

CLEARONE INC
Form 10-Q
August 07, 2013

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 June 30, 2013

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

(State or other jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

(801) 975-7200

(Registrant's telephone number, including area code)

87-0398877

(I.R.S. employer identification number)

84116

(Zip Code)

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

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

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

Larger Accelerated Filer

Accelerated Filer

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

Smaller Reporting Company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 9,080,060 shares issued and outstanding as of August 5, 2013.

CLEARONE, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2013

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CLEARONE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value)

| | June 30, 2013 Unaudited | December 31, 2012 |
|--|----------------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$32,386 | \$55,509 |
| Marketable securities | 337 | — |
| Receivables, net of allowance for doubtful accounts of \$55 and \$60, respectively | 8,439 | 8,388 |
| Inventories, net | 12,304 | 10,873 |
| Deferred income taxes | 3,148 | 3,148 |
| Prepaid expenses and other assets | 1,785 | 1,369 |
| Total current assets | 58,399 | 79,287 |
| Long-term marketable securities | 8,873 | — |
| Long-term inventories, net | 1,609 | 1,955 |
| Property and equipment, net | 1,783 | 1,708 |
| Intangibles, net | 3,996 | 4,258 |
| Goodwill | 3,472 | 3,472 |
| Deferred income taxes | 1,195 | 1,195 |
| Other assets | 61 | 64 |
| Total assets | \$79,388 | \$91,939 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$3,031 | \$2,302 |
| Accrued liabilities | 2,009 | 2,143 |
| Income taxes payable | — | 14,782 |
| Deferred product revenue | 4,300 | 3,593 |
| Total current liabilities | 9,340 | 22,820 |
| Deferred rent | 365 | 422 |
| Other long-term liabilities | 2,028 | 2,029 |
| Total liabilities | 11,733 | 25,271 |
| Shareholders' equity: | | |
| Common stock, par value \$0.001, 50,000,000 shares authorized, 9,080,060 and 9,163,462 shares issued and outstanding | 9 | 9 |
| Additional paid-in capital | 39,729 | 40,430 |
| Accumulated other comprehensive loss | (87 |) — |
| Retained earnings | 28,004 | 26,229 |
| Total shareholders' equity | 67,655 | 66,668 |
| Total liabilities and shareholders' equity | \$79,388 | \$91,939 |

See accompanying notes

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CLEARONE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Dollars in thousands, except per share amounts)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|-----------|---------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenue | \$11,703 | \$11,655 | \$22,996 | \$21,809 |
| Cost of goods sold | 4,839 | 4,562 | 9,133 | 8,608 |
| Gross profit | 6,864 | 7,093 | 13,863 | 13,201 |
| Operating expenses: | | | | |
| Sales and marketing | 2,088 | 2,254 | 4,356 | 4,388 |
| Research and product development | 1,843 | 2,029 | 3,709 | 4,037 |
| General and administrative | 1,437 | 1,611 | 3,234 | 3,091 |
| Proceeds from litigation, net | — | — | — | (250) |
| Total operating expenses | 5,368 | 5,894 | 11,299 | 11,266 |
| Operating income | 1,496 | 1,199 | 2,564 | 1,935 |
| Other income (expense), net | 47 | (5) | 33 | 11 |
| Income before income taxes | 1,543 | 1,194 | 2,597 | 1,946 |
| Provision for income taxes | 498 | 544 | 822 | 818 |
| Net income | \$1,045 | \$650 | \$1,775 | \$1,128 |
| Basic earnings per common share | \$0.11 | \$0.07 | \$0.19 | \$0.12 |
| Diluted earnings per common share | \$0.11 | \$0.07 | \$0.19 | \$0.12 |
| Basic weighted average shares outstanding | 9,093,461 | 9,107,420 | 9,122,996 | 9,102,786 |
| Diluted weighted average shares outstanding | 9,459,495 | 9,226,426 | 9,499,452 | 9,224,727 |
| Net income | \$1,045 | \$650 | \$1,775 | \$1,128 |
| Comprehensive income: | | | | |
| Unrealized (loss) on available-for-sale securities, net of tax | (87) | — | (87) | — |
| Comprehensive income | \$958 | \$650 | \$1,688 | \$1,128 |

