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

FORM 10-Q

(Mark One)

[x] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2014
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, INC.
(Exact name of registrant as specified in its charter)

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

(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 [x] 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 [x] 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 [x]

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of ClearOne common stock outstanding as of May 9, 2014 was 9,260,635.

CLEARONE, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2014

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PART I – FINANCIAL INFORMATION

PART II – OTHER INFORMATION

PART I – FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

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

ASSETS	March 31, 2014 Unaudited	December 31, 2013
Current assets:		
Cash and cash equivalents	$ 7,649	$ 17,192
Marketable securities	4,734	3,200
Receivables, net of allowance for doubtful accounts of $102 and $129, respectively	8,849	9,378
Inventories	11,063	10,758
Distributor channel inventories	1,578	1,520
Deferred income taxes	3,325	3,325
Prepaid expenses and other assets	7,050	2,693
Total current assets	44,248	48,066
Long-term marketable securities	21,645	22,326
Long-term inventories, net	575	551
Property and equipment, net	2,209	1,825
Intangibles, net	6,816	3,710
Goodwill	9,872	3,472
Deferred income taxes	980	1,024
Other assets	91	87
Total assets	$ 86,436	$ 81,061
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,324	$ 2,730
Accrued liabilities	2,627	1,761
Deferred product revenue	4,107	4,158
Total current liabilities	10,058	8,649
Deferred rent	246	286
Other long-term liabilities	2,363	1,791
Total liabilities	12,667	10,726
Shareholders' equity:		
Common stock, par value $0.001, 50,000,000 shares authorized, 9,309,529 and 8,986,080 shares issued and outstanding	9	9
Additional paid-in capital	44,182	41,311
Accumulated other comprehensive income	96	23
Retained earnings	29,482	28,992
Total shareholders' equity	73,769	70,335
Total liabilities and shareholders' equity	$ 86,436	$ 81,061

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,	
	2014	**2013**
Revenue	$ 12,708	$ 11,293
Cost of goods sold	5,006	4,294
Gross profit	7,702	6,999
Operating expenses:		
Sales and marketing	2,736	2,267
Research and product development	2,241	1,866
General and administrative	1,964	1,797
Total operating expenses	6,941	5,930
Operating income	761	1,069
Other income (expense), net	81	(14)
Income before income taxes	842	1,055
Provision for income taxes	352	324
Net income	$ 490	$ 731
Basic earnings per common share	$ 0.05	$ 0.08
Diluted earnings per common share	$ 0.05	$ 0.08
Basic weighted average shares outstanding	9,082,546	9,152,859
Diluted weighted average shares outstanding	9,558,941	9,394,181
Comprehensive income:		
Net income	$ 490	$ 731
Other comprehensive income:		
Unrealized gain (loss) on available-for-sale securities, net of tax	96	—
Comprehensive income	$ 586	$ 731

See accompanying notes

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

	Three months ended March 31,	
	2014	**2013**
Cash flows from operating activities:		
Net income	$ 490	$ 731
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation and amortization expense	319	323
Amortization of deferred rent	(21)	(15)
Stock-based compensation expense	84	59
Provision for (recoveries of) doubtful accounts, net	(27)	27
Inventory valuation reserve adjustments	416	(34)
Loss on disposal of assets	2	—
Tax benefit from exercise of stock options	(87)	—
Changes in operating assets and liabilities:		
Receivables	853	434
Inventories	40	(555)
Deferred income taxes	44	—
Prepaid expenses and other assets	886	(138)
Accounts payable	178	1,410
Accrued liabilities	210	(144)
Income taxes payable	235	(15,066)
Deferred product revenue	(51)	599
Net cash provided by (used in) operating activities	3,571	(12,369)
Cash flows from investing activities:		
Payment towards business acquisitions	(13,048)	—
Purchase of property and equipment	(249)	(62)
Purchase of Patents	(90)	—
Purchases of marketable securities	(780)	—
Net cash (used in) investing activities	(14,167)	(62)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	1,021	76
Tax benefits from stock options	87	—
Stock registration costs	(55)	—
Treasury stock purchased	—	(574)
Net cash provided by (used in) financing activities	1,053	(498)
Net (decrease) in cash and cash equivalents	(9,543)	(12,929)
Cash and cash equivalents at the beginning of the period	17,192	55,509
Cash and cash equivalents at the end of the period	$ 7,649	$ 42,580

See accompanying notes

The following is a summary of tax related cash flow activities:

	Three months ended March 31,	
	2014	2013
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 29	$ 15,346

The following is a summary of non-cash investing and financing activities:

	Three months ended March 31,	
	2014	2013
Supplemental disclosure of cash flow information:		
Issuance of common stock in connection with acquisition of business	$ 1,679	$ —

See accompanying notes

(Unaudited – Dollars in thousands)

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

Business Description:

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

Basis of Presentation:

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

These accompanying interim condensed consolidated financial statements for the three months ended March 31, 2014 and 2013, respectively, 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 consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial position as of March 31, 2014 and December 31, 2013, the results of operations for the three months ended March 31, 2014 and 2013, and the statements of cash flows for the three months ended March 31, 2014 and 2013. The results of operations for the three months ended March 31, 2014 and 2013 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, 2013 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, 2013. There have been no changes to these policies during the three months ended March 31, 2014 that are of significance or potential significance to the Company.

