CLEARONE INC
Form 10-Q
August 12, 2015

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

FORM 10-Q

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period _______ to _______

Commission file number: 001-33660
CLEARONE, INC.
(Exact name of registrant as specified in its charter)

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

+1 (801) 975-7200
(Registrant's telephone number, including area code)

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

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

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

Larger Accelerated Filer [ ]	Accelerated Filer [ ]
Non-Accelerated Filer [ ] (Do not check if a smaller reporting company)	Smaller Reporting Company [x]

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of ClearOne common stock outstanding as of August 3, 2015 was 9,138,176.

CLEARONE, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2015

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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, 2015	December 31, 2014
ASSETS	Unaudited	
Current assets:		
Cash and cash equivalents	$10,873	$7,440
Marketable securities	6,385	6,994
Receivables, net of allowance for doubtful accounts of $52 and $58, respectively	8,557	9,916
Inventories	14,340	12,766
Distributor channel inventories	1,629	1,698
Deferred income taxes	3,824	3,824
Prepaid expenses and other assets	2,545	2,143
Total current assets	48,153	44,781
Long-term marketable securities	18,756	19,162
Long-term inventories, net	680	876
Property and equipment, net	1,811	2,039
Intangibles, net	7,267	7,896
Goodwill	12,724	12,724
Deferred income taxes	1,278	1,265
Other assets	114	117
Total assets	$90,783	$88,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$3,033	$3,057
Accrued liabilities	2,908	2,694
Deferred product revenue	4,744	5,004
Total current liabilities	10,685	10,755
Deferred rent	196	248
Other long-term liabilities	1,237	1,841
Total liabilities	12,118	12,844
Shareholders' equity:		
Common stock, par value $0.001, 50,000,000 shares authorized, 9,128,053 and 9,097,827 shares issued and outstanding	9	9
Additional paid-in capital	45,513	44,939
Accumulated other comprehensive (loss)	(81)	(8)
Retained earnings	33,224	31,076
Total shareholders' equity	78,665	76,016
Total liabilities and shareholders' equity	$90,783	$88,860

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,	
	2015	2014	2015	2014
Revenue	$14,013	$14,111	$27,600	$26,819
Cost of goods sold	5,022	6,047	10,147	11,053
Gross profit	8,991	8,064	17,453	15,766
Operating expenses:				
Sales and marketing	2,753	2,976	5,375	5,713
Research and product development	2,054	2,330	3,996	4,571
General and administrative	1,891	1,712	3,890	3,680
Total operating expenses	6,698	7,018	13,261	13,964
Operating income	2,293	1,046	4,192	1,802
Other income, net	85	64	190	145
Income before income taxes	2,378	1,110	4,382	1,947
Provision for income taxes	863	228	1,595	578
Net income	$1,515	$882	$2,787	$1,369
Basic earnings per common share	$0.17	$0.10	$0.31	$0.15
Diluted earnings per common share	$0.16	$0.09	$0.29	$0.14
Basic weighted average shares outstanding	9,119,907	9,266,071	9,110,062	9,174,816
Diluted weighted average shares outstanding	9,603,682	9,677,726	9,560,914	9,618,172
Comprehensive income:				
Net income	$1,515	$882	$2,787	$1,369
Other comprehensive income:				
Change in unrealized gains (losses) on available-for-sale securities, net of tax	(77)	65	(23)	138
Change in foreign currency translation adjustment	129	—	(50)	—
Comprehensive income	$1,567	$947	$2,714	$1,507

