

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 001-33660

CLEARONE, INC.
(Exact name of registrant as specified in its charter)

<u>Utah</u> (State or other jurisdiction of incorporation or organization)	<u>87-0398877</u> (I.R.S. employer identification number)
<u>5225 Wiley Post Way, Suite 500, Salt Lake City, Utah</u> (Address of principal executive offices)	<u>84116</u> (Zip Code)
<u>(Registrant's telephone number, including area code)</u>	<u>801-975-7200</u>

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

<u>Title of each class</u>	<u>Name on each exchange on which registered</u>
Common Stock, \$0.001 par value	The NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark 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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "larger 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 Smaller Reporting Company
(Do not check if a smaller reporting company)

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

The aggregate market value of the shares of voting common stock held by non-affiliates was approximately \$51.6 million at June 30, 2013, (the Company's most recently completed second fiscal quarter), based on the \$8.51 closing price for the Company's common stock on the NASDAQ Capital Market on such date. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

The number of shares of ClearOne common stock outstanding as of March 14, 2014 was 9,309,529.

CLEARONE, INC.

ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements reflect our views with respect to future events based upon information available to us at this time. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from these statements. Forward-looking statements are typically identified by the use of the words “believe,” “may,” “could,” “will,” “should,” “expect,” “anticipate,” “estimate,” “project,” “propose,” “plan,” “intend,” and similar words and expressions. Examples of forward-looking statements are statements that describe the proposed development, manufacturing, and sale of our products; statements that describe our results of operations, pricing trends, the markets for our products, our anticipated capital expenditures, our cost reduction and operational restructuring initiatives, and regulatory developments; statements with regard to the nature and extent of competition we may face in the future; statements with respect to the sources of and need for future financing; and statements with respect to future strategic plans, goals, and objectives. Forward-looking statements are contained in this report under “Business” included in Item 1 of Part I, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Item 7 of Part II of this Annual Report on Form 10-K. The forward-looking statements are based on present circumstances and on our predictions respecting events that have not occurred, that may not occur, or that may occur with different consequences and timing than those now assumed or anticipated. Actual events or results may differ materially from those discussed in the forward-looking statements as a result of various factors, including the risk factors discussed in this report under the caption “Item 1A Risk Factors.” These cautionary statements are intended to be applicable to all related forward-looking statements wherever they appear in this report. The cautionary statements contained or referred to in this report should also be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. Any forward-looking statements are made only as of the date of this report and we assume no obligation to update forward-looking statements to reflect subsequent events or circumstances.

PART I

References in this Annual Report on Form 10-K to “ClearOne,” “we,” “us,” “CLRO” or “the Company” refer to ClearOne, Inc., a Utah corporation, and, unless the context otherwise requires or is otherwise expressly stated, its subsidiaries.

ITEM 1. BUSINESS

GENERAL

ClearOne was formed as a Utah corporation in 1983 organized under the laws of the State of Utah. The company is headquartered in Salt Lake City, Utah, with offices in Austin, Texas, Corvallis, Oregon, Hong Kong, the United Kingdom and Israel.

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

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

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Acquisitions

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 include 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 consideration of \$4.6 million in cash to VCON for all the assets, including intellectual property, fixed assets and inventory, and assumed no debt.

On January 7, 2014, we entered into an agreement to acquire Spontania from Spain-based Dialcom Networks, S.L. in an all-cash deal for €3.65 million (approximately US \$5.0 million). Spontania is a software-based cloud collaboration solution which combines the benefits of video conferencing and web conferencing into an enterprise solution that can scale to tens of thousands of users. The addition of Spontania is expected to make ClearOne the only company offering an entirely software-based video conferencing product line that provides on-premise and cloud-based Software-as-a-Service (SaaS) and Platform-as-a-Service (PaaS) solutions and is expected to complement ClearOne's existing premise-based, enterprise video conferencing offering, COLLABORATE®, obtained from the VCON acquisition.

ClearOne plans to fund the acquisition of substantially all of the assets of the Spontania business with available cash and will not assume any debt or cash. The acquisition is expected to close by the end of the first quarter of 2014, subject to customary closing conditions, including applicable regulatory approvals.

On March 7, 2014, we completed the acquisition of Sabine, Inc. which will provide the company with reliable and exclusive access to the wireless microphones that are a critical component of ClearOne's complete microphone portfolio. Under the terms of the transaction, ClearOne paid approximately \$7.20 million in cash and approximately \$1.50 million in ClearOne shares. In addition, ClearOne paid off Sabine debt of \$1.25 million and may be required to make earn-out payments over the next three years based on achievement of certain performance criteria. ClearOne expects to maintain Sabine operations at its current headquarters in Alachua, Florida.

Company Information

Our website address is www.clearone.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports are available, free of charge, on our website in the "Investor Relations" section under "Company." These reports are made available as soon as reasonably practicable after we file such material with, or furnish it to, the SEC.

For a discussion of certain risks applicable to our business, results of operations, financial position, and liquidity, see the risk factors described in "Item 1A, Risk Factors" below.

STRATEGY

We currently participate in the following markets:

- Professional audio visual, including audio conferencing and video conferencing and collaboration;
- Professional microphones;
- Unified communications, including telephony;
- Multimedia streaming and control; and
- Digital signage.

Our business goals are to:

- Maintain our leading global market share in professional audio conferencing products for large businesses and organizations;

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- Leverage the video conferencing & collaboration, 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 focus on our core strengths, which include the following:

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

PRODUCTS

Our products can be broadly categorized into the following:

- Professional audio communication products;
- Unified communications audio end points; and
- Visual communication products.

PROFESSIONAL AUDIO COMMUNICATION PRODUCTS

Our full range of professional audio communication products includes (i) professional conferencing and sound-reinforcement products used in enterprise, healthcare, education and distance learning, government, legal and finance organizations, (ii) mid-tier premium conferencing products for smaller rooms and small and medium businesses which interface with video and web conferencing systems, and (iii) professional microphones used in various applications.

Our professional audio communication products contributed 73% and 70% of our consolidated revenue in 2013 and 2012, respectively.

Our professional audio communication products and unified communications audio end points feature our proprietary HDConference®, Distributed Echo Cancellation® and noise cancellation technologies to enhance communication during a conference call by eliminating echo and background noise. Most of our products also feature some of our other HDConference proprietary audio processing technologies such as adaptive modeling and first-microphone priority, which combine to deliver clear, crisp and full-duplex audio. These technologies enable natural and fatigue-free communication between distant conferencing participants.

Professional Conferencing, Sound Reinforcement

We occupy the number one position in the global professional audio conferencing market with nearly 50% of the total global market share. We have been developing high-end, professional conferencing products since 1991 and believe we have established strong brand recognition for these products worldwide. Our professional conferencing products include the CONVERGE® Pro and Converge SR product lines.

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Our flagship Converge Pro product line leads our professionally installed audio products line. The Converge Pro product line includes the Converge Pro 880, Converge Pro 880T, Converge Pro 880TA, Converge Pro 840T, Converge Pro 8i, Converge Pro TH20 and Converge Pro VH20, and Converge SR product line including Converge SR1212 and SR1212A which together offer various levels of integration and features to allow a commercial system integrator to optimize a system to fit diverse conferencing applications and environments.

Mid-Tier Premium Conferencing

Our INTERACT® product line is a mid-tier, lower cost, conferencing product line designed to meet the needs of our larger customers with smaller conferencing rooms as well as small and medium businesses. The INTERACT product series is comprised of the INTERACT AT and the INTERACT Pro. Both systems can be easily connected to enterprise telephones, analog POTS lines, existing HD video codecs and soft video clients. These INTERACT systems also include a USB audio interface to connect to PCs, laptops and tablets, as well as to rich multimedia devices, such as video or web conferencing systems and emerging unified communication systems for enhanced collaboration.

Professional Microphones

The ClearOne Beamforming Microphone Array is the Pro-Audio industry's first professional-grade microphone array with beamforming and adaptive steering technology and ClearOne's next-generation Acoustic Echo Cancellation. The ultra-sleek design fits into any conferencing environment and delivers the clearest audio pickup available. The 24 microphone element industry-leading Beamforming Microphone Array has focused acoustic beams, digital signal processing, adaptive steering, and acoustic echo canceling to produce the clearest and most intelligible conferencing sound possible. ClearOne began shipping the Beamforming Microphone Array in March 2013.

ClearOne also introduced WS800 Wireless Microphone Systems, including four new models of wireless microphones/transmitters (Tabletop/boundary, Gooseneck, Handheld, Bodypack) and a base-station receiver with either 4 or 8 channels, which connect to professional audio mixers. The wireless system combines ease-of-use with the most reliable security and power. ClearOne began shipping the WS800 Wireless Microphone Systems in January 2013.

The ClearOne Ceiling Microphone Array enhances almost any professional conferencing application which demands high-quality audio. The Ceiling Microphone Array is easily installed and combines affordability with exceptional audio quality. With three wide-range microphones mounted together into a single unit array, the Ceiling Microphone Array provides the rich sound of three individual unidirectional microphones while maintaining full 360-degree coverage.

UNIFIED COMMUNICATIONS AUDIO END POINTS

Our unified communications audio end points include (i) traditional tabletop conferencing phones used in conference rooms and offices and (ii) affordable personal conferencing products that can be used with PCs, laptops, tablets, smartphones, and other portable devices. Our unified communications audio end points contributed approximately 19% and 22% of our consolidated revenue in 2013 and 2012, respectively.

Traditional Tabletop Conferencing

Our MAX® product line is comprised of the following product families: MAX EX and MAXAttach® wired phones; MAX Wireless and MAXAttach Wireless; and MAX IP and MAXAttach IP VoIP tabletop conferencing phones. Designed for use in executive offices or small conference rooms with multiple participants, MAX Wireless can be moved from room to room within 150 feet of its base station. MAXAttach Wireless was the industry's first and remains the only dual-phone, completely wireless solution. This system gives customers tremendous flexibility in covering larger conference room areas. MAX EX and MAXAttach wired phones can be daisy chained together, up to a total of four phones. This provides even distribution of microphones, loudspeakers, and controls for better sound quality and improved user access in medium to large conference rooms. In addition, all MAXAttach wired phones can be used separately when they are not needed in a daisy-chain configuration. MAX IP and MAXAttach IP are VoIP tabletop conference phones which are based on the industry-standard SIP signaling protocol. These phones can also be daisy-chained together, up to a total of four phones.

Personal Conferencing Products

Our CHAT® product line includes affordable and stylish personal speakerphones and USB headsets. CHAT speaker phones provide full-duplex and rich full bandwidth frequency response for superior audio clarity. CHAT products are designed for a

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wide variety of applications and devices (fixed or portable) for greatly enhanced collaboration wherever and whenever needed. CHAT speaker phones are offered as personal speakerphones and group speakerphones.

CHAT personal speakerphones are approximately the size of a deck of cards, and connect to PCs and MACs, laptops, tablets, enterprise handsets, smartphones, cell phones, and MP3 players for rich, clear, hands-free audio and playback. CHAT group speakerphones are designed for small group use. These can also connect many of the same devices and applications as the CHAT personal speakerphones, but feature three microphones in larger design for use by a larger number of participants. CHAT group speakerphones have the ability to add high-quality, full-duplex speakerphones to user enterprise telephone handsets such as Avaya and Cisco. CHAT group speakerphones make it possible to introduce rich, crystal clear conferencing capability without the need for introducing a separate traditional conference phone. CHATAttach® is comprised of two CHAT group speakerphones which can be daisy-chained together to function as a single conferencing system.

CHAT USB headsets for unified communications combine the comfort, durability and legacy audio quality for which ClearOne is renowned. These affordable USB headsets incorporate advanced microphone noise-canceling technology and acoustic shock protection technologies.

VISUAL COMMUNICATION PRODUCTS

Our visual communication products are sold under following three broad categories: (i) video conferencing, (ii) streaming and (iii) digital signage.

Video Conferencing Products:

Our comprehensive portfolio of industry-leading COLLABORATE® branded HD videoconferencing solutions bring cutting-edge software-based full HD (1080p) video conferencing technology with H.264 High Profile encoding that reduces bandwidth utilization up to 50 percent. COLLABORATE is comprised of feature-rich room systems and desktop video applications, as well as enhanced network management, infrastructure solutions and software development kits.

COLLABORATE Infrastructure is for customers who desire an on-premise infrastructure solution. ClearOne offers a single-unit infrastructure server that will serve the needs of both the small to mid-sized businesses and enterprise customers hoping to expand locations. The heavy burden of adding video collaboration pervasively has always been the cost of expensive infrastructure solutions. ClearOne's single-unit solution provides the infrastructure component at a low price, including directory services, firewall traversal, MCU, H.323 gatekeeper, SIP registrar, license server, call control, and a full management system.

COLLABORATE Desktop is a versatile application for any PC or laptop user in organizations of any size. Available with up to 1080p resolution, the COLLABORATE Desktop offers multiple media transmitting capabilities for video, audio and data. Using ClearOne's DualStream™ technology, the application has the ability to send and receive video and data streams simultaneously with its additional streaming capability, ClearOne's Simulcast™ allows COLLABORATE Desktop users to chair or participate in corporate broadcasts.

