

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

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2016

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-33660

**ClearOne.**

**CLEARONE, INC.**

(Exact name of registrant as specified in its charter)

Utah

(State or other jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

87-0398877

(I.R.S. employer identification number)

84116

(Zip Code)

(801) 975-7200

(Registrant's telephone number, including area code)

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

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

See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Larger Accelerated Filer

Accelerated Filer

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

Smaller Reporting Company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of ClearOne common stock outstanding as of April 30, 2016 was 9,253,578.

CLEARONE, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2016

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**PART I – FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS**

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

ASSETS	March 31, 2016 Unaudited	December 31, 2015
Current assets:		
Cash and cash equivalents	\$ 13,913	\$ 13,412
Marketable securities	5,890	7,161
Receivables, net of allowance for doubtful accounts of \$77 and \$54, respectively	8,133	8,692
Inventories	14,470	13,447
Distributor channel inventories	1,445	1,628
Prepaid expenses and other assets	2,427	1,806
Total current assets	46,278	46,146
Long-term marketable securities	20,347	19,204
Long-term inventories, net	2,021	2,018
Property and equipment, net	1,468	1,589
Intangibles, net	6,368	6,638
Goodwill	12,724	12,724
Deferred income taxes	5,020	5,093
Other assets	127	117
Total assets	\$ 94,353	\$ 93,529
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,195	\$ 2,815
Accrued liabilities	2,144	2,243
Deferred product revenue	4,203	4,549
Total current liabilities	10,542	9,607
Deferred rent	154	150
Other long-term liabilities	1,152	1,203
Total liabilities	11,848	10,960
Shareholders' equity:		
Common stock, par value \$0.001, 50,000,000 shares authorized, 9,219,978 and 9,183,957 shares issued and outstanding	9	9
Additional paid-in capital	45,568	46,291
Accumulated other comprehensive (loss)	(12)	(166)
Retained earnings	36,940	36,435
Total shareholders' equity	82,505	82,569
Total liabilities and shareholders' equity	\$ 94,353	\$ 93,529

*See accompanying notes*

**CLEARONE, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(Dollars in thousands, except per share amounts)

	Three months ended March 31,	
	2016	2015
Revenue	\$ 13,033	\$ 13,586
Cost of goods sold	4,568	5,124
Gross profit	8,465	8,462
Operating expenses:		
Sales and marketing	2,625	2,622
Research and product development	2,270	1,941
General and administrative	1,598	2,000
Total operating expenses	6,493	6,563
Operating income	1,972	1,899
Other income, net	11	104
Income before income taxes	1,983	2,003
Provision for income taxes	615	731
Net income	\$ 1,368	\$ 1,272
Basic earnings per common share	\$ 0.15	\$ 0.14
Diluted earnings per common share	\$ 0.14	\$ 0.13
Basic weighted average shares outstanding	9,196,522	9,100,107
Diluted weighted average shares outstanding	9,513,440	9,508,479
Comprehensive income:		
Net income	\$ 1,368	\$ 1,272
Other comprehensive income:		
Unrealized gain on available-for-sale securities, net of tax	121	55
Change in foreign currency translation adjustment	33	(180)
Comprehensive income	\$ 1,522	\$ 1,147

*See accompanying notes*

**CLEARONE, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)

	Three months ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 1,368	\$ 1,272
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization expense	483	521
Amortization of deferred rent	(20)	(23)
Stock-based compensation expense	148	238
Provision for doubtful accounts, net	25	21
Write-down of inventory to net realizable value	119	47
Loss on disposal of assets	49	—
Tax benefit from exercise of stock options	(583)	(7)
Deferred income taxes	47	—
Changes in operating assets and liabilities:		
Receivables	562	1,205
Inventories	(964)	(806)
Prepaid expenses and other assets	(144)	877
Accounts payable	1,378	820
Accrued liabilities	(82)	(832)
Income taxes payable	106	338
Deferred product revenue	(354)	(291)
Other long-term liabilities	(52)	(537)
Net cash provided by operating activities	2,086	2,843
Cash flows from investing activities:		
Purchase of property and equipment	(139)	(76)
Proceeds from maturities and sales of marketable securities	2,787	2,376
Purchases of marketable securities	(2,538)	(1,612)
Net cash provided by investing activities	110	688
Cash flows from financing activities:		
Proceeds from the exercise of stock options	318	20
Repurchase and cancellation of stock options	(1,752)	—
Tax benefit from exercise of stock options	583	7
Dividends paid	(459)	—
Repurchase and cancellation of stock	(404)	—
Net cash (used in) provided by financing activities	(1,714)	27
Effect of exchange rate changes on cash and cash equivalents	19	(133)
Net increase in cash and cash equivalents	501	3,425
Cash and cash equivalents at the beginning of the period	13,412	7,440
Cash and cash equivalents at the end of the period	\$ 13,913	\$ 10,865

*See accompanying notes*

**CLEARONE, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Dollars in thousands)**

The following is a summary of supplemental cash flow activities:

	<b>Three months ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 537	\$ 881

*See accompanying notes*

**CLEARONE, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited – Dollars in thousands)**

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

***Business Description:***

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

***Basis of Presentation:***

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

These accompanying interim condensed consolidated financial statements for the three months ended March 31, 2016 and 2015, have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and are not audited. Certain information and footnote disclosures that are usually included in financial statements prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) have been either condensed or omitted in accordance with SEC rules and regulations. The accompanying condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial position as of March 31, 2016 and December 31, 2015, the results of operations for the three months ended March 31, 2016 and 2015, and the statements of cash flows for the three months ended March 31, 2016 and 2015. The results of operations for the three months ended March 31, 2016 and 2015 are not necessarily indicative of the results for a full-year period. These interim condensed consolidated financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC.

***Significant Accounting Policies:***

The significant accounting policies were described in Note 1 to the audited consolidated financial statements included in the Company’s annual report on Form 10-K for the year ended December 31, 2015. There have been no changes to these policies during the three months ended March 31, 2016 that are of significance or potential significance to the Company.

