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, 2021

☐ **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)

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

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

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

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

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

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

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

The number of shares of ClearOne common stock outstanding as of May 12, 2021 was 18,775,773.

CLEARONE, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2021

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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)

	March 31, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,034	$ 3,803
Marketable securities	967	1,117
Receivables, net of allowance for doubtful accounts of $506	4,930	5,194
Inventories, net	9,816	10,463
Income tax receivable	7,212	7,169
Prepaid expenses and other assets	1,271	1,536
Total current assets	26,230	29,282
Long-term marketable securities	1,807	1,762
Long-term inventories, net	4,126	4,590
Property and equipment, net	812	906
Operating lease - right of use assets, net	1,787	1,936
Intangibles, net	20,486	19,248
Other assets	4,600	4,599
Total assets	$ 59,848	$ 62,323
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,907	$ 3,950
Accrued liabilities	2,775	2,352
Deferred product revenue	78	123
Short-term debt	950	672
Total current liabilities	6,710	7,097
Long-term debt, net	2,927	3,245
Operating lease liability, net of current	1,353	1,489
Other long-term liabilities	678	678
Total liabilities	11,668	12,509
Shareholders' equity:		
Common stock, par value $0.001, 50,000,000 shares authorized, 18,775,773 shares issued and outstanding	19	19
Additional paid-in capital	63,394	63,359
Accumulated other comprehensive loss	(200)	(186)
Accumulated deficit	(15,033)	(13,378)
Total shareholders' equity	48,180	49,814
Total liabilities and shareholders' equity	$ 59,848	$ 62,323

See accompanying notes

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Revenue	$ 7,038	$ 5,734
Cost of goods sold	4,035	2,896
Gross profit	3,003	2,838
Operating expenses:		
Sales and marketing	1,573	1,739
Research and product development	1,274	1,344
General and administrative	1,680	1,506
Total operating expenses	4,527	4,589
Operating loss	(1,524)	(1,751)
Interest expense	(112)	(108)
Other income (expense), net	(5)	35
Loss before income taxes	(1,641)	(1,824)
Provision for income taxes	14	23
Net loss	$ (1,655)	$ (1,847)
Basic weighted average shares outstanding	18,775,773	16,650,725
Diluted weighted average shares outstanding	18,775,773	16,650,725
Basic loss per share	$ (0.09)	$ (0.11)
Diluted loss per share	$ (0.09)	$ (0.11)
Comprehensive loss:		
Net loss	$ (1,655)	$ (1,847)
Unrealized loss on available-for-sale securities, net of tax	(2)	(23)
Change in foreign currency translation adjustment	(12)	(34)
Comprehensive loss	$ (1,669)	$ (1,904)

See accompanying notes

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

	Three months ended March 31,	
	2021	**2020**
Cash flows from operating activities:		
Net loss	$ (1,655)	$ (1,847)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	661	522
Amortization of right-of-use assets	149	143
Stock-based compensation expense	31	37
Provision for doubtful accounts, net	—	15
Change of inventory to net realizable value	375	201
Changes in operating assets and liabilities:		
Receivables	264	878
Inventories	736	1,428
Prepaid expenses and other assets	265	110
Accounts payable	(1,043)	(396)
Accrued liabilities	446	(458)
Income taxes payable	(43)	10
Deferred product revenue	(45)	34
Operating lease liabilities	(154)	(146)
Other long-term liabilities	—	—
Net cash provided by (used in) operating activities	(13)	531
Cash flows from investing activities:		
Purchase of property and equipment	(7)	(30)
Purchase of intangibles	(71)	(48)
Capitalized patent defense costs	(1,678)	(1,722)
Proceeds from maturities and sales of marketable securities	413	1,208
Purchases of marketable securities	(310)	(1,124)
Net cash used in investing activities	(1,653)	(1,716)
Cash flows from financing activities:		
Net proceeds from equity-based compensation programs	4	3
Principal payments of long-term debt	(90)	—
Net cash provided by (used in) financing activities	(86)	3
Effect of exchange rate changes on cash and cash equivalents	(17)	(27)
Net decrease in cash and cash equivalents	(1,769)	(1,209)
Cash and cash equivalents at the beginning of the period	3,803	4,064
Cash and cash equivalents at the end of the period	$ 2,034	$ 2,855

See accompanying notes

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

The following is a summary of supplemental cash flow activities:

	Three months ended March 31,	
	2021	**2020**
Cash paid for income taxes	$ 43	$ 8
Cash paid for interest	50	76

See accompanying notes

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

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

Business Description:

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

Basis of Presentation:

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

These accompanying interim unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and are not audited. Certain information and footnote disclosures that are usually included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been either condensed or omitted in accordance with SEC rules and regulations. The accompanying condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial position as of March 31, 2021 and December 31, 2020, the results of operations for the three months ended March 31, 2021 and 2020, and the cash flows for the three months ended March 31, 2021 and 2020. The results of operations for the three months ended March 31, 2021 and 2020 are not necessarily indicative of the results for a full-year period. These interim unaudited condensed consolidated financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020 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, 2020. There have been no changes to these policies during the three months ended March 31, 2021 that are of significance or potential significance to the Company.

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

Liquidity:

As of March 31, 2021, our cash and cash equivalents were approximately $2,034 compared to $3,803 as of December 31, 2020. Our working capital was $19,520 as of March 31, 2021. Net cash used in operating activities was $13 for the three months ended March 31, 2021, a decrease of $544 from $531 of cash provided by operating activities in the three months ended March 31, 2020.