COLLABORATE Room is a best-in-class video conferencing and collaboration solution offering a price-point and feature set vastly superior to that of competing room conferencing solutions. Designed for small and medium businesses and corporate meeting rooms, the COLLABORATE Room features software-based and server-less embedded multipoint (up to 9-way) video conferencing, SIP/H.323 bridging interoperability, built-in recording and streaming, built-in remote content and data sharing, and interactive multicast.

Streaming Products:

Our Streaming products sold under VIEW™ and NetStreams brands deliver the ultimate IP A/V experience by streaming time sensitive high definition audio and video and control over TCP/IP networks. By combining audio and/or video content, meta-data and control signals into one digital stream in harmony with industry standards, its distributed, edge of the network architecture allows the hardware and the processing power to be distributed across any existing TCP/IP network. This leverages many of the advantages of using TCP/IP over traditional analog systems and other centrally controlled IP-based systems. The ClearOne VIEW products are powered by ClearOne's patented StreamNet® technology. A user can activate and control a single audio source or combination of audio sources, video sources, security systems, HVAC systems, lighting, and other room or facility monitoring functions such as paging or security access by just a single touch to its attractive touch screens.

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Alternatively, any PC, laptop, tablet, iPod, or other device with a built-in web browser with Flash can control the equipment connected to the system. The VIEW systems have no limits on the numbers of sources, displays, or amplifiers in a project and can be used in venues from high-end residential homes to large-scale commercial projects.

Converting an audio or video signal to TCP/IP preserves the digital quality of the signal across the network. Unlike analog systems, which lose quality over long distances, TCP/IP packets are decoded to retain the same digital quality as contained when they were encoded. The addition of Digital Encoder and Digital Decoder products with DVI/HDMI input and output enhances the flexibility of complete AV distribution system and makes it as easy to use as analog devices.

MagicBox Digital Signage Products

We make digital signage and video messaging systems with an emphasis on ease of use and flexibility with hardware and software applications. Our Aavelin-branded media players come with different hardware configurations for Digital Signage applications. By using the Composer Desktop software application or WebSuite application through Software as a Service (SaaS) or Entry Level Server (ELS) with Aavelin media players, the contents can be managed, scheduled and published to one or many media players to display on screens. Our RoomRoster-branded room information solution is a combination of display and data wrapped in one design. It consists of the room sign and database integration used to display room schedules and other information in real-time.

MARKETING AND SALES

We primarily use a two-tier channel model through which we sell our commercial products to a worldwide network of independent audiovisual, information technology and telecommunications distributors, who then sell our products to independent systems integrators, dealers, and value-added resellers, who in turn work directly with the end-users of our products for product fulfillment and installation, if needed. Our products are also specified and recommended by professional audio-video consultants. We also sell our commercial products directly to certain dealers, systems integrators, value-added resellers, and end-users. We sell our residential products through a global network of residential electronics dealers, system integrators, and other value-added resellers.

During the year ended December 31, 2013, approximately \$32.3 million, or 65% of our total product sales, were generated in the United States and product sales of approximately \$17.3 million, or 35% of our total product sales, were generated outside the United States. Revenue from product sales to customers in the United States was approximately \$30.3 million, or 65% of total product sales and revenue from products outside of the United States was approximately \$16.1 million and accounted for approximately 35% of our total product sales for the year ended December 31, 2012. We sell directly to our distributors, resellers and end-users in approximately 70 countries worldwide. We anticipate that the portion of our total product revenue from international sales will continue to be a significant portion of our total revenue as we further enhance our focus on developing new products, establishing new channel partners, strengthening our presence in key growth areas, complying with regional environmental regulatory standards, and improving product localization with country-specific product documentation and marketing materials.

Distributors, Resellers and Independent Integrators

We sold our products directly to approximately 520 distributors and direct resellers throughout the world during 2013. Distributors and resellers purchase our products at a discount from list price and resell them worldwide to hundreds of independent system integrators, telephony value-added resellers, IT value-added resellers, and PC dealers on a non-exclusive basis. Our distributors maintain their own inventory and accounts receivable and are required to provide technical and non-technical support for our products to the next level of distribution participants. We work with our distributors and resellers to establish appropriate inventory stocking levels. We also work with our distributors and resellers to maintain relationships with our existing systems integrators, dealers, and other value-added resellers.

While dealers, resellers, and system integrators all sell our products directly to the end-users, system integrators typically add significant value to each sale by combining our products with products from other manufacturers as part of an integrated system solution. Commercial dealers and value-added resellers usually purchase our products from distributors and may bundle our products with products from other manufacturers for resale to the end-user. We maintain close working relationships with all our reseller partners and offer them education and training on all of our products.

Marketing

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Much of our marketing effort is conducted in conjunction with our channel partners who provide leverage for us in reaching existing and prospective customers worldwide. We also regularly attend industry forums and exhibit our products at multiple regional and international trade shows, often with our channel partners. These trade shows provide exposure for our brand and products to a wide audience. We market our ClearOne-branded commercial products on our website www.clearone.com and our MagicBox branded digital signage products on our website www.magicboxinc.com. We also conduct public relations initiatives to get press coverage and product reviews in industry and non-industry publications alike.

Customers

We do not get any reports from our distributors and resellers that identify our end-users. As a result, we do not know whether any end-user accounted for more than 10 percent of our total revenue during any of the periods reported in this Annual Report. However, revenues included sales to Starin Marketing, which represented approximately 18.2% of consolidated revenue, and VSO Marketing, which represented approximately 10.8% of consolidated revenue during the year ended December 31, 2013. During the year ended December 31, 2012, revenues included sales to Starin Marketing, which represented 17.5% of our consolidated revenue during that period. As discussed above, distributors facilitate product sales to a large number of independent systems integrators, dealers, and value-added resellers, and subsequently to their end-users. The loss of one or more distributors could reduce revenue and have a material adverse effect on our business and results of operations. Our shipped orders on which we had not recognized revenue were \$4.2 million and \$3.6 million as of December 31, 2013 and 2012, respectively. As of December 31, 2013, we had a backlog of un-shipped orders of approximately \$473 thousand.

Competition

The audio visual product markets are characterized by intense competition, rapidly evolving technology, and increased business consolidation. We compete with businesses having substantially greater financial, research and product development, manufacturing, marketing, and other resources. If we are not able to continually design, manufacture, and successfully market new or enhanced products or services that are comparable or superior to those provided by our competitors and at comparable or better prices, we could experience pricing pressures and reduced sales, gross profit margins, profits, and market share, each of which could have a materially adverse effect on our business. Our competitors vary within each product category. We believe we are able to differentiate ourselves and therefore successfully compete as a result of the high audio quality of our products resulting from a combination of proprietary and highly advanced audio signal processing technologies and networking technology in the form of trade secrets and patented intellectual property, technical and channel support services, and the strength of our channels and brands.

We believe the principal factors driving sales are the following:

- Quality, features and functionality, and ease of use of the products;
- Broad and deep global channel partnerships;
- Significant established history of successful worldwide installations for diverse vertical markets;
- Brand name recognition and acceptance;
- Quality of customer and partner sales and technical support services; and
- Effective sales and marketing.

In the professional audio conferencing system and sound reinforcement markets, our main competitors include Biamp, Crestron, Extron, Harman/BSS, Lectrosonics, Peavey, Phoenix, Polycom, Shure and Vaddio and their original equipment manufacturing (OEM) partners, along with several other companies potentially poised to enter the market. We occupy the number one position in the global professional audio conferencing market with nearly 50% of the global market share. In the traditional tabletop conferencing market, we face significant competition from Avaya (Konftel), Phoenix, and Polycom, and especially from their OEM partnerships. A significant portion of the tabletop market is covered by sales through OEM partnerships. While we believe MAX products have unique features and superior quality, our limited OEM partnerships and pricing pressures from higher volume competitors limit our ability to expand our existing share of this market. In the professional microphones market, our primary competitors include Audio-technica, Audix, Polycom, Revolabs, Sennheiser, Shure, and their OEM partners. Our primary competitors in the personal conferencing market are GN Netcom (Jabra), Phoenix Audio, Plantronics, Polycom, Yamaha and their OEM partners. Our video conferencing products face tremendous competition from well established players, including Avaya (Radvision), CISCO, Logitech (Lifesize), Polycom and Vidyo. We believe the

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migration of video conferencing from hardware-based codecs to software-based codecs provides an opportunity for us to differentiate our products and win market share. Our commercial streaming products face intense competition from a few well-established corporations of diversified capabilities and strengths, including AMX, BiAmp, Crestron, Extron, and Haivision. We believe that our pioneering and patented StreamNet technology delivers superior audio and video streaming performance and flexibility and provides us with a competitive edge over other industry players. In digital signage, our primary competitors include Scala, Tighrope and Visix.

Regulatory Environment

Regulations regarding product safety, product operational agency compliance, the materials used in manufacturing, the process of disposing of electronic equipment and the efficient use of energy may require extensive lead-time to obtain regulatory approvals of new products in both domestic and international markets. Such regulations may impact our ability to expand our sales in a timely and cost-effective manner and, as a result, our business could be harmed.

Sources and Availability of Raw Materials

We manufacture our products through electronics manufacturing services ("EMS") providers, who are generally responsible for sourcing and procuring required raw materials and components. Most of the components that our EMS providers require for manufacturing our products are readily available from a number of sources.

We continually work with our EMS providers to seek alternative sources for all our components and raw material requirements to ensure higher quality and better pricing. Most of our EMS providers and their vendors are duly qualified by our corporate quality assurance process. We work with our EMS providers to ensure that raw materials and components conform to our specifications.

Manufacturing

Currently, all of our products except digital signage products are manufactured by EMS providers. Our primary EMS provider is Flextronics. The digital signage products are assembled in our Salt Lake City, Utah facility.

Seasonality

Our revenue has historically been the strongest in the fourth quarter and the weakest in the first quarter, even though a consistent pattern could not be established for seasonality between the quarters. There can be no assurance that any historic sales patterns will continue and, as a result, sales for any prior quarter are not necessarily indicative of the sales to be expected in any future quarter.

Research and Product Development

We are committed to research and product development and view our continued investment in research and product development as a key ingredient to our long-term business success. Our research and product development expenditures were approximately \$7.6 million during the year ended December 31, 2013 and \$8.3 million during the year ended December 31, 2012.

Our core competencies in research and product development include (a) many audio technologies, including acoustic echo cancellation, noise cancellation and other advanced adaptive digital signal processing technologies, (b) networking and multimedia streaming technologies, and (c) video technologies. We also have expertise in wireless technologies, VoIP, software and network application, and digital signage system development. We believe that continued investment in our core technological competencies is vital to developing new products and to enhancing existing products.

Intellectual Property and Other Proprietary Rights

We believe that our success depends in part on our ability to protect our proprietary rights. We rely on a combination of patent, copyright, trademark, and trade secret laws and confidentiality agreements and processes to protect our proprietary rights. The laws of foreign countries may not protect our intellectual property to the same degree as the laws of the United States.

ITEM 1 - BUSINESS

We generally require our employees, certain customers and partners to enter into confidentiality and non-disclosure agreements before we disclose any confidential aspect of our technology, services, or business. In addition, our employees are required to assign to us any proprietary information, inventions, or other technology created during the term of their employment with us. However, these precautions may not be sufficient to protect us from misappropriation or infringement of our intellectual property.

Employees

As of December 31, 2013, we had 141 full-time employees. Of these employees, 91 were located in our Salt Lake City locations, 30 in other U.S. locations, and 20 in locations outside the U.S. None of our employees are subject to a collective bargaining agreement and we believe our relationship with our employees is good. We also hire contractors with specific skill sets to meet our operational needs.

ITEM 1A. RISK FACTORS

Investors should carefully consider the risks described below. The risks described below are not the only ones we face and there are risks that we are not presently aware of or that we currently believe are immaterial that may also impair our business operations. Any of these risks could harm our business. The trading price of our common stock could decline significantly due to any of these risks, and investors may lose all or part of their investment. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in this annual report on Form 10-K, including our consolidated financial statements and related notes.

Risks Relating to Our Business

We face intense competition in all markets for our products and services and our operating results will be adversely affected if we cannot compete effectively against other companies.

The markets for our products and services are characterized by intense competition, pricing pressures and rapid technological change. Our competitive landscape continues to rapidly evolve, in particular with respect to our video-related services and products, as we move into new markets for video collaboration such as mobile, social and cloud-delivered video. We compete with businesses having substantially greater financial, research and product development, manufacturing, marketing, and other resources than we do. If we are not able to continually design, manufacture, and successfully introduce new or enhanced products or services that are comparable or superior to those provided by our competitors and at comparable or better prices, we could experience pricing pressures and reduced sales, gross profit margins, profits, and market share, each of which could have a materially adverse effect on our business.