***Recent Accounting Pronouncements:***

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard becomes effective for the Company on January 1, 2017. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), simplifying the presentation of deferred taxes on the balance sheet by requiring companies to classify everything as either a non-current asset or non-current liability. Early adoption of this ASU is permitted. ClearOne has adopted this standard update early as it would simplify the presentation of taxes on the balance sheet and within the income tax footnote.

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

**CLEARONE, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Dollars in thousands)

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation: Improvements to Employee Shared-Based Payment Accounting. The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for the Company on January 1, 2017. The Company is currently evaluating the impact that ASU 2016-09 will have on the consolidated financial statements.

**2. Earnings Per Share**

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

	Three months ended March 31,	
	2016	2015
Numerator:		
Net income	\$ 1,368	\$ 1,272
Denominator:		
Basic weighted average shares outstanding	9,196,522	9,100,107
Dilutive common stock equivalents using treasury stock method	316,918	408,372
Diluted weighted average shares outstanding	9,513,440	9,508,479
Basic earnings per common share	\$ 0.15	\$ 0.14
Diluted earnings per common share	\$ 0.14	\$ 0.13
Weighted average options outstanding	1,000,571	1,037,137
Anti-dilutive options not included in the computations	289,623	268,709

**3. Marketable Securities**

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

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for available-for-sale securities by major security type and class of security at March 31, 2016 and December 31, 2015 were as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
<b>March 31, 2016</b>				
Available-for-sale securities:				
Corporate bonds and notes	\$ 19,422	\$ 136	\$ (52)	\$ 19,506
Municipal bonds	6,691	41	(1)	6,731
Total available-for-sale securities	\$ 26,113	\$ 177	\$ (53)	\$ 26,237



**CLEARONE, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Dollars in thousands)

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
<b>December 31, 2015</b>				
Available-for-sale securities:				
Corporate bonds and notes	\$ 20,827	\$ 50	\$ (133)	\$ 20,744
Municipal bonds	5,608	18	(5)	5,621
Total available-for-sale securities	<u>\$ 26,435</u>	<u>\$ 68</u>	<u>\$ (138)</u>	<u>\$ 26,365</u>

Maturities of marketable securities classified as available-for-sale securities were as follows at March 31, 2016:

	Amortized cost	Estimated fair value
<b>March 31, 2016</b>		
Due within one year	\$ 5,881	\$ 5,890
Due after one year through five years	19,247	19,365
Due after five years through ten years	985	982
Total available-for-sale securities	<u>\$ 26,113</u>	<u>\$ 26,237</u>

Debt securities in an unrealized loss position as of March 31, 2016 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 March 31, 2016 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
<i>(In thousands)</i>						
<b>As of March 31, 2016</b>						
Corporate bonds and notes	\$ 3,416	\$ (38)	\$ 1,644	\$ (14)	\$ 5,060	\$ (52)
Municipal bonds	—	—	200	(1)	200	(1)
	<u>\$ 3,416</u>	<u>\$ (38)</u>	<u>\$ 1,844</u>	<u>\$ (15)</u>	<u>\$ 5,260</u>	<u>\$ (53)</u>

#### 4. Intangible Assets

Intangible assets as of March 31, 2016 and December 31, 2015 consisted of the following:

	Estimated useful lives	March 31, 2016	December 31, 2015
Tradename	7 years	\$ 555	\$ 555
Patents and technological know-how	10 years	5,869	5,850
Proprietary software	3 to 15 years	4,341	4,341
Other	5 years	324	324
		11,089	11,070
Accumulated amortization		(4,721)	(4,432)
		<u>\$ 6,368</u>	<u>\$ 6,638</u>

**CLEARONE, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Dollars in thousands)

The amortization of intangible assets for the three months ended March 31, 2016 and March 31, 2015 was as follows:

	Three months ended March 31,	
	2016	2015
Amortization of intangible assets	\$ 289	\$ 315

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

**Years ending December 31,**

2016 (remainder)	\$ 831
2017	925
2018	851
2019	778
2020	600
Thereafter	2,383
	\$ 6,368

**5. Inventories**

Inventories, net of reserves, as of March 31, 2016 and December 31, 2015 consisted of the following:

	March 31, 2016	December 31, 2015
<b>Current:</b>		
Raw materials	\$ 3,404	\$ 2,735
Finished goods	11,066	10,712
	\$ 14,470	\$ 13,447
<b>Long-term:</b>		
Raw materials	\$ 438	\$ 375
Finished goods	1,583	1,643
	\$ 2,021	\$ 2,018

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

Current finished goods do not include distributor channel inventories in the amounts of approximately \$1,445 and \$1,628 as of March 31, 2016 and December 31, 2015, respectively. Distributor channel inventories represent inventory at distributors and other customers where revenue recognition criteria have not yet been achieved.

The following table summarizes the losses incurred on valuation of inventory at lower of cost or market value and write-off of obsolete inventory during the three months ended March 31, 2016 and 2015, respectively.

	Three months ended March 31,	
	2016	2015
Net loss (gain) on valuation of inventory and write-off of obsolete inventory	\$ 119	\$ 47

**CLEARONE, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Dollars in thousands)

**6. Share-based Compensation**

*Employee Stock Option Plans*

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

The Company's 1998 Incentive Plan (the "1998 Plan") was the Company's primary plan through November 2007. Under this plan shares of common stock was made available for issuance to employees and directors. Through December 1999, 1,066,000 options were granted that would cliff vest after 9.8 years; however, such vesting was accelerated for 637,089 of these options upon meeting certain earnings per share goals through the fiscal year ended June 30, 2003. Subsequent to December 1999 and through June 2002, 1,248,250 options were granted that would cliff vest after 6.0 years; however, such vesting was accelerated for 300,494 of these options upon meeting certain earnings per share goals through the fiscal year ended June 30, 2005.

The Company's 2007 Equity Incentive Plan (the "2007 Plan") was restated and approved by the shareholders on December 12, 2014. Provisions of the restated 2007 Plan include the granting of up to 2,000,000 incentive and non-qualified stock options, stock appreciation rights, restricted stock and restricted stock units. Options may be granted to employees, officers, non-employee directors and other service providers and may be granted upon such terms as the Compensation Committee of the Board of Directors determines in their sole discretion.