See accompanying notes

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

	Six months ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$2,787	$1,369
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization expense	1,033	870
Amortization of deferred rent	(47)	(46)
Stock-based compensation expense	455	168
Provision for (recoveries of) doubtful accounts, net	(6)	11
Write-down of inventory to net realizable value	130	424
Loss on disposal of assets	—	2
Tax benefit from exercise of stock options	(29)	(90)
Changes in operating assets and liabilities:		
Receivables	1,319	(555)
Inventories	(1,439)	(749)
Deferred income taxes	(13)	(333)
Prepaid expenses and other assets	(377)	739
Accounts payable	(19)	(570)
Accrued liabilities	(1,072)	441
Income taxes payable	969	(34)
Deferred product revenue	(222)	1,086
Other long-term liabilities	(604)	87
Net cash provided by operating activities	2,865	2,820
Cash flows from investing activities:		
Payment towards business acquisitions	—	(13,078)
Purchase of property and equipment	(182)	(371)
Purchase of patents	—	(90)
Proceeds from maturities and sales of marketable securities	4,197	—
Purchases of marketable securities	(3,204)	(311)
Net cash provided by (used in) investing activities	811	(13,850)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	90	1,265
Tax benefits from stock options	29	90
Stock registration costs	—	(55)
Dividends paid	(319)	—
Treasury stock purchased	—	(1,169)
Net cash provided by financing activities	(200)	131
Effect of exchange rate changes on cash and cash equivalents	(43)	—
Net increase (decrease) in cash and cash equivalents	3,433	(10,899)
Cash and cash equivalents at the beginning of the period	7,440	17,192
Cash and cash equivalents at the end of the period	$10,873	$6,293

See accompanying notes

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

The following is a summary of supplemental cash flow activities:

	Six months ended June 30,	
	2015	2014
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$2,280	$657
Issuance of common stock in connection with acquisition of business	—	1,679

See accompanying notes

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

Basis of Presentation:

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

These accompanying interim condensed consolidated financial statements for the three and six months ended June 30, 2015 and 2014, respectively, have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and are not audited. Certain information and footnote disclosures that are usually included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been either condensed or omitted in accordance with SEC rules and regulations. The accompanying consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial position as of June 30, 2015 and December 31, 2014, the results of operations for the three and six months ended June 30, 2015 and 2014, and the statements of cash flows for the six months ended June 30, 2015 and 2014. The results of operations for the three and six months ended June 30, 2015 and 2014 are not necessarily indicative of the results for a full-year period. These interim condensed consolidated financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 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, 2014. There have been no changes to these policies during the six months ended June 30, 2015 that are of significance or potential significance to the Company.

Recent Accounting Pronouncements:

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

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

2. 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,	
	2015	2014	2015	2014
Numerator:				
Net income	$1,515	$882	$2,787	$1,369
Denominator:				
Basic weighted average shares outstanding	9,119,907	9,266,071	9,110,062	9,174,816
Dilutive common stock equivalents using treasury stock method	483,775	411,655	450,852	443,356
Diluted weighted average shares outstanding	9,603,682	9,677,726	9,560,914	9,618,172
Basic earnings per common share	$0.17	$0.10	$0.31	$0.15
Diluted earnings per common share	$0.16	$0.09	$0.29	$0.14
Weighted average options outstanding	1,037,978	900,512	1,037,560	971,963
Anti-dilutive options not included in the computations	74,209	145,459	171,459	130,730

3. Business Combination

Acquisition of Sabine

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

Pursuant to the SPA, the Company (i) paid initial consideration of $8,141 in cash, (ii) accrued for possible additional earn-out payments over the next two years, estimated to be $657, and (iii) issued 150,000 shares of restricted common stock of the Company, valued at $1,679 (determined on the basis of the closing market price of the Company's stock on the acquisition date). The purchase price was paid out of cash on hand. The SPA contains representations, warranties and indemnifications customary for a transaction of this type.