Difficulties in estimating customer demand in our products segment could harm our profit margins.

Orders from our distributors and other distribution participants are based on demand from end-users. Prospective end-user demand is difficult to measure. This means that our revenue during any fiscal quarter could be adversely impacted by low end-user demand, which could in turn negatively affect orders we receive from distributors and dealers. Our expectations for both short and long-term future net revenues are based on our own estimates of future demand. Revenue for any particular time period is difficult to predict with any degree of certainty. We typically ship products within a short time after we receive an order; consequently, unshipped backlog has not historically been a good indicator of future revenue. We believe that the level of backlog is dependent in part on our ability to forecast revenue mix and plan our manufacturing accordingly. A significant portion of our customers' orders are received during the last month of the quarter. We budget the amount of our expenses based on our revenue estimates. If our estimates of sales are not accurate and we experience unforeseen variability in our revenue and operating results, we may be unable to adjust our expense levels accordingly and our gross profit and results of operations will be adversely affected. Higher inventory levels or stock shortages may also result from difficulties in estimating customer demand.

Our sales depend to a certain extent on government funding and regulation.

In the audio conferencing products market, the revenue generated from sales of our audio conferencing products for distance learning and courtroom facilities depends on government funding. In the event government funding for such initiatives was reduced or became unavailable, our sales could be negatively impacted. Additionally, many of our products are subject to governmental regulations. New regulations could impact sales in a materially adverse manner.

Environmental laws and regulations subject us to a number of risks and could result in significant costs and impact on revenue.

Regulations regarding the materials used in manufacturing, the process of disposing of electronic equipment and the efficient use of energy require us to take additional time to obtain regulatory approvals of new products in international markets. Such regulations may impact our ability to expand our sales in a timely and cost-effective manner and, as a result, our business could be harmed.

Our profitability may be adversely affected by our continuing dependence on our distribution channels.

We market our products primarily through a network of distributors who in turn sell our products to value-added resellers. All of our agreements with such distributors and other distribution participants are non-exclusive, terminable at will by either party, and generally short-term. No assurances can be given that any or all such distributors or other distribution participants will continue their relationship with us. Distributors and, to a lesser extent, value-added resellers cannot easily be replaced and any

ITEM 1A - RISK FACTORS

loss of revenues from these and other sources or the our inability to reduce expenses to compensate for such loss of revenue could adversely affect our net revenue and profit margins.

Although we rely on our distribution channels to sell our products, our distributors and other distribution participants are not obligated to devote any specified amount of time, resources, or efforts to the marketing of our products, or to sell a specified number of our products. There are no prohibitions on distributors or other resellers offering products that are competitive with our products, and some do offer competitive products. The support of our products by distributors and other distribution participants may depend on the competitive strength of our products and the price incentives we offer for their support. If our distributors and other distribution participants are not committed to our products, our revenue and profit margins may be adversely affected.

Additionally, we offer our distributors price protection on their inventory of our products. If we reduce the list price of our products, we will compensate our distributors for the respective products that remain in their inventory on the date the price adjustment becomes effective, provided that they have taken delivery of the products within the last 35 days. Our net revenue and profit margins could be adversely affected if we reduce product prices significantly or distributors happen to have significant on-hand inventory of the affected product at the time of a price reduction. Further, if we do not have sufficient cash resources to compensate distributors on terms satisfactory to them or us, our price protection obligations may prevent us from reacting quickly to changing market conditions.

Product development delays or defects could harm our competitive position and reduce our revenue.

We have in the past experienced, and may again experience, technical difficulties and delays with the development and introduction of new products. Many of the products we develop contain sophisticated and complicated circuitry, software and components and utilize manufacturing techniques involving new technologies. Potential difficulties in the development process that we may experience include the following : (a) meeting required specifications and regulatory standards; (b) hiring and keeping a sufficient number of skilled developers; (c) meeting market expectations for performance; (d) obtaining prototype products at anticipated cost levels; (e) having the ability to identify problems or product defects in the development cycle; and (f) achieving necessary manufacturing efficiencies.

Once new products reach the market, they may have defects, or may be met by unanticipated new competitive products, which could adversely affect market acceptance of these products and our reputation. If we are not able to manage and minimize such potential difficulties, our business and results of operations could be negatively affected.

We rely on reporting of distribution channel inventory by our distributors to recognize revenue from product sales to them, which could turn out to be inaccurate.

We defer recognition of revenue from product sales to distributors until the return privilege has expired, which approximates when product is sold-through to customers of our distributors. At each quarter-end, we evaluate the inventory in the channel through information provided by our distributors. We use this information to determine the amount of inventory in the channel, and the appropriate revenue and cost of goods sold associated with those channel products. We cannot guarantee that the third party data as reported will be accurate. We sample test the inventory of a limited number of distributors on an annual basis, most recently in the fourth quarter of 2013, to gain a comfort level of inventory levels reported, however, inventory levels could contain inaccuracies for items we do not sample.

We depend on an outsourced manufacturing strategy, and any disruption in outsourced services could negatively impact our product availability and revenues.

We outsource the manufacturing of all of our products to electronics manufacturing services ("EMS") providers located in both the U.S. and Asia. If any of these EMS providers experience (i) difficulties in obtaining sufficient supplies of components, (ii) component prices significantly exceeding anticipated costs, (iii) an interruption in their operations, or (iv) otherwise suffers capacity constraints, we could experience a delay in production and shipping of these products, which would have a negative impact on our revenue. Should there be any disruption in services due to natural disaster, such as the natural disaster in Japan in 2011, economic or political difficulties, transportation restrictions, acts of terror, quarantines or other restrictions associated with infectious diseases, or other similar events, or any other reason, such disruption could have a material adverse effect on our business. Operating in the international outsourcing environment exposes us to certain inherent risks, including unexpected changes in regulatory requirements and tariffs, and potentially adverse tax consequences, which could materially affect our results of operations. Currently, we have no second source of manufacturing for a portion of our products.

ITEM 1A - RISK FACTORS

Switching from one EMS provider to another is an expensive, difficult and a time consuming process, with serious risks to our ability to successfully transfer our manufacturing operations. Our operations, and consequently our revenues and profitability, could be materially adversely affected if we are forced to switch from any of our EMS providers to another EMS provider due to any of a number of factors, including financial difficulties faced by the manufacturer, disagreements in pricing negotiations between us and the manufacturer or organizational changes in the manufacturer.

The cost of delivered product from our EMS providers is a direct function of their ability to buy components at a competitive price and to realize efficiencies and economies of scale within their overall business structures. If they are unsuccessful in driving efficient cost models, our delivered costs could rise, affecting our profitability and ability to compete. In addition, if the EMS providers are unable to achieve greater operational efficiencies, delivery schedules for new product development and current product delivery could be negatively impacted.

Recent regulatory requirements regarding the use of “conflict minerals” could affect the sourcing and availability of raw materials to our EMS providers in the manufacture of certain of our products. We may be subject to costs associated with the new regulations, including for the diligence pertaining to the presence of any conflict minerals used in our products and the cost of remediation and other changes to products, processes, or sources of supply as a consequence of such verification activities. The impact of the regulations may result in a limited pool of suppliers who provide conflict free minerals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices. We may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins for the metals used in the products we sell. As a result, we may not be able to obtain the materials necessary to manufacture our products, which could force us to cease production or search for alternative supply sources, possibly at a higher cost. Such disruptions may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Global economic conditions have adversely affected our business in the past and could adversely affect our revenues and harm our business in the future.

Adverse economic conditions worldwide have contributed to slowdowns in the communications industry and have caused a negative impact on the specific segments and markets in which we operate. Adverse changes in general global economic conditions can result in reductions in capital expenditures by end-user customers for our products, longer sales cycles, the deferral or delay of purchase commitments for our products and increased competition. These factors have adversely impacted our operating results in prior periods and could also impact us again in the future. Global economic concerns, such as the varying pace of global economic recovery, European and domestic debt and budget issues, the slowdown in China and India’s economic growth and international currency fluctuations, may continue to create uncertainty and unpredictability in the global and national economy. A global economic downturn would negatively impact technology spending for our products and services and could materially adversely affect our business, operating results and financial condition. Further, global economic conditions may result in a tightening in the credit markets, low liquidity levels in many financial markets, decrease in customer demand and ability to pay obligations, and extreme volatility in credit, equity, foreign currency and fixed income markets.

Such adverse economic conditions could negatively impact our business, particularly our revenue potential, potentially causing losses on investments and the collectability of our accounts receivable. These factors potentially include: the inability of our customers to obtain credit to finance purchases of our products and services, customer or partner insolvencies or bankruptcies, decreased customer confidence to make purchasing decisions resulting in delays in their purchasing decisions, decreased customer demand or demand for lower-end products, or decreased customer ability to pay their obligations when they become due to us.

We are a smaller company than some of our competitors and may be more susceptible to market fluctuations, other adverse events, increased costs and less favorable purchasing terms.

Since we are a relatively small company, there is a risk that we may be more susceptible to market fluctuations and other adverse events. In particular, we may be more susceptible to reductions in government and corporate spending from our government and enterprise customers. We may also experience increased costs and less favorable terms from our suppliers than some of our larger competitors who may have greater leverage in their purchasing spend. Any of these outcomes could result in loss of sales or our products being more costly to manufacture and thus less competitive. Any such unfavorable market fluctuations, reductions in customer spending or increased manufacturing costs could have a negative impact on our business and results of operations.

ITEM 1A - RISK FACTORS

Difficulties in integrating past or future acquisitions could adversely affect our business.

We acquired NetStreams, a pioneer in digital media networks based on Internet Protocol (TCP/IP), in November 2009 and MagicBox, a leading provider of digital signage services, in September 2011. In addition, we acquired substantially all of the assets of VCON Video Conferencing, Ltd, a high-performance, end-to-end, software video conferencing solutions company in Israel, in February 2012. In January 2014, we entered into an agreement to acquire Spontania, from Spain-based Dialcom Networks, S.L., which is a software-based cloud collaboration solution. The efficient and effective integration of these businesses into our organization is important to our growth. On March 7, 2014, we completed the acquisition of Sabine, Inc. which will provide the company with reliable and exclusive access to the wireless microphones that are a critical component of ClearOne's complete microphone portfolio. Under the terms of the transaction, ClearOne paid approximately \$7.20 million in cash and approximately \$1.50 million in ClearOne shares. In addition, ClearOne paid off Sabine debt of \$1.25 million and may be required to make earn-out payments over the next three years, based on achievement of certain performance criteria. ClearOne expects to maintain Sabine operations at its current headquarters in Alachua, Florida.

Any acquisition involves numerous risks and challenges, including difficulties and time involved in integrating the operations, technologies and products of the acquired companies, entering new business or product lines, the diversion of our management's attention from other business concerns, geographic dispersion of operations, generating market demand for expanded product lines and the potential loss of key customers or employees of an acquired company. Failure to achieve the anticipated benefits of these and any future acquisitions or to successfully integrate the operations of these or any other companies or assets we acquire, could also harm our business, results of operations and cash flows. Additionally, we cannot assure you that we will not incur material charges in future periods to reflect additional costs associated with these acquisitions or any future acquisitions we may make.

Conditions in Israel and the Middle East may affect the operations of our subsidiary in Israel.

We have recently formed a subsidiary located in Israel in connection with the acquisition of the assets of VCON Video Conferencing, Ltd. Political, economic, security and military conditions in the Middle East in general, and in Israel in particular, directly affect our Israeli subsidiary's operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Despite negotiations to effect peace between Israel and its Arab neighbors, the future of these peace efforts is uncertain.

Recent social unrest in various countries in the Middle East have led to severe political instability in those countries. This continuing instability may lead to deterioration of the political and trade relationships that exist between the State of Israel and these countries. In addition, this instability may affect the economy in the Middle East as well as the global economy and marketplace. Any armed conflicts or political instability in the region, including acts of terrorism or any other hostilities involving or threatening Israel, would likely negatively affect business conditions and could make it more difficult for us to conduct our operations in Israel, which could increase our costs and adversely affect our financial results.

Product obsolescence could harm demand for our products and could adversely affect our revenue and our results of operations.

Our industry is subject to technological innovations that could render existing technologies in our products obsolete and thereby decrease market demand for such products. If any of our products becomes slow-moving or obsolete and the recorded value of our inventory is greater than its market value, we will be required to write down the value of our inventory to its fair market value, which would adversely affect our results of operations. In limited circumstances, we are required to purchase components that our outsourced manufacturers use to produce and assemble our products. Should technological innovations render these components obsolete, we will be required to write down the value of this inventory, which could adversely affect our results of operations.

If we are unable to protect our intellectual property rights or have insufficient proprietary rights, our business would be materially impaired.