Of the options granted subsequent to June 2002, all vesting schedules are based on 3 or 4-year vesting schedules, with either one-third or one-fourth vesting on the first anniversary and the remaining options vesting ratably over the remainder of the vesting term. Generally, directors and officers have 3-year vesting schedules and all other employees have 4-year vesting schedules. Additionally, in the event of a change in control or the occurrence of a corporate transaction, the Company's Board of Directors has the authority to elect that all unvested options shall vest and become exercisable immediately prior to the event or closing of the transaction. All options outstanding as of March 31, 2016 had contractual lives of ten years. Under the 1998 Plan, 2,500,000 shares were authorized for grant. As of March 31, 2016, there were 177,000 options outstanding under the 1998 Plan, which includes the cliff vesting and 3 or 4-year vesting options discussed above. As of March 31, 2016, there were 712,992 options outstanding under the 2007 Plan. As of March 31, 2016, the 2007 Plan had 893,698 authorized unissued options, while there were no options remaining that could be granted under the 1998 Plan.

A summary of the stock option activity under the Company's plans for the three months ended March 31, 2016 is as follows:

	Number of shares	Weighted average exercise price
<b>Options outstanding at beginning of quarter</b>	1,028,935	\$6.03
Granted	157,200	11.97
Less:		
Exercised	(69,621)	4.21
Repurchased	(225,542)	4.37
Canceled or Expired	(980)	8.51
<b>Options outstanding at end of quarter</b>	<u>889,992</u>	7.64
<b>Options exercisable at end of quarter</b>	<u>550,097</u>	\$5.64

As of March 31, 2016, the total remaining unrecognized compensation cost related to non-vested stock options, net of forfeitures, was approximately \$340, which will be recognized over a weighted average period of 2.57 years.

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

**CLEARONE, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Dollars in thousands)

***Employee Stock Purchase Plan***

The Company issues shares to employees under the Company's 2014 Employee Stock Purchase Plan (the "ESPP"). The ESPP was approved by the Company's shareholders on December 12, 2014. As of March 31, 2016, 485,033 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.

Share-based compensation expense has been recorded as follows:

	Three months ended March 31,	
	2016	2015
Cost of goods sold	\$ 4	\$ 5
Sales and marketing	14	40
Research and product development	27	33
General and administrative	103	160
	<u>\$ 148</u>	<u>\$ 238</u>

**7. Shareholders' Equity**

The following table summarizes the change in shareholders' equity during the three months ended March 31, 2016 and 2015, respectively:

	Three months ended March 31,	
	2016	2015
Balance at the beginning of the period	\$ 82,569	\$ 76,016
Exercise of stock options	293	20
Stock repurchased	(404)	—
Options repurchased	(1,752)	—
Proceeds from stock purchase plan	25	—
Dividends	(459)	(319)
Share-based compensation - options	143	238
Share-based compensation - ESPP	5	—
Tax benefit - stock option exercises	563	7
Unrealized gain or loss on investments, net of tax	121	55
Foreign currency translation adjustment	33	(180)
Net Income during the period	1,368	1,272
Balance at end of the period	<u>\$ 82,505</u>	<u>\$ 77,109</u>

On February 25, 2016, the Company announced a quarterly cash dividend of \$0.05 per share to be paid on March 18, 2016 to shareholders of record as of March 7, 2016.

**CLEARONE, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Dollars in thousands)

**8. Fair Value Measurements**

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

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

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

Level 3 - Unobservable inputs.

The substantial majority of the Company's financial instruments are valued using quoted prices in active markets or based on other observable inputs. The following table sets forth the fair value of the financial instruments re-measured by the Company as of March 31, 2016 and December 31, 2015:

	Level 1	Level 2	Level 3	Total
<b>March 31, 2016</b>				
Corporate bonds and notes	\$ —	\$ 19,506	\$ —	\$ 19,506
Municipal bonds	—	6,731	—	6,731
Total	\$ —	\$ 26,237	\$ —	\$ 26,237
<b>December 31, 2015</b>				
Corporate bonds and notes	\$ —	\$ 20,744	\$ —	\$ 20,744
Municipal bonds	—	5,621	—	5,621
Total	\$ —	\$ 26,365	\$ —	\$ 26,365

**9. Income Taxes**

The Company's forecasted effective tax rate at March 31, 2016 is 35.2%, a 0.6% decrease from the 35.8% effective tax rate recorded at December 31, 2015. The forecasted effective tax rate of 35.2% excludes jurisdictions for which no benefit from forecasted current year losses is anticipated. Including losses from such jurisdictions results in a forecasted effective tax rate of 35.5%. Our forecasted effective tax rate could fluctuate significantly on a quarterly basis and could change, to the extent that earnings in countries with tax rates that differ from that of the U.S. differ, from amounts anticipated at March 31, 2016.

After discrete tax benefit of \$93, the effective tax rate for the quarter ended March 31, 2016 is 31.3%. The discrete tax benefit is primarily attributable to tax benefit related to stock-based compensation.

**10. Subsequent Events**

The Company evaluated its consolidated financial statements as of and for the three months ended March 31, 2016 for subsequent events through the date the financial statements were issued. The Company is not aware of any subsequent event which would require recognition or disclosure in the financial statements.

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

*This report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements in this report, other than statements of historical fact, are forward-looking statements for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this report are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any forward-looking statement. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "intends," "believes," "estimates," "potential," or "continue," or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that any such expectations or any forward-looking statement will prove to be correct. Our actual results will vary, and may vary materially, from those projected or assumed in the forward-looking statements. Future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including, without limitation, product recalls and product liability claims; infringement of our technology or assertion that our technology infringes the rights of other parties; termination of supplier relationships, or failure of suppliers to perform; inability to successfully manage growth; delays in obtaining regulatory approvals or the failure to maintain such approvals; concentration of our revenue among a few customers, products or procedures; development of new products and technology that could render our products obsolete; market acceptance of new products; introduction of products in a timely fashion; price and product competition, availability of labor and materials, cost increases, and fluctuations in and obsolescence of inventory; volatility of the market price of our common stock; foreign currency fluctuations; changes in key personnel; work stoppage or transportation risks; integration of business acquisitions; and other factors referred to in our press releases and reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2015. All subsequent forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Additional factors that may have a direct bearing on our operating results are discussed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015.*

### BUSINESS OVERVIEW

We are a global company that designs, develops and sells conferencing, collaboration, streaming and digital signage solutions for audio/voice and visual communications. The performance and simplicity of our advanced comprehensive solutions enhance the quality of life and offer unprecedented levels of functionality, reliability and scalability.