We are currently pursuing all available legal remedies to defend our strategic patents from infringement. We have already spent approximately $21,985 from 2016 through March 31, 2021 towards this litigation and may be required to spend more to continue our legal defense. We believe the decision by the U.S. District Court in August 2019 granting our request for a preliminary injunction to prevent our competitor from manufacturing, marketing, and selling its competing ceiling microphone array in an infringing configuration is an incredibly valuable ruling for ClearOne and its business. We believe that the decision validates the strength and importance of ClearOne's intellectual property rights, recognizes ClearOne's innovations in this space, and stops our competitor from further infringing our Graham patent (U.S. Patent No. 9,813,806) pending a full trial. Although there can be no assurance of any outcome of a full trial, we believe this ruling will help pave the way for ClearOne's recovery from the immense harm inflicted by our competitor's infringement of our valuable patents. For more information about our intellectual property litigation, See Note 8. Commitments and Contingencies - Legal Proceedings, in our annual report on Form 10-K for the year ended December 31, 2020 and Part II, Item 1. Legal Proceedings in this quarterly report.

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

We have been actively engaged in preserving cash by suspending our dividend program and allowing our share repurchase program to expire in 2018 and implementing company-wide cost reduction measures. We have also raised additional capital in 2019 by issuing senior convertible notes and in 2020 by borrowing through the CARES Act Paycheck Protection Program and issuing common stock and warrants. In addition, we expect to generate additional cash as our inventory levels are brought down to historical levels.

We also believe that the measures taken by us will yield higher revenues in the future. We believe, although there can be no assurance, that all of these measures and effective management of working capital will provide the liquidity needed to meet our operating needs through at least May 14, 2022. We also believe that our strong portfolio of intellectual property and our solid brand equity in the market will enable us to raise additional capital if and when needed to meet our short and long-term financing needs; however, there can be no assurance that, if needed, we will be successful in obtaining the necessary funds through equity or debt financing. If we need additional capital and are unable to secure financing, we may be required to further reduce expenses, delay product development and enhancement, or revise our strategy regarding ongoing litigation.

2. Revenue Information

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

	Three months ended March 31,	
	2021	2020
Audio conferencing	$ 2,835	$ 2,787
Microphones	2,350	2,143
Video products	1,853	804
	$ 7,038	$ 5,734

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

	Three months ended March 31,	
	2021	2020
North and South America	$ 3,524	$ 3,352
Asia (including Middle East) and Australia	2,226	1,416
Europe and Africa	1,288	966
	$ 7,038	$ 5,734

(Unaudited - Dollars in thousands, except per share amounts)

3. Earnings (Loss) Per Share

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

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

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

	Three months ended March 31,	
	2021	**2020**
Numerator:		
Net loss	$ (1,655)	$ (1,847)
Denominator:		
Basic weighted average shares outstanding	18,775,773	16,650,725
Dilutive common stock equivalents using treasury stock method	—	—
Diluted weighted average shares outstanding	18,775,773	16,650,725
Basic loss per common share	$ (0.09)	$ (0.11)
Diluted loss per common share	$ (0.09)	$ (0.11)
Weighted average options, warrants and convertible portion of senior convertible notes outstanding	3,636,117	542,818
Anti-dilutive options, warrants and convertible portion of senior convertible notes not included in the computation	3,636,117	542,818

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

4. 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 loss in stockholders' equity until realized. Gains and losses on marketable security transactions are reported on the specific-identification method. Dividend and interest income are recognized when earned.

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for available-for-sale securities by major security type and class of securities at March 31, 2021 and December 31, 2020 were as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
March 31, 2021				
Available-for-sale securities:				
Corporate bonds and notes	$ 1,008	$ 20	$ —	$ 1,028
Municipal bonds	1,743	3	—	1,746
Total available-for-sale securities	$ 2,751	$ 23	$ —	$ 2,774
December 31, 2020				
Available-for-sale securities:				
Corporate bonds and notes	$ 1,312	$ 26	$ —	$ 1,338
Municipal bonds	1,536	5	—	1,541
Total available-for-sale securities	$ 2,848	$ 31	$ —	$ 2,879

Maturities of marketable securities classified as available-for-sale securities were as follows at March 31, 2021:

	Amortized cost	Estimated fair value
Due within one year	$ 960	$ 967
Due after one year through five years	1,791	1,807
Due after five years	—	—
Total available-for-sale securities	$ 2,751	$ 2,774

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

Debt securities in an unrealized loss position as of March 31, 2021 were not deemed impaired at acquisition and subsequent declines in fair value are not deemed attributed to declines in credit quality. Management believes that it is more likely than not that the securities will receive a full recovery of par value, although there can be no assurance that such recovery will occur. The available-for-sale marketable securities with continuous gross unrealized loss position for less than 12 months and 12 months or greater and their related fair values were as follows:

	Less than 12 months		More than 12 months		Total	
	Estimated fair value	Gross unrealized holding losses	Estimated fair value	Gross unrealized holding losses	Estimated fair value	Gross unrealized holding losses
As of March 31, 2021						
Corporate bonds and notes	$ —	$ —	$ —	$ —	$ —	$ —
Municipal bonds	—	—	—	—	—	—
Total	$ —	$ —	$ —	$ —	$ —	$ —