We currently rely primarily on a combination of trade secrets, copyrights, trademarks, patents, patents pending, and nondisclosure agreements to establish and protect our proprietary rights in our products. No assurances can be given that others will not independently develop technologies similar to ours, or duplicate or design around aspects of our technology. In addition, we cannot assure that any patent or registered trademark owned by us will not be invalidated, circumvented or challenged, or that the rights granted thereunder will provide competitive advantages to us. Costly litigation may be necessary

ITEM 1A - RISK FACTORS

to enforce our intellectual property rights. We believe our products and other proprietary rights do not infringe upon any proprietary rights of third parties; however, we cannot ensure that third parties will not assert infringement claims in the future. Our industry is characterized by vigorous protection of intellectual property rights. Such claims and the resulting litigation can be expensive and could divert our attention, regardless of the merit of such claims. In the event of a successful claim, we might be required to license third-party technology or redesign our products, which may not be possible or economically feasible.

We currently hold only a limited number of patents. To the extent that we have patentable technology for which we have not filed patent applications, others may be able to use such technology or even gain priority over us by patenting such technology themselves. With respect to any patent application we have filed, we cannot ensure that a patent will be awarded.

International sales account for a significant portion of our net revenue and risks inherent in international sales could harm our business.

International sales represent a significant portion of our total product revenue. We anticipate that the portion of our total product revenue from international sales will continue to increase as we further enhance our focus on developing new products for new markets, establishing new distribution partners, strengthening our presence in emerging economies, and improving product localization with country-specific product documentation and marketing materials. Our international business is subject to the financial and operating risks of conducting business internationally, including the following:

- unexpected changes in, or the imposition of, additional legislative or regulatory requirements;
- unique or more onerous environmental regulations;
- fluctuating exchange rates;
- tariffs and other barriers;
- difficulties in staffing and managing foreign sales operations;
- import and export restrictions;
- greater difficulties in accounts receivable collection and longer payment cycles;
- potentially adverse tax consequences;
- potential hostilities and changes in diplomatic and trade relationships; and
- disruption in services due to natural disaster, economic or political difficulties, transportation, quarantines or other restrictions associated with infectious diseases.

We may not be able to hire and retain qualified key and highly-skilled technical employees, which could affect our ability to compete effectively and may cause our revenue and profitability to decline.

We depend on our ability to hire and retain qualified key and highly skilled employees to manage, research and develop, market, and service new and existing products. Competition for such key and highly-skilled employees is intense, and we may not be successful in attracting or retaining such personnel. To succeed, we must hire and retain employees who are highly skilled in the rapidly changing communications and Internet technologies. Individuals who have the skills and can perform the services we need to provide our products and services are in great demand. Because the competition for qualified employees in our industry is intense, hiring and retaining employees with the skills we need is both time-consuming and expensive. We may not be able to hire enough skilled employees or retain the employees we do hire. In addition, provisions of the Sarbanes-Oxley Act of 2002 and related rules of the SEC impose heightened personal liability on some of our key employees. The threat of such liability could make it more difficult to identify, hire and retain qualified key and highly-skilled employees. We have relied on our ability to grant stock options as a means of recruiting and retaining key employees. Accounting regulations requiring the expensing of stock options will impair our future ability to provide these incentives without incurring associated compensation costs. If we are unable to hire and retain employees with the skills we seek, our ability to sell our existing products, systems, or services or to develop new products, systems, or services could be hindered with a consequent adverse effect on our business, results of operations, financial position, or liquidity.

We rely on third-party technology and license agreements, the loss of any of which could negatively impact our business.

We have licensing agreements with various suppliers for software and hardware incorporated into our products. These third-party licenses may not continue to be available to us on commercially reasonable terms, if at all. The termination or impairment

ITEM 1A - RISK FACTORS

As these licenses could result in delays of current product shipments or delays or reductions in new product introductions until equivalent designs can be developed, licensed, and integrated, if at all possible, which would have a material adverse effect on our business.

We may have difficulty in collecting outstanding receivables.

We grant credit to substantially all of our customers without requiring collateral. In times of economic uncertainty, the risks relating to the granting of such credit will typically increase. Although we monitor and mitigate the risks associated with our credit policies, we cannot ensure that such mitigation will be effective. We have experienced losses due to customers failing to meet their obligations. Future losses could be significant and, if incurred, could harm our business and have a material adverse effect on our operating results and financial position.

Interruptions to our business could adversely affect our operations.

As with any company, our operations are at risk of being interrupted by earthquake, fire, flood, and other natural and human-caused disasters, including disease and terrorist attacks. Our operations are also at risk of power loss, telecommunications failure, human error, physical or electronic security breaches and computer viruses (which could leave us vulnerable to the loss of confidential proprietary information as well as disruption of our business activities) and other infrastructure and technology based problems. To help guard against such risks, we carry business interruption loss insurance to help compensate us for losses that may occur, but we cannot assure that such coverage would protect us from all such possible losses.

Changes in our tax rates could adversely affect our future results.

We are a U.S. based company subject to tax in U.S. and foreign tax jurisdictions. Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates, which are difficult to predict, could be unfavorably affected by changes in, or interpretation of, tax rules and regulations in the jurisdictions in which we do business, by unanticipated decreases in the amount of revenue or earnings in countries with low statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, or by lapses of the availability of the U.S. research and development tax credit, which occurred for 2012 but was reinstated on January 2, 2013 as part of the "American Taxpayer Relief Act of 2012." The law provided for an extension of the federal research credit retroactive for 2012 but expired December 31, 2013. Further, the accounting for stock compensation expense in accordance with ASC 718 and uncertain tax positions in accordance with ASC 740 could result in more unpredictability and variability to our future effective tax rates.

Risks Relating to Share Ownership

Our stock price fluctuates as a result of the conduct of our business and stock market fluctuations.

The market price of our common stock has experienced significant fluctuations and may continue to fluctuate significantly. The market price of our common stock may be significantly affected by a variety of factors, including the following:

- statements or changes in opinions, ratings, or earnings estimates made by brokerage firms or industry analysts relating to the market in which we do business or relating to us specifically;
- disparity between our reported results and the projections of analysts;
- the shift in sales mix of products that we currently sell to a sales mix of lower-gross profit product offerings;
- the level and mix of inventory held by our distributors;
- the announcement of new products or product enhancements by us or our competitors;
- technological innovations by us or our competitors;
- success in meeting targeted availability dates for new or redesigned products;
- the ability to profitably and efficiently manage our supply of products and key components;
- the ability to maintain profitable relationships with our customers;
- the ability to maintain an appropriate cost structure;
- quarterly variations in our results of operations;

ITEM 1A - RISK FACTORS

- general consumer confidence or market conditions, or market conditions specific to technology industry;
- domestic and international economic conditions;
- unexpected changes in regulatory requirements and tariffs;
- our ability to report financial information in a timely manner;
- the markets in which our stock is traded;
- our ability to integrate the companies we have acquired; and
- our ability to successfully utilize our cash reserves resulting from the settlement of litigation and arbitration matters.

Rights to acquire our common stock could result in dilution to other holders of our common stock.

As of December 31, 2013, we had outstanding options to acquire approximately 1.1 million shares of our common stock at a weighted average exercise price of \$5.15 per share. An additional 259,154 shares remain available for grant under our 2007 Equity Incentive Plan. During the terms of these options, the holders thereof will have the opportunity to profit from an increase in the market price of the common stock. The existence of these options may adversely affect the terms on which we can obtain additional financing, and the holders of these options can be expected to exercise such options at a time when we, in all likelihood, would be able to obtain additional capital by offering shares of our common stock on terms more favorable to us than those provided by the exercise of these options.

The sale of additional shares of our common stock could have a negative effect on the market price of our common stock.

The sale of substantial amounts of our common stock in the public market could adversely affect prevailing market prices and could impair our ability to raise capital through the sale of our equity securities. Most shares of common stock currently outstanding are eligible for sale in the public market, subject in certain cases to compliance with the requirements of Rule 144 under the securities laws. Shares issued upon the exercise of stock options granted under our stock option plan generally will be eligible for sale in the public market. We also have the authority to issue additional shares of common stock and shares of one or more series of preferred stock. The issuance of such shares could dilute the voting power of the currently outstanding shares of our common stock and could dilute earnings per share.

We have previously identified material weaknesses in our internal controls.

In our Form 10-K for the fiscal year ending June 30, 2006 and Form 10-K/A-2 for the fiscal year ending June 30, 2008, we reported and identified a material weakness in our internal controls.

Although we believe we have remedied this weakness through the commitment of considerable resources, we are always at risk that any future failure of our own internal controls or the internal controls at any of our outsourced manufacturers or partners could result in additional reported material weaknesses. Any future failures of our internal controls could have a material impact on our market capitalization, results of operations, or financial position, or have other adverse consequences.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We currently occupy a 31,000 square-foot facility in Salt Lake City, Utah under the terms of an operating lease expiring in May 2016 which supports our principal administrative, sales, marketing, customer support, and research and product development activities.

We occupy a 40,000 square-foot warehouse in Salt Lake City, Utah under the terms of an operating lease expiring in December 2017, which serves as our primary inventory fulfillment and repair center. This facility also serves as our assembly workshop for digital signage products. Our earlier lease for a 24,000 square-foot warehouse in Salt Lake City, Utah terminated in January 2012.

We leased approximately 5,600 square-feet of warehouse space in Hong Kong to support our partners and customers located in the Asia-Pacific region. This operating lease expired in February 2014 and has not been renewed. Our earlier leases for smaller Hong Kong warehouses totaling 3,700 square-feet expired in February 2012.

We occupy a 11,100 square-foot facility in Austin, Texas under the terms of an operating lease expiring in August 2016, which serves as an additional facility to support our administrative, sales, marketing, customer support, and research and development activities. Our earlier lease for a 9,400 square-foot office space in Austin, Texas expired in May 2012.

During the year ended December 31, 2013, we leased two facilities in Israel - a 4,700 square-foot office facility in Hod Hasharon to primarily support our research and development activities and a 1,000 square-foot warehouse in Tzur Yigal. The Hod Hasharon lease expired in December 2013 and was renewed for an additional 24-month period. Upon expiration, we will have the option to extend the lease for two to four additional years. The Tzur Yigal lease expired in August 2013 and was not renewed.

We also occupy a 310 square-foot office space in Corvallis, Oregon under a lease that will expire in July 2014 to support our digital signage business operations and research and development facilities.

We entered into a new lease agreement in March 2014 for a manufacturing and office facility in Alachua, Florida measuring approximately 46,000 square feet for a period of two years with an option to extend the lease by two more years. The Alachua facility will be used primarily to manufacture our wireless microphone products and to support this business.

We believe our current facilities are adequate to meet our needs for the foreseeable future and that suitable additional or alternative space will be available in the future on commercially reasonable terms as needed.

ITEM 3. LEGAL PROCEEDINGS

See [Note 8 – Commitments and Contingencies](#) of the Notes to Consolidated Financial Statements (Part II, Item 8) for information regarding legal proceedings in which we are involved, which is incorporated in this Item 3 by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock has traded on the NASDAQ Capital Market under the symbol CLRO since August 14, 2007. The following table sets forth high and low sale prices (or high and low bid quotations) of our common stock for each fiscal quarter indicated as reported on the NASDAQ Capital Market.

	Year ended December 31,			
	2013		2012	
	High	Low	High	Low
Q1 - Jan 1 to Mar 31	\$ 8.95	\$ 4.03	\$ 5.20	\$ 4.14
Q2 - Apr 1 to Jun 30	9.81	8.00	4.72	3.70
Q3 - Jul 1 to Sep 30	8.74	7.38	4.26	3.70
Q4 - Oct 1 to Dec 31	9.69	8.02	4.76	3.76

On March 14, 2014, the closing price for our common stock as reported on the NASDAQ Capital Market was \$11.25.

Shareholders

As of March 14, 2014, there were 9,309,529 shares of our common stock issued and outstanding and held by approximately 347 shareholders of record. This number includes each broker dealer and clearing corporation that holds shares for customers as a single shareholder.

Dividends

We have not paid a cash dividend on our common stock and do not anticipate doing so in the foreseeable future. We intend to retain earnings to fund future working capital requirements, infrastructure needs, growth, product development, and our stock repurchase program.

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 December 31, 2013.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (2)	Total Dollar Value of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Program (in dollars)
October 1, 2013 through October 31, 2013	27,071	\$ 8.39	\$ 227,001	\$ 7,198,185
November 1, 2013 through November 30, 2013	—	—	—	7,198,185
December 1, 2013 through December 31, 2013	—	—	—	7,198,185
Total	27,071	\$ 8.39	\$ 227,001	\$ 7,198,185

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

Securities Authorized for Issuance under Equity Compensation Plans

We currently have one equity compensation plan, our 2007 Equity Incentive Plan (the "2007 Plan"). Our 1998 stock option plan terminated in June 2008 and no further awards may be issued under this plan.

The following table sets forth information as of December 31, 2013 with respect to compensation plans under which equity securities of ClearOne are authorized for issuance.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	1,111,274	\$ 5.15	259,154
Equity compensation plans not approved by shareholders	—	—	—
Total	1,111,274	\$ 5.15	259,154

ITEM 6. SELECTED FINANCIAL DATA

Not Applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and related notes included in this report, as well as our other filings with the SEC. This discussion contains forward-looking statements based on current expectations that involve risks and uncertainties, such as our plans, objectives, expectations, and intentions, as set forth under "Disclosure Regarding Forward-Looking Statements." Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the following discussion and under the caption "Risk Factors" in Item 1A and elsewhere in this report.