The following table summarizes the consideration paid for the acquisition:

	Consideration
Cash	$8,141
Common stock	1,679
Contingent consideration	657
Total	$10,477

The fair values of Sabine assets acquired and liabilities assumed are based on the information that was available during the measurement period of twelve months from the date of acquisition. The fair value of identified assets and liabilities acquired and goodwill is as follows:

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

	Fair value
Cash	$125
Accounts receivable	255
Inventories	844
Prepaid and other	105
Intangibles	3,970
Property, plant and equipment	292
Other long-term assets	11
Goodwill	5,510
Deferred tax asset	245
Trade accounts payable	(420)
Accrued liabilities	(405)
Stock registration costs	(55)
Total	$10,477

The goodwill of $5,510 related to the acquisition of Sabine is composed of expected synergies in utilizing Sabine technology in ClearOne product offerings, reduction in future combined research and development expenses, and intangible assets including acquired workforce that do not qualify for separate recognition. The goodwill balance of $5,510 related to the acquisition of Sabine is expected to be deductible for tax purposes.

Supplemental Pro Forma Information:

1) Revenue and net loss from the Sabine business from March 8, 2014 to June 30, 2014 were $84 and $163 respectively.
2) Revenue and earnings of the combined entity as though the business combination occurred as of January 1, 2014 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenue	$14,013	$14,111	$27,600	$27,088
Earnings	1,515	934	2,787	1,184
Basic earnings per common share	$0.17	$0.10	$0.31	$0.13
Diluted earnings per common share	$0.16	$0.10	$0.29	$0.12

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

Acquisition of Spontania Business of Spain-based Dialcom Networks, S.L.

On April 1, 2014 ClearOne, Inc. closed on the acquisition of the Spontania business of Spain-based Dialcom Networks, S.L. The Spontania cloud-based service empowers customers to deploy HD video conferencing, web collaboration, and more with equipment most businesses have and use every day - video-conferencing endpoints, desktops, laptops, web browsers, tablets, and smartphones. With Spontania there is no hardware investment and the service operates off of a reservation-less model, enabling on-demand video communications from virtually anywhere, anytime, with anyone on any device.

The aggregate purchase price under the terms of the transaction was approximately €3.66 million in cash (approximately US$5.1 million), after certain closing adjustments. ClearOne did not assume any debt or cash. The cash purchase price was paid out of cash on hand. The addition of this technology was an integral part of the company's strategy to build an all-inclusive video collaboration portfolio.

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

The fair value of identified assets and liabilities acquired from the Spontania acquisition was as follows:

	Fair value
Intangibles	$1,335
Property and equipment	47
Goodwill	3,741
Accrued liabilities	(71)
Total	$5,052

The goodwill of $3,741 relates to the acquisition of Spontania cloud-based technology and intangible assets including acquired workforce that does not qualify for separate recognition. The goodwill of $3,741 from the Spontania acquisition is expected to be deductible for tax purposes.

Supplemental Pro Forma Information:

Revenue and earnings of the combined entity as though the business combination occurred as of January 1, 2014 is not available. The Spontania business was part of a business unit of Dialcom Networks, S.L., and thus separate stand-alone financial information for Spontania is not available.

Acquisition Expenses:

During the six months ended June 30, 2015 and the six months ended June 30, 2014, the company incurred $133 and $437 in total acquisition related expenses for the Sabine and Spontania acquisitions, all of which are categorized under general and administrative expenses in the respective Consolidated Statement of Operations.

Retroactive Restatement:

Following the completion of the valuation process for the acquisition of Sabine we reported intangible amortization to reflect the final adjusted values on Form 10-K for the year ended December 31, 2014. For the quarter and six months ended June 30, 2015 we reported amortization based on the final valuation of intangible items. For the comparative quarter and six months ended June 30, 2014 we have restated net income to reflect the inclusion of the revised amortization applicable to those periods. Net income changed from $934 and $1,424 originally reported for the three and six months ended June 30, 2014 to $882 and $1,369. The reported retained earnings balance of $29,247 at June 30, 2014 under the restatement would be $29,158. The restatement resulted in changes in basic and diluted earnings per share for the three months ended June 30, 2014 from $0.10 and $0.10 to $0.10 and $0.09, respectively. The restatement did not result in a reportable change to earnings per share for the six months ended June 30, 2014.

