain employees have been designated as the persons to communicate with analysts, stockholders and the press. The identity of these employees is available from the Company's Compliance Officer. Should you receive a request from someone for information regarding the Company's financial condition, products, product development, patents or any other information regarding the Company, the person requesting the information should be directed to the person(s) identified by the Company's Compliance Officer.

5.8 **Additional Prohibited Transactions**. Because the Company believes it is improper and inappropriate for any director, officer or employee to engage in short-term or speculative transactions involving the Company's securities, it is the Company's policy that directors, officers and employees shall not enter into hedging or monetization transactions or similar arrangements with respect to Company securities, including without limitation (i) margin purchases, (ii) hedging transactions, (iii) short sales or (iv) buying or selling puts or calls.

5.9 **Pre-Clearance of Securities Trades**. To assist in preventing inadvertent violations of law and Company policy, and to avoid even the appearance of impropriety, all directors and officers (and members of their immediate families or personal household) must pre-clear any trades in the Company's securities (other than exercises of employee stock options) with the Compliance Officer. Any of these individuals who plan to make a purchase or sale of any Company securities should contact the Compliance Officer or, in his or her absence, any other member of the Company's Compliance Committee, in advance of any such purchase or sale.

5.10 **<u>Purchases of Company Securities by Affiliated Purchasers</u>**. Securities Laws restrict the ability of persons to purchase Company securities while the Company and/or directors, officers and other controlled individuals are engaged in a buy-back of its securities. These restrictions exist in part so that when the affiliated purchasers are engaged in a buy-back of the Company's securities, affiliated purchasers do not improperly manipulate the price of the Company's securities. The SEC has issued Rule 10b-18 which offers a "safe harbor" from liability under Securities Laws solely by reason of the manner, timing, price and volume of their repurchases. If you are interested in purchasing Company securities while the Company is engaged in a buy-back of its securities you must receive pre-clearance from the Company's Compliance Officer in order to ensure all affiliated purchases fall within the safe harbor rules. In order to come within the safe harbor, affiliated purchasers must satisfy, on a daily basis, each of the following four conditions:

1. <u>One broker or dealer</u>. Rule 10b-18 purchases must be effected from or through only one broker or dealer on any single day. Therefore, the Company and all affiliated purchasers must use the same broker or dealer on any single day; and

2. <u>Time of purchases</u>. Rule 10b-18 purchases must not be:

    a. <u>The opening purchase reported in the consolidated market in which the Securities Trade; and/or</u>
    b. Effected during the 30 minutes before the schedule close of the trading session; and

3. <u>Price of purchases</u>. Rule 10b-18 purchases must be effected at a purchase price that <u>does not exceed the highest independent bid or the last independent price, whichever is higher; and</u>

4. <u>Volume of purchases</u>. The total volume of Rule 10b-18 purchases effected by or for the Company and any affiliated purchasers effected on any single day must not exceed 25 percent of the average daily trading volume ("ADTV"). ADTV means the average daily trading volume reported for the Company's securities during the four calendar weeks preceding the week in which the Rule 10b-18 is effected.

5.11 **<u>Trading "Blackouts" During Suspension of Individual Account Plans</u>**. The Securities Laws prohibit directors and executives officers of the Company from purchasing, selling or otherwise transferring equity shares of the Company that they acquired in connection with their Company service during the prescribed period. The prescribed period is any period of more than three consecutive business days in which the ability of 50% of the participants in all of the Company's individual account plans to trade is suspended. This blackout does not apply if the trading suspension results from a regularly scheduled suspension provided for in the plan and disclosed to plan participants, or to suspensions as a result of a merger or similar material corporate event involving the plan or plan sponsor. Insiders covered by such blackout restrictions may wish to consult with the administrators of plans in which they hold Company stock (including Rule 10b5-1 plans, described in Section 6 below) to ensure that such plans would suspend trading during the blackouts described in this Section 5.10. (Conceptually, the prohibition described in this Section 5.10 is similar to that contained in, and the enforcement mechanism is the same as that for, the Section 16(b) prohibition described in Section 6 below.)