See accompanying notes

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CLEARONE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

| | Six months ended June 30, | |
|---|---------------------------|----------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net income | \$1,775 | \$1,128 |
| Adjustments to reconcile net income to net cash (used in) operations: | | |
| Depreciation and amortization expense | 644 | 654 |
| Amortization of deferred rent | (167 |) — |
| Stock-based compensation expense | 126 | 111 |
| Provision for (recoveries of) doubtful accounts, net | 27 | (64 |
| Inventory valuation reserve adjustments | (34 |) 278 |
| Tax benefit from the exercise of stock options | (38 |) — |
| Changes in operating assets and liabilities: | | |
| Receivables | (78 |) 1,112 |
| Inventories | (1,051 |) (2,616 |
| Deferred income taxes | — | (11 |
| Prepaid expenses and other assets | (414 |) (39 |
| Accounts payable | 729 | (1,529 |
| Accrued liabilities | (24 |) 121 |
| Income taxes payable | (14,782 |) (750 |
| Deferred product revenue | 707 | 47 |
| Other long-term liabilities | — | 138 |
| Net cash (used in) operating activities | (12,580 |) (1,420 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (457 |) (202 |
| Purchase of marketable securities | (9,297 |) — |
| Payment towards business acquisitions | — | (4,632 |
| Net cash (used in) investing activities | (9,754 |) (4,834 |
| Cash flows from financing activities: | | |
| Proceeds from the exercise of stock options | 164 | 81 |
| Tax benefit from the exercise of stock options | 38 | — |
| Treasury stock purchased | (991 |) (92 |
| Net cash (used in) financing activities | (789 |) (11 |
| Net (decrease) in cash and cash equivalents | (23,123 |) (6,265 |
| Cash and cash equivalents at the beginning of the period | 55,509 | 16,683 |
| Cash and cash equivalents at the end of the period | \$32,386 | \$10,418 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for income taxes | \$16,757 | \$1,393 |
| See accompanying notes | | |

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| | Six months ended June 30, | |
|--|---------------------------|---------|
| | 2013 | 2012 |
| Supplemental disclosure of non-cash activities: | | |
| The Company acquired the business of VCON Video Conferencing, Ltd. in February 2012 and recorded the following assets and liabilities: | | |
| Inventory | \$— | \$40 |
| Property and equipment | — | 34 |
| Product warranty liability | — | (8 |
| Proprietary software | — | 2,247 |
| Goodwill | — | 2,319 |
| Cash paid | \$— | \$4,632 |

See accompanying notes

CLEARONE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – Dollars in thousands)

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

Business Description:

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

Basis of Presentation:

The fiscal year for ClearOne is the 12 months ending on December 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 and six months ended June 30, 2013 and 2012, 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 the Company's financial position as of June 30, 2013 and December 31, 2012, the results of operations for the three and six months ended June 30, 2013 and 2012, and the statements of cash flows for the six months ended June 30, 2013 and 2012. The results of operations for the three and six months ended June 30, 2013 and 2012 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 25, 2013 as amended on April 30, 2013.