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

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

	March 31, 2014	December 31, 2013
Balance at the beginning of year	$ 338	$ 385
Warranty accruals/additions	94	433
Warranty usage	(106)	(480)
Balance at end of period	$ 326	$ 338

(Unaudited – Dollars in thousands)

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

	Three months ended March 31,	
	2014	**2013**
Numerator:		
Net income	$ 490	$ 731
Denominator:		
Basic weighted average shares outstanding	9,082,546	9,152,859
Dilutive common stock equivalents using treasury stock method	476,395	241,322
Diluted weighted average shares outstanding	9,558,941	9,394,181
Basic earnings per common share	$ 0.05	$ 0.08
Diluted earnings per common share	$ 0.05	$ 0.08
Weighted average options outstanding	1,044,208	1,128,483
Anti-dilutive options not included in the computations	116,000	208,957

2. Business Combination

On March 7, 2014, the Company completed the acquisition of Sabine, Inc. ("Sabine") through a stock purchase agreement ("SPA"). Sabine manufactures, designs, and sells Sacom professional wireless microphone systems for live and installed audio. It also makes FBX Feedback Exterminator for reliable automatic feedback control. With the addition of Sabine, ClearOne will have reliable and exclusive access to the wireless microphones that are a critical component of ClearOne's complete microphone portfolio.

Pursuant to the SPA, the Company (i) paid initial consideration of $8,129 in cash, which is subject to a final working capital adjustment, (ii) accrued for possible additional earn-out payments over the next three years, estimated to be $573, and (iii) issued 150,000 shares of restricted common stock of the Company, valued at $1,679 (determined on the basis of the closing market price of the Company's stock on the acquisition date). The purchase price was paid out of cash on hand. The SPA contains representations, warranties and indemnifications customary for a transaction of this type.

The estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. The Company believes that such information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is waiting for additional information necessary to finalize those fair values. The measurement period for purchase price allocation ends as soon as information on the facts and circumstances becomes available, but will not exceed twelve months from the date of acquisition. Adjustments in the purchase price allocation may require a recasting of the amounts allocated to intangible assets and possible allocation to goodwill, retroactive to the period in which the acquisition occurred. Therefore, the provisional measurements of fair value reflected are subject to change and such changes could be significant.

The following table summarizes the consideration paid for the acquisition:

	Consideration
Cash	$ 8,129
Common stock	1,679
Contingent consideration	573
Total	$ 10,381

The fair value of identified assets and liabilities acquired was as follows:

(Unaudited – Dollars in thousands)

		Fair value
Cash	$	125
Accounts receivable		298
Inventories		844
Prepaid and other		116
Intangibles		3,180
Property, plant and equipment		292
Goodwill		6,399
Trade accounts payable		(416)
Accrued liabilities		(402)
Stock registration costs		(55)
Total	$	10,381

The fair value of accounts receivable acquired is $298 which is net of an allowance for doubtful accounts of $2.

The goodwill of $6,399 related to the acquisition of of Sabine is composed of expected synergies in utilizing Sabine technology in ClearOne product offerings, reduction in future combined research and development expenses, and intangible assets including acquired workforce that do not qualify for separate recognition. The goodwill balance of $6,399 related to the acquisition of Sabine is deductible for tax purposes.

The Company incurred $341 towards acquisition related expenses, all of which are categorized under General and administrative expenses in the Consolidated Statement of Operations for the period ended March 31, 2014.

Supplemental Pro Forma Information:

1) Revenue and net loss from the Sabine business from March 8, 2014 to March 31, 2014 was $84 and $163 respectively.
2) Revenue and earnings of the combined entity as though the business combination occurred as of January 1, 2013 were as follows:

	Three months ended March 31,			
	2014		2013	
Revenue	$	12,977	$	12,163
Earnings		249		750
Basic and diluted earnings per common share	$	0.03	$	0.08

3) There were no material, nonrecurring pro forma adjustments directly attributable to the acquisition included in this Supplemental Pro Forma Information.

See Note 10. Subsequent Events for information regarding the Spontania acquisition.

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, 2014 and December 31, 2013 were as follows:

(Unaudited – Dollars in thousands)

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
March 31, 2014				
Available-for-sale securities:				
Corporate bonds and notes	$ 19,605	$ 149	$ (17)	$ 19,737
Municipal bonds	6,620	29	(7)	6,642
Total available-for-sale securities	$ 26,225	$ 178	$ (24)	$ 26,379

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
December 31, 2013				
Available-for-sale securities:				
Corporate bonds and notes	$ 18,832	$ 68	$ (43)	$ 18,857
Municipal bonds	6,658	22	(11)	6,669
Total available-for-sale securities	$ 25,490	$ 90	$ (54)	$ 25,526

Maturities of marketable securities classified as available-for-sale securities were as follows at March 31, 2014:

	Amortized cost	Estimated fair value
March 31, 2014		
Due within one year	$ 4,724	$ 4,734
Due after one year through five years	19,927	20,036
Due after five years through ten years	1,574	1,609
Total available-for-sale securities	$ 26,225	$ 26,379

4. Intangible Assets

Intangible assets as of March 31, 2014 and December 31, 2013 consisted of the following:

	Estimated useful lives	March 31, 2014	December 31, 2013
Tradename	7 years	$ 435	$ 435
Patents and technological know-how	10 years	5,310	2,070
Proprietary software	3 to 15 years	2,961	2,961
Other	5 years	238	208
		8,944	5,674
Accumulated amortization		(2,128)	(1,964)
		$ 6,816	$ 3,710

The amortization of intangible assets for the three months ended March 31, 2014 and March 31, 2013 was as follows:

	Three months ended March 31,	
	2014	2013
Amortization of intangible assets	$ 164	$ 143

(Unaudited – Dollars in thousands)

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

Years ending December 31,		
2014 (remainder)	$	665
2015		847
2016		810
2017		721
2018		700
Thereafter		3,073
	$	6,816

5. Inventories

Inventories, net of reserves, as of March 31, 2014 and December 31, 2013 consisted of the following:

	March 31, 2014		December 31, 2013	
Current:				
Raw materials	$	1,959	$	1,362
Finished goods		10,682		10,916
	$	12,641	$	12,278
Long-term:				
Raw materials	$	256	$	227
Finished goods		319		324
	$	575	$	551

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 include consigned inventory in the amounts of approximately $1,578 and $1,520 as of March 31, 2014 and December 31, 2013, respectively. Consigned inventory represents 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, 2014 and 2013, respectively.

	Three months ended March 31,			
	2014		2013	
Net loss (gain) on valuation of inventory and write-off of obsolete inventory	$	416	$	(34)

6. Share-based Compensation

Share-based compensation expense has been recorded as follows:

	Three months ended March 31,			
	2014		2013	
Cost of goods sold	$	2	$	2
Sales and marketing		20		15
Research and product development		11		11
General and administrative		51		31
	$	84	$	59

(Unaudited – Dollars in thousands)

As of March 31, 2014, the total remaining unrecognized compensation cost related to non-vested stock options, net of forfeitures, was approximately $641, which will be recognized over a weighted average period of 2.31 years.

7. Shareholders' Equity

The following table summarizes the change in shareholders' equity during the three months ended March 31, 2014 and 2013, respectively:

	Three months ended March 31,	
	2014	2013
Balance at the beginning of the period	$ 70,335	$ 66,668
Net income during the period	490	731
Treasury stock purchased	—	(574)
Share-based compensation	84	59
Tax benefit - stock option exercise	87	—
Exercise of stock options	1,021	76
Stock issued for acquisitions	1,679	—
Unrealized gain or loss on investments, net of tax	73	—
Balance at end of the period	$ 73,769	$ 66,960

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, 2014 and December 31, 2013:

	Level 1	Level 2	Level 3	Total
March 31, 2014				
Corporate bonds and notes	$ —	$ 19,737	$ —	$ 19,737
Municipal bonds	—	6,642	—	6,642
Total	$ —	$ 26,379	$ —	$ 26,379

	Level 1	Level 2	Level 3	Total
December 31, 2013				
Corporate bonds and notes	$ —	$ 18,857	$ —	$ 18,857
Municipal bonds	—	6,669	—	6,669
Total	$ —	$ 25,526	$ —	$ 25,526

9. Income Taxes

The Company's forecasted effective tax rate at March 31, 2014 is 35.0%, a 1.7% increase from the 33.3% effective tax rate recorded at December 31, 2013. The forecasted effective tax rate of 35.0% 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 43.2%. 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, 2014.

After discrete benefit of $82, the effective tax rate for the quarter ended March 31, 2014 is 41.9%. The discrete benefit is primarily attributable to tax benefits of share-based compensation.

10. Subsequent Events

As announced December 20, 2013 ClearOne, Inc. entered into an agreement to acquire the Spontania business of Spain-based Dialcom Networks, S.L., which was a software-based video collaboration product line. The Spontania purchase closed on April 1, 2014. The aggregate purchase price under the terms of the transaction was approximately €3.66 million in cash (approximately US $5.0 million), after certain closing adjustments. ClearOne did not assume any debt or cash. The cash purchase price was paid out of cash on hand.

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, 2013. 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, 2013.

BUSINESS OVERVIEW

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

We 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 both large and small businesses. We occupy the number one global market share position, with nearly 50% market share in the professional audio conferencing market for 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, streaming and digital signage technologies we have acquired over the years 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 increasing adoption of unified communications and introduce new products through information technology channels;
- 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 improve our existing high-quality products and develop new products for the burgeoning conferencing and collaboration and multimedia streaming markets and focus on strategic initiatives to achieve our business goals.

Our revenues were $12.7 million and $11.3 million during the three months ended March 31, 2014 and 2013, respectively. The increase in revenues was due to increased sales of microphone products and professional audio products. Our gross profit increased by $703 thousand during the three months ended March 31, 2014 compared to the three months ended March 31, 2013. Net income decreased by $241 thousand during the three months ended March 31, 2014 compared to the three months ended March 31, 2013. Net income for the three months ended March 31, 2014 decreased primarily due to acquisition expenses related to Sabine and Spontania acquisitions. Results also reflect increased tax expense for this quarter as Congress did not extend certain R&D tax credits.