OVERVIEW

Throughout this discussion, we compare results of operations for the year ended December 31, 2013 ("2013") to the year ended December 31, 2012 ("2012" or "the comparable period").

We continued in our path of growth recording our fourth consecutive year of revenue growth. Except for the second quarter, which had a small revenue growth, all quarters in 2013 recorded impressive growths in revenue and profitability.

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 streaming and digital signage technologies have provided us with complementary technology opportunities allowing us to enter new growth markets. Pursuant to the asset purchase agreement, ClearOne paid consideration of \$4.6 million in cash to VCON for all VCON's assets, including intellectual property, fixed assets and inventory, and assumed no debt.

On January 7, 2014, we entered into an agreement to acquire Spontania from Spain-based Dialcom Networks, S.L. in an all-cash deal for €3.65 million (approximately US \$5.0 million). Spontania is a software-based cloud collaboration solution which combines the benefits of video conferencing and web conferencing into a unique, effective and powerful enterprise solution that can scale to tens of thousands of users.

The addition of Spontania is expected to make ClearOne the only company offering an entirely software-based video conferencing product line that provides on-premise and cloud-based Software-as-a-Service (SaaS) and Platform-as-a-Service (PaaS) solutions, and is expected to complement ClearOne's existing premise-based, enterprise video conferencing offering, COLLABORATE®, obtained from the VCON acquisition.

ClearOne plans to fund the acquisition of substantially all of the assets of the Spontania business with available cash and will not assume any debt or cash. The acquisition is expected to close by the end of the first quarter of 2014, subject to customary closing conditions, including applicable regulatory approvals.

On March 7, 2014, we completed the acquisition of Sabine, Inc., which will provide the company with reliable and exclusive access to the wireless microphones that are a critical component of ClearOne's complete microphone portfolio. Under the terms of the transaction, ClearOne paid approximately \$7.20 million in cash and approximately \$1.50 million in ClearOne shares. In addition, ClearOne paid off Sabine debt of \$1.25 million and may be required to make earn-out payments over the next three years, based on achievement of certain performance criteria. ClearOne expects to maintain Sabine operations at its current headquarters in Alachua, Florida.

Overall revenue increased in 2013 due to significant growth in revenue from professional audio conferencing products. Revenue from unified communications products and video products declined during the year. Our gross profit during 2013 increased at a higher rate than the increase in our revenue. Net income decreased to \$5.2 million from \$26.6 million in 2012. Net income in 2013 declined primarily as a result of reduction in litigation proceeds from \$38.5 million in 2012 to \$639 thousand in 2013. Without considering litigation proceeds, net income before taxes would be \$7.1 million in 2013 and \$4.1 million in 2012.

We derive a major portion (approximately 69%) of our revenue from the Americas, which include North America and Latin America. Our share of revenue from foreign markets outside the Americas was slightly lower in 2013 when compared to 2012.

The audio visual products market is characterized by intense competition and rapidly evolving technology. Our competitors vary within each product category. Our professional audio communication products, which contribute the most to our revenue, continues to perform strongly largely due to professional conferencing and professional microphone products. Despite our strong leadership position in the professional audio communications products market, we face challenges to revenue growth due to limited size of the market and pricing pressures from new competitors. Continuing popularity of mid-tier premium conferencing products within the product mix in opposition to higher cost professional conferencing products also poses a challenge to our revenue growth.

We expect the acquisition of Sabine in March 2014 will further drive our growth in revenue from professional microphone products. As professional microphones complement our professional conferencing products, we expect this acquisition to drive our overall revenue growth. We continue to focus on deepening and expanding our partnerships with large IT distributors to increase our penetration of the unified communications audio end points market through . We believe we are also well positioned to capitalize on the continuing migration away from the traditional hardware based video conferencing to software based video conferencing.

We believe that we will continue our progress if current economic conditions continue or improve. Even though our cash position continues to be strong, our announced acquisitions will increase our operating costs. We will continue to exercise fiscal discipline and balance the need to invest in the growth of our product offerings against the need to maintain the profitability of the company.

DISCUSSION OF RESULTS OF OPERATIONS - YEAR ENDED DECEMBER 31, 2013 COMPARED TO YEAR ENDED DECEMBER 31, 2012

The following table sets forth certain items from our consolidated statements of operations for the years ended December 31, 2013 and 2012, together with the percentage of total revenue which each item represents.

	Year ended December 31,				Variance	
	2013		2012		Favorable (Unfavorable)	
	Amount (in thousands)	% of Revenue	Amount (in thousands)	% of Revenue	Amount (in thousands)	%
Revenue	\$ 49,592	100.0 %	\$ 46,417	100.0 %	\$ 3,175	6.8 %
Cost of goods sold	19,735	39.8 %	19,089	41.1 %	(646)	(3.4)%
Gross profit	29,857	60.2 %	27,328	58.9 %	2,529	9.3 %
Sales and marketing	8,896	17.9 %	8,112	17.5 %	(784)	(9.7)%
Research and product development	7,562	15.2 %	8,261	17.8 %	699	8.5 %
General and administrative	6,416	12.9 %	6,934	14.9 %	518	7.5 %
Proceeds from litigation	(639)	(1.3)%	(38,500)	(82.9)%	(37,861)	(98.3)%
Operating income	7,622	15.4 %	42,521	91.6 %	(34,899)	(82.1)%
Other income, net	147	0.3 %	34	0.1 %	113	332.4 %
Income before income taxes	7,769	15.7 %	42,555	91.7 %	(34,786)	(81.7)%
Provision for income taxes	(2,590)	(5.2)%	(15,908)	(34.3)%	13,318	83.7 %
Net income	\$ 5,179	10.4 %	\$ 26,647	57.4 %	\$ (21,468)	(80.6)%

Revenue

Our revenue was \$49.6 million for the year ended December 31, 2013 compared to \$46.4 million for the comparable period in 2012. Revenue during 2013 increased by approximately \$3.2 million, or 7%, from the comparable period in 2012. Revenue increased primarily due to 12% increase in revenue from professional audio conferencing products. Revenue from unified communications audio end points declined by 6% and revenue from video products declined by 2%. The share of professional audio communications products in our mix increased to approximately 73% in 2013 from approximately 70% in 2012. During 2013, revenue from Europe, Middle East and Africa grew by 3% while revenue from the Americas grew by 10%.

At each quarter end, we evaluate the inventory in the distribution channel through information provided by certain of our distributors. The level of inventory in the channel fluctuates up or down each quarter based upon our distributors' individual operations. Accordingly, each quarter-end revenue deferral is calculated and recorded based upon the underlying channel inventory at quarter-end. During 2013 and 2012, the change in deferred revenue based on the movement of inventory in the channel was a \$565 thousand and \$189 thousand, respectively.

Cost of Goods Sold and Gross Profit

Cost of goods sold ("COGS") includes expenses associated with finished goods purchased from outsourced manufacturers, the manufacture of our products (including material and direct labor), our manufacturing and operations organization, property and equipment depreciation, warranty expense, freight expense, royalty payments, and the allocation of overhead expenses.

Our gross profit during 2013 was approximately \$29.9 million compared to approximately \$27.3 million in the comparable period in 2012, an increase of 9.3%. The increase in gross profit was primarily due to increased revenues with a lower increase in our cost of goods sold. Gross profit margins ("GPM"), or gross profit as a percentage of sales, increased to 60% in 2013 from 59% in 2012.

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

Operating Expenses and Profits (Losses)

Operating profits (losses), or income from operations, is the surplus after operating expenses are deducted from gross profits. Operating expenses include sales and marketing ("S&M") expenses, research and product development ("R&D") expenses and general and administrative ("G&A") expenses. Total operating expenses excluding net litigation proceeds were \$22.9 million in 2013 compared to \$23.3 million during the 2012. Net litigation proceeds were \$639 thousand in 2013 compared to \$38.5 million in 2012. The following contains a more detailed discussion of expenses related to sales and marketing, research and product development, general and administrative, and other items.

Sales and Marketing. S&M expenses include sales, customer service, and marketing expenses such as employee-related costs, allocations of overhead expenses, trade shows, and other advertising and selling expenses. Total S&M expenses were approximately \$8.9 million in 2013 compared to \$8.1 million in 2012. S&M expenses as a percentage of revenue were 17.9% and 17.5% in 2013 and 2012, respectively. The increase in S&M expenses is primarily due to an increase in associate commissions as a result of increased sales in 2013.

Research and Product Development. R&D expenses include research and development, product line management, engineering services, and test and application expenses, including employee-related costs, outside services, expensed materials, depreciation, and an allocation of overhead expenses. Total R&D expenses were \$7.6 million in 2013 compared to \$8.3 million during the comparable period. As a percentage of revenue, R&D expenses were 15.2% in 2013 compared to 17.8% in 2012. The decrease was mainly due to reduced employee costs and depreciation charge, partially offset by increased R&D project costs.

General and Administrative. G&A expenses include employee-related costs, professional service fees, allocations of overhead expenses, litigation costs and corporate administrative costs, including costs related to finance and human resources. Total G&A expenses were approximately \$6.4 million in 2013 compared with approximately \$6.9 million in 2012. The decrease in G&A expenses was primarily due to special bonuses awarded in 2012 to key contributors associated with the legal settlement and decreased legal services in 2013. These decreases were partially offset by increased fees for audit services.

Proceeds from litigation. In 2013, we received \$639 thousand in litigation proceeds primarily consisting of the receipt of a net refund amount of \$364 thousand for the bail bond amount we were initially required to pay in the Strohm case (see "Strohm" under Note 8 - Commitments and Contingencies to our Consolidated Financial Statements), and \$272 thousand for the recovery of money held in escrow related to the VCON acquisition completed in February 2012. In 2012, we received \$45 million from UBS as settlement of a dispute that was under arbitration. The settlement award was subject to a 15% contingency legal fee of \$6.75 million paid in December 2012 to our litigation counsel. (See section titled "ARS Special Arbitration" under [Note 8 - Commitments and Contingencies](#) to our Consolidated Financial Statements.)

Provision for income taxes

The tax expense of \$2.6 million during 2013 was primarily the result of tax on current year income. This compared to a tax expense of \$15.9 million during 2012, which included taxes relating to the receipt of proceeds from the UBS dispute settlement.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

As of December 31, 2013, our cash and cash equivalents were approximately \$17.2 million compared to \$55.5 million as of December 31, 2012. The change in cash and cash equivalents was due to the investment of the majority of our 2012 cash and cash equivalent holdings into marketable securities. Our working capital was \$39.4 million and \$56.5 million as of December 31, 2013 and 2012, respectively.

Net cash flows used in operating activities were approximately \$10.0 million during 2013, a decrease of approximately \$53.9 million from \$43.9 million provided by operating activities in 2012. The change was primarily due to the increase of the 2012 income taxes payable as a result of the UBS dispute settlement, the payment of those taxes in 2013, and the decrease in net income from 2012 to 2013 was mainly due to the UBS dispute settlement in 2012.

Net cash flows used in investing activities were \$26.5 million during 2013 compared to net cash flows used in investing activities of \$5.2 million during 2012. During 2013, the cash outflows on investing activities consisted of acquisitions of

marketable securities along with purchases of property and equipment. During 2012, the cash outflows on investing activities consisted of the acquisition of VCON's business for \$4.6 million and other purchases of property and equipment. Please refer to [Note 3 - Business Combinations, Goodwill and Intangible Assets](#) in the Notes to Consolidated Financial Statements (Part IV) for details on the company's acquisitions.

Net cash used in financing activities in 2013 consisted of proceeds received from the exercise of stock options amounting to \$489 thousand and associated tax benefits of \$104 thousand, offset by the acquisition of outstanding stock totaling \$2.4 million under the stock repurchase program. Net cash provided by financing activities in 2012 consisted of proceeds from the exercise of stock options totaling \$490 thousand and associated tax benefits totaling \$2 thousand, offset by the acquisition of outstanding stock totaling \$384 thousand under the stock repurchase program.

We believe that future income from operations and effective management of working capital will provide the liquidity needed to meet our short-term and long-term operating requirements and finance our growth plans. We also believe that our strong financial position and sound business structure will enable us to raise additional capital 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.

At December 31, 2013, we had open purchase orders related to our electronics manufacturing service providers and other contractual obligations of approximately \$2.9 million, primarily related to inventory purchases.

At December 31, 2013, we had inventory totaling \$12.8 million, of which non-current inventory accounted for \$0.6 million. This compares to total inventories of \$12.8 million and non-current inventory of \$2.0 million as of December 31, 2012. As our business prospects continue to improve, we expect to continue to reduce our non-current inventory and convert it into cash.