6. SECTION 16 OF THE EXCHANGE ACT.

6.1 **Section 16 Generally**. Section 16 of the Exchange Act applies to directors and officers of the Company and to any person owning more than ten percent of any registered class of the Company's equity securities (each an "**insider**"). Section 16 is intended to deter such insiders from misusing confidential information about the Company for personal trading gain, although the actual misuse of inside information is not necessary for Section 16 liability. The general effect of Section 16 is to restrict the trading activities of insiders with respect to the securities of the Company by requiring public disclosure under Section 16(a) of their ownership and trades, permitting the recovery under Section 16(b) of any profits realized by them on certain transactions, and prohibiting them under Section 16(c) from engaging in short sales.

6.2 **"Short-Swing" Liability**. Under Section 16(b), any profit realized by an insider on a "short-swing" transaction (i.e., a purchase and sale, or sale and purchase of the Company's equity securities within a period of less than six months) must be paid to the Company upon demand by the Company or stockholder acting on its behalf. By law, the Company cannot waive or release any claim it may have under Section 16(b) or enter into an enforceable agreement to provide indemnification for amounts recovered under this Section.

Liability under Section 16(b) is imposed in a mechanical fashion without regard to whether the insider intended to violate the section. Good faith is not a defense. All that is necessary for a successful claim is to show that the insider realized profits on a short-swing transaction. When computing recoverable profits on multiple purchases and sales within a six-month period, the courts maximize the recovery by matching the lowest purchase price with the highest sale price, the next lowest purchase price with the next highest sale price, and so on. The use of this method makes it possible for an insider to sustain a net loss on a series of transactions while having recoverable profits.

6.3 **Certain Definitions**. The terms "**purchase**" and "**sale**" are construed under Section 16(b) to cover a broad range of transactions, including acquisitions and dispositions of derivative securities, such as options, as well as tender offers and certain corporate reorganizations. Moreover, purchases and sales by an insider may be matched with transactions by any person (such as certain family members) whose securities are deemed to be beneficially owned by the insider.

The terms "**director**" and "**officer**" also have a particular meaning under Section 16(b). The SEC Rules generally limit persons deemed to be a "director" to those persons who serve as members of the Company's Board of Directors, except that the determination of whether advisory, emeritus or honorary directors are "directors" will be based on the persons activities rather than title. The SEC Rules generally limit the persons who are deemed to be an "officer" for Section 16 purposes to those persons who are "executive officers" of the Company for Form 10-K reporting purposes and to those persons who perform similar functions although they might not have an executive title, i.e., those persons who have significant policy-making functions for the Company.

Securities "beneficially owned" by a member of the "immediate family" of an officer or director who shares the same household are attributed to the officer or director. The term "**immediate family**" includes the insider's spouse, children, parents, in-laws, siblings, grandparents, and grandchildren. There are also special attribution rules relating to holdings of securities by partnerships or corporations and by trusts or trustees.

Whether or not securities are "**beneficially owned**" by an insider or an immediate family member for Section 16 purposes (other than for determining whether a person is a more-than-ten percent shareholder) depends on whether the insider has a "pecuniary interest" in the securities. "**Pecuniary interest**" means "the opportunity, directly or indirectly, to profit or share in any profit derived from a transaction in the subject securities." Various attribution rules and safe harbors are provided under the SEC rules.

"**Derivative securities**" include options, warrants, convertible securities, stock appreciation rights, and other similar rights or securities.

6.4 **Transactions Involving Derivative Securities**. The grant or acquisition of derivative securities is deemed to involve a purchase of the underlying security under Section 16, while the exercise of the option or conversion (unless the option is "out-of-the-money") is still treated as a change in the form of ownership of the underlying security and is not subject to Section 16(b) short-swing liability. Thus, the acquisition of an option is treated for purposed of Section 16 as the acquisition of the underlying shares covered by the option unless the option has been granted under a stock option plan which meets the requirements of Rule 16b-3. (You should keep in mind that, regardless of whether they are exempt from short swing liability under Section 16(b), most derivative security transactions must still be reported under Form 4, described below.)