We expect continued growth in revenue from microphone products and new products. However the prospects of growth and its magnitude in both revenues and profits in the near future would depend on the strength of the global economy and the penetration level of our new products, including products added through acquisitions. We continue to closely monitor the economic situation caused by the US government's budget cuts and global economic events.

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, 2014, and 2013

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, 2014 and 2013, respectively, together with the percentage of total revenue which each such item represents:

	Three months ended March 31,			
	2014	% of Revenue	2013	% of Revenue
Revenue	$ 12,708	100%	$ 11,293	100 %
Cost of goods sold	5,006	39%	4,294	38 %
Gross profit	7,702	61%	6,999	62 %
Sales and marketing	2,736	22%	2,267	20 %
Research and product development	2,241	18%	1,866	17 %
General and administrative	1,964	15%	1,797	16 %
Operating income	761	6%	1,069	9 %
Other income (expense), net	81	1%	(14)	0 %
Income before income taxes	842	7%	1,055	9 %
Provision for income taxes	352	3%	324	3 %
Net income	$ 490	4%	$ 731	6 %

Revenue

Revenue for the three months ended March 31, 2014 was approximately $12.7 million, an increase of approximately 13% over the three months ended March 31, 2013. The increase in revenue was due to increased demand in North America and EMEA (Europe, Middle East, and Africa). The increase is mainly attributable to growth in demand for our microphone products and other professional audio products partially offset by decline in unified communications and video products revenue.

The net change in deferred revenue during the three months ended March 31, 2014 and 2013 was a net decrease in deferred revenue of $51 thousand and a net increase in deferred revenue of $565 thousand, 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 61% and 62% for the three months ended March 31, 2014 and 2013, respectively. The 1% decrease in gross margin was primarily due to an increase in obsolescence related charges.

Operating Expenses

Operating expenses for the three months ended March 31, 2014 increased by approximately $1.0 million to $6.9 million compared to $5.9 million for the three months ended March 31, 2013.

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 $2.7 million for the three months ended March 31, 2014 increased $469 thousand, or 21%, when compared to S&M expenses of approximately $2.3 million for the three months ended March 31, 2013 due to increases in commission and bonus payments to employees and independent sales agents, increased headcount, and increased marketing 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 $2.2 million for the three months ended March 31, 2014 increased by $375 thousand, or 20%, when compared to R&D expenses of approximately $1.9 million for the three months ended March 31, 2013. R&D expenses increased due to increased R&D project related cost.

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 $2.0 million for the three months ended March 31, 2014 increased by $167 thousand, or 9%, when compared to G&A expenses of approximately $1.8 million for the three months ended March 31, 2013. G&A expenses increased due to acquisition related costs, and increases in amortization of intangibles, bad debts expense, audit and accounting fees and legal fees.

We continue to incur legal expenses due to various legal proceedings explained in detail in our Form 10-K for the year ended December 31, 2013.

Other income (expense), net

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

Provision for income taxes

During the three months ended March 31, 2014, we accrued income taxes at the forecasted effective tax rate of 35.0% as compared to the forecasted effective tax rate of 33.4% used during the three months ended March 31, 2013. The 1.6% increase in the forecasted effective tax rate was primarily due to the non-availability of Federal R&D tax credits, since Congress has not extended this benefit yet for 2014. In addition, a discrete tax benefit of $82 is primarily attributable to tax benefits of share-based compensation.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2014, our cash and cash equivalents were approximately $7.6 million, a decrease of approximately $9.6 million compared to cash and cash equivalents of approximately $17.2 million as of December 31, 2013.

Net cash provided by operating activities was $3.6 million during the three months ended March 31, 2014, an increase in cash flow of approximately $15.9 million compared to $12.4 million of cash used in operating activities during the three months ended March 31, 2013. The increase in cash flow was primarily due to reduced payment of income taxes in the first quarter of 2014 with the remaining differences due to the timing of receipts and payments of working capital, which include accounts receivable, accounts payable, accrued expenses, inventories, and prepaid expenses and other assets. In the first quarter of 2013 we paid income taxes related to arbitration settlement proceeds received in the last quarter of 2012.

Net cash used in investing activities was approximately $14.2 million during the three months ended March 31, 2014, a comparative net outflow of cash of approximately $14.1 million when compared to $62 thousand of cash used in investing activities during the three months ended March 31, 2013. Net cash used in investing activities during the three months ended March 31, 2014 included payments relating to the acquisition of the business of Sabine for $8.1 million and payments relating to the acquiring the Spontania product line of $5.0 million.

Net cash provided by financing activities was approximately $1.1 million during the three months ended March 31, 2014, a comparative net inflow of cash of approximately $1.6 million when compared to $498 thousand of cash used in investing activities during the three months ended March 31, 2013. Financing activities in the first quarter of 2014 primarily consisted of cash inflows of about $1.0 million from the exercise of stock options, while financing activities in the same period in 2013 consisted mostly of cash outflows of about $498 thousand related to repurchase of shares.