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 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.

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

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, 2015 and December 31, 2014 were as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
June 30, 2015				
Available-for-sale securities:				
Corporate bonds and notes	$18,966	$92	$(90)	$18,968
Municipal bonds	6,152	23	(2)	6,173
Total available-for-sale securities	$25,118	$115	$(92)	$25,141

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
December 31, 2014				
Available-for-sale securities:				
Corporate bonds and notes	$19,804	$89	$(55)	$19,838
Municipal bonds	6,292	28	(2)	6,318
Total available-for-sale securities	$26,096	$117	$(57)	$26,156

Maturities of marketable securities classified as available-for-sale securities were as follows at June 30, 2015:

	Amortized cost	Estimated fair value
June 30, 2015		
Due within one year	$6,410	$6,384
Due after one year through five years	18,350	18,399
Due after five years through ten years	358	358
Total available-for-sale securities	$25,118	$25,141

Debt securities in an unrealized loss position as of June 30, 2015 were not deemed impaired at acquisition and subsequent declines in fair value are not deemed attributed to declines in credit quality. Management believes that it is more likely than not that the securities will receive a full recovery of par value. The available-for-sale marketable securities in a gross unrealized loss position as of June 30, 2015 are summarized as follows:

	Less than 12 months		More than 12 months		Total	
(In thousands)	Estimated fair value	Gross unrealized holding losses	Estimated fair value	Gross unrealized holding losses	Estimated fair value	Gross unrealized holding losses
As of June 30, 2015						
Corporate bonds and notes	$7,443	$(72)	$398	$(18)	$7,841	$(90)
Municipal bonds	743	(1)	230	(1)	973	(2)

	$8,186	$(73)	$628	$(19)	$8,814	$(92)

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

5. Intangible Assets

Intangible assets as of June 30, 2015 and December 31, 2014 consisted of the following:

	Estimated useful lives	June 30, 2015	December 31, 2014
Tradename	5 to 7 years	$555	$555
Patents and technological know-how	10 years	5,850	5,850
Proprietary software	3 to 15 years	4,341	4,341
Other	5 years	324	324
		11,070	11,070
Accumulated amortization		(3,803)	(3,174)
		$7,267	$7,896

The amortization of intangible assets for the three and six months ended June 30, 2015 and June 30, 2014 was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Amortization of intangible assets	$315	$352	$629	$521

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

Years ending December 31,	
2015 (remainder)	$629
2016	1,121
2017	925
2018	851
2019	778
Thereafter	2,963
	$7,267

6. Inventories

Inventories, net of reserves, as of June 30, 2015 and December 31, 2014 consisted of the following:

	June 30, 2015	December 31, 2014
Current:		
Raw materials	$3,237	$3,056
Finished goods	12,732	11,408
	$15,969	$14,464
Long-term:		
Raw materials	$59	$59
Finished goods	621	817
	$680	$876

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

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 $1,629 and $1,698 as of June 30, 2015 and December 31, 2014, 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, 2015 and 2014, respectively.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net loss on valuation of inventory and write-off of obsolete inventory	$83	$9	$130	$424

7. Share-based Compensation

Share-based compensation expense has been recorded as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Cost of goods sold	$5	$2	$11	$4
Sales and marketing	39	20	79	40
Research and product development	33	10	66	21
General and administrative	140	52	299	103
	$217	$84	$455	$168

As of June 30, 2015, the total remaining unrecognized compensation cost related to non-vested stock options, net of forfeitures, was approximately $1,144, which will be recognized over a weighted average period of 2.47 years.