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

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

Our business goals are to:

- Maintain our leading global market share in professional audio conferencing products for large businesses and organizations;
- Leverage the video conferencing & collaboration, streaming and digital signage technologies to enter new growth markets;
- Focus on the small and medium business (SMB) market with scaled, lower cost and less complex products and solutions;
- Capitalize on the growing adoption of unified communications and introduce new products through emerging information technology channels;

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

- Capitalize on emerging market opportunities as audio visual, information technology, unified communications and traditional digital signage converge to meet enterprise and commercial multimedia needs; and
- Expand and strengthen our sales channels.

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

- Providing a superior conferencing and collaboration experience;
- Significantly impacting multimedia distribution and control;
- Offering greater value to our customers and partners;
- Leveraging and extending ClearOne technology, leadership and innovation;
- Leveraging our strong domestic and international channels to distribute new products; and
- Strengthening existing customer and partner relationships through dedicated support.

Our revenues were \$13.0 million and \$13.6 million during the three months ended March 31, 2016 and 2015, respectively. The decrease in revenues was due to all-around weakness in the global economy especially in APAC, Europe and Africa. Our gross profit remained essentially unchanged between the three months ended March 31, 2016 and the three months ended March 31, 2015. Net income increased by \$96 thousand during the three months ended March 31, 2016 compared to the three months ended March 31, 2015. Net income for the three months ended March 31, 2016 increased primarily due to reduced operating expenses and tax expenses compared to the three months ended March 31, 2015.

Our revenue growth and income growth is dependent on the recovery of the global economy. We closely monitor the economic situation around the world and have developed sound operating and financial plans to overcome the challenges posed by the weak economy.

A detailed discussion of our results of operations follows below.

**ANALYSIS OF RESULTS OF OPERATIONS*****Results of Operations for the three months ended March 31, 2016, and 2015***

The following table sets forth certain items from our unaudited condensed consolidated statements of operations (dollars in thousands) for the three months ended March 31, 2016 and 2015, respectively, together with the percentage of total revenue which each such item represents:

	<b>Three months ended March 31,</b>			
	<b>2016</b>	<b>% of Revenue</b>	<b>2015</b>	<b>% of Revenue</b>
Revenue	\$ 13,033	100%	\$ 13,586	100%
Cost of goods sold	4,568	35%	5,124	38%
Gross profit	8,465	65%	8,462	62%
Sales and marketing	2,625	20%	2,622	19%
Research and product development	2,270	17%	1,941	14%
General and administrative	1,598	12%	2,000	15%
Operating income	1,972	15%	1,899	14%
Other income (expense), net	11	0%	104	1%
Income before income taxes	1,983	15%	2,003	15%
Provision for income taxes	615	5%	731	5%
Net income	\$ 1,368	10%	\$ 1,272	9%

***Revenue***

Revenue for the three months ended March 31, 2016 was approximately \$13.0 million, a decrease of approximately 4% from the three months ended March 31, 2015. The decrease in revenue was due to reduced demand across all regions except USA. The decrease was especially stronger in Asia Pacific, Southern and Central Europe, Canada and South Africa. On the products

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

side, the increase in revenues from microphones and video products was more than offset by a decline in revenues from all other product lines.

The net change in deferred revenue during the three months ended March 31, 2016 and March 31, 2015 was a net decrease in deferred revenue of \$0.3 million and a net decrease in deferred revenue of \$0.5 million, respectively. See "Critical Accounting Policies and Estimates" under "Revenue and Associated Allowance for Revenue Adjustments and Doubtful Accounts" below for a detailed discussion of deferred revenue.

### *Costs of Goods Sold and Gross Profit*

Costs of goods sold include expenses associated with finished goods purchased from electronic manufacturing services (EMS) providers, in addition to other operating expenses, which include material and direct labor, our manufacturing and operations organization, property and equipment depreciation, warranty expenses, freight expenses, royalty payments, and the allocation of overhead expenses.

Our gross profit margin (GPM), which is gross profit as a percentage of revenue, was 65% and 62% for the three months ended March 31, 2016 and 2015, respectively. The 3% increase in gross margin was primarily due to the increase of higher margin products in our revenue mix and the contribution of licensing fees to the revenue.

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

### *Operating Expenses*

Operating expenses for the three months ended March 31, 2016 decreased by approximately \$70 thousand to \$6.5 million, compared to \$6.6 million for the three months ended March 31, 2015.

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

S&M expenses of approximately \$2.6 million remained essentially unchanged for the three months ended March 31, 2016, when compared to S&M expenses for the three months ended March 31, 2015. The decrease in employee related costs and commissions were equally offset by marketing, trade-show costs and consulting expenses.

*Research and Development ("R&D") Expenses.* R&D expenses include research and development and product line management, including employee-related costs, outside services, expensed materials and depreciation, and an allocation of overhead expenses.

R&D expenses of approximately \$2.3 million for the three months ended March 31, 2016 increased by \$0.4 million, or 17%, when compared to R&D expenses of approximately \$1.9 million for the three months ended March 31, 2015. R&D expenses increased primarily due to increases in costs for various R&D projects.

*General and Administrative ("G&A") Expenses.* G&A expenses include employee-related costs, professional service fees, allocations of overhead expenses, litigation costs, and corporate administrative costs, including finance, information technology and human resources.