If an option qualifies for Rule 16b-3 treatment, the grant or issuance of the option will not constitute a purchase for purposes of Section 16(b). Under Rule 16b-3, both the plan and the transaction in question must meet specified requirements in order for an exemption from Section 16(b) liability to apply. Purchases and sales of securities that are exempt under Rule 16b-3 will not be matched with other trading activities for purposes of Section 16(b), although reporting of such transactions is generally still required. The following briefly describes the applicability of Rule 16b-3 to certain existing plans of the Company in which insiders participate:

The Company's Stock Option Plan (the "**Plan**") complies with Rule 16b-3. In order for a grant of an option under the Plan to be exempt, certain additional "transaction" requirements must also be satisfied. First, although the option can be exercised at any time after grant, at least six months must elapse from the date of grant to the date of sale of the stock obtained upon the exercise of the option.

> EXAMPLE: An officer of the Company receives a stock option under the Plan on July 1, 2003 and exercises the option while it is "in-the-money" on August 1, 2003. So long as the officer holds the shares acquired on August 1 until January 1, 2004, he or she could sell other shares of common stock at any time during the six-month holding period beginning July 1, without the sale being matched with the option grant under Section 16(b).
>
> However, if he or she sells the shares acquired upon exercise of the option before January 1, 2004, the Rule 16b-3 exemption for the option grant would be lost, and any sales of shares within six months of the July 1 date of the option grant would be matchable with the option for Section 16(b) short-swing liability purposes.

6.5 **Six-Month Lookback**. Section 16(b) does not apply to purchases and sales where both occur after a director or officer has resigned. However, there is a six-month "lookback" that can give rise to unexpected liability. That is, a purchase or sale after resignation will be matched with a sale or purchase that occurred within the preceding six months.

6.6 **Appointment and Duties of Compliance Officer**. The Company's Board of Directors has established a Compliance Committee to conduct investigations and establish procedures in an effort to comply with SEC regulations. The Board, in addition, has appointed a Compliance Officer to work with the Compliance Committee and the Company's insiders and perform the following duties which are related to the Company's meeting its obligations under Section 16 of the Exchange Act:

6.6.1 **Record Keeping**. The Compliance Officer will keep the Company's records of insiders' transactions. Section 16(a) requires copies of Form 3, 4 and 5 to be sent to the Company, as well as the SEC. These Forms must be filed electronically and require that a person obtain Edgar filing codes at or before the time such person becomes an insider.

6.6.2 **Annual Reports**. The Compliance Officer will send an annual letter to insiders required to file Form 3, 4 and 5 requesting a list of their transactions in the Company's securities. The letter will include a reporting form that is to be returned to the Compliance Officer and retained in his or her records. The form will specify that all transactions defined by Section 16(a) as reportable be listed and that the insiders confirm the accuracy and completeness of reported transactions.

6.6.3 **Copies of Statement**. The Compliance Officer will initially send copies of this Statement to each insider. This Statement will, in addition, be sent annually to each insider. The Compliance Officer is to acknowledge that insiders have received all correspondence related to compliance.

6.6.4 **Informal Advice**. The Compliance Office will address questions and problems regarding Section 16 filings from Company insiders. Compliance with, and confirmation of the accuracy of, advice given by the Compliance Officer, the Compliance Committee or the Company is, however, the responsibility of each individual insider. The Company and the Compliance Officer assume no responsibility for the advice. In the event of any questions or uncertainty, each insider is strongly encouraged and directed to seek the advice of his or her own independent legal counsel.

6.6.5 **Information**. The Compliance Officer will send Company memos and notices related to Section 16 to insiders from time to time.

6.6.6 **Forms Comparison**. The Forms 3, 4 and 5 received from insiders will be compared with their transaction record annually by the Compliance Officer. The results of his or her review will be made available to the Compliance Committee.