5. Intangible Assets

Intangible assets as of March 31, 2021 and December 31, 2020 consisted of the following:

	Estimated useful lives (years)	March 31, 2021	December 31, 2020
Tradename	5 to 7	$ 555	$ 555
Patents and technological know-how	10 to 20	27,176	25,427
Proprietary software	3 to 15	2,981	2,981
Other	3 to 5	323	323
Total intangible assets		31,035	29,286
Accumulated amortization		(10,549)	(10,038)
Total intangible assets, net		$ 20,486	$ 19,248

The amortization of intangible assets for the three months ended March 31, 2021 and 2020 was as follows:

	Three months ended March 31,	
	2021	2020
Amortization of intangible assets	$ 511	$ 368

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

Years ending December 31,	Amount
2021 (Remainder)	$ 1,580
2022	2,107
2023	2,101
2024	1,837
2025	1,776
Thereafter	11,085
Total	20,486

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

6. Inventories

Inventories, net of reserves, as of March 31, 2021 and December 31, 2020 consisted of the following:

	March 31, 2021	December 31, 2020
Current:		
Raw materials	$ 1,140	$ 1,182
Finished goods	8,676	9,281
	$ 9,816	$ 10,463
Long-term:		
Raw materials	$ 2,031	$ 1,977
Finished goods	2,095	2,613
	$ 4,126	$ 4,590

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

Net loss incurred on valuation of inventory at lower of cost or market value and write-off of obsolete inventory for the three months ended March 31, 2021 and 2020 was as follows:

	Three months ended March 31,	
	2021	2020
Net loss incurred on valuation of inventory at lower of cost or market value and write-off of obsolete inventory	$ 375	$ 201

7. Leases

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

Rent expense for the three months ended March 31, 2021 and 2020 was as follows:

	Three months ended March 31,	
	2021	2020
Rent expense	$ 184	$ 187

We occupy a 1,350 square-foot facility in Gainesville, Florida under the terms of an operating lease expiring in February 2023. The Gainesville facility is used primarily to support our research and development activities.

We occupy a 21,443 square-foot facility in Salt Lake City, Utah under the terms of an operating lease expiring in March 2024, with an option to extend for additional five years. The facility supports our principal administrative, sales, marketing, customer support, and research and product development activities.

We occupy a 950 square-foot facility in Austin, Texas under the terms of an operating lease expiring in October 2022. This facility supports our sales, marketing, customer support, and research and development activities.

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

We occupy a 3,068 square-foot facility in Zaragoza, Spain under the terms of an operating lease expiring in March 2022. This office supports our research and development and customer support activities.

We occupy a 6,175 square-foot facility in Chennai, India under the terms of an operating lease expiring in August 2021. This facility supports our administrative, marketing, customer support, and research and product development activities.

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

Supplemental cash flow information related to leases was as follows:

	Three months ended March 31,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 184	$ 180
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ —	$ 63

Supplemental balance sheet information related to leases was as follows:

	March 31, 2021	December 31, 2020
Operating lease right-of-use assets	$ 1,787	$ 1,936
Current portion of operating lease liabilities, included in accrued liabilities	$ 561	$ 579
Operating lease liabilities, net of current portion	1,353	1,489
Total operating lease liabilities	$ 1,914	$ 2,068
Weighted average remaining lease term for operating leases (in years)	3.33	3.54
Weighted average discount rate for operating leases	6.1%	6.1%

The following represents maturities of operating lease liabilities as of March 31, 2021:

Years ending December 31,	
2021 (Remainder)	$ 504
2022	634
2023	610
2024	306
2025	69
Thereafter	—
Total lease payments	2,123
Less: Imputed interest	209
Total	$ 1,914

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

8. Shareholders' Equity

	Three months ended March 31,	
	2021	**2020**
Common stock and additional paid-in capital		
Balance, beginning of period	$ 63,378	$ 58,537
Share-based compensation expense	31	37
Proceeds from employee stock purchase plan	4	3
Balance, end of period	$ 63,413	$ 58,577
Accumulated other comprehensive loss		
Balance, beginning of period	$ (186)	$ (176)
Unrealized loss on available-for-sale securities, net of tax	(2)	(23)
Foreign currency translation adjustment	(12)	(34)
Balance, end of period	$ (200)	$ (233)
Accumulated deficit		
Balance, beginning of period	$ (13,378)	$ (13,883)
Net loss	(1,655)	(1,847)
Balance, end of period	$ (15,033)	$ (15,730)
Total shareholders' equity	$ 48,180	$ 42,614

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

9. Long-Term Debt

Senior Convertible Notes and Warrants

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

The Notes will mature on December 17, 2023 (the "Maturity Date") and will accrue interest at a variable rate adjusted on a quarterly basis and equal to two and one-half percent (2.5%) over the greater of (x) five and one-quarter percent (5.25%) and (y) the Prime Rate as published in the Wall Street Journal (New York edition) as of the beginning of such calendar quarter. The Notes may be converted into shares of the Company's Common Stock at any time at the election of Mr. Bagley at an initial conversion price of $2.11 per share (the "Conversion Price"), or 120% of the closing price of the Common Stock on December 6, 2019 as reported on the Nasdaq Capital Market. Also, the Company can cause a mandatory conversion of the Notes if the volume weighted average closing price of the Common Stock over 90 consecutive trading days exceeds 200% of the Conversion Price. In addition, the Notes may be redeemed by the Company for cash at any time after December 17, 2020 upon payment of the outstanding principal balance of the Notes and any unpaid and accrued interest. The Company also is required to redeem the Notes upon the occurrence of a change in control of the Company.