G&A expenses of approximately \$1.6 million for the three months ended March 31, 2016 decreased by \$0.4 million, or 20%, when compared to G&A expenses of approximately \$2.0 million for the three months ended March 31, 2015. G&A expenses decreased mainly due to a decrease in amortization of intangibles, reduced legal expenses and reduction in audit and accounting fees.

### *Other income (expense), net*

Other income (expense), net, includes interest income, interest expense, and currency gain (loss).



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

***Provision for income taxes***

During the three months ended March 31, 2016, we accrued income taxes at the forecasted effective tax rate of 35.2% as compared to the forecasted effective tax rate of 35.8% used during the three months ended March 31, 2015. In addition, a discrete tax benefit of \$93 thousand is primarily attributable to tax benefit related to stock-based compensation.

**LIQUIDITY AND CAPITAL RESOURCES**

As of March 31, 2016, our cash and cash equivalents were approximately \$13.9 million, an increase of approximately \$0.6 million compared to cash and cash equivalents of approximately \$13.4 million as of December 31, 2015.

Net cash provided by operating activities was \$2.1 million during the three months ended March 31, 2016, a decrease in cash flow of approximately \$0.7 million compared to \$2.8 million of cash provided by operating activities during the three months ended March 31, 2015. The decrease in operating cash flow was primarily due to a reduction in non-cash charges of \$0.5 million, and changes in operating assets and liabilities totaling \$0.3 million, partially offset by \$0.1 million increase in net income.

Net cash provided by investing activities was approximately \$0.1 million during the three months ended March 31, 2016 compared to \$0.7 million of cash provided by investing activities during the three months ended March 31, 2015. Net cash provided by investing activities during the three months ended March 31, 2016 and 2015 included proceeds from maturities and sales of marketable investment securities, purchases of marketable securities and purchase of property and equipment.

Net cash used in financing activities was approximately \$1.7 million during the three months ended March 31, 2016, when compared to \$27 thousand of cash provided by investing activities during the three months ended March 31, 2015. Financing activities in the first quarter of 2016 primarily consisted of cash inflows of about \$0.3 million proceeds from stock based compensation plans and \$0.6 million from tax benefits from equity based compensation programs and cash outflows of \$1.8 million on repurchase of stock options, \$0.5 million for dividend payments and \$0.4 million towards stock repurchases. Financing activities in the same period in 2015 consisted mostly of cash inflows of about \$20 thousand from the exercise of stock options.

From March 11, 2016 to March 17, 2016, the Company offered to repurchase eligible vested options to purchase shares under the 1998 Plan and the 2007 Plan from employees. On March 9, 2016, the Board of Directors of the Company authorized the repurchase of up to \$10 million of the company's outstanding shares of common stock under a new stock repurchase program. The repurchase program may be suspended or discontinued at any time without prior notice. There are no future repurchases planned at this time.

On December 2, 2014, ClearOne, Inc. issued a press release announcing the declaration of future cash dividends by the Company's Board of Directors. The most recent of these dividends was announced on February 25, 2016 when the company announced a quarterly cash dividend of \$0.05 per share to be paid on March 18, 2016 to shareholders of record as of March 7, 2016.

As of March 31, 2016, our working capital was \$35.7 million as compared to \$36.5 million as of December 31, 2015.

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

At March 31, 2016, we had open purchase orders related to our electronics manufacturing service providers of approximately \$4.0 million, primarily related to inventory purchases.

At March 31, 2016, we had inventory totaling \$16.5 million, of which non-current inventory accounted for \$2.0 million. This compares to total inventories of \$15.5 million and non-current inventory of \$2.0 million as of December 31, 2015.

## **Off-Balance Sheet Arrangements**

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

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our discussion and analysis of our results of operations and financial position are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We evaluate our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. We believe that the estimates we use are reasonable; however, actual results could differ from those estimates. Our significant accounting policies are described in our Annual Report on Form 10-K for the year ended December 31, 2015. We believe the following critical accounting policies identify our most critical accounting policies, which are the policies that are both important to the representation of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

### ***Revenue and Associated Allowances for Revenue Adjustments and Doubtful Accounts***

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

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

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

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

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

The amount of deferred cost of goods sold was included in distributor channel inventories. The following table details the amount of deferred revenue, cost of goods sold, and gross profit as of March 31, 2016 and December 31, 2015:

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
Deferred revenue	\$ 4,203	\$ 4,549
Deferred cost of goods sold	1,445	1,628
Deferred gross profit	<u>\$ 2,758</u>	<u>\$ 2,921</u>

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

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

***Impairment of Goodwill and Intangible Assets***

Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. We perform impairment tests of goodwill and intangible assets with indefinite useful lives on an annual basis in the fourth fiscal quarter, or sooner if a triggering event occurs suggesting possible impairment of the values of these assets. There were no impairments recorded in 2016 or 2015 as no impairment indicators existed. However, due to uncertainty in the industrial, technological, and competitive environments in which we operate, we might be required to exit or dispose of the assets acquired through our acquisitions, which could result in an impairment of goodwill and intangible assets.

***Impairment of Long-Lived Assets***

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

***Accounting for Income Taxes***

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

To the extent we establish a valuation allowance in a period, we must include and expense the allowance within the tax provision in the consolidated statement of operations. In accordance with ASC Topic 740, "Accounting for Income Taxes", we analyzed our valuation allowance at December 31, 2015 and determined that based upon available evidence it is more likely than not that certain of our deferred tax assets related to capital loss carryovers, state research and development credits, and foreign net operating loss carryforwards will not be realized and, accordingly, we have recorded a valuation allowance against these deferred tax assets in the amount of \$1.1 million.

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

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

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

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

### *Share-Based Compensation*

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

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

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

### *Recent Accounting Pronouncements:*

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard becomes effective for the Company on January 1, 2017. The Company has not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on the consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), simplifying the presentation of deferred taxes on the balance sheet by requiring companies to classify everything as either a non-current asset or non-current liability. Early

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

adoption of this ASU is permitted. ClearOne has adopted this standard update early as it would simplify the presentation of taxes on the balance sheet and within the income tax footnote.