Off-Balance Sheet Arrangements

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our results of operations and financial position are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We evaluate our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. We believe that the estimates we use are reasonable; however, actual results could differ from those estimates. Our significant accounting policies are described in [Note 2 - Summary of Significant Accounting Policies](#) to the Consolidated Financial Statements included in Part IV of this report. We believe the following critical accounting policies identify our most critical accounting policies, which are the policies that are both important to the representation of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Revenue and Associated Allowances for Revenue Adjustments and Doubtful Accounts

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

We provide a right of return on product sales to certain distributors under a product rotation program. Under this seldom-used program, once a quarter, a distributor is allowed to return products purchased during the prior quarter for a total value generally not exceeding 15% of the distributor's net purchases during the preceding quarter. The distributor is, however, required to place

a new purchase order for an amount not less than the value of products returned under the stock rotation program. When products are returned, the associated revenue, cost of goods sold, inventory and accounts receivable originally recorded are reversed. When the new order is placed, the revenue, associated cost of goods sold, inventory and accounts receivable are recorded and the product revenue is subject to the deferral analysis described below. In a small number of cases, the distributors are also permitted to return the products for other business reasons.

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

The accuracy of the deferred revenue and costs depend to a large extent on the accuracy of the inventory reports provided by our distributors and other resellers, and any material error in those reports would affect our revenue deferral. However, we believe that the controls we have in place, including periodic physical inventory verifications and analytical reviews, would help us identify and prevent any material errors in such reports. As part of these controls, we sample test the inventory of a limited number of distributors on an annual basis, most recently in the fourth quarter of 2013, to verify inventory levels reported.

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

	As of December 31,			
	2013		2012	
Deferred revenue	\$	4,158	\$	3,593
Deferred cost of goods sold		1,520		1,289
Deferred gross profit	\$	2,638	\$	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 quarterly as a reduction of revenue in accordance with GAAP.

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

Impairment of Goodwill and Intangible Assets

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 association with the acquisition of NetStreams, \$726 thousand and \$400 thousand were recorded as goodwill and intangible assets with indefinite useful life, respectively. With respect to the MagicBox acquisition, \$427 thousand and \$159 thousand were recorded as goodwill and intangible assets with indefinite useful life, respectively. Assets, with initial indefinite useful lives, have subsequently received finite life assignments. Goodwill of \$2.3 million was recorded in connection with the VCON acquisition. There were no related 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 non-U.S. jurisdictions. We estimate our current tax position together with our future tax consequences attributable to temporary differences resulting from differing treatment of items, such as deferred revenue, depreciation, and other reserves for tax and accounting purposes. These temporary differences result in deferred tax assets and liabilities. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, prior year carryback, or future reversals of existing taxable temporary differences. To the extent we believe that recovery is not more likely than not, we establish a valuation allowance against these deferred tax assets. Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our deferred tax assets.

To the extent we establish a valuation allowance in a period, we must include and expense the allowance within the tax provision in the consolidated statement of operations. In accordance with ASC Topic 740, "Accounting for Income Taxes", we analyzed our valuation allowance at December 31, 2013 and determined that based upon available evidence it is more likely than not that certain of our deferred tax assets related to capital loss carryovers and state research and development credits will not be realized and, accordingly, we have recorded a valuation allowance against these deferred tax assets in the amount of \$378 thousand. Please refer to note on income taxes in the Notes to Consolidated Financial Statements for additional information.

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 Payments

We estimate the fair value of stock options using the Black-Scholes option pricing model, which requires certain estimates, including an expected forfeiture rate and expected term of options granted. We also make decisions regarding the method of calculating expected volatilities and the risk-free interest rate used in the option-pricing model. The resulting calculated fair value of stock options is recognized as compensation expense over the requisite service period, which is generally the vesting period. When there are changes to the assumptions used in the option-pricing model, including fluctuations in the market price of our common stock, there will be variations in the calculated fair value of our future stock option awards, which results in variation in the compensation cost recognized.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

After evaluating the recent accounting pronouncements through the date of this filing, the Company has concluded that their application will have no material impact on the Company's financial results.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements and supplementary data required by this are included herein as a [separate section](#) of this Form 10-K, beginning on page F-1, and are incorporated in this Item 8 by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the required time periods, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. As required by Rule 13a-15 under the Exchange Act, we have completed an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Principal Financial Officer, of the effectiveness and the design and operation of our disclosure controls and procedures as of December 31, 2013. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and, based upon this evaluation, our Chief Executive Officer and Principal Financial Officer concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures are effective at a reasonable assurance level.

The effectiveness of any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing, and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate improper conduct completely. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. As a result, there can be no assurance that our disclosure controls and procedures will detect all errors or fraud.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with United States generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the framework set forth in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment using that criteria, management concluded that the design and operation of our internal control over financial reporting were effective as of December 31, 2013.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to the rules of the SEC applicable to smaller reporting companies.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth certain information regarding our directors and executive officers.

Name	Age	Position	Director or Officer Since
Zeynep “Zee” Hakimoglu	60	Chairman, Chief Executive Officer, and President ⁽⁴⁾	See Note 4
Brad R. Baldwin	58	Director ⁽¹⁾⁽²⁾⁽³⁾	1988
Larry R. Hendricks	71	Director ⁽¹⁾⁽²⁾⁽³⁾	2003
Scott M. Huntsman	48	Director ⁽¹⁾⁽²⁾⁽³⁾	2003
Narsi Narayanan	43	Senior Vice President of Finance and Corporate Secretary	2009
Michael J. Braithwaite	46	Senior Vice President - Multimedia Streaming Business	2009

(1) Member of the Audit and Compliance Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating Committee

(4) Officer since July 2004; Director since April 2006; Chairman of the Board since July 2007.

Zee Hakimoglu has served as a director of our company since April 2006. Ms. Hakimoglu joined our company in December 2003 with more than 15 years of executive and senior-level, high-tech management experience and was appointed as President and Chief Executive Officer in July 2004 and Chairman of the Board in July 2007. She served in a variety of executive business development, product marketing, engineering and product line management roles prior to joining ClearOne. Ms. Hakimoglu served as Vice President of Product Line Management for Oplink Communications, a publicly traded developer of fiber optic subsystems and components from December 2001 to December 2002; President of OZ Optics USA, a manufacturer of fiber optic test equipment and components from August 2000 to November 2001; and various management positions including Vice President of Wireless Engineering and Vice President of the Wireless Business Unit for Aydin Corp., a telecommunications equipment company, formerly traded on the New York Stock Exchange from May 1982 until it was acquired in September 1996. She also was Vice President of Business Development for Kaifa Technology from October 1998 to August 2000 and was instrumental in its acquisition by E-Tek Dynamics, then again acquired by JDS Uniphase. Through these acquisitions, she held the role of Deputy General Manager of the Kaifa Technology business unit. She also served as Vice President of Product Line Management for ClearOne from December 2003 to July 2004. Ms. Hakimoglu earned a Bachelor of Science Degree in Physics from California State College, Sonoma, and a Master's Degree in Physics from Drexel University. In light of Ms. Hakimoglu's rich experience in the high-tech industry and her unique and extensive understanding of ClearOne's business, our Board has concluded that Ms. Hakimoglu should continue to serve as a director.

Brad R. Baldwin has served as a director of our company since October 1988, and was appointed "lead independent director" in 2013. Mr. Baldwin is an attorney licensed to practice in Utah. He is currently employed as President and CEO of First Utah Bank, a full service commercial and community bank headquartered in Salt Lake City, Utah. Prior to that, Mr. Baldwin served as general counsel to the Wasatch Front Regional Multiple Listing Service (“WFRMLS”), which provided data and real estate services to over 10,000 real estate brokers, agents and appraisers in Utah. From 2001 to 2009, he served as an attorney and investment real estate specialist with Commerce CRG in Salt Lake City, Utah. From 1988 to 2000, he served as legal counsel and president of Bank One, Utah, a full service commercial bank owned by Bank One Corporation. He also practiced business, corporate and real estate law for ten years in Salt Lake City. He has a degree in finance from the University of Utah and a law degree from the University of Washington. He has served on the board of many community organizations, including the Salt Lake Area Chamber of Commerce, the Utah Bankers Association, and the Economic Development Corporation of Utah. In light of Mr. Baldwin's legal and financial services background and unique understanding of our business due to his long service on our Board, the Board has concluded that Mr. Baldwin should continue to serve as a director.

Larry R. Hendricks has served as a director of our company since June 2003. Mr. Hendricks is a Certified Public Accountant who retired in December 2002 after serving as Vice President of Finance and General Manager of Daily Foods, Inc., a national meat processing company. During his 30-year career in accounting, he served as a self-employed CPA and worked for the international accounting firm Peat Marwick & Mitchell. Mr. Hendricks has served on the boards of eight other

organizations, including Tunex International, Habitat for Humanity, Daily Foods, Skin Care International, and the National Advisory Board of the Huntsman College of Business at Utah State University. He earned a Bachelor's Degree in Accounting from Utah State University and a Master of Business Administration Degree from the University of Utah. In light of Mr. Hendricks' background in finance and accounting and his deep understanding of our business due to his long service on our Board, the Board has concluded Mr. Hendricks should continue to serve as a director.

Scott M. Huntsman has served as a director of our company since June 2003. Mr. Huntsman has served as President and CEO of GlobalSim, a technology and simulation company, since February 2003, and as Chief Financial Officer from April 2002 to February 2003. Prior to joining GlobalSim, he spent 11 years on Wall Street as an investment banker, where he focused on mergers, acquisitions, and corporate finance transactions. Mr. Huntsman served at Donaldson, Lufkin and Jenrette Securities Corporation from August 1996 to 2000, when they merged with Credit Suisse First Boston where he served until October 2001. Mr. Huntsman serves as a director of Ballet West (where he is Treasurer and a member of the Executive Committee), the Community Foundation of Utah, the Gifted Music School, and Kongsberg Maritime Simulation Americas. Mr. Huntsman earned a Bachelor's Degree from Columbia University and a Master of Business Administration Degree from The Wharton School at the University of Pennsylvania. He also studied at the London School of Economics as a Kohn Fellowship recipient. In light of Mr. Huntsman's background in finance, particularly in the areas of mergers and acquisitions and corporate finance, and in view of his experience as a leader of a technology company, the Board has concluded Mr. Huntsman should continue to serve as a director.

Narsi Narayanan has served as our Senior Vice President of Finance since July 2009 and has over 20 years of professional experience in the areas of accounting, finance and taxes. Prior to joining our company, he managed the SEC reporting, US GAAP accounting research, SOX compliance and other financial reporting functions from August 2007 through February 2009 at Solo Cup Company, a publicly reporting international consumer products company. Prior to that, Mr. Narayanan managed the accounting and finance functions, including SEC Reporting, SOX compliance and US GAAP accounting research, from June 2004 through August 2007 at eCollege.com, a leading technology company serving private educational institutions which was also a publicly reporting company before being acquired by Pearson Education group. In addition to being a Chartered Accountant, Mr. Narayanan has extensive experience working in public accounting and in various senior finance positions in India with large public companies. He is a Certified Public Accountant with graduate degrees in accounting (M. Acc.) and business (MBA-Finance).

Michael Braithwaite joined us in November 2009 through the acquisition of NetStreams, Inc. where he was the co-founder and CTO since 2002. Mr. Braithwaite has led a distinguished twenty-plus-year career as a visionary, disruptive innovator, and proven leader in the professional audio and consumer electronics industries. He has authored more than twenty U.S. and International patents. Before NetStreams, Inc., Mr. Braithwaite was a product and market manager for Crestron Electronics where he worked on highly successful audio and video distribution products. He currently serves on the AVnu (AVB) marketing and technical committees.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act, as amended, requires our directors, executive officers and persons who own more than 10% of a registered class of our equity securities to file with the SEC initial reports of ownership on Form 3 and reports of changes of ownership of our equity securities on Forms 4 and 5. Officers, directors, and greater than 10% shareholders are required to furnish us with copies of all Section 16(a) reports they file. Based solely on a review of the reports and amendments to reports furnished to us for the year ended December 31, 2013, we believe that each person who, at any time during such fiscal year was a director, officer, or beneficial owner of more than 10% of our common stock complied with all Section 16(a) filing requirements during such period, except for the following: Edward Dallin Bagley, a beneficial owner of more than 10% of our common stock filed two Forms 4 late for one transaction each; Brad Baldwin, a director filed one Form 4 late for one transaction; Michael Braithwaite, an officer filed one Form 4 late for six transactions; and Larry Hendricks, a director filed three Forms 4 late for one transaction each.

Code of Ethics

The Board of Directors adopted a code of ethics that applies to our Board of Directors, executive officers, and employees. The Company's Code of Ethics is posted on our website at www.clearone.com.

Nomination Procedures

No changes have been made to the procedures by which our shareholders may recommend nominees to our Board of Directors.