As of March 31, 2014, our working capital was $34.2 million as compared to $39.4 million as of December 31, 2013.

We believe that our current cash balance, 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 when needed to meet our short and long-term financing needs. In addition to recent acquisitions and 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 finance the repurchase of our outstanding stock.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our results of operations and financial position are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We evaluate our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. We believe that the estimates we use are reasonable; however, actual results could differ from those estimates.

Our significant accounting policies are described in Note 2 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2013 and Note 1 to the Condensed Consolidated Financial Statements included herein. We believe the policies described below 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 major distributors under a product rotation program. Under this seldom used program, once a quarter, a distributor is allowed to return products purchased during the prior quarter for a total value generally not exceeding 15% of the distributor's net purchases during the preceding quarter. The distributor is, however, required to place a new purchase order for an amount not less than the value of products returned under the stock rotation program. When products are returned, the associated revenue, cost of goods sold, inventory and accounts receivable originally recorded are reversed. When the new order is placed, the revenue, associated cost of goods sold, inventory and accounts receivable are recorded and the product revenue is subject to the deferral analysis described below. In a small number of cases, the distributors are also permitted to return the products for other business reasons.

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

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

The amount of deferred cost of goods sold was included in consigned inventory. The following table details the amount of deferred revenue, cost of goods sold, and gross profit as of March 31, 2014 and December 31, 2013:

	March 31, 2014	December 31, 2013
Deferred revenue	$ 4,107	$ 4,158
Deferred cost of goods sold	1,578	1,520
Deferred gross profit	$ 2,529	$ 2,638

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

We offer credit terms on the sale of our products to a majority of our customers 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 customers 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 2014 or 2013 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, 2013 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 and state research and development credits will not be realized and, accordingly, we have recorded a valuation allowance against these deferred tax assets in the amount of $378 thousand.

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.

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, 2014 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, 2014 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, 2014 that materially affected, or that we believe is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The following is an update to the status of the legal proceedings and commitments and contingencies reported in our Form 10-K for the year ended December 31, 2013 under Part I, Item 3. Legal Proceedings and Note 8 - Commitments and Contingencies of the Notes to Consolidated Financial Statements (Part II, Item 8).

Former Officer Indemnification

In July 2007 and January 2008, the U.S. Attorney for the District of Utah indicted two of our former officers, Frances Flood ("Flood") and Susie Strohm ("Strohm"), for allegedly causing us to issue materially misstated financial statements for our 2001 and 2002 fiscal years and for perjury in connection with the investigation by the SEC into the alleged misstatements. In December 2003, we entered into indemnification agreements with each former officer, requiring payment of all reasonable attorneys' fees and costs incurred in defending against the charges in certain circumstances consistent with and subject to limitations imposed by our bylaws and applicable law. In total, we paid approximately $3,390,000 in attorneys' fees and costs to defend against the charges. In February 2009, Flood was convicted on nine counts and Strohm was convicted on one count. In June 2010, Flood was sentenced to four years in prison and three years of probation and Strohm was sentenced to two years of probation plus 150 hours of community service. Flood's and Strohm's respective appeals have been exhausted and their convictions were affirmed by the Tenth Circuit Court of Appeals in Denver.

Flood: In August 2008, Flood filed a lawsuit in Federal District Court for the District of Utah, seeking to compel us to pay her attorneys' fees and costs to defend against the criminal charges. The District Court issued a preliminary injunction in January 2009 requiring us to pay Flood's criminal legal fees and costs through trial. Pursuant to the Court's order, ClearOne paid approximately $373,000 to Flood's attorneys and approximately $248,000 into the Court's escrow. In July 2009, ClearOne asserted counterclaims against Flood and sought to recover $3,390,000 plus interest, costs and attorneys' fees.

The Tenth Circuit issued a ruling in August 2010 vacating the District Court's preliminary injunction on the grounds that it rested on a legally erroneous interpretation of Flood's indemnification agreement. ClearOne filed a motion in the District Court seeking return of the monies paid by ClearOne pursuant to the Court's order. The District Court granted ClearOne's motion in January 2012 for return of the $248,000 held in the Court's escrow, but denied the motion with respect to the $373,000 paid to Flood's attorneys.

On or about March 1, 2013, Flood filed for personal bankruptcy in the U.S. Bankruptcy Court for the Eastern District of Virginia. On March 19, 2013, the District Court issued an order staying the Utah case. Currently pending before the bankruptcy court are ClearOne's and Flood's cross-motions for summary judgment on the issue of the dischargeability in bankruptcy of Flood's debt to ClearOne for the criminal defense fees advanced on her behalf.

Strohm: Strohm and her counsel ("Dorsey") filed a lawsuit in August 2008 in the Third Judicial District Court in Salt Lake City, Utah seeking to compel us to pay Strohm's attorneys' fees and costs to defend her against the criminal charges, plus interest, and for attorneys' fees in connection with the civil action. ClearOne asserted counterclaims against Strohm in August 2009 seeking to recover $3,296,000 plus interest, costs and attorneys' fees.