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

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

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

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

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

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

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

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

	March 31, 2021	December 31, 2020
Liability component:		
Principal	$ 2,910	$ 3,000
Less: debt discount and issuance costs, net of amortization	(532)	(581)
Net carrying amount	$ 2,378	$ 2,419
Equity component[1]:		
Warrants	$ 318	$ 318
Conversion feature	122	122
Net carrying amount	$ 440	$ 440
Current portion of liability component included under short-term debt	$ 450	$ 360
Long-term portion of liability component included under long-term debt	1,928	2,059
Liability component total	$ 2,378	$ 2,419

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

Debt discount and issuance costs are amortized over the life of the note to interest expense using the effective interest method. During the three months ended March 31, 2021 and March 31, 2020, amortization of debt discount and issuance costs was $49 and $49, respectively. The following table represents schedule of maturities of principal amount contained in the Notes as of March 31, 2021:

Year ending December 31,	Principal Amount Maturing
2021 (Remainder)	$ 270
2022	720
2023	1,920
2024	—
Total principal amount	$ 2,910

Paycheck Protection Program Loan

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

The PPP Loan may be prepaid at any time prior to maturity with no prepayment penalties. The PPP Loan contains events of default and other provisions customary for a loan of this type. The Paycheck Protection Program provides that the Loans may be partially or wholly forgiven if the funds are used for certain qualifying expenses as described in the CARES Act. The Company intends to use the entire PPP Loan amount for qualifying expenses and to apply for forgiveness of the PPP Loan in accordance with the terms of the CARES Act.

	March 31, 2021	December 31, 2020
Current portion of the PPP Loan included under short-term debt	$ 500	$ 312
Long-term portion of the PPP Loan included under long-term debt	999	1,187
Liability component total	$ 1,499	$ 1,499

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

10. Fair Value Measurements

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

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

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

Level 3 - Unobservable inputs.

The substantial majority of the Company's financial instruments are valued using observable inputs. The following table sets forth the fair value of the financial instruments re-measured by the Company as of March 31, 2021 and December 31, 2020:

	Level 1	Level 2	Level 3	Total
March 31, 2021				
Corporate bonds and notes	$ —	$ 1,028	$ —	$ 1,028
Municipal bonds	—	1,746	—	1,746
Total	$ —	$ 2,774	$ —	$ 2,774
December 31, 2020				
Corporate bonds and notes	$ —	$ 1,338	$ —	$ 1,338
Municipal bonds	—	1,541	—	1,541
Total	$ —	$ 2,879	$ —	$ 2,879

11. Income Taxes

The current year loss did not result in income tax benefit due to recording a full valuation allowance against expected benefits. The valuation allowance was recorded as we concluded that it was more likely than not that our deferred tax assets were not realizable primarily due to the Company's recent pre-tax losses. Provision for income taxes for the three months ended March 31, 2021 represents income tax expense recorded for jurisdictions outside the United States.

12. Subsequent events

None.

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

This report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements in this report, other than statements of historical fact, are forward-looking statements for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this report are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any forward-looking statement. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "intends," "believes," "estimates," "potential," or "continue," or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are based upon reasonable assumptions at the time made, there can be no assurance that any such expectations or any forward-looking statement will prove to be correct. Our actual results will vary, and may vary materially, from those projected or assumed in the forward-looking statements. Future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, many of which we cannot predict with accuracy and some of which we might not anticipate, including, without limitation, product recalls and product liability claims; infringement of our technology or assertion that our technology infringes the rights of other parties; termination of supplier relationships, or failure of suppliers to perform; inability to successfully manage growth; delays in obtaining regulatory approvals or the failure to maintain such approvals; concentration of our revenue among a few customers, products or procedures; development of new products and technology that could render our products obsolete; market acceptance of new products; introduction of products in a timely fashion; price and product competition, availability of labor and materials, cost increases, and fluctuations in and obsolescence of inventory; volatility of the market price of our common stock; foreign currency fluctuations; changes in key personnel; work stoppage or transportation risks; integration of business acquisitions; and other factors referred to in our reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2019. 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 II, Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q and in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2020.

BUSINESS OVERVIEW

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

During the first quarter of 2021, we announced two new powerful cameras that enhance the ease and visual quality of online collaboration beyond the capabilities of integrated laptop and PC cameras. With the new ClearOne UNITE® 10, the company's most affordable camera ever, and the feature-rich ClearOne UNITE 50 4K AF that includes Auto-Framing technology for automatic single- or multi-person capture, everyone can take on the new year with the confidence provided by stunning video that puts them in the best possible light. We recognized that millions of people were expected to use video collaboration tools, for the first time, and the rapid societal shift to home-based and remote work left a lot of people desiring higher quality video solutions to ensure they make a good impression and enjoy reliable, clear and efficient communication. For users who want to upgrade from the basic camera included in their laptop or PC, ClearOne has lowered the barrier of entry with its most affordable webcam ever, the UNITE 10. The small, powerful webcam supports up to 1080p video quality and offers autofocus. The UNITE 10 can capture five-megapixel images with a field of view up to 87 degrees, while major competitors at this price point only achieve 78-degree field of view. The UNITE 10 attaches any PC or laptop with a simple mounting bracket, and a 1.5m USB-A cable ensures simple connection to most modern computers. The UNITE 10 is also available to dealers and distributors in 20 packs for commercial sale. The new UNITE 50 4K AF camera is a major upgrade over traditional webcams and introduces ClearOne's new Auto-Framing technology that automatically frames meeting participants to maximize screen use through intelligent image algorithms and ePTZ automation (electronic pan, tilt and zoom). With 4K video quality at 30 Hz, auto-focus capability, 4x digital zoom, more than 8 megapixels of total resolution and an ultra-wide 110-degree field of view, the UNITE 50 4K AF ePTZ is equally capable of delivering incredible image quality from a home office as it is at capturing all participants in an office boardroom.