6.6.7 **Report Delinquencies**. The Compliance Officer in accordance with Section 16 is required to identify by name insiders who reported transactions late or failed to file required reports. The Compliance Officer will use copies of Forms 3, 4 and 5 received from insiders and the insiders' annual transaction reports to identify these insiders. The Company is also required to disclose its knowledge of the number of delinquent filings of each insider. The information regarding delinquent filings and known violations will be reported in the Company's proxy information statements, and annual Form 10-K reports to the SEC that addresses delinquent Section 16 filings by insiders.

6.6.8 **Policy Enforcement**. The Compliance Officer will be responsible for carrying out the Company's policy regarding compliance with Section 16 of the Exchange Act. Any difficulties with carrying out these duties are to be reported to the Compliance Committee. The Compliance Officer may appoint other Company employees to support him or her in performing his or her duties, as well as request assistance from the Compliance Committee when and as needed.

6.7 **Filing Requirements**. Under Section 16 and the rules adopted there under, insiders of the Company are required to file the forms described below describing their acquisitions and dispositions of the Company's securities:

6.7.1 **Form 3**. Form 3 is the form initially filed to show the insider's holdings of equity securities of the Company as of the date of becoming an insider. Form 3 must be filed within ten days after becoming a director, officer or more-than-ten percent shareholder.

6.7.2 **Form 4**. As a general rule, if there is any change in an insider's beneficial ownership of Company stock, he or she is required to file a Form 4. An insider must report transactions involving Company stock listed in his or her own name, or listed in the name of his or her spouse, children and relatives sharing his or her household, as well as other entities such as trusts, corporations and partnerships in which he or she has an interest. In addition to purchases and sales, transfers to trusts and other changes in the nature of his or her ownership (e.g., from direct to indirect) must be reported, even if there is no net change. Most derivative securities transactions, including issuances, exercises, cancellations and re-grants of stock options, are reportable immediately on a Form 4. Other than as set forth in the immediately following paragraph, the Form 4 must be filed before the end of the second business day following the date on which the subject transaction has been executed.

For two limited categories of transaction only, the effective reporting period on Form 4 is a maximum of five (5) days after the actual trade, provided in both cases that the insider does NOT select the date on which the trade is executed. The first exception applies to contracts, instructions or written plans for the disposition of securities between the insider and a broker, dealer or plan administrator, that satisfy the affirmative defense to insider trading allegations set forth in SEC Rule 10b-5-1(c). Stated generally, a plan qualifies for the affirmative defense if it (1) was in place before the insider was aware of the material non-public information, and (2) gives the insider virtually no control over the timing or amount of the trades (e.g. plans that provide for the disposition of shares based on algorithms tied to market performance). Again, if the insider controls the trading date, the expanded reporting period may not be used. For example, if the insider has specified in the plan that trades are to occur on the first day of each month, the exemption would not apply and the Form 4 would be due within two, not five days after the trade.

The second exception applies to "discretionary transactions" as defined in SEC Rule 16b-3(b)(1). Stated generally, a "discretionary transaction" is a voluntary transaction under an employee benefit plan that results in either an intra-plan transfer involving an issuer equity securities fund, or a cash distribution to the insider following the disposition of the issuer's equity securities. The timing of these trades may depend on the administration of the employee benefit plan, and as a result, the insider may not have actual knowledge of the trade date.

With the respect to both of the foregoing exceptions, the trade date is deemed to be the date on which the broker, dealer or plan administrator (as the case may be) provides notice that the trade has occurred. Any type of notice, oral or written, triggers the two day period in which Form 4 must be filed. Whether or not notice is ever actually given, however, the deemed date may not be extended more than three days after the actual trade. Thus, the maximum time period in which the Form 4 may be filed is five (5) days after the trade occurs. Implicit in the 5-day limitation is the fact that the insider is responsible for creating and maintaining lines of communication between the insider and the broker, dealer or plan administrator with respect to information regarding trade execution dates.