8. Shareholders' Equity

The following table summarizes the change in shareholders' equity during the three and six months ended June 30, 2015 and 2014, respectively:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Balance at the beginning of the period	$77,109	$73,764	$76,016	$70,335
Net income during the period	1,515	882	2,787	1,369
Treasury stock purchased	—	(1,169)	—	(1,169)
Share-based compensation	217	84	455	168
Tax benefit - stock option exercise	22	5	29	90
Exercise of stock options	70	244	90	1,265
Dividends	(320)	—	(639)	—
Stock issued for acquisitions	—	—	—	1,679
Unrealized gain or loss on investments, net of tax	(77)	65	(22)	138
Foreign currency translation adjustment	129	—	(51)	—

Balance at end of the period	$78,665	$73,875	$78,665	$73,875

On July 16, 2015, the company announced a quarterly cash dividend of $0.035 per share to be paid on August 10, 2015 to shareholders of record as of July 27, 2015.

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

9. Fair Value Measurements

The fair value of the Company's financial instruments reflects the amounts that the Company estimates it will receive in connection with the sale of an asset or pay in connection with the transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value hierarchy prioritizes the use of inputs used in valuation techniques into the following three levels:
Level 1 - Quoted prices in active markets for identical assets and liabilities.
Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes U.S. Government and agency securities; municipal securities; mutual funds and securities sold and not yet settled.
Level 3 - Unobservable inputs.
The substantial majority of the Company’s financial instruments are valued using quoted prices in markets that are not active or based on other observable inputs. The following table sets forth the fair value of the financial instruments re-measured by the Company as of June 30, 2015 and December 31, 2014:

	Level 1	Level 2	Level 3	Total
June 30, 2015				
Corporate bonds and notes	$—	$18,968	$—	$18,968
Municipal bonds	—	6,173	—	6,173
Total	$—	$25,141	$—	$25,141
	Level 1	Level 2	Level 3	Total
December 31, 2014				
Corporate bonds and notes	$—	$19,838	$—	$19,838
Municipal bonds	—	6,318	—	6,318
Total	$—	$26,156	$—	$26,156

10. Income Taxes

The Company's forecasted effective tax rate at June 30, 2015 is 36.0%, a 4.0% increase from the 32.0% effective tax rate recorded at December 31, 2014. The forecasted effective tax rate of 36.0% excludes jurisdictions for which no benefit from forecasted current year losses is anticipated. Including losses from such jurisdictions results in a forecasted effective tax rate of 36.6%. Our forecasted effective tax rate could fluctuate significantly on a quarterly basis and could change, to the extent that earnings in countries with tax rates that differ from that of the U.S. differ, from amounts anticipated at June 30, 2015.

After discrete tax benefit of $8, the effective tax rate for the quarter ended June 30, 2015 is 36.4%. The discrete tax benefit is primarily attributable to tax benefits of share-based compensation.

11. Subsequent Events

On July 16, 2015, the company announced a quarterly cash dividend of $0.035 per share to be paid on Aug 10, 2015 to shareholders of record as of July 27, 2015.

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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; integration of business acquisitions; and other factors referred to in our press releases and reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2014. 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, 2014.

BUSINESS OVERVIEW

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

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

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

Our business goals are to:

- Maintain our leading global market share in professional audio conferencing products for large businesses and organizations;
- Standardize our products amongst the Fortune 500 and other blue chip companies;

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

- Leverage the video conferencing, streaming and digital signage technologies we have acquired over the years to enter new growth markets;
- Focus on the small and medium business (SMB) market with scaled, lower cost and less complex products and solutions;
- Capitalize on the increasing adoption of unified communications and introduce new products through information technology channels;
- Capitalize on emerging market opportunities as audio visual, information technology, unified communications and traditional digital signage converge to meet enterprise and commercial multimedia needs; and
- Expand and strengthen our sales channels.

We will continue to improve our existing high-quality products and develop new products for the burgeoning conferencing and collaboration and multimedia streaming markets and focus on strategic initiatives to achieve our business goals.