Significant Accounting Policies:

The significant accounting policies were described in Note 2 to the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2012. There have been no changes to these policies during the six months ended June 30, 2013 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:

| | June 30, 2013 | December 31, 2012 |
|----------------------------------|---------------|-------------------|
| Balance at the beginning of year | \$385 | \$467 |
| Warranty accruals/additions | 232 | 443 |

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| | | | |
|--------------------------|-------|--------|---|
| Warranty usage | (251 |) (525 |) |
| Balance at end of period | \$366 | \$385 | |

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CLEARONE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(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 June 30, | | Six months ended June 30, | |
|---|-----------------------------|-----------|---------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Numerator: | | | | |
| Net income | \$ 1,045 | \$ 650 | \$ 1,775 | \$ 1,128 |
| Denominator: | | | | |
| Basic weighted average shares outstanding | 9,093,461 | 9,107,420 | 9,122,996 | 9,102,786 |
| Dilutive common stock equivalents using treasury stock method | 366,034 | 119,006 | 376,456 | 121,941 |
| Diluted weighted average shares outstanding | 9,459,495 | 9,226,426 | 9,499,452 | 9,224,727 |
| Basic earnings per common share | \$0.11 | \$0.07 | \$0.19 | \$0.12 |
| Diluted earnings per common share | \$0.11 | \$0.07 | \$0.19 | \$0.12 |
| Weighted average options outstanding | 1,122,797 | 1,207,302 | 1,125,624 | 1,185,414 |
| Anti-dilutive options not included in the computations | 94,789 | 630,737 | 94,789 | 630,737 |

2. 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, net of the related tax effect, 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 June 30, 2013 and December 31, 2012 were as follows:

| (In thousands) | Amortized cost | Gross unrealized holding gains | Gross unrealized holding losses | Estimated fair value |
|-------------------------------------|----------------|--------------------------------|---------------------------------|----------------------|
| June 30, 2013 | | | | |
| Available-for-sale securities: | | | | |
| Corporate bonds and notes | \$5,877 | \$— | \$(59 |) \$5,818 |
| Municipal bonds | 3,420 | 1 | (29 |) 3,392 |
| Total available-for-sale securities | \$9,297 | \$1 | \$(88 |) \$9,210 |

| (In thousands) | Amortized cost | Gross unrealized holding gains | Gross unrealized holding losses | Estimated fair value |
|--------------------------------|----------------|--------------------------------|---------------------------------|----------------------|
| December 31, 2012 | | | | |
| Available-for-sale securities: | | | | |

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| | | | | |
|-------------------------------------|-----|-----|-----|-----|
| Corporate bonds and notes | \$— | \$— | \$— | \$— |
| Municipal bonds | — | — | — | — |
| Total available-for-sale securities | \$— | \$— | \$— | \$— |

Maturities of marketable securities classified as available-for-sale securities were as follows at June 30, 2013:

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| (In thousands) | Amortized cost | Estimated fair value |
|--|-------------------|-------------------------|
| Due within one year | \$337 | \$337 |
| Due after one year through five years | 8,528 | 8,449 |
| Due after five years through ten years | 432 | 424 |
| Total available-for-sale securities | \$9,297 | \$9,210 |

3. Intangible Assets

Intangible assets as of June 30, 2013 and December 31, 2012 consisted of the following:

| | Estimated useful lives | June 30, 2013 | December 31, 2012 |
|-------------------------------------|---------------------------|---------------|-------------------|
| Tradename | 7 years | \$435 | \$435 |
| Patents and technological know-how | 10 years | 2,070 | 2,070 |
| Proprietary software | 3 to 15 years | 2,961 | 2,961 |
| In-process research and development | Indefinite | 159 | 159 |
| Other | 5 years | 49 | 49 |
| | | 5,674 | 5,674 |
| Accumulated amortization | | (1,678 |) (1,416 |
| | | \$3,996 | \$4,258 |

The amortization of intangibles with finite lives for the three and six months ended June 30, 2013 and 2012 was as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|-------|---------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| Amortization of intangibles with finite lives | \$119 | \$130 | \$261 | \$231 |

CLEARONE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – Dollars in thousands)

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

| | |
|---------------------------|---------|
| Years ending December 31, | |
| 2013 (remainder) | \$271 |
| 2014 | 528 |
| 2015 | 483 |
| 2016 | 446 |
| 2017 | 357 |
| Thereafter | 1,752 |
| | \$3,837 |