Insiders should note that, as a result of SEC Release No. 34-46421 on August 29, 2002, the transactions described in SEC Rules 16b-3 (d), (e) and (f) are subject to reporting within two days under Form 4 and not, as had been the case prior to that Release, under Form 5 described below. Those Rules pertain to grants, awards and other acquisitions from the issuer not specifically exempted in other Rules promulgated under Section 16 (16b-3(d)); dispositions of securities to the issuer (16b-3(e)); and the discretionary transactions described above (16b-3(f)).

In summary, an insider is obligated to report on Form 4 the vast majority of transactions directly or indirectly affecting Company stock ownership by the insider, his or her immediate family or other entitles in which he or she has an interest. Some transactions by insiders may be reported on year-end Form 5 described in Section 6.7.3 below, but SEC Release No. 34-46421 greatly curtailed the categories or transactions for which insiders may use Form 5.

6.7.3 **Form 5**. Form 5 is required to be filed within 45 days of the end of the Company's fiscal year by each person who was an insider for any part of that year with respect to the following transactions:

(i) transactions exempt from the Form 4 filing requirements (e.g., gifts and inheritances of Company Stock); and (ii) transactions for which a required Form 3 or Form 4 was not filed by the insider for the fiscal year just completed.

A Form 5 is not required to be filed by an insider who does not have either (i) exempt transactions to report or (ii) transactions for which a required Form 3 or Form 4 was not filed.

Information on certain exempt transactions in thrift plans such as Qualified Plans and Stock Purchase Plans (i.e. employee benefit plans meeting the coverage and participation requirements set forth in Internal Revenue Code Secs. 401 (a)(26) and 410, and 423(b)(3) and (5), respectively) may not be available from the plan administrators to permit timely reporting for the prior fiscal year on a Form 5. Insiders should report such plan transactions on Form 5 as of the most recent date for which such data is reasonably available to an insider. Plan information for the fiscal year not reported on the insider's Form 5 filed for that year may be reported on Form 5 filed for the next fiscal year (or may be filed on Form 4 or amended Form 5 promptly after becoming available). In addition, insiders are permitted to report exempt acquisitions in such plans on an aggregate basis rather than transaction by transaction, although reportable dispositions with respect to such plans may not be aggregated.

Form 3, 4, and 5 must be filed not only with the SEC (and any national securities exchange is which any of the Company's equity securities are registered), but also with the Compliance Officer. As of July 30, 2003, all insiders will have to file their required Forms electronically via the SEC's EDGAR system, and both the SEC and the Company will post the completed Forms on their respective web sites.

6.8 **Annual Transactions Reporting**. The Company will circulate to each insider a request for an annual transactions statement of traded Company securities for that year. This statement must be returned to the Compliance Officer by the end of January. In addition, each officer and director of the Company will be required to certify that the information contained in each annual transactions statement is true and correct in all materials respects and does not omit any transactions which are required to be reported pursuant to Section 16.

7. RESTRICTIONS ON RESALES OF THE COMPANY'S SECURITIES

7.1 **Public Sales**. The Securities Act of 1933 ("**Securities Act**") requires every person who offers or sells securities to register such securities with the SEC unless an exemption from registration is available. This does not mean that securities need to be registered only prior to their initial sale by the issuer. In fact, Securities must be registered every time they are sold, unless an exemption is available. In most cases, an individual selling securities for his or her account need not register the securities prior to sale, because there is a specific exemption covering that situation. However, that exemption is not available to "affiliates" of the issuing company. Rule 144 provides a "safe harbor" for the resale of securities held by affiliates. Failure to comply with Rule 144 may result in the sale of an unregistered security in violation of the Securities Act, potentially giving rise to criminal as well as civil penalties.

An "**affiliate**" of a corporation is someone who is in a position to control that corporation by virtue of having the power to direct or cause the direction of its management and policies. Determination of whether a control relationship exists and, therefore, whether a person is an affiliate, is a question of fact. However, it is generally recognized that executive officers, directors and persons owning ten percent or more of the outstanding stock of a corporation will be deemed to be affiliated for purposes of Rule 144.