Our revenues were $14.0 million and $14.1 million during the three months ended June 30, 2015 and 2014, respectively. The decrease in revenues was due to diminished demand in Europe due to weak economic conditions. Our gross profit increased by $927 thousand during the three months ended June 30, 2015 compared to the three months ended June 30, 2014. Net income increased by $633 thousand during the three months ended June 30, 2015 compared to the three months ended June 30, 2014. Net income for the three months ended June 30, 2015 increased primarily due to increased gross profit margin on favorable product mix and reduced operating expenses compared to the three months ended June 30, 2014.

Our revenues were $27.6 million and $26.8 million during the six months ended June 30, 2015 and 2014, respectively. The increase in revenues was due to increased sales of microphone products and professional audio products. Our gross profit increased by $1.7 million during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. Net income increased by $1.4 million during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. Net income for the six months ended June 30, 2015 increased primarily due to increased gross profit margin on favorable product mix and reduced operating expenses compared to the six months ended June 30, 2014.

We expect continued growth in revenue from microphone products and video products. However the prospects of growth and its magnitude in both revenues and profits in the near future would depend on the strength of the global economy and the penetration level of our new products, including products added through acquisitions. We continue to closely monitor the economic situation in Australia, China and Europe.

A detailed discussion of our results of operations follows below.

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

ANALYSIS OF RESULTS OF OPERATIONS

Results of Operations for the three and six months ended June 30, 2015 and 2014

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, 2015 and 2014, respectively, together with the percentage of total revenue which each such item represents:

	Three months ended June 30,				Six months ended June 30,			
	2015	% of Revenue	2014	% of Revenue	2015	% of Revenue	2014	% of Revenue
Revenue	$14,013	100%	$14,111	100%	$27,600	100%	$26,819	100%
Cost of goods sold	5,022	36%	6,047	43%	10,147	37%	11,053	41%
Gross profit	8,991	64%	8,064	57%	17,453	63%	15,766	59%
Sales and marketing	2,753	20%	2,976	21%	5,375	19%	5,713	21%
Research and product development	2,054	15%	2,330	17%	3,996	14%	4,571	17%
General and administrative	1,891	13%	1,712	12%	3,890	14%	3,680	14%
Operating income	2,293	16%	1,046	7%	4,192	15%	1,802	7%
Other income (expense), net	85	1%	64	0%	190	1%	145	1%
Income before income taxes	2,378	17%	1,110	8%	4,382	16%	1,947	7%
Provision for income taxes	863	6%	228	2%	1,595	6%	578	2%
Net income	$1,515	11%	$882	6%	$2,787	10%	$1,369	5%

Revenue

Revenue for the three months ended June 30, 2015 was approximately $14.0 million, a decrease of approximately 1% over the three months ended June 30, 2014. The decrease in revenue was due to a steep decline in revenue from EMEA and Australia caused by uncertain economic conditions and a modest decline in Americas. The decline is mainly attributable to decline in revenue from unified communications products partially offset by growth in demand for our professional products driven by demand for our microphone products and video products.

Revenue for the six months ended June 30, 2015 was approximately $27.6 million, an increase of approximately 3% over the six months ended June 30, 2014. The increase in revenue was due to increased demand from North America and Asia Pacific, partially offset by decline in EMEA (Europe, Middle East, and Africa). The increase is mainly attributable to growth in demand for our microphone products, other professional audio, and video products, partially offset by a decline in unified communications products revenue.

The net change in deferred revenue during the six months ended June 30, 2015 from December 31, 2014 and the six months ended June 30, 2014 from December 31, 2013 was a net decrease in deferred revenue of $260 thousand and a net increase in deferred revenue of $1.1 million, respectively. See "Critical Accounting Policies and Estimates" under "Revenue and Associated Allowance for Revenue Adjustments and Doubtful Accounts" below for a detailed discussion of deferred revenue.

Costs of Goods Sold and Gross Profit

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

Our gross profit margin (GPM), which is gross profit as a percentage of revenue, was 64% and 57% for the three months ended June 30, 2015 and 2014, respectively. The 7% increase in gross margin was primarily due to increased sales of higher margin products and decline in volumes of lower margin unified communications products. Our gross profit margin (GPM), which is gross profit as a percentage of revenue, was 63% and 59% for the six months ended June 30, 2015 and 2014, respectively. The

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

4% increase in gross margin was primarily due to increased sales of higher margin products decline in volumes of lower margin unified communications products.