4. Inventories

Inventories, net of reserves, as of June 30, 2013 and December 31, 2012 consisted of the following:

| | June 30, 2013 | December 31, 2012 |
|----------------|---------------|-------------------|
| Current: | | |
| Raw materials | \$902 | \$734 |
| Finished goods | 11,402 | 10,139 |
| | \$12,304 | \$10,873 |
| Long-term: | | |
| Raw materials | \$681 | \$891 |
| Finished goods | 928 | 1,064 |
| | \$1,609 | \$1,955 |

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 \$1,605 and \$1,289 as of June 30, 2013 and December 31, 2012, 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 and six months ended June 30, 2013 and 2012, respectively.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|-------|---------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| Losses incurred on valuation of inventory and write-off of obsolete inventory | \$— | \$188 | \$— | \$278 |

CLEARONE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – Dollars in thousands)

5. Share-based Compensation Expense

Share-based compensation expense has been recorded as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|----------------------------------|-----------------------------|------|---------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| Cost of goods sold | \$2 | \$2 | \$4 | \$1 |
| Sales and marketing | 19 | 16 | 34 | 30 |
| Research and product development | 13 | 10 | 24 | 17 |
| General and administrative | 33 | 32 | 64 | 63 |
| | \$67 | \$60 | \$126 | \$111 |

As of June 30, 2013, the total remaining unrecognized compensation cost related to non-vested stock options, net of forfeitures, was approximately \$681, which will be recognized over a weighted average period of 2.90 years.

During the three and six months ended June 30, 2013, we granted 57,500 and 57,500 stock options, respectively. During the three and six months ended June 30, 2012, we granted 65,000 and 95,000 stock options, respectively. 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 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. We use the Black-Scholes option pricing model to determine the fair value of share-based payments granted under ASC Topic 718.

In applying the Black-Scholes methodology to the options granted, the Company used the following assumptions:

| | Three months ended June 30, | | Six months ended June 30, | |
|---------------------------------------|-----------------------------|-----------|---------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Risk-free interest rate, average | 1.2% | 1.2% | 1.2% | 1.5% |
| Expected option life, average | 6.8 years | 7.0 years | 6.8 years | 7.1 years |
| Expected price volatility, average | 50.1% | 51.7% | 50.1% | 51.6% |
| Weighted average per share fair value | \$4.49 | \$2.07 | \$4.49 | \$2.23 |

6. Shareholders' Equity

The following table summarizes the change in shareholders' equity during the three and six months ended June 30, 2013 and 2012, respectively:

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|----------|---------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Balance at the beginning of the period | \$66,960 | \$40,193 | \$66,668 | \$39,664 |
| Net income during the period | 1,045 | 650 | 1,775 | 1,128 |
| Treasury stock purchased | (418) | (92) | (991) | (92) |
| Stock-based compensation | 67 | 60 | 126 | 111 |
| Exercise of stock options | 88 | 81 | 164 | 81 |
| Unrealized gain or loss in investments | (87) | — | (87) | — |
| Balance at end of the period | \$67,655 | \$40,892 | \$67,655 | \$40,892 |

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7. 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. The Company's marketable securities primarily utilize broker quotes in a non-active market for valuation of these securities.

Level 3 - Unobservable inputs.

For Level 2 securities, the Company uses a third party pricing service which provides documentation on an ongoing basis that includes, among other things, pricing information with respect to reference data, methodology, inputs summarized by asset class, pricing application and corroborative information. The Company reviews, tests and validates this information. The following table sets forth the fair value of the financial instruments re-measured by the Company:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|---------|---------|---------|---------|
| (In thousands) | | | | |
| June 30, 2013 | | | | |
| Corporate bonds and notes | \$— | \$5,818 | \$— | \$5,818 |
| Municipal bonds | — | 3,392 | — | 3,392 |
| Total | \$— | \$9,210 | \$— | \$9,210 |