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

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation: Improvements to Employee Shared-Based Payment Accounting. The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for the Company on January 1, 2017 and we are currently evaluating the impact that ASU 2016-09 will have on our consolidated financial statements.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**Item 4. CONTROLS AND PROCEDURES**

An evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of March 31, 2016 was performed under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based on this evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures are effective as of March 31, 2016 to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported as specified in the SEC's rules and forms.

There was no change in our internal control over financial reporting during the quarter ended March 31, 2016 that materially affected, or that we believe is reasonably likely to materially affect, our internal control over financial reporting.

**CLEARONE, INC.**

**PART II - OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

There are no updates to the status of the legal proceedings and commitments and contingencies reported in our Form 10-K for the year ended December 31, 2015 under Part I, Item 3. Legal Proceedings and Note 8 - Commitments and Contingencies of the Notes to Consolidated Financial Statements (Part II, Item 8).

**Item 1A. RISK FACTORS**

There have been no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

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

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

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

During the three months ended March 31, 2016 we acquired the following shares of common stock under the current stock repurchase program:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c)	
			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 to January 31	—	—	—	10,000,000
February 1 to February 29	—	—	—	10,000,000
March 1 to March 31	33,600	\$ 12.02	33,600	9,596,063
Total	33,600	12.02	33,600	9,596,063

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

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Item 5. OTHER INFORMATION**

Not applicable.

**Item 6. EXHIBITS**

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

**CLEARONE, INC.**

**SIGNATURES**

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

ClearOne, Inc.,  
(Registrant)

May 10, 2016

By: /s/ Zeynep Hakimoglu

Zeynep Hakimoglu  
Chief Executive Officer  
*(Principal Executive Officer)*

May 10, 2016

By: /s/ Narsi Narayanan

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



Date of Offering Materials: March 11, 2016

## CLEAR ONE, INC.

## OFFER TO REPURCHASE ELIGIBLE OPTIONS

ClearOne, Inc. and its subsidiaries (collectively, “ClearOne” or the “Company”) is offering you the right (the “Offer”) to have the Company repurchase your options to purchase shares of common stock of the Company under the 1998 Stock Option Plan (the “1998 Plan”) and the 2007 Equity Incentive Plan as Amended and Restated Effective December 12, 2014, in exchange for a cash payment equal to the value of the options, calculated as set forth below.

The Offer is subject to all the terms and conditions set forth in this Offer to Repurchase Eligible Options as well as the accompanying Introductory Letter and Letter of Transmittal, which may be referred to collectively in these materials as this “Offer to Repurchase” or the “offering materials.” The Offer expires at 5:00 P.M. Mountain Time on March 17, 2016 (“Offer Expiry Date”).

All options that became vested as per the terms of the applicable option plans on or before Offer Expiry Date are eligible for repurchase. We call these options that are eligible as “Eligible Options”. You can find the number of eligible options listed on the Letter of Transmittal that is attached to this letter as **Exhibit A** as well as in the **Optionee Statement** attached with this Offer. You must continue to be an employee on Offer Expiry Date to be eligible for this Offer.

You can choose to deliver all eligible options or only a portion of eligible options for repurchase. The number of eligible options you agree to deliver for repurchase are referred to in these documents as “delivered options”. In the attached Letter of Transmittal you can make your choice clear as to whether you want to deliver all eligible options or only a portion of it for repurchase. Please follow the instructions in the Letter of Transmittal carefully.

The Company will repurchase delivered options at a repurchase price equal to the difference between the closing market price on the date of your communication of accepting this Offer and the exercise price of your delivered options. You can refer to the following example to understand how repurchase value of delivered options is calculated:

EXAMPLE FOR CALCULATING REPURCHASE VALUE		
No. of eligible options (Refer to Optionee Statement)		800
No. of options that you have chosen to deliver for repurchase (delivered options)	(A)	500
Exercise price for each delivered option	(B)	\$3.65
Date when you sent the acceptance of this offer to ClearOne		03/11/2015
Closing Market price on 03/11/2015	(C)	\$12.00
Repurchase value per option (C) - (B)	(D)	\$8.35
Repurchase value of delivered options(D) x (A)		\$4,175

The repurchase value of delivered options will be subject to reduction for applicable withholding taxes and charges.

If you wish to deliver your eligible options for repurchase, you must complete and sign the Letter of Transmittal in accordance with terms set forth in the offering materials and deliver it to the Company by email to narsi@clearone.com or by mail to Attn: Narsi Narayanan, ClearOne, Inc., 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116. Your Letter of Transmittal must be received by the Company by 5:00 P.M., Mountain time, on March 17, 2016.

All questions about this Offer to Repurchase or requests for assistance or for additional copies of any offering materials should be made by email to narsi@clearone.com by telephone at (801) 975-7200.

Although the Compensation Committee of the Company’s Board of Directors has authorized this Offer to Repurchase, neither the Company, the Board of Directors nor the Compensation Committee of the Board of Directors makes any recommendation as to whether or not you should deliver your eligible options for repurchase. The Company also has not authorized any person to make any recommendation on its behalf as to whether you should accept the Offer. You must make your own decision whether to deliver your eligible options for repurchase. In doing so, you should rely only on the information contained in the offering materials or

any other authorized communications from the Company made to you, as no other representations or information has been authorized by the Company. You may also wish to consult with your own advisors, including tax, financial or legal advisors, before making any decisions regarding the Offer.

On March 10, 2016, the closing price of our common stock as reported on the Nasdaq Capital Market was \$11.82 per share. We recommend that you obtain current market quotations for our common stock before deciding whether to elect to cancel your eligible options.

We also recommend that, in addition to this document, the Letter of Transmittal, Optionee Statement and any authorized communications from us, you review the materials that we have filed with the U.S. Securities and Exchange Commission before making a decision on whether to elect to deliver your eligible options for repurchase, including our annual report on Form 10-K for the year ended December 31, 2014, our quarterly reports on Form 10-Q for the periods ended March 31, 2015, June 30, 2015, and September 30, 2015, and any subsequently filed annual and quarterly reports, and the definitive proxy statement for our 2015 Annual Meeting of Stockholders.