Operating Expenses

Operating expenses for the three months ended June 30, 2015 decreased by approximately $320 thousand to $6.7 million compared to $7.0 million for the three months ended June 30, 2014. Operating expenses for the six months ended June 30, 2015 decreased by approximately $0.7 million to $13.3 million compared to $14.0 million for the six months ended June 30, 2014.

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

S&M expenses of approximately $2.8 million for the three months ended June 30, 2015 decreased $223 thousand, or 7%, when compared to S&M expenses of approximately $3.0 million for the three months ended June 30, 2014 this decreased primarily due to decreases in commission and bonus payments to employees and marketing expenses, partially offset by increase in commission payments to independent agents. S&M expenses of approximately $5.4 million for the six months ended June 30, 2015 decreased $0.3 million, or 6%, when compared to S&M expenses of approximately $5.7 million for the six months ended June 30, 2014 this decreased primarily due to decreases in commission and bonus payments to employees and marketing expenses, partially offset by increase in commission payments to independent agents.

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

R&D expenses of approximately $2.1 million for the three months ended June 30, 2015 decreased by $276 thousand, or 12%, when compared to R&D expenses of approximately $2.3 million for the three months ended June 30, 2014. R&D expenses decreased due to decreased employee-related costs, consulting expenses and project related cost. R&D expenses of approximately $4.0 million for the six months ended June 30, 2015 decreased by $0.6 million, or 13%, when compared to R&D expenses of approximately $4.6 million for the six months ended June 30, 2014. R&D expenses decreased due to decreased employee-related costs, consulting expenses and project related cost.

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

G&A expenses of approximately $1.9 million for the three months ended June 30, 2015 increased by $179 thousand, or 10%, when compared to G&A expenses of approximately $1.7 million for the three months ended June 30, 2014. G&A expenses increased due to increases in legal fees, audit and accounting fees and stock based compensation. These increases were partially offset by decreases in acquisition related expenses. G&A expenses of approximately $3.9 million for the six months ended June 30, 2015 increased by $210 thousand, or 6%, when compared to G&A expenses of approximately $3.7 million for the six months ended June 30, 2014. G&A expenses increased due to increases in amortization of intangibles, audit and accounting fees and stock based compensation. These increases were partially offset by decreases in acquisition related expenses.

Other income (expense), net

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

Provision for income taxes

During the three months ended June 30, 2015, we accrued income taxes at the forecasted effective tax rate of 36.0% as compared to the forecasted effective tax rate of 34.7% used during the three months ended June 30, 2014. The 1.3% increase in the forecasted effective tax rate was primarily due to changes in the amount of projected foreign income taxed at different rates. In addition, a discrete tax benefit of $8 is primarily attributable to tax benefits of share-based compensation.

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LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2015, our cash and cash equivalents were approximately $10.9 million, an increase of approximately $3.5 million compared to cash and cash equivalents of approximately $7.4 million as of December 31, 2014.

Net cash provided by operating activities was $2.9 million during the six months ended June 30, 2015, an increase in cash flow of approximately $45 thousand compared to $2.8 million of cash provided by operating activities during the six months ended June 30, 2014. The increase in operating cash flow was primarily due to increase in net income and unpaid taxes with the remaining differences due to the timing of receipts and payments of working capital, which include accounts receivable, accounts payable, accrued expenses, inventories, and prepaid expenses and other assets.

Net cash provided by investing activities was approximately $0.8 million during the six months ended June 30, 2015, a comparative net inflow of cash of approximately $14.7 million when compared to $13.9 million of cash used in investing activities during the six months ended June 30, 2014. Net cash provided by investing activities during the six months ended June 30, 2015 included proceeds from maturities and sales of marketable investment securities in excess of purchases of marketable securities. Net cash used in investing activities for the six months ended June 30, 2014 included payments relating to the acquisition of the business of Sabine for $8.1 million and payments relating to the acquisition of the Spontania product line of $5.1 million.