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|---------|---------|---------|-------|
| (In thousands) | | | | |
| December 31, 2012 | | | | |
| Corporate bonds and notes | \$— | \$— | \$— | \$— |
| Municipal bonds | — | — | — | — |
| Total | \$— | \$— | \$— | \$— |

8. Income Taxes

The Company's forecasted effective tax rate at June 30, 2013 was 33.3%, a (4.1)% decrease from the 37.4% effective tax rate recorded at December 31, 2012. The forecasted effective tax rate of 33.3% 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 37.2%. 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. from amounts anticipated at June 30, 2013.

After discrete benefit of \$272, the effective tax rate for the six months ended June 30, 2013 was 31.6%. The discrete benefit is primarily attributable to the recognition of the U.S. research and development credit for 2012.

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9. Subsequent Events

The Company evaluated its consolidated financial statements as of and for the six months ended June 30, 2013 for subsequent events through the date the financial statements were issued. Other than the Utah Supreme Court's denial of Dorsey's petitions for rehearing as described in detail in Part II, Item I, Legal Proceedings, within this Form 10-Q, the Company is not aware of any subsequent event which would require recognition or disclosure in the financial statements.

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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; 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, 2012. 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, 2012.

BUSINESS OVERVIEW

We 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 our advanced comprehensive solutions enhance the quality of life and offer unprecedented levels of functionality, reliability and scalability.

We design, develop, market, and service a comprehensive line of high-quality conferencing products for personal use, as well as traditional tabletop, mid-tier premium and higher-end professional products for both large and small businesses. We occupy the number one global market share position, with a 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.

On February 16, 2012, we completed the acquisition of the video conferencing business of Israel-based VCON Video Conferencing, Ltd. ("VCON"). VCON was a pioneer in software-based video conferencing solutions with product offerings that included group video conferencing endpoints, desktop video conferencing endpoints, video conferencing infrastructure solutions and software development kits. This acquisition and the combination of our streaming and digital signage technologies has provided us with complementary technology opportunities allowing us to enter new growth markets. Pursuant to the asset purchase agreement, ClearOne paid \$4.6 million in cash to VCON in consideration for all VCON's assets, including intellectual property, fixed assets and inventory, and assumed no debt.

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

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 recently acquired to enter new growth markets;
- Focus on the small and medium business (SMB) market with scaled, lower cost and less complex products and solutions;
- Capitalize on the growing adoption of unified communications and introduce new products through emerging information technology channels;
- 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 \$11.7 million and \$11.7 million during the three months ended June 30, 2013 and 2012, respectively. The increased revenues from our new products introduced in the last 18 months was offset by decline in revenue from other products. Our gross profit reduced by \$229,000 during the three months ended June 30, 2013 compared to the three months ended June 30, 2012. Net income increased by \$395,000 during the three months ended June 30, 2013 compared to the three months ended June 30, 2012, primarily due to lower operating costs and lower tax rates.

Our revenues were \$23.0 million and \$21.8 million during the six months ended June 30, 2013 and 2012, respectively. The increase in revenue was primarily from our new products introduced in the last 18 months and from our video products. Our gross profit increased by \$662,000 during the six months ended June 30, 2013 compared to the six months ended June 30, 2012. Net income increased by \$647,000 during the six months ended June 30, 2013 compared to the six months ended June 30, 2012 primarily due to higher gross profits from higher revenue.