The District Court entered Judgment against ClearOne in June 2011 for $973,000 in pre-verdict fees and expenses in the criminal case, which amount was paid by ClearOne to Dorsey on February 1, 2011, plus $362,000 in interest at 18% through February 1, 2011. The Judgment also included $865,000 in civil case fees and expenses plus interest. ClearOne posted a cash bond to cover the civil case fees and interest amounts pending appeal by both sides.

On April 9, 2013, the Utah Supreme Court ruled that Dorsey is not entitled to recover attorney's fees in connection with its civil action against ClearOne, but that Strohm is entitled to recover post-verdict criminal fees incurred in connection with Strohm's sentencing and appeal. On November 27, 2013, the parties entered into a settlement agreement providing that $401,000 from the cash bond be returned to ClearOne and the lawsuit was dismissed.

Item 1A. RISK FACTORS

Not applicable.

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

Not applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

Exhibit No.	Title of Document
10.1	Framework Agreement between ClearOne, Inc. and Dialcom Networks S.L., dated December 20, 2013 (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on April 7, 2014)
10.2	Amendment to Framework Agreement between ClearOne, Inc. and Dialcom Networks S.L., dated March 31, 2014 (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on April 7, 2014)
10.3	Purchase Agreement between ClearOne, Inc. and Dialcom Networks S.L., dated March 31, 2014 (filed herewith)
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 14, 2014	By:	/s/ Zeynep Hakimoglu
		Zeynep Hakimoglu Chief Executive Officer *(Principal Executive Officer)*
May 14, 2014	By:	/s/ Narsi Narayanan
		Narsi Narayanan Senior Vice President of Finance *(Principal Financial and Accounting Officer)*

EXHIBIT 10.3

PURCHASE AGREEMENT

BETWEEN

CLEARONE, INC.

AND

DIALCOM NETWORKS S.L.

March 31st, 2014

THIS PURCHASE AGREEMENT (this “**Agreement**”) is entered into in Madrid, on March [31], 2014, by and between ClearOne, Inc., a corporation registered in the State of Utah, United States, represented by Zeyneb Hakimoglu acting as empowered attorney, (the “**Purchaser**”), and Dialcom Networks S.L., a Spanish private limited company, registered with the Zaragoza Trade registry under page Z-30936, and represented by Enrique Domínguez García acting as empowered attorney (the “**Seller**”). Purchaser and Seller are referred to collectively herein as the “**Parties**” and individually as a “**Party**”.

WHEREAS

I.- On December 20th, 2013, the parties signed a Framework Agreement regulating the purchase of the so-called *“Spontania Business”*, by means of which they agreed to a procedure that was to be concluded with the spin-off and sale of the newly incorporated company “CLEARONE SPAIN,S.L.”.

II.- Furthermore, on January 16th, 2014 Dialcom Networks and ClearOne Inc. signed a loan agreement for an amount of 365,000€ plus a 0.46% monthly interest rate, hereinafter “**the Owed Loan Amount**”, in order to cover the operating costs of the Spontania Business.

Said agreement was passed into a public deed before the Madrid Notary Mr. Angel Almoguera Gómez, with number 208 of his records, being the Framework Agreement a part of the same, hereinafter **“the Loan Agreement”**. Moreover, it was agreed by the Parties that the referred amount was to be deducted from the final purchase price.

III.- On March 3rd, 2014 the company Dialcom Networks, S.L. granted the spin-off deed before the Madrid Notary Mr. Angel Almoguera Gómez, with number 1090 of his records. As a result of the same, DIALCOM NETWORKS, S.L. is the owner of 3,650,000 shares, numbered from 1 to 3,650,000 both inclusive, 100% of the shares, hereinafter “**the Shares**”, of CLEARONE SPAIN, S.L., a Spanish private limited company, registered with the Zaragoza Trade registry under page Z-56348, hereinafter **“the Company”.**

IV.- The spin off was registered with the Zaragoza trade registry on March 4 2014 causing the first inscription of the Company’s page**.**

Taking into consideration all the aforementioned, the Parties being in agreement, they enter into the present Share Purchase Agreement in accordance with the following:

CLAUSES

1.- Purpose

The Seller transfers to the Purchaser, who acquires, the Shares in the Company representing one hundred percent of the share capital thereof, free of encumbrances, charges and third-party rights.

2.- Title

The Seller proves ownership of the Shares being transferred by means of exhibiting the aforementioned Dialcom Networks, S.L. spin-off public deed granted on March 3rd, 2014 before the Madrid Notary Mr. Angel Almoguera Gómez, with number 1.090 of his records, duly registered with the Zaragoza Trade Registry in which Seller is assigned title to the Shares.

3.- Purchase Price

In accordance with Clause 2.3 of the Framework Agreement, the purchase price for the Shares is 3,650,000 € plus the Interim Operating Expense Amount (as adjusted pursuant to Clause 2.3(a)) minus (i) the accrued and unpaid payrolls of the Company´s Employees and (ii) the amount of any revenue invoiced by the Seller with respect to the Spontania

Business between the date of signing of the Framework Agreement and the date of signing of the present document. Said amounts are detailed as **Annex 1.**

Therefore, the final Purchase Price for the sale of the Shares amounts to **€ 3,661,541.58** which is equivalent to 1.003 € per share.