Audit and Compliance Committee

The Company has a separate Audit Committee and its members are Scott M. Huntsman (Chairman), Brad R. Baldwin, and Larry R. Hendricks. The Board of Directors has determined that Scott M. Huntsman is an “audit committee financial expert” and each member is independent in accordance with applicable rules and regulations of NASDAQ and the SEC.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation

The following sets forth for the periods indicated, the compensation paid or earned by each named executive officer for the years ended December 31, 2013 and 2012.

Name and Principal Position	Salary	Option Awards ⁽¹⁾	Non-Equity Incentive Plan Compensation ⁽²⁾	All Other Compensation ⁽³⁾	Total
Zee Hakimoglu - Chairman of the Board, Chief Executive Officer and President					
Year ended December 31, 2013	\$ 240,000	\$ 106,928	\$ 71,460	\$ 450,000	\$ 868,388
Year ended December 31, 2012	236,667	51,765	59,246	—	347,678
Narsi Narayanan - Senior Vice President of Finance and Corporate Secretary					
Year ended December 31, 2013	\$ 145,000	\$ 64,157	\$ 37,783	\$ 90,000	\$ 336,940
Year ended December 31, 2012	141,667	41,412	31,864	—	214,943
Michael Braithwaite - Senior Vice President Multimedia Streaming Business					
Year ended December 31, 2013	\$ 162,500	\$ —	\$ 21,600	\$ 12,175	\$ 196,275
Year ended December 31, 2012	160,000	41,412	21,864	6,547	229,823

- (1) The amounts in the “Option Awards” column reflect the aggregate grant date fair value of awards of stock options granted pursuant to our long-term incentive plans during the periods reported above, computed in accordance with FASB ASC Topic 718, *Compensation - Stock Compensation*. The assumptions made in the valuation of our option awards and the material terms of option awards are disclosed in Note 9 - Share Based Payments in our Notes to Consolidated Financial Statements included in Part IV of this report.
- (2) Non-Equity Incentive Plan Compensation is based upon the achievement of pre-determined quarterly goals, namely, financial goals comprising of revenue, gross margin, operating income and meeting reporting deadlines, and non-quantitative performance goals. While all financial goals are similar for Ms. Hakimoglu and Mr. Narayanan, Mr. Braithwaite’s financial goals consisted only of revenue, gross margin and operating income goals. Non-quantitative goals varied for each executive officer. Examples of non-quantitative goals include introduction of a new product, identification of a new distribution opportunity, implementing internal controls, and improving product quality. The Chief Executive Officer recommends to the Compensation Committee the compensation for achievement or partial achievement of any such predetermined goal by the other two executive officers. Compensation under the non-equity incentive plan is calculated by assigning 70% weight to financial goals (with each goal having equal share for each officer’s goals) and 30% to non-quantitative goals.
- (3) All Other Compensation for Ms. Hakimoglu and Mr. Narayanan is for a special bonus paid as a result of the UBS litigation settlement (See Note 8 - Commitments and Contingencies). All Other Compensation for Mr. Braithwaite consists of \$10,000 in 2013 for a special bonus paid as a result of the UBS litigation settlement, with the remaining amounts for the value of an honorarium paid under a patenting process program for Mr. Braithwaite.

Outstanding Equity Awards at Fiscal Year-End

The following table provides information on the holdings of stock options by the named executive officers as of December 31, 2013.

Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable ⁽¹⁾	Option Exercise Price	Option Grant Date	Option Expiration Date
Zee Hakimoglu	50,000	—	\$ 6.40	03/24/04	03/24/14
	100,000	—	5.55	07/26/04	07/26/14
	150,000	—	3.65	09/18/06	09/18/16
	150,000	—	6.15	08/14/07	08/14/17
	50,000	—	4.03	11/14/08	11/14/18
	10,000	—	3.00	05/26/10	05/26/20
	7,777	2,223	5.48	08/05/11	08/05/21
	13,194	11,806	3.92	05/11/12	05/11/22
Narsi Narayanan	—	25,000	8.22	08/22/13	08/22/23
	30,000	—	2.78	08/27/09	08/27/19
	10,000	—	3.00	05/26/10	05/26/20
	7,777	2,223	5.48	08/05/11	08/05/21
	10,555	9,945	3.92	05/11/12	05/11/22
Michael Braithwaite	—	15,000	8.22	08/22/13	08/22/23
	833	2,223	5.48	08/05/11	08/05/21
	1,667	9,445	3.92	05/11/12	05/11/22

(1) Unvested options vest monthly over a three year period beginning on the date of grant.

Option Exercises

The following table provides information on the exercise of stock options by named executive officers during the year ended December 31, 2013.

Name	Number of shares acquired on exercise	Value realized on exercise ⁽¹⁾
Zee Hakimoglu	—	\$ —
Narsi Narayanan	—	\$ —
Michael Braithwaite	55,632	\$ 252,234

(1) Value realized on exercise is the excess of market price of underlying shares on the date of exercise over exercise price for the options.

Potential Payments Upon Termination or Change in Control

Employment Agreements. As of the year ended December 31, 2013, none of our named executive officers was party to an employment or severance agreement with us, and each named executive officer's employment was on an "at-will" basis, permitting either us or the executive to terminate his or her employment for any reason or for no reason.

Accelerated Stock Option Vesting Upon a Change in Control. For certain option grants to executive officers and directors, in the event of a change in control, all of such optionee's unvested stock options will vest and become exercisable immediately prior to the event or closing of the transaction causing the change in control.

Under the option grants, a “ *Change in Control* ” means a change in ownership or control of the Company effected through either of the following transactions:

(i) the acquisition, directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company’s outstanding securities pursuant to a tender or exchange offer made directly to the Company’s shareholders, which the Board does not recommend such shareholders to accept, or

(ii) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less, such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period, or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time the Board approved such election or nomination.

Except as otherwise set forth in an option grant, in the event of a change in control of our company, the Board of Directors has the sole authority to elect that the vesting of each outstanding option automatically accelerate so that each such option shall, immediately prior to the effective date of the corporate transaction, become fully exercisable for all of the shares of common stock at the time subject to such option and may be exercised for any or all of those shares as fully vested shares of common stock.

At our current stock price of about \$11.25, all the named executive officers would each benefit from any potential accelerated vesting of unvested stock options.

Director Compensation

The following table summarizes the compensation paid by us to non-employee directors for the year ended December 31, 2013. Ms. Hakimoglu did not receive additional compensation for her service as a director.

Name	Fees Earned or Paid in Cash ⁽¹⁾	Option Awards ⁽²⁾	Total	Share Options Outstanding at Year End
Brad R. Baldwin	\$ 29,819	\$ 42,771	\$ 72,590	73,000
Larry R. Hendricks	28,319	42,771	71,090	55,000
Scott M. Huntsman	29,819	42,771	72,590	73,000

(1) The base annual director’s fee for the reporting year was \$26,319.

(2) The amounts in the “Option Awards” column reflect the aggregate grant date fair value of awards of stock options granted pursuant to our long-term incentive plans during the periods reported above, computed in accordance with FASB ASC Topic 718, *Compensation - Stock Compensation*. The assumptions made in valuation of our option awards are disclosed in Note 9 - Share Based Payments in our Notes to Consolidated Financial Statements included in Part IV of this report.

On August 20, 2013, the Compensation Committee approved an increase in the monthly base for outside Board of Director’s compensation from \$2,000 to \$2,500 per month. Also effective from this date, outside Directors receive \$100 per month for each board committee served on, and an additional \$300 per month if the outside Director is the chair of the Audit or Compensation Committee. The fee is not dependent on the number of meetings attended by any directors. All directors are reimbursed by us for their out-of-pocket travel and related expenses incurred in attending all Board of Directors and committee meetings.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding ownership of our common stock as of March 14, 2014, except as otherwise stated, by (i) each director and nominee for director, (ii) the named executive officers, (iii) all of our named executive officers and directors as a group, and (iv) each person known to us to be the beneficial owner of more than 5% of our outstanding common stock.

Name of Beneficial Owner (1)

	Actually Owned ⁽²⁾	Actually Owned Percent ⁽²⁾	Shares that could be acquired within 60 days ⁽²⁾	Total ⁽²⁾	Percent ⁽²⁾
	(A)	(B)	(C)	(D)	(E)
Directors and Executive Officers:					
Zee Hakimoglu	115,613	1.2%	425,832	541,445	5.4%
Brad Baldwin ⁽³⁾	131,829	1.4%	44,583	176,412	1.8%
Larry Hendricks	18,200	0.2%	44,583	62,783	0.6%
Scott Huntsman	54,500	0.6%	44,583	99,083	1.0%
Narsi Narayanan	—	—%	62,499	62,499	0.6%
Michael Braithwaite	800	—%	6,667	7,467	0.1%
All directors and executive officers as a group (6 persons)	320,942	3.4%	628,747	949,689	9.5%
5% Shareholders:					
Edward Dallin Bagley ⁽⁴⁾	2,760,126	29.6%	834	2,760,960	27.8%

- (1) Except as otherwise indicated, each person named in the table has sole voting and investment power, subject to the Utah Control Shares Acquisition Act, with respect to all common stock beneficially owned, subject to applicable community property law. Except as otherwise indicated, each person may be reached at our corporate offices c/o ClearOne, Inc., 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116.
- (2) The percentages shown in Column (B) are calculated based on 9,309,529 shares of common stock outstanding on March 14, 2014. The numbers shown in Column (D) and percentages shown in Column (E) include the shares of common stock actually owned as of March 14, 2014 and the shares of common stock that the identified person or group had the right to acquire within 60 days of such date. In calculating the percentage of ownership, all shares of common stock that each identified person or group had the right to acquire within 60 days of March 14, 2014 upon the exercise of options shown in Column (C) are deemed to be outstanding for the purpose of computing the percentage of the shares of common stock owned by the persons or groups listed above.
- (3) Includes 75,329 shares held in the Baldwin Family Trust; 45,500 owned jointly with his spouse; 11,000 shares owned directly, which are held in an IRA under the name of Mr. Baldwin.
- (4) Amounts for Mr. Edward D. Bagley include (i) 126,166 shares held by Edward D. Bagley's spouse with respect to which he disclaims beneficial ownership but also has acknowledged he may be deemed the owner (ii) 800,000 shares that are deemed to be owned by his spouse based on the fact she is a trustee of the trust in which such shares are held and (iii) 834 shares of common stock issuable upon exercise of stock options. Mr. Edward D. Bagley has sole voting and dispositive power over 1,834,794 shares (including the shares that may be acquired pursuant to the exercise of stock options) and shared voting and dispositive power over the 126,166 shares held by Mr. Edward D. Bagley's spouse. This information is based upon Schedules 13D/A, as filed by Mr. Edward D. Bagley with the SEC on March 14, 2013 and November 15, 2013. E. Bryan Bagley, who resigned as Director effective November 6, 2012 is the son of Edward D. Bagley, and each of them has previously disclaimed beneficial ownership of common stock beneficially owned by the other. The amounts indicated for Mr. Edward D. Bagley do not include any shares held by E. Bryan Bagley. All shares indicated as beneficially owned by Edward D. Bagley are subject to application of the Utah Control Shares Acquisition Act.

Equity Compensation Plans

Please refer to the section titled "Securities Authorized for Issuance under Equity Compensation Plans" contained in Item 5 in our Form 10-K for details regarding our compensation plans under which our equity securities are authorized for issuance.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

We recognize that transactions between us and any of our directors or executives can present potential or actual conflicts of interest and create the appearance that our decisions are based on considerations other than the best interests of our company and shareholders. Therefore, as a general matter and in accordance with our Code of Ethics, it is our preference to avoid such transactions. Nevertheless, we recognize that there are situations where such transactions may be in, or may not be inconsistent with, the best interests of our company. Under the terms of its charter, our Audit and Compliance Committee reviews and, if appropriate, approves or ratifies any such transactions. Pursuant to the charter, the committee will review any transaction in which we are or will be a participant and the amount involved exceeds \$120,000, and in which any of our directors or executives had, has or will have a direct or indirect material interest. After its review, the Committee will only approve or ratify those transactions that are in, or are not inconsistent with, the best interests of our company and our shareholders, as the committee determines in good faith.

Related Party Transactions: Indemnification of Officers and Directors

Please refer to the section titled “Former Officers Indemnification” under Note 8 - Commitments and Contingencies in our Notes to Consolidated Financial Statements included in Part IV of the report for full details, which is incorporated herein by reference.

Director Independence

Our Board of Directors has determined, after considering all the relevant facts and circumstances, that Messrs. Baldwin, Hendricks, and Huntsman are independent directors, in accordance with the definition of “independence” under the listing standards of NASDAQ, because they have no relationship with us that would interfere with their exercise of independent judgment.

Our Board of Directors has an Audit and Compliance Committee, a Compensation Committee, and a Nominating Committee, each consisting entirely of independent directors.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

We retained McGladrey LLP as our auditor and independent certified public accounting firm for the years ended December 31, 2013 and 2012. The following table presents aggregate fees billed by the principal accountants to our company:

	Year ended December 31,	
	2013	2012
Audit Fees ⁽¹⁾	\$ 278,500	\$ 179,466
Audit-related Fees	—	—
Tax fees ⁽²⁾	136,903	46,479
All other fees ³	—	—
Total	\$ 415,403	\$ 225,945

(1) Represents fees billed for professional services rendered for the audit and review of our financial statements filed with the SEC on Forms 10-K and 10-Q.