We expect overall growth in revenue from our products, especially video products and new products. However, the prospects of growth and its magnitude in both revenues and profits in the near future will 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 and six months ended June 30, 2013, and 2012

The following table sets forth certain items from our unaudited condensed consolidated statements of operations (dollars in thousands) for the three and six months ended June 30, 2013 and 2012, respectively, together with the percentage of total revenue which each such item represents:

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

| | Three months ended June 30, | | | | Six months ended June 30, | | | | |
|----------------------------------|-----------------------------|--------------|-------------|--------------|---------------------------|--------------|-------------|--------------|----|
| | 2013 | % of Revenue | 2012 | % of Revenue | 2013 | % of Revenue | 2012 | % of Revenue | |
| Revenue | \$ 11,703 | 100 | % \$ 11,655 | 100 | % \$ 22,996 | 100 | % \$ 21,809 | 100 | % |
| Cost of goods sold | 4,839 | 41 | % 4,562 | 39 | % 9,133 | 40 | % 8,608 | 39 | % |
| Gross profit | 6,864 | 59 | % 7,093 | 61 | % 13,863 | 60 | % 13,201 | 61 | % |
| Sales and marketing | 2,088 | 18 | % 2,254 | 19 | % 4,356 | 19 | % 4,388 | 20 | % |
| Research and product development | 1,843 | 16 | % 2,029 | 17 | % 3,709 | 16 | % 4,037 | 19 | % |
| General and administrative | 1,437 | 12 | % 1,611 | 14 | % 3,234 | 14 | % 3,091 | 14 | % |
| Proceeds from litigation | — | — | % — | — | % — | — | % (250 |) (1 |)% |
| Operating income | 1,496 | 13 | % 1,199 | 10 | % 2,564 | 11 | % 1,935 | 9 | % |
| Other income (expense), net | 47 | 0 | % (5 |) 0 | % 33 | 0 | % 11 | 0 | % |
| Income before income taxes | 1,543 | 13 | % 1,194 | 10 | % 2,597 | 11 | % 1,946 | 9 | % |
| Provision for income taxes | 498 | 4 | % 544 | 5 | % 822 | 4 | % 818 | 4 | % |
| Net income | \$ 1,045 | 9 | % \$ 650 | 6 | % \$ 1,775 | 8 | % \$ 1,128 | 5 | % |

Revenue

Revenue for the three months ended June 30, 2013 ("2013 Q2") was essentially flat compared to revenue for the three months ended June 30, 2012 ("2012 Q2"). The increase in revenue from new products introduced in the last 18 months was offset by a decline in revenue from other products. An overall increase in demand for our products in North America was offset by a decline in demand in Asia and Europe.

Revenue for the six months ended June 30, 2013 ("2013 H1") increased by approximately 5% over the six months ended June 30, 2012 ("2012 H1"). The revenue primarily increased due to the increase in revenue from video products and new products introduced in the last 18 months. The revenue grew across all regions in the world.

The net change in deferred revenue during the three months ended June 30, 2013 and 2012 was a net increase (decrease) of deferred revenue of \$108,000 and \$(371,000), respectively. The net change in deferred revenue during the six months ended June 30, 2013 and 2012 was a net increase of deferred revenue of \$707,000 and \$47,000, 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 59% and 61% for 2013 Q2 and 2012 Q2, respectively. The decline in gross margin was due to increase in inventory obsolescence costs and changes in our product mix. Our GPM was 60% and 61% for 2013 H1 and 2012 H1, respectively. The slight decrease in gross margin was due to changes in our product mix.

Operating Expenses

2013 Q2 operating expenses were approximately \$5.4 million, compared to 2012 Q2 operating expenses of approximately \$5.9 million. 2013 H1 operating expenses were approximately \$11.3 million, compared to 2012 H1 operating expenses, excluding litigation proceeds of \$250,000, of approximately \$11.5 million.

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.

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

S&M expenses during 2013 Q2 decreased \$166,000, or 7%, when compared to 2012 Q2 due to reduced commissions to sales persons and independent representatives and reduction in marketing expenses. S&M expenses during 2013 H1 decreased \$32,000, or 1%, when compared to 2012 H1 primarily due to reduced commissions to sales persons and independent representatives and reduction in 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 during 2013 Q2 decreased by \$186,000, or 9%, compared to R&D expenses during 2012 Q2. The decrease was mainly due to reduced employee costs and consulting fees, partially offset by an increase in R&D project costs. R&D expenses during 2013 H1 decreased by \$328,000, or 8%, compared to R&D expenses during 2012 H1. The decrease was mainly due to reduced employee costs and consulting fees, partially offset by an increase in R&D project costs.