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## Frequently asked questions (FAQ)

The following summary is designed to answer some of the questions you may have about the Offer.

### How the Option Repurchase Works

1. *What is the Offer?*

ClearOne granted you stock options, that gave you a right to buy ClearOne stock when those options vested according to the terms of grant. These options have value when ClearOne stock trades above the price at which you can exercise your options to buy ClearOne stock.

ClearOne is now offering you a chance to deliver these options for repurchase by ClearOne. ClearOne is offering to repurchase these options from you at a repurchase price explained in these documents and in this FAQ.

2. *Do I have a choice to participate in this Offer?*

Yes. Participation in the Offer is voluntary. Whether to participate in the Offer is your decision, and you are free to reject the Offer if you so choose.

3. *How do I benefit by delivering the Options for repurchase pursuant to this Offer?*

If you choose to exercise ClearOne options in the normal course and sell the shares in the open market through a broker, you have to complete required paperwork related to exercise and resale of shares. You also face the uncertainty of not knowing the price at which broker may be able to sell ClearOne stock when you exercise options and instruct the broker to sell the shares.

This Offer eliminates paperwork and uncertainty related to the price at which broker may be able to sell ClearOne stock.

4. *How many options am I eligible to deliver pursuant to this Offer?*

You can find the number of eligible options listed on the Letter of Transmittal as well as Optionee Statement attached with this Offer. You are eligible to deliver all eligible options or only a portion of the eligible options for repurchase.

5. *How much will I receive for my delivered options?*

The Company will repurchase delivered options at a repurchase price equal to the difference between the closing market price on the date of your communication of accepting this Offer and the exercise price of your delivered options. You can refer to the following example to understand how repurchase value is calculated:

EXAMPLE FOR CALCULATING REPURCHASE VALUE		
No. of eligible options (Refer to Optionee Statement)		800
No. of options that you have chosen to deliver for repurchase (delivered options)	(A)	500
Exercise price for each delivered option	(B)	\$3.65
Date when you sent the acceptance of this offer to ClearOne		03/11/2015
Closing Market price on 03/11/2015	(C)	\$12.00
Repurchase value per option (C) - (B)	(D)	\$8.35
Repurchase value of delivered options(D) x (A)		\$4,175

Repurchase value net of any tax withholding will be paid.

The Company's determination is final as to the amount of cash payment you will get for delivered options.

6. *When will I receive my cash payment for delivered options?*

You will be entitled to a prompt single lump sum cash payment as soon as practicable but no later than 10 days following the Offer Expiry Date. No interest will accrue and no interest will be paid on any portion of the payment, regardless of when paid.

7. *Can I forfeit any portion of my cash payment for delivered options after receiving it?*

No. If you have elected to deliver your eligible options in connection with the Offer, you may not forfeit your associated cash payment.

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8. *Why is the Company conducting the Offer?*

The principal reason the Company originally granted the eligible options was to provide an incentive to valued employees, directors and officers to remain with the Company, to help us create shareholder value and to share in the shareholder value that they create. Although our stock price has increased over the last few years, we wanted to provide you with the opportunity to obtain the more certain benefit associated with this Offer, in lieu of the less certain, but potentially more valuable benefit you could receive if you elect to retain your stock options.

Additionally, the options repurchased by the Company will prevent additional dilution to shareholders caused by exercise of these options.

9. *Will my decision to participate in the Offer have an impact on my ability to receive options or other equity grants in the future?*

No. Your election to participate or not participate in the Offer will not have any effect on our making future grants of options or any other equity awards to you or anyone else. Your participation in the Offer will not entitle you to any additional equity grant in the future and any additional equity grants to you will depend on factors generally unrelated to past option awards.

10. *How should I decide whether or not to participate in the Offer?*

Participating in this repurchase program involves a number of risks, including the risk that the price of our common stock could increase in the future. If the price of our common stock rises above the exercise price of your option, your delivered options might be worth more than the cash payment you receive in exchange for delivering them.

Although the Compensation Committee of the Company's Board of Directors has approved this Offer to Repurchase, neither the Company, the Board of Directors nor the Compensation Committee makes any recommendation as to whether or not you should deliver your eligible options. The Company also has not authorized any person to make any recommendation on its behalf as to whether you should accept the Offer. You must make your own decision whether to deliver your eligible options for repurchase. We cannot guarantee that you would not ultimately receive greater value from your eligible options. You should carefully evaluate all the information contained in the offering materials and consult with your own advisors, including tax, financial or legal advisors, before making any decisions regarding the Offer.

11. *If I choose to participate, what will happen to my options that will be delivered for repurchase?*

Effective as of 5:00 P.M., Mountain Time, on the Offer Expiry Date, we will cancel all of your delivered options that you delivered for repurchase and are accepted by the Company as eligible for repurchase. You will no longer have any rights or obligations with respect to those options.

**How to Elect to Deliver Your Eligible Options for Repurchase**

12. *What do I need to do to participate in the Offer?*

To participate, you must complete and sign the Letter of Transmittal and deliver it to the Company by email to [narsi@clearone.com](mailto:narsi@clearone.com) or by mail to Attn: Narsi Narayanan, ClearOne, Inc., 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116. We must receive your Letter of Transmittal by 5:00 P.M., Mountain Time, on March 17, 2016.

If you want to email the documents, make sure that you print the Letter of Transmittal, sign it physically and email the scanned document.

13. *What will happen if I do not turn in an executed Letter of Transmittal by the deadline?*

If you do not return your executed Letter of Transmittal by the deadline, you will not be able to participate in the option repurchase, and all eligible options you currently hold will remain unchanged with their original exercise price and original terms.

14. *What if I don't want to accept the Offer?*

You don't have to accept the Offer. The Offer is completely voluntary, and there are no penalties for electing not to participate. If you do not elect to participate, your outstanding options will remain outstanding under the terms and conditions under which they were granted. To elect not to participate, you do not need to do anything or otherwise contact the Company. If you decide not to participate in the Offer, you do not need to submit a Letter of Transmittal.