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

The camera can be controlled through an IR remote, further simplifying use and enabling real-time control of pan, tilt and zoom to provide greater control when capturing multi-person meeting environments. A standard damping mount ensures fast, easy installation, while an included USB 3.0 cable provides both power and video. Both new ClearOne cameras enable life-like video quality to web-based conferencing applications including ClearOne’s COLLABORATE® Space, WebEx™, Google Meet, Zoom™, GoToMeeting™, and Microsoft® Teams.

During February 2021, we expanded the applications for our BMA 360 Beamforming Microphone Array Ceiling Tile with the addition of a new Voice Lift feature that allows its impeccable audio to be locally amplified and heard throughout classrooms, lecture halls, and large meeting rooms. announced a new Touch-Panel Controller, a highly intuitive 10-inch touch-screen device, designed for ClearOne’s CONVERGE® Pro 2 audio DSP mixers as well as COLLABORATE Live video conferencing room systems. Paired with CONVERGE Pro 2 DSP mixers, users can make and receive PSTN and/or VoIP conference calls, and multiparty calls with the easy-to-use on-screen dial pad. When paired with COLLABORATE Live, users can make and receive video calls as well as manage content sharing options. ClearOne’s powerful breakthrough technologies, FiBeam™ and DsBeam™, already found on the BMA 360, enable exceptional new levels of Voice Lift performance. FiBeam technology makes the BMA 360 the world’s first truly wideband, frequency-invariant beamforming mic array that provides the ultimate in natural and full-fidelity sound. DsBeam provides unparalleled sidelobe depth below -40 dB, resulting in superior rejection of reverb and noise and providing superb clarity and intelligibility. With the addition of the new Voice Lift feature, the BMA 360 offers everything desired in a beamforming microphone array ceiling tile—superior beamformed audio, echo cancellation, noise cancellation, auto-mixing, power amplifiers, and camera-tracking functions. The ClearOne architecture offers easy setup and configuration for foolproof installation which benefits AV practitioners. End-users also benefit from the BMA 360’s reduced overall system cost for maximum return on investment. Each BMA 360 can have up to four Voice Lift zones to provide a simple and intuitive way to drive multiple speaker groups, allowing everyone to easily hear and be heard. Built-in 4 channel power amplifiers make wiring simple, convenient, and provide a large cost savings. ClearOne’s innovative combination of built-in power amplifiers and mix-minus zones makes the Voice Lift feature extremely simple to create and deploy. The BMA 360, now with Voice Lift, sets another industry standard for exceptional mic pickup distance and system gain.

During the first three months of 2021, we continued our efforts, primarily through litigation, to stop the infringement of our strategic patents. We also continued our programs to cut costs and to speed up product development that we believe will enable us to get back to a growth path.

Overall revenue increased by 23% in the first quarter of 2021 when compared to the first quarter of 2020, primarily due to an increase in revenue from all major product categories with video products generating the highest revenue growth. Video products continue to enjoy high revenue growth primarily due to significant demand from work from home and learn from home market. Despite the negative impact of COVID-19 and the infringement of our patents by Shure on all professional installed products, our new solutions incorporating Beamforming Microphone Array Ceiling Tile ("BMA-CT") continued to result in overall Beamforming Microphone Array ("BMA") revenue to be significantly higher than last year. However, revenue from BMA products as well as from our pro audio products are still far below the levels prior to infringement of our patents. Our revenue is negatively impacted due to on-going harm of infringement of ClearOne’s patents despite the preliminary injunction granted against Shure as we believe Shure continues to infringe our patents and violates the preliminary injunction. The patent infringement also has negatively impacted directly the revenue from ClearOne’s other products not related to the infringed patents not withstanding a significant growth in revenue from video products this quarter. Our gross profit margin decreased to 42.7% during the first quarter of 2021 from 49.5% during the first quarter of 2020. Net loss decreased from $1.8 million in the first quarter of 2020 to $1.7 million in the first quarter of 2021. The decrease was mainly due to reduction in operating costs and increase in absolute gross profit dollars through higher revenue.

We believe the decision by the U.S. District Court in August 2019 granting our request for a preliminary injunction to prevent Shure from manufacturing, marketing, and selling its competing ceiling microphone array in an infringing configuration is an incredibly valuable ruling for ClearOne and its business. The decision validates the strength and importance of ClearOne’s intellectual property rights, recognizes ClearOne’s innovations in this space, and stops Shure from further infringing the Graham patent pending a full trial. Although there can be no assurance of any outcome of a full trial, we believe this ruling will help pave the way for ClearOne’s recovery from the immense harm inflicted by Shure's infringement of our valuable patents. However, we are not getting the full benefits of the Court’s extraordinary remedy in the form of the preliminary injunction granted against Shure with respect to infringement of our ’806 Patent as we believe that Shure is still infringing ClearOne’s patent.