4.- Closing Deliveries

4.1.- As established in 2.6 (a) of the Framework Agreement, all Seller Closing Deliveries are included herewith as **Annex 2**.

Regarding the non-compete agreements to be signed by certain shareholders of Dialcom, the Parties agree as established in Annex 2.7 of this Agreement

4.2.- In turn, as established in 2.6 (b) of the Framework Agreement, all Purchaser Closing Deliveries are included herewith as **Annex 3**.

5.- Payment Of Purchase Price

The established Purchase Price is paid by the Purchaser as follows:

(i) Identified Creditor Payments. The Seller hereby declares that the creditors listed in **Annex 4,** are all the Company´s and/or the Seller´s currently existing creditors, including the Tax Authorities, Social Security, public administrations, financial institutions and, in general, any third party (excluding accrued and unpaid payrolls of the Company´s Employees). To that respect, the Seller provides duly signed releases, included hereto as **Annex 5,** by means of which said creditors declare that all existing debts with the Seller and/or the Company will be settled once they receive the amounts established in the same.
As for the debts CDTI and INNPACTO hold against the Seller, the Agreement signed by the Parties amending the Framework Agreement, included hereto as **Annex 6**, will be applicable.

Thus, in accordance with clause 2.3 (b) of the Framework Agreement, the Purchaser deducts the amount of **€ 933,910.34** from the purchase price that will be paid directly to the referred creditors via a wire transfer to their respective bank accounts.

(ii) Owed Loan Amount. In accordance with the conditions established in the Loan Agreement, the Owed Loan Amount is **€ 368,358** as described in **Annex 7.** Said amount is further deducted from the Purchase Price.

(iii) Escrow. As established in Clause 2.4, an escrow agreement is signed by the Parties and the Spanish bank BBVA, S.A., included herewith as **Annex 8**, by means of which the Purchaser deducts from the Purchase Price and deposits via a wire transfer to the Escrow Account an amount of **547,500€.**

(iv) Opposed Creditors. The Seller declares and warrants that the only creditors initially opposing to the spin-off of DIALCOM NETWORKS, S.L. were BANKINTER S.A. and Elena Álvarez Martín-Ballestero who duly waived their opposition to the same.
To that respect, the Purchaser deducts from the Purchase Price the respective amounts of € **237,000** and € **66,393.7** in order to settle the existing debts with said creditors via appropriate wire transfers to their respective bank accounts.

(v) Remaining amount. Taking into consideration the deductions from the Purchase Price established in points (i) to (iv) of the present clause, the Purchaser shall pay the remaining amount, that is to say **€ 1,508,379.54**, via a wire transfer, to the Seller's bank account. The Seller acknowledges receipt for the above-mentioned amount. A copy of said wire transfer order is attached hereto as **Annex 9**.

6.- Force Of The Framework Agreement

1. The parties declare the Framework Agreement fully in force without this document nor the passing of the same into a public deed, being an amendment thereof.

7.- Notices

For the notices that the parties have to make in relation to the present deed, the parties declare that the contents of clause 10.7 of the Framework Agreement shall be applicable.

8.- Expenses And Taxes

The fees of the public notary incurred as a consequence of the granting of the present instrument shall be paid for equally by the Parties.

9.- Applicable Law And Jurisdiction

With respect to the applicable law and forum, the parties expressly submit to the provisions of clause 10.8 of the Framework Agreement.

10.- Foreign Transactions

It is stated that the transfer formalized herein constitutes a foreign investment in Spain which shall be notified to the General Directorate of Trade and Investments by means of the appropriate D1-A form which will be delivered to the Notary passing this document into a public deed.

IN WITNESS WHEREOF, the Parties on and as of the date first above written.

ClearOne, Inc.

By
Name: Zeynep Hakimoglu
Title: President & CEO

Dialcom Networks S.L.
By
Name:Enrique Domínguez García
Title: President & CEO

ANNEX 1

Initial purchase figure	€ 3,650,000
Interim Operating Expense Amount	€ 240,000
Unpaid Payrolls	€ 26,886.06
Revenue invoiced	€ 201,572.36
Purchase price	**€3,661,541.58**

ANNEX 2

SELLER'S CLOSING DELIVERIES

ANNEX 2.1

A true and correct copy of resolutions of Seller's Board of Directors approving the Spin-Off Transaction, this Agreement and the Transaction Documents and the transactions contemplated hereby and thereby.

This is included within the Spin-off deed.

ANNEX 2.2

A true and correct copy of resolutions of Seller’s shareholders approving the Spin-Off Transaction, this Agreement and the Transaction Documents and the transactions contemplated hereby and thereby, to the extent such is required.

This is included within the Spin-off deed.

ANNEX 2.3

A counterpart of the Escrow Agreement duly executed by Seller and by the Escrow Agent.

ANNEX 2.4

Proof that Newco is the holder of the Spontania Domains and of the transferred trademarks included in the Spontania IP together with such documents as necessary to transfer any Spontania IP (the “Intellectual Property Assignments”).