**U.S. Federal Income Tax Considerations**

15. *What are the U.S. federal income and withholding tax consequences of accepting the Offer for payment of the cash payment?*

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The repurchase value paid to all employees will be treated as regular cash compensation. As such, ClearOne will treat this as ordinary income in the year in which your cash payment is paid to you and will report this in the Form W-2 reported to the Internal Revenue Service for the year in which the payment is made. At the time your cash payment is made, the Company will reduce your payment to reflect all required income and payroll tax withholdings and will send those amounts to the appropriate tax or other authorities.

16. *Are there any other tax consequences to which I may be subject?*

Depending on where you live, there may be additional state or local tax imposed on the repurchase of your options. We recommend that you consult with a tax advisor prior to participating in the Offer to determine the specific tax considerations and tax consequences relevant to your participation in the Offer.

**How to Obtain More Information**

17. *What should I do if I have additional questions about this Offer to Repurchase?*

If you have any other questions about this Offer to Repurchase, you may direct them to Narsi Narayanan at (801) 975-7200 or by email at [narsi@clearone.com](mailto:narsi@clearone.com).

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**EXHIBIT A**

**LETTER OF TRANSMITTAL**

To ClearOne, Inc. (the "Company"):

I am currently an employee of the Company and am the holder of eligible options, as defined. I have received from the Company the offering materials provided herewith describing the offer to deliver for repurchase certain stock options for the right to receive in exchange a cash payment (the "offering materials"). I have reviewed the list of my eligible options that the Company has set forth herein as well as in the **Optionee Statement** attached to this Letter of Transmittal and make my election herein below:

*Elect only one of the three choices below and put your initials against the choice.*

Choice A	I have accepted to deliver all my eligible options totaling _____ options for repurchase by the Company.	Initial
Choice B	I have accepted to deliver only _____ options for repurchase by the Company. I authorize ClearOne to choose from eligible options, those options that will maximize the cash payment to me. I understand that ClearOne will choose those options that have the least exercise price.	Initial
Choice C	I have accepted to deliver only _____ options for repurchase by the Company. I have selected the options to be delivered by marking the options in the attached Optionee Statement. I have also initialed the Optionee Statement.	Initial

I understand that, by participating in the repurchase offer, I agree to sell these delivered options.

In return for delivering these options, I understand that the Company will grant me a cash payment in the amount equal to the difference between closing market price on the date of my communication of accepting this Offer and the exercise price of the delivered options. I also understand that cash payment will be reduced for any applicable tax withholding.

For purposes of participating in the repurchase offer, I hereby give up my entire ownership interest in all of my delivered options, and understand that those options will become null and void as of the date of my acceptance of the offer.

I hereby elect to participate in the repurchase offer dated March 11, 2016 with respect to all of my eligible options.

By: \_\_\_\_\_

Name:

Date: \_\_\_\_\_

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**OPTIONEE STATEMENT**

**Name**  
**Address**  
**City, State, Zip**

<b>Date of grant</b>	<b>Expiry Date</b>	<b>Grant ID</b>	<b>Plan</b>	<b>Eligible Options</b>	<b>Exercise Price for Eligible Options</b>	<b>Repurchase Value of Eligible Options if Stock Price is \$12.00 (before taxes)</b>
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**CLEARONE INC. LETTERHEAD**

March 11, 2016

RE: Offer to Repurchase Eligible Options for Cash

Dear \_\_\_\_\_:

ClearOne, Inc. (the “Company”) is happy to offer you the opportunity to have the Company repurchase your options to purchase shares of common stock of the Company under the 1998 Stock Option Plan (the “1998 Plan”) and the 2007 Equity Incentive Plan as Amended and Restated Effective December 12, 2014.

You will be eligible to exercise any options that have already vested or will become vested before March 17, 2016 (“eligible options”). You can find the number of eligible options listed on the Letter of Transmittal that is attached to this letter as **Exhibit A** as well as in the **Optionee Statement** attached with this “Offer to Repurchase Eligible Options.” You can choose to deliver all eligible options or only a portion of eligible option for repurchase. The number of eligible options you agree to deliver are referred in these documents as “delivered options”. This repurchase offer allows you to sell your delivered options for a cash payment equal to the difference between closing market price on the date of your communication of accepting this Offer to ClearOne and the exercise price of your delivered options. The repurchase value, less any applicable tax withholding, will be paid as soon as practicable following your acceptance of this offer.

The accompanying documents describe this Offer to Repurchase Eligible Options in detail, including possible benefits and risks. Please take the time to review the documents and instructions enclosed with this letter and consider your decision carefully.

We are conducting this offer to provide you with an alternative means of realizing value from your eligible options. We make no recommendations as to whether you should accept this offer, and we recommend that you consult with your own advisors regarding your decision.

If you choose to accept this offer, you must complete and return to us the Letter of Transmittal that is attached to this letter as **Exhibit A**, in accordance with the instructions contained in the accompanying offering materials no later than 5:00 P.M., Mountain Time, on March 17, 2016.

All questions about this offer should be emailed to [narsi@clearone.com](mailto:narsi@clearone.com).

Sincerely,

/s/Narsi Narayanan

Narsi Narayanan  
Senior Vice President of Finance



## CERTIFICATION

I, Zeynep Hakimoglu, certify that:

1. I have reviewed this quarterly report of ClearOne, Inc. on Form 10-Q;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 10, 2016

By: /s/ Zeynep Hakimoglu

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Zeynep Hakimoglu  
Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION

I, Narsi Narayanan, certify that:

1. I have reviewed this quarterly report of ClearOne, Inc. on Form 10-Q;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 10, 2016

By: /s/ Narsi Narayanan

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

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

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

I, Zeynep Hakimoglu, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ClearOne, Inc. on Form 10-Q for the quarter ended March 31, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ClearOne, Inc.

May 10, 2016

By: /s/ Zeynep Hakimoglu

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Zeynep Hakimoglu  
Chief Executive Officer  
*(Principal Executive Officer)*

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

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

I, Narsi Narayanan, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ClearOne, Inc. on Form 10-Q for the quarter ended March 31, 2016, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ClearOne, Inc.

May 10, 2016

By: /s/ Narsi Narayanan

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