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

On September 1, 2020, the U.S. District Court of Northern Illinois held that "*Shure* has violated the preliminary injunction order and is found in contempt because it designed the MXA910-A in such a way that allows it to be easily installed flush in most ceiling grids". The Court also opined that, "[t]he record is clear and convincing that *Shure* - through its design choices - violated the injunction order by allowing integrators to install the MXA910-A in the enjoined flush configuration." Ultimately, the Court ordered that "*Shure* shall no longer manufacture, market, or sell the MXA910...". *ClearOne's* motion to accuse *Shure's* MXA910-US of infringing the '806 Patent is still pending with the Court.

Industry conditions

We operate in a very dynamic and highly competitive industry which is dominated on the one hand by a few players with respect to certain products like traditional video conferencing appliances while on the other influenced heavily by a fragmented reseller market consisting of numerous regional and local players. The industry is also characterized by venture capitalist funded start-ups and private companies willing to fund cumulative cash losses in order to gain market share and achieve certain non-financial goals.

Economic conditions, challenges and risks

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

Our video products and beamforming microphone arrays, especially BMA-CT and the newly introduced BMA 360 are critical to our long term growth. We face intense competition in this market from well-established market leaders as well as emerging players rich with marketing funds. We expect our strategy of combining curated audio solutions with our high quality professional cameras, and our high-end audio conferencing technology will generate high growth in the near future.

We derive a major portion of our revenue (approximately 38% for the year ended December 31, 2020) from international operations and expect this trend to continue in the future. Most of our revenue from outside the U.S. is billed in U.S. dollars and is not exposed to any significant currency risk. However, we are exposed to foreign exchange risk if the U.S. dollar is strong against other currencies as it will make U.S. Dollar denominated prices of our products less competitive.

In December 2019, a novel strain of coronavirus ("COVID-19") started spreading from China and was declared a pandemic. The COVID-19 pandemic caused severe global disruptions and had varying impact on our business. The installed audio conferencing market was negatively impacted due to lockdowns, postponement of projects and restrictions on installers to visit commercial sites. On the other hand, COVID-19 generated higher than normal demand for our video products and personal conferencing products due to the significant expansion of work-from-home market. The extent of COVID-19's effect on our operational and financial performance will depend on future developments, including the vaccination rate, effectiveness of vaccines especially on novel strains of COVID-19, government regulations, etc., all of which are uncertain and difficult to predict considering the rapidly evolving landscape. If the pandemic continues to be a severe worldwide health crisis, the disease could have a material adverse effect on our business, results of operations, financial condition and cash flows and adversely impact the trading price of our common stock.

Deferred Revenue

Deferred revenue decreased to $78 thousand at March 31, 2021 compared to $123 thousand at December 31, 2020.

A detailed discussion of our results of operations follows below.

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

Results of Operations for the three months ended March 31, 2021

The following table sets forth certain items from our unaudited condensed consolidated statements of operations for the three months ended March 31, 2021 ("2021-Q1") and 2020 ("2020-Q1"), respectively, together with the percentage of total revenue which each such item represents:

	Three months ended March 31,		
(dollars in thousands)	2021	2020	Percentage Change 2021 vs 2020
Revenue	$ 7,038	$ 5,734	23%
Cost of goods sold	4,035	2,896	39%
Gross profit	3,003	2,838	6%
Sales and marketing	1,573	1,739	-10%
Research and product development	1,274	1,344	-5%
General and administrative	1,680	1,506	12%
Total operating expenses	4,527	4,589	-1%
Operating loss	(1,524)	(1,751)	-13%
Interest expense net of other income	(117)	(73)	60%
Loss before income taxes	(1,641)	(1,824)	-10%
Provision for income taxes	14	23	-39%
Net loss	$ (1,655)	$ (1,847)	-10%

Revenue

Our revenue increased to $7.0 million in 2021-Q1 compared to $5.7 million in 2020-Q1 primarily due to a 130% increase in video products revenue, followed by a 10% increase in microphones revenue and a 2% increase in audio conferencing products revenue. Video products continue to enjoy successes primarily due to growth in demand from work from home and learn from home markets. Audio Conferencing category as a whole increased mainly due to a strong revenue performance of our professional mixers despite decreases in other product groups within audio conferencing category. Microphones growth continued to be led by our new solutions incorporating BMA-CT and BMA 360 even though our traditional ceiling mics suffered a revenue decline. During the first quarter of 2021, all major region groups enjoyed revenue growth. Revenues from North America, Europe and Africa and Asia Pacific, including the Middle East increased by 5%, 57% and 33%, respectively. Korea, Japan, the Middle East, South Asia, parts of Southern Europe and Latin America registered impressive revenue growth, while Canada and China saw revenue declines. USA registered modest growth.

We believe, although there can be no assurance, that we can sustain our revenue growth and return to generating operating profits through our strategic initiatives namely product innovation, cost reduction and defense of our intellectual property.

Costs of Goods Sold and Gross Profit

Cost of goods sold includes expenses associated with finished goods purchased from outsourced manufacturers, the repackaging of our products, our manufacturing and operations organization, property and equipment depreciation, warranty expense, freight expense, royalty payments, and the allocation of overhead expenses.