7.2 **Requirements of Rule 144**. Rule 144 contains five conditions, although the applicability of some of these conditions will depend on the circumstances of the sale:

7.2.1 **Current Public Information**. Current information about the Company must be publicly available at the time of sale. The Company's periodic reports filed with the SEC ordinarily satisfy this requirement.

7.2.2 **Holding Period**. Restricted securities must be held and fully paid for by the seller for a period of six months prior to the sale. The holding period requirements, however, does not apply to securities held by affiliates that were acquired either in the open market or in a public offering of securities registered under the Securities Act.

7.2.3 **Volume Limitations**. The amount of securities which are sold during any three-month period cannot exceed the greater of (i) one percent of the outstanding shares of the class, or (ii) the average weekly reported trading volume for shares of the class during the four calendar weeks preceding the filing of the notice of sale referred to below.

7.2.4 **Manner of Sale**. The securities must be sold in unsolicited brokers' transactions or directly to a market-maker.

7.2.5 **Notice of Sale**. The seller must file a notice on Form 144 of the proposed sale with the SEC at the time the order to sell in place with the broker, unless, during any three month period, the amount to be sold neither exceeds 500 shares nor involves sale proceeds greater than $10,000.

The foregoing conditions do not have to be complied with by holders of restricted securities who have held (and fully paid for) their restricted shares for at least two years and who were not affiliated during the three months preceding the sale.

Bona fide gifts are not deemed to involve sales of stock, so they can be made at any time without limitation on the amount of the gift. Recipients of restricted securities from an affiliate generally will be subject to the same restrictions under Rule 144 that depending on the circumstances.

7.3 **Private Sales**. Directors, officers and employees also may sell securities in a private transaction without registration. Although there is no SEC Rule expressly dealing with private sales, the general view is that such sales can be made if the party acquiring the securities understands he or she is acquiring restricted securities that must be held for at least one year before the securities will be eligible for resale to the public under Rule 144. It is recommended that you consult with counsel prior to engaging in any private sale of the Company's securities.

8. RESTRICTIONS ON PURCHASE OF THE COMPANY'S SECURITIES

In order to prevent market manipulation, the SEC has adopted certain rules that generally prohibit the Company or any of its affiliates from buying Company securities in the open market during certain periods while a public offering is taking place and that while a stock buy-back program is occurring. While the guidelines are optional, compliance with them provides immunity from a stock manipulation charge. You should consult with the Company's Compliance Officer if you desire to make purchases of Company securities during any period that the Company is making a public offering or buying stock from the public. Under certain circumstances, the Company will also impose "blackouts" which means that purchases and sales of its securities during this period are prohibited because of the potential for misuse of insider information. (As noted in Section 5.10 above, the Securities Laws impose an additional "blackout" rule with respect to insider trades during a suspension in trading of the majority of the Company's pension plans.)

9. COMPLIANCE

9.1 **Company Assistance**. Any Company director, officer or employee who has any questions about specific securities transactions or this Statement may obtain additional guidance from the Company's Compliance Officer. **REMEMBER, HOWEVER, THAT THE ULTIMATE RESPONSIBILITY FOR ADHERING TO THIS STATEMENT AND AVOIDING QUESTIONABLE OR IMPROPER SECURITIES TRANSACTIONS RESTS WITH YOU. IN THIS REGARD, IT IS IMPERATIVE THAT YOU ALWAYS USE YOUR BEST JUDGMENT.**

THE COMPANY WILL NOT HAVE RESPONSIBILITY OR LIABILITY TO ANY INDIVIDUAL FOR ADVICE OR INFORMATION GIVEN BY THE COMPANY TO SUCH INDIVIDUAL UNDER THIS STATEMENT. IN THE EVENT OF ANY QUESTION OR UNCERTAINTY, YOU ARE STRONGLY ADVISED TO SEEK THE ADVICE OF YOUR OWN INDEPENDENT LEGAL COUNSEL.