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 costs.

G&A expenses during 2013 Q2 decreased by \$174,000, or 11%, compared to G&A expenses during 2012 Q2. The decrease was mainly due to reduced legal fees partially offset by increased consulting and accounting fees. G&A expenses during 2013 H1 increased by \$143,000, or 5%, compared to G&A expenses during 2012 H1.

During the first part of 2013 H1, we continued to incur high legal expenses due to various legal proceedings explained in detail in our Form 10-K for the year ended December 31, 2012.

Proceeds from Litigation

The litigation proceeds received in 2012 H1 of \$250,000 represent the receipt of a settlement of amounts due from a defendant in our litigation related to the "Theft of Intellectual Property and Related Cases" described in detail in Note 8 – Commitments and Contingencies of the Notes to the Consolidated Financial Statements in our Form 10-K for the year ended December 31, 2012.

Other income (expense), net

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

Provision for income taxes

During 2013 Q2, we accrued income taxes at the expected annualized rate of 33.3% as compared to an annualized rate of 37.4% in 2012 Q2. The decrease in the expected annualized rate in 2013 Q2 was primarily due to earnings anticipated in countries that have lower statutory tax rates. In addition, a discrete tax benefit of \$272 related to the U.S. research and development credit was recognized in the first half of 2013.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2013, our cash, cash equivalents, and marketable securities were approximately \$41.6 million, a decrease of \$13.9 million compared to cash and cash equivalents of approximately \$55.5 million as of December 31, 2012.

Net cash used in operating activities was \$12.8 million in 2013 H1, an increase in outflow of approximately \$11.4 million compared to \$1.4 million cash used in operating activities in 2012 H1. The increase in outflow was primarily due to payment of income taxes associated with the arbitration settlement proceeds received in 2012, reduction in collections from receivables and reduction in accrued payables partially offset by reduction in payments for inventories and accounts payable.

Net cash used in investing activities in 2013 H1 was approximately \$9.8 million, which consisted of purchases of marketable securities of \$9.3 million and purchases of equipment of \$457,000. Net cash used in investing activities in 2012 H1 consisted of the acquisition of the business of VCON for \$4.6 million and \$202,000 towards purchases of equipment.

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Net cash used in financing activities in 2013 H1 was approximately \$583,000, which consisted of the acquisition of outstanding stock totaling \$991,000, offset by \$408,000 in proceeds received through exercise of stock options. In 2012 H1, net cash used in financing activities was \$11,000 which consisted of the acquisition of outstanding stock totaling \$92,000, offset by \$81,000 in proceeds received through the exercise of stock options.

As of June 30, 2013, our working capital was \$49.1 million as compared to \$56.5 million as of December 31, 2012.

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 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, 2012 and Note 1 to the Condensed Consolidated Financial Statements set forth in Part I, Item I 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.

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

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 June 30, 2013 and December 31, 2012:

| | As of June 30, 2013 | As of December 31, 2012 |
|-----------------------------|------------------------|----------------------------|
| Deferred revenue | \$4,300 | \$3,593 |
| Deferred cost of goods sold | 1,605 | 1,289 |
| Deferred gross profit | \$2,695 | \$2,304 |

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

We allocated the purchase price for the acquisitions of NetStreams in 2009, MagicBox in 2011 and VCON in 2012 on the basis of well-established valuation techniques performed by qualified experts. 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. In connection with the acquisition of NetStreams, \$726,000 and \$400,000 were recorded as goodwill and intangible assets with indefinite useful life, respectively. With respect to the MagicBox acquisition, \$427,000 and \$159,000 were recorded as goodwill and intangible assets with indefinite useful life, respectively. Goodwill of \$2.3 million was recorded in connection with the VCON acquisition. There were no impairments recorded in 2013 or 2012 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 the NetStreams, MagicBox or VCON 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

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

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, 2012 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 \$270,000.