Our gross profit margin declined from 49.5% during 2020-Q1 to 42.7% during 2021-Q1. The gross profit margin was negatively impacted due to increase in share of lower margin products in the revenue mix, increased freight and tariff costs and increased inventory obsolescence costs, partially offset by a decrease in overhead costs as a percentage of revenue.

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

Our profitability in the near-term continues to depend significantly on our revenues from professional installed audio-conferencing products. We hold long-term inventory and if we are unable to sell our long-term inventory, our profitability might be affected by inventory write-offs and price mark-downs. Our long-term inventory includes approximately $0.8 million of wireless microphone-related finished goods and assemblies, $0.8 million of Converge Pro and Beamforming microphone array products, $0.3 million of network media streaming products, $0.4 million of tabletop conferencing products and about $1.7 million of raw materials that will be used primarily for manufacturing professional audio conferencing products. Any business changes that are adverse to these product lines could potentially impact our ability to sell our long-term inventory in addition to our current inventory.

Operating Expenses

Operating expenses include sales and marketing ("S&M") expenses, research and product development ("R&D") expenses and general and administrative ("G&A") expenses. Total operating expenses were $4.5 million for 2021-Q1 compared to $4.6 million for 2020-Q1. The following contains a more detailed discussion of expenses related to sales and marketing, research and product development, general and administrative, and other items.

Sales and Marketing - S&M expenses include 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 for 2021-Q1 decreased to $1.6 million from $1.7 million for 2020-Q1. The decrease was mainly due to decreases in trade-show related expenses, and employee travel related expenses partially offset by an increase in sales commissions.

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

R&D expenses remained almost the same at $1.3 million for both quarters compared.

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

G&A expenses increased slightly from $1.5 million in 2020-Q1 to $1.7 million in 2021-Q1. The increase was primarily due to increases in depreciation and amortization expenses.

Other income (expense), net

Other income (expense), net includes interest income and foreign currency changes. Other income remained immaterial during the first quarter of 2021 and 2020.

Interest expense remained almost the same at $0.1 million for both periods compared.

Provision for income taxes

During the first quarters of 2021 and 2020, we did not recognize any benefit from the losses incurred due to setting up of full valuation allowance. Provision for income taxes recognized in the first quarter of 2021 relates to foreign jurisdictions.

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

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2021, our cash and cash equivalents were approximately $2.0 million compared to $3.8 million as of December 31, 2020. Our working capital was $19.5 million and $22.2 million as of March 31, 2021 and December 31, 2020, respectively.

Net cash used by operating activities was approximately $13 thousand in 2021-Q1, a decrease of cash provided of approximately $544 thousand from $531 thousand of cash provided by operating activities in 2020-Q1. The decrease in cash inflow was due to a negative change in operating assets and liabilities of $1,034 thousand, partially offset by an increase in non-cash charges by $298 thousand and a decrease in net loss by $192 thousand.

Net cash used in investing activities was almost the same at $1.7 million for 2021-Q1 and 2021-Q1.

Net cash used in financing activities was in 2021-Q1 was $86 thousand compared to cash provided of $3 thousand in 2020-Q1. The decrease in cash flow of $89 thousand is due to repayment of principal amounts due on senior convertible notes.

Capitalization of patent defense costs. We capitalize external legal costs incurred in the defense of our patents when we believe that a significant, discernible increase in value will result from the defense and a successful outcome of the legal action is probable. When we capitalize patent defense costs we amortize the costs over the remaining estimated useful life of the patents,which is 15 to 17 years. During 2021-Q1 we spent $1.7 million on legal costs related to the defense of our patents and capitalized the entire amount.

We are currently pursuing all available legal remedies to defend our strategic patents from infringement. We have already spent approximately $22.0 million from 2016 through March 31, 2021 towards this litigation and may be required to spend more to continue our legal defense. We believe the decision by the U.S. District Court in August 2019 granting our request for a preliminary injunction to prevent our competitor from manufacturing, marketing, and selling its competing ceiling microphone array in an infringing configuration is an incredibly valuable ruling for ClearOne and its business. We believe that the decision validates the strength and importance of ClearOne's intellectual property rights, recognizes ClearOne's innovations in this space, and stops our competitor from further infringing our Graham patent (U.S. Patent No. 9,813,806) pending a full trial. Although there can be no assurance of any outcome of a full trial, we believe this ruling will help pave way for ClearOne's recovery from the immense harm inflicted by our competitor's infringement of our valuable patents. However, we are not getting the full benefits of the Court's extraordinary remedy in the form of the preliminary injunction granted against Shure with respect to infringement of our '806 Patent as we believe that Shure is still infringing ClearOne's patent. During September 2020, the U.S District Court of Northern Illinois held Shure in contempt for marketing and selling their new design in violation of the preliminary injunction.

We have been actively engaged in preserving cash by suspending our dividend program and allowing our share repurchase program to expire in 2018 and implementing company-wide cost reduction measures. We have also raised additional capital of - $9.9 million (net of issuance costs) in 2018 by issuing common stock, $2.7 million (net of issuances costs) in 2019 by issuing senior convertible notes, $1.5 million in April 2020 by borrowing through Paycheck Protection Program and $4.8 million in September 2020 by issuing common stock and warrants. In addition, we expect to generate additional cash as our inventory levels are brought down to historical levels.