9.2 **Certifications**. All Company employees designated as being in positions where they may obtain sensitive information will be required to certify in writing their understanding of, and agreement to comply with this Statement. In addition, Company directors, officers and other key personnel may be required to verify their compliance with this Statement on an annual basis.

A list of these individuals will be prepared by the Company's Compliance Officer and approved by the President. The Company will post the regulations on Company bulletin boards. Employees designated as having access to confidential information will receive a copy of this Statement annually and acknowledgement of receipt will be required. All new employees with potential access to confidential information will when hired also receive a copy of this statement and acknowledge its receipt.

9.3 **Reporting Violations**. All violations or potential violations by you or others of Securities Laws or this Statement should be reported immediately to the Company's Compliance Officer (or, in his or her absence, the Company's President) so that remedial action can be taken as soon as possible.

9.4 __Compliance with Statement__. **Any director, officer or employee who violates the Company's insider trading policy as evidenced by this Statement shall be subject to sanctions imposed by the Company, which may include dismissal for cause and disqualification from participation in any Company bonus plans, stock option plans, stock purchase plans, management bonus plans and other perquisites of employment made available by the Company to its directors, officers or employees.** A violation of the Company's policy is not necessarily the same as a violation of law. In fact, for the reasons stated in this Statement, the Company's policy is intended to be broader than the law. The Company reserves the right to determine in its own discretion and on the basis of the information available to it, whether this Statement and the Company's policy embodying this Statement have been violated. The Company may determine that specific conduct violates its policy whether or not the conduct also violates law. It is not necessary for the Company to await the filing or conclusion of a civil or criminal action against the alleged violator before taking disciplinary action. The Company's policy is to avoid even the appearance of improper conduct on the part of any one employed by or associated with the Company, whether or not the conduct is literally in violation of the law.

By signing below I certify that I have read, understand and agree to abide by the ClearOne, Inc. “Statement of Policy Regarding Federal Securities Laws” dated February __, 2019.

Signature

Printed Name

Title

Date

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

NetStreams, Inc. (DE)
NetStreams, LLC. (TX)
ClearOne Web Solutions, Inc. (DE)
ClearOne Communications Hong Kong Limited (Hong Kong)
ClearOne Ltd. (Israel)
ClearOne DMCC Branch (Dubai)
ClearOne Innovation India Private Ltd. (India)
ClearOne Spain SL (Spain)

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements (Nos. 333-205356, 333-209130, 333-148789 and 333-137859) on Form S-8 on Form S-1 (No. 333-249506) and on Form S-3 (Nos. 333-259799, 333-248412 and 333-238085) of ClearOne, Inc. of our report dated April 1, 2024, relating to our audit of the consolidated financial statements, which appears in this Annual Report on Form 10-K of ClearOne, Inc. for the year ended December 31, 2023.

/s/ Tanner LLC

Salt Lake City, UT
April 1, 2024

EXHIBIT 31.1

CERTIFICATION

I, Derek L. Graham, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 1, 2024

By: */s/ Derek L. Graham*
Derek L. Graham
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, Raghunathan Jayashree, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such 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;

   b) 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 1, 2024

By: */s/ Raghunathan Jayashree*
Raghunathan Jayashree
Interim Chief Financial Officer
(Principal Accounting and Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to 18 U.S.C. Section 1350,
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Derek L. Graham, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the annual report of ClearOne, Inc. (the "Company") on Form 10-K for the year ended December 31, 2023 , fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such annual report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 1, 2024

By: */s/ Derek L. Graham*
Derek Graham
Chief Executive Officer
(Principal Executive Officer)

This certification accompanies each Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by §906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. Section 1350,
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Raghunathan Jayashree, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the annual report of ClearOne, Inc. (the "Company") on Form 10-K for the year ended December 31, 2023 , fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such annual report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 1, 2024

By: */s/ Raghunathan Jayashree*
Raghunathan Jayashree
Interim Chief Financial Officer
(Principal Accounting and Principal Financial Officer)

This certification accompanies each Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by §906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.