Net cash used in financing activities was approximately $200 thousand during the six months ended June 30, 2015, a decrease of approximately $331 thousand when compared to $131 thousand of cash provided by investing activities during the six months ended June 30, 2014. Financing activities during the six months ended June 30, 2015 primarily consisted of dividend payments of $319 thousand and cash inflows of about $90 thousand from the exercise of stock options, while financing activities in the same period in 2014 consisted mostly of cash inflows of about $1.3 million from the exercise of stock options.

As of June 30, 2015, our working capital was $37.5 million as compared to $34.0 million as of December 31, 2014.

We believe that our current cash balance, future income from operations and effective management of working capital will provide the liquidity needed to meet our short-term and long-term operating requirements and finance our growth plans. We also believe that our strong financial position and sound business structure will enable us to raise additional capital when needed to meet our short and long-term financing needs. In addition to recent acquisitions and capital expenditures, we may use cash in the near future for selective infusions of technology, sales & marketing, infrastructure, and other investments to fuel our growth, as well as acquisitions that may strategically fit our business and are accretive to our performance. We also plan to fund the payment of cash dividends in connection with the current Board approved plan as announced on December 2, 2014, which may be adjusted from time-to-time based on factors that the Board of Directors deems relevant.

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 1 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014. 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

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

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

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

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

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

The amount of deferred cost of goods sold was included in consigned inventory. The following table details the amount of deferred revenue, cost of goods sold, and gross profit as of June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
Deferred revenue	$4,744	$5,004
Deferred cost of goods sold	1,629	1,698
Deferred gross profit	$3,115	$3,306

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

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

Impairment of Goodwill and Intangible Assets

Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. We perform impairment tests of goodwill and intangible assets with indefinite useful lives on an annual basis in the fourth fiscal quarter, or sooner if a triggering event occurs suggesting possible impairment of the values of these assets. There were no impairments recorded in 2015 or 2014 as no impairment indicators existed. However, due to uncertainty in the industrial, technological, and competitive environments in which we operate, we might be required to exit or dispose of the assets acquired through our acquisitions, which could result in an impairment of goodwill and intangible assets.

Impairment of Long-Lived Assets

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

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

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

To the extent we establish a valuation allowance in a period, we must include and expense the allowance within the tax provision in the consolidated statement of operations. In accordance with ASC Topic 740, "Accounting for Income Taxes", we analyzed our valuation allowance at December 31, 2014 and determined that based upon available evidence it is more likely than not that certain of our deferred tax assets related to capital loss carryovers, state research and development credits, and foreign net operating loss carryforwards will not be realized and, accordingly, we have recorded a valuation allowance against these deferred tax assets in the amount of $786 thousand.

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

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

Share-Based Compensation

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

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

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

Recent Accounting Pronouncements:

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

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, 2015 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, 2015 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, 2015 that materially affected, or that we believe is reasonably likely to materially affect, our internal control over financial reporting.

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CLEARONE, INC.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

There are no updates to the status of the legal proceedings and commitments and contingencies reported in our Form 10-K for the year ended December 31, 2014 under Part I, Item 3. Legal Proceedings and Note 8 - Commitments and Contingencies of the Notes to Consolidated Financial Statements (Part II, Item 8).

Item 1A. RISK FACTORS

Not applicable.

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

Not applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

Exhibit No.	Title of Document
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)

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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 11, 2015	By: /s/ Zeynep Hakimoglu Zeynep Hakimoglu Chief Executive Officer (Principal Executive Officer)
August 11, 2015	By: /s/ Narsi Narayanan Narsi Narayanan Senior Vice President of Finance (Principal Financial and Accounting Officer)