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 of 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.

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CLEARONE, INC.

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 June 30, 2013 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 June 30, 2013 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 June 30, 2013 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, 2012 under Part I, Item 3. Legal Proceedings and Note 8 - Commitments and Contingencies of the Notes to Consolidated Financial Statements (Part II, Item 8), and our Form 10-Q for the period ended March 31, 2013 under Part II, Item I, Legal Proceedings.

Former Officer Indemnification:

Strohm: On April 9, 2013, the Utah Supreme Court issued its Opinion declaring that Strohm's attorney, Dorsey, is not entitled to recover any attorneys' fees or expenses in connection with its civil action against ClearOne but that Dorsey is entitled to recover post-verdict criminal fees incurred in connection with Strohm's sentencing and appeal. On April 23, 2013, Dorsey filed a petition for rehearing with the Utah Supreme Court seeking to recover its attorneys' fees and expenses incurred in obtaining court-ordered indemnification for Strohm. Dorsey has further requested that the Court reverse its public policy ruling that Dorsey is not entitled to attorneys' fees and expenses in connection with its civil action against ClearOne. In early August 2013, the Utah Supreme Court denied Dorsey's petitions for rehearing.

Item 1A. RISK FACTORS

Not applicable.

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

Issuer Purchases of Equity Securities

The table below summarizes information about our purchases of our equity securities registered pursuant to Section 12 of the Exchange Act of 1934, as amended, during the quarterly period ended June 30, 2013.

| Period | Total Number of Shares | Average Price Paid Per Share | Total Number of Shares | Maximum Approximate |
|--------|------------------------|------------------------------|------------------------|---------------------|
|--------|------------------------|------------------------------|------------------------|---------------------|

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| | Purchased (1) | (2) | Purchased as Part of Publicly Announced Plans or Programs (1) | Dollar Value of Shares that May Yet Be Purchased under the Plans or Program (in millions) |
|--------------------------------------|---------------|--------|---|---|
| April 1, 2013 through April 30, 2013 | — | \$— | — | \$9,042,065 |
| May 1, 2013 through May 31, 2013 | 45,150 | \$9.23 | 416,943.15 | \$8,625,122 |
| June 1, 2013 through June 30, 2013 | — | \$— | — | \$8,625,122 |
| Total | 45,150 | \$9.23 | 416,943.15 | |

In May 2012, our Board of Directors authorized a stock repurchase program. Under the program, we were (1)originally authorized to repurchase up to \$2 million of our outstanding common stock from time to time over the following 12

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CLEARONE, INC.

months. Any stock repurchases may be made through open market and privately negotiated transactions, at times and in such amounts as management deems appropriate, including pursuant to one or more Rule 10b5-1 trading plans.

Rule 10b5-1 permits us to establish, while not in possession of material nonpublic information, prearranged plans to buy stock at a specific price in the future, regardless of any subsequent possession of material nonpublic information. The timing and actual number of shares repurchased will depend on a variety of factors, including market conditions and other factors. The stock repurchase program may be suspended or discontinued at any time without prior notice. On July 30, 2012, the Board of Directors increased the repurchase amount to \$3 million from the original \$2 million. On February 20, 2013, the Board of Directors increased the repurchase amount to \$10 million from \$3 million.

(2)The price paid per share of common stock includes the related transaction costs.

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 |
|-------------|--|
| 31.1 | Section 302 Certification of Chief Executive Officer |
| 31.2 | Section 302 Certification of Principal Financial Officer |
| 32.1 | Section 906 Certification of Chief Executive Officer |
| 32.2 | Section 906 Certification of Principal Financial Officer |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definitions Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

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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)

August 7, 2013

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

August 7, 2013

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