ANNEX 2.5

Duly executed counterpart signature page to the Executive Agreements

ANNEX 2.6

Sealed filing before the Spanish Data Protection Agency requesting the modification of the name of the data processor of the files currently registered in the Spanish Data Protection Agency Register, of which the Seller is the current data processor. The sealed filing shall request the modification of the name of the data processor from Seller to Newco.

ANNEX 2.7

Non-Compete Agreement or Side Letter with respect to shareholders and officers of Seller specified in Schedule 2.6.(a).(vii) of the Framework Agreement, in form acceptable to the Parties.

To this respect, the Seller provides the original Non-compete agreement signed by Enrique Dominguez and Marcelo Martínez. Concerning the rest of the shareholders obliged to produce said documents, the Purchaser waives such obligation as long as the same sell their shares in Dialcom to Enrique Dominguez and Marcelo Martínez before 15 days. Concerning all except Javier Marin Alvarado, who shall hava a 30 day deadline. If such transfer is not made, the Seller shall pay a penalty of 2,000 € per day until all the referred transfers are executed. In any case, said sale of shares may be substituted by the signing of non compete agreements bu said shareholders in the same terms and conditions as established herein.

ANNEX 2.8

Certificate to the effect that the representations and warranties set forth in Article III of the Framework Agreement are true and correct in all material respects, except that as to (A) such representations and warranties as are qualified by terms such as “material” and “Material Adverse Effect” and (B) the Fundamental Representations, such certificate shall state that such representations and warranties are true and correct in all respects.

BRING DOWN CERTIFICATE

March 31, 2014

Pursuant to Section 2.6(a)(ix) of the Framework Agreement (the "Agreement"), entered into as of December 20, 2013, by and between ClearOne, Inc., a corporation registered in the State of Utah, United States, represented by Zeyneb Hakimoglu acting as empowered attorney, (the "**Purchaser**"), and Dialcom Networks S.L., a Spanish private limited company, registered with the Zaragoza Trade registry under page Z-30936, and represented by Enrique Domínguez García acting as empowered attorney (the "**Seller**"), Seller hereby certifies as follows:

The representations and warranties set forth in Article III of the Agreement are true and correct in all material respects, except that as to (A) such representations and warranties as are qualified by terms such as "material" and "Material Adverse Effect" and (B) the Fundamental Representations, such representations and warranties are true and correct in all respects.

Seller has performed or complied in all material respects with all covenants and obligations contained in the Agreement to be performed or complied with by the undersigned on or prior to the Closing.

Capitalized terms used but not defined herein have the meanings ascribed to them in the Agreement.

The undersigned signs this certificate effective as of the date indicated above.

Dialcom Networks S.L.

By
Name:Enrique Domínguez García
Title: President & CEO

ANNEX 2.9

Executed documents for assumption of the Office Lease, subject to obtaining any necessary Consent from landlord.

Copy of the lease agreement signed between Clearone Spain SL and the landlord.

ANNEX 3

PURCHASER'S CLOSING DELIVERIES

ANNEX 3.1

A counterpart of the Escrow Agreement duly executed by Purchaser.

INCLUDED AS ANNEX 2.3

ANNEX 3.2

A counterpart of the Executive Agreements duly executed by the correct party.

INCLUDED AS ANNEX 2.5

ANNEX 4

IDENTIFIED CREDITORS

1. Spanish Tax Agency / AEAT **186.044,7 €**
2. Spanish Social Security / Seguridad Social **96.781,42 €**
3. Banks / Bancos:
   a. BBVA **241.000** €
   b. Banco Santander **161,694.16 €**
   c. Banco Popular **248,390.06 €**

Total amount debts Identified Creditors: 933.910,34

ANNEX 5

CREDITORS' DEBT CERTIFICATES

ANNEX 6

AMENDMENT ONE TO FRAMEWORK AGREEMENT

ANNEX 7

OWED LOAN AMOUNT UNDER THE LOAN AGREEMENT

LOAN AMOUNT: € 365,000

MONTHLY 0.46% INTEREST (TWO MONTHS) € 1679 x 2 months = € 3,358

OWED LOAN AMOUNT € 368,358

ANNEX 8

ESCROW AGREEMENT

INCLUDED AS ANNEX 2.3

ANNEX 9

COPY OF WIRE TRANSFER ORDER

EXHIBIT 31.1

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 14, 2014

By: /s/ Zeynep Hakimoglu

Zeynep Hakimoglu
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, Narsi Narayanan, certify that:

1. I have reviewed this 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 14, 2014 By: /s/ Narsi Narayanan

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

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

I, Zeynep Hakimoglu, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ClearOne, Inc. on Form 10-Q for the quarter ended March 31, 2014 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 14, 2014	By:	/s/ Zeynep Hakimoglu
		Zeynep Hakimoglu Chief Executive Officer *(Principal Executive Officer)*

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

I, Narsi Narayanan, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ClearOne, Inc. on Form 10-Q for the quarter ended March 31, 2014, 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 14, 2014 By: /s/ Narsi Narayanan

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