We also believe that the measures taken by us will yield higher revenues in the future. We believe, although there can be no assurance, that all of these measures and effective management of working capital will provide the liquidity needed to meet our operating needs through at least through May 14, 2022. We also believe that our strong portfolio of intellectual property and our solid brand equity in the market will enable us to raise additional capital if and when needed to meet our short and long-term financing needs; however, there can be no assurance that, if needed, we will be successful in obtaining the necessary funds through equity or debt financing. If we need additional capital and are unable to secure financing, we may be required to further reduce expenses, delay product development and enhancement, or revise our strategy regarding ongoing litigation.

At March 31, 2021, we had open purchase orders of approximately $4.5 million mostly for purchase of inventory.

At March 31, 2021, we had inventory totaling $13.9 million, of which non-current inventory accounted for $4.1 million. This compares to total inventories of $15.1 million and non-current inventory of $4.6 million as of December 31, 2020.

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

Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of March 31, 2021 (in millions):

	Payment Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 years
Senior convertible notes	$ 2,910	$ 450	$ 2,460	$ -	$ -
Payroll Protection Plan loan	1,499	500	999	-	-
Operating lease obligations	2,123	662	1,238	223	-
Purchase obligations	4,507	4,507	-	-	-
Total	$ 11,039	$ 6,119	$ 4,697	$ 223	$ -

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 unaudited condensed consolidated financial statements included under Item 1 of this Form 10-Q, which have been prepared in conformity with accounting principles generally accepted in the United States. We review the accounting policies used in reporting our financial results on a regular basis. We believe certain of our accounting policies are critical to understanding our financial position and results of operations. There have been no changes to the critical accounting policies as explained in our Annual Report on Form 10-K for the year ended December 31, 2020.

RECENT ACCOUNTING PRONOUNCEMENTS

For a discussion of recent accounting pronouncements, see Note 1: “Business Description, Basis of Presentation and Significant Accounting Policies” in the notes to our unaudited condensed consolidated financial statements included under Item 1 of this Form 10-Q.

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, 2021 was performed under the supervision and with the participation of our management, including our Chief Executive Officer and our Principal Financial and Accounting Officer. Based upon this evaluation, our Chief Executive Officer and Senior Vice President of Finance concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures effective at a reasonable assurance level as of March 31, 2021.

There has been no change in the Company's internal control over financial reporting as of March 31, 2021, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is involved in litigation against Shure Incorporated ("Shure") as further described in Part I, Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2020 (the "Annual Report"), which information is incorporated herein by reference. The following recent developments amend and supplement the disclosure of the ongoing litigation proceedings against Shure as follows:

Shure, Incorporated v. ClearOne, Inc., 17-cv-3078 (N.D. of Illinois)

Shure and ClearOne completed supplemental briefing before the district court relating to the Court's ruling holding Shure in contempt. In April 2021, Shure and ClearOne completed briefing on Shure's appeal of the Court's ruling holding Shure in contempt. The Federal Circuit has not yet set a date for a hearing on the appeal.

ClearOne, Inc. v. Shure, Incorporated, 19-cv-02421 (N.D. of Illinois)

On July 21, 2020, ClearOne informed the Court that it would proceed with its advertising-related claims in Delaware rather than Illinois. ClearOne thus filed a Second Amended Complaint removing the prospective economic advantage and trade libel claims. Shure has decided to file an early motion to obtain summary judgment and dismissal of ClearOne's trade secret misappropriation claims. Briefing will begin in May 2021 and end in June 2021.

Shure, Incorporated v. ClearOne, Inc., 19-cv-1343 (D. of Delaware)

On April 16, 2021, Shure and ClearOne filed summary judgment and *Daubert* motions. ClearOne filed for summary judgment of noninfringement and invalidity relating to the '493 Patent; and summary judgment of no liability on various alleged false statements and of no lost profits or unjust enrichment relating to the false advertising claims. ClearOne also moved to exclude certain opinions from two Shure expert witnesses. Shure filed summary judgment motions on ClearOne's inventorship argument; and on all of ClearOne's counterclaims. They also seek to exclude certain opinions from two ClearOne expert witnesses. Briefing on these summary judgment and *Daubert* motions will be complete in May 2021, and a hearing is scheduled on the motions in June 2021.

Item 1A. RISK FACTORS

None.

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

(a) The information required by this Item was included in the Company's Current Report on Form 8-K as filed with the SEC on September 14, 2020 and is incorporated herein by reference.

(b) Not applicable.

(c) None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Table of Contents

Item 6. EXHIBITS

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

SIGNATURES

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

ClearOne, Inc.,
(Registrant)

By: */s/ Zeynep Hakimoglu*
Zeynep Hakimoglu
President, Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

May 13, 2021

By: */s/ Narsi Narayanan*
Narsi Narayanan
Senior Vice President of Finance
(Principal Accounting and Principal Financial Officer)

May 13, 2021

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.

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

May 13, 2021

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.

By: */s/ Narsi Narayanan*

Narsi Narayanan

Senior Vice President of Finance

(Principal Accounting and Principal Financial Officer)

May 13, 2021

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, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ClearOne, Inc.

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

May 13, 2021

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, 2021, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ClearOne, Inc.

By: */s/ Narsi Narayanan*
Narsi Narayanan
Senior Vice President of Finance
(Principal Accounting and Principal Financial Officer)

May 13, 2021