(2) Represents fees billed for tax filing, preparation, and tax advisory services.

(3) Represents fees billed for all other non-audit services, such as consulting on potential acquisitions or dispositions.

Pre-Approval Policies and Procedures

The Audit and Compliance Committee ensures that we engage our independent registered public accounting firm to provide only audit and non-audit services that are compatible with maintaining the independence of our public accountants. The Audit and Compliance Committee approves or pre-approves all services provided by our public accountants. Permitted services include audit and audit-related services, tax and other non-audit related services. Certain services are identified as restricted. Restricted services are those services that may not be provided by our external public accountants, whether identified in statute or determined to be incompatible with the role of an independent auditor. All fees identified in the preceding table were approved by the Audit and Compliance Committee. During 2013, the Audit and Compliance Committee reviewed all non-audit services provided by our independent registered public accounting firm, and concluded that the provision of such non-audit services was compatible with maintaining the independence of the external public accountants.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. Financial Statements: Financial statements set forth under Part II, Item 8 of this Annual Report on Form 10-K are filed in a separate section of this Form 10-K. See the "Index to Consolidated Financial Statements".
2. Financial Statement Schedules: All schedules are omitted since they either are not required, not applicable or the information is presented in the accompanying consolidated financial statements and notes thereto.
3. Exhibits: The exhibits listed under the Index of exhibits in the next page are filed or incorporated by reference as part of this Form 10-K.

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Form	Exhibit Incorporated Herein by Reference	Filing Date
2.2	Agreement and Plan of Merger, dated as of November 3, 2009, by and among ClearOne Communications, Inc., Alta-Wasatch Acquisition Corporation, NetStreams, Inc., Austin Ventures VIII, L.P., and Kevin A. Reinis.	8-K	2.2	11/9/2009
3.1	Amended and Restated Articles of Incorporation of ClearOne, Inc.	10-K	3.1	3/25/2013
3.2	Bylaws	10-K	3.2	3/31/2011
10.1*	Employment Separation Agreement between ClearOne Communications, Inc. and Frances Flood, dated December 5, 2003	10-K	10.1	8/18/2005
10.2*	Employment Termination Agreement between ClearOne Communications, Inc. and Susie Strohm, dated December 5, 2003	10-K	10.1	8/18/2005
10.3	1997 Employee Stock Purchase Plan	S-8	4.9	10/6/2006
10.4	1998 Stock Option Plan	S-8	4.8	10/6/2006
10.5	2007 Equity Incentive Plan	S-8	4.7	1/22/2008
10.6	Office Lease between Edgewater Corporate Park, LLC and ClearOne Communications, Inc. dated June 5, 2006	10-K	10.19	9/14/2006
10.7†	Stock Purchase Agreement Between ClearOne, Inc. and Doran M. Oster Dated March 4, 2014 for the Sabine Acquisition.			
10.8	Manufacturing Services Agreement between Flextronics Industrial, Ltd. and ClearOne Communications, Inc. dated November 3, 2008	10-K	10.21	10/13/2009
14.1	Code of Ethics, approved by the Board of Directors on August 23, 2006	10-K	14.1	9/14/2006
21.1†	Subsidiaries of the registrant			
23†	Consent of McGladrey LLP, Independent Registered Public Accounting Firm			
31.1†	Section 302 Certification of Chief Executive Officer			
31.2†	Section 302 Certification of Chief Financial Officer			
32.1†	Section 906 Certification of Chief Executive Officer			
32.2†	Section 906 Certification of Chief 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			

* Constitutes a management contract or compensatory plan or arrangement.

† Filed herewith

‡ Information furnished herewith shall not be deemed to be “filed” for the purposes of Section 18 of the 1934 Act

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities 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

/s/ Zeynep Hakimoglu

Zeynep Hakimoglu

President, Chief Executive Officer and Chairman of the Board

March 19, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Zeynep Hakimoglu

Zeynep Hakimoglu

President, Chief Executive Officer and Chairman of the Board

March 19, 2014

/s/ Narsi Narayanan

Narsi Narayanan

Senior Vice President of Finance

March 19, 2014

/s/ Brad R. Baldwin

Brad R. Baldwin

Director

March 19, 2014

/s/ Larry R. Hendricks

Larry R. Hendricks

Director

March 19, 2014

/s/ Scott M. Huntsman

Scott M. Huntsman

Director

March 19, 2014

CLEARONE, INC.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Shareholders of ClearOne, Inc.

We have audited the accompanying consolidated balances sheets of ClearOne, Inc. and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ClearOne, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ MCGLADREY LLP

Irvine, California
March 19, 2014

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

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,192	\$ 55,509
Marketable securities	3,200	—
Receivables, net of allowance for doubtful accounts of \$129 and \$60, as of December 31, 2013 and 2012 respectively	9,378	8,388
Inventories	10,758	9,584
Distributor channel inventories	1,520	1,289
Deferred income taxes	3,325	3,148
Prepaid expenses and other assets	2,693	1,369
Total current assets	48,066	79,287
Long-term marketable securities	22,326	—
Long-term inventories, net	551	1,955
Property and equipment, net	1,825	1,708
Intangibles, net	3,710	4,258
Goodwill	3,472	3,472
Deferred income taxes	1,024	1,195
Other assets	87	64
Total assets	\$ 81,061	\$ 91,939
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,730	\$ 2,302
Accrued liabilities	1,761	2,143
Income taxes payable	—	14,782
Deferred product revenue	4,158	3,593
Total current liabilities	8,649	22,820
Deferred rent	286	422
Other long-term liabilities	1,791	2,029
Total liabilities	10,726	25,271
Shareholders' equity:		
Common stock, par value \$0.001, 50,000,000 shares authorized, 8,986,080 and 9,163,462 shares issued and outstanding as of December 31, 2013 and 2012, respectively	9	9
Additional paid-in capital	41,311	40,430
Accumulated other comprehensive income	23	—
Retained earnings	28,992	26,229
Total shareholders' equity	70,335	66,668
Total liabilities and shareholders' equity	\$ 81,061	\$ 91,939

See accompanying notes

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

	Year ended December 31,	
	2013	2012
Revenue	\$ 49,592	\$ 46,417
Cost of goods sold	19,735	19,089
Gross profit	<u>29,857</u>	<u>27,328</u>
Operating expenses:		
Sales and marketing	8,896	8,112
Research and product development	7,562	8,261
General and administrative	6,416	6,934
Proceeds from litigation, net	(639)	(38,500)
Total operating expenses	<u>22,235</u>	<u>(15,193)</u>
Operating income	7,622	42,521
Other income, net	147	34
Income before income taxes	7,769	42,555
Provision for income taxes	(2,590)	(15,908)
Net income	<u>\$ 5,179</u>	<u>\$ 26,647</u>
Basic earnings per common share	\$ 0.57	\$ 2.93
Diluted earnings per common share	\$ 0.55	\$ 2.89
Basic weighted average shares outstanding	9,064,340	9,107,234
Diluted weighted average shares outstanding	9,455,518	9,214,685
Comprehensive income:		
Net income	\$ 5,179	\$ 26,647
Other comprehensive income:		
Unrealized gain on available-for-sale securities, net of tax of \$13	23	—
Comprehensive income	<u>\$ 5,202</u>	<u>\$ 26,647</u>

See accompanying notes

CLEARONE, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated Deficit)	Total Shareholders' Equity
	Shares	Amount				
As of December 31, 2011	9,098,152	\$ 9	\$ 40,073	\$ —	\$ (418)	\$ 39,664
Exercise of stock options	159,869	—	489	—	—	489
Stock repurchased	(94,744)	—	(384)	—	—	(384)
Tax benefit - stock option exercises	—	—	10	—	—	10
Stock-based compensation expense	—	—	241	—	—	241
Employee stock purchase plan	185	—	1	—	—	1
Net income	—	—	—	—	26,647	26,647
As of December 31, 2012	9,163,462	9	40,430	—	26,229	66,668
Exercise of stock options	122,650	—	489	—	—	489
Stock repurchased	(300,087)	—	—	—	(2,416)	(2,416)
Tax benefit - stock option exercises	—	—	96	—	—	96
Stock-based compensation expense	—	—	296	—	—	296
Employee stock purchase plan	55	—	—	—	—	—
Unrealized gain on available-for-sale securities, net of tax of \$13	—	—	—	23	—	23
Net income	—	—	—	—	5,179	5,179
As of December 31, 2013	8,986,080	\$ 9	\$ 41,311	\$ 23	\$ 28,992	\$ 70,335

See accompanying notes

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

	Year ended December 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 5,179	\$ 26,647
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation and amortization expense	1,422	1,917
Amortization of deferred rent	(110)	(41)
Stock-based compensation expense	296	241
Provision for doubtful accounts	69	25
Write-down of inventory to net realizable value	996	1,235
Loss on disposal of assets	49	—
Tax benefit from exercise of stock options	(104)	(2)
Changes in operating assets and liabilities:		
Receivables	(1,059)	44
Inventories	(998)	447
Deferred income taxes	(6)	(1,457)
Prepaid expenses and other assets	(1,251)	(652)
Accounts payable	428	(512)
Accrued liabilities	(408)	(130)
Income taxes payable	(14,782)	14,492
Deferred product revenue	565	189
Other long-term liabilities	(238)	1,481
Net cash provided by (used in) operating activities	(9,952)	43,924
Cash flows from investing activities:		
Purchase of property and equipment	(1,040)	(574)
Purchase of marketable securities	(25,502)	—
Payment towards business acquisitions	—	(4,632)
Net cash used in investing activities	(26,542)	(5,206)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	489	490
Tax benefit from the exercise of stock options	104	2
Treasury stock purchased	(2,416)	(384)
Net cash provided by (used in) financing activities	(1,823)	108
Net increase (decrease) in cash and cash equivalents	(38,317)	38,826
Cash and cash equivalents at the beginning of the period	55,509	16,683
Cash and cash equivalents at the end of the period	\$ 17,192	\$ 55,509

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year ended December 31,	
	2013	2012
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 18,021	\$ 1,393
The Company acquired the business of VCON Video Conferencing, Ltd. in February 2012 for \$4,632 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 CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share and per share amounts)

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

Business Description:

ClearOne, Inc., together with its subsidiaries (collectively, "ClearOne" or the "Company"), is a global 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:

Fiscal Year – This report on Form 10-K includes financial statements for the years ended December 31, 2013 and 2012.

Consolidation – These consolidated financial statements include the financial statements of ClearOne, Inc. and its wholly owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management 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 sales and expenses during the reporting periods. Key estimates in the accompanying consolidated financial statements include, among others, revenue recognition, allowances for doubtful accounts and product returns, provisions for obsolete inventory, valuation of long-lived assets, and deferred income tax asset valuation allowances. Actual results could differ materially from these estimates.

Foreign Currency Translation – The U.S. Dollar is used as the functional currency for our subsidiaries in the United Kingdom, Hong Kong and Israel. However, the Company's foreign subsidiaries have certain assets, liabilities and cash flows that are subject to foreign currency risk. Gains or losses arising on remeasurement of foreign currency denominated assets and liabilities are not significant and are included in the Company's Statement of Operations under "Other income, net".

Concentration Risk – We depend on an outsourced manufacturing strategy for our products. We outsource the manufacture of all of our products to third-party manufacturers located in both the U.S. and Asia. If any of these manufacturers experience difficulties in obtaining sufficient supplies of components, component prices significantly exceeding the anticipated costs, an interruption in their operations, or otherwise suffer capacity constraints, we would experience a delay in production and shipping of these products which would have a negative impact on our revenues. Should there be any disruption in services due to natural disaster, economic or political difficulties, transportation restrictions, acts of terror, quarantine or other restrictions associated with infectious diseases, or other similar events, or any other reason, such disruption may have a material adverse effect on our business. Operating in the international environment exposes us to certain inherent risks, including unexpected changes in regulatory requirements and tariffs, and potentially adverse tax consequences, which could materially affect our results of operations. Currently, we have no second source of manufacturing for a portion of our products.

Significant Accounting Policies:

Cash Equivalents – The Company considers all highly-liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. The Company places its temporary cash investments with high-quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limits.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

A decline in the market value of any available-for-sale security below cost that is deemed other than temporary results in a charge to earnings and establishes a new cost basis for the security. Losses are charged against "Other income" when a decline in fair value is determined to be other than temporary. We review several factors to determine whether a loss is other than temporary. These factors include, but are not limited to: (i) the extent to which the fair value is less than cost and the cause for the fair value decline, (ii) the financial condition and near term prospects of the issuer, (iii) the length of time a security is in an unrealized loss position and (iv) our ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. There were no other-than-temporary impairments recognized during the years ended December 31, 2013 and 2012.

Accounts Receivable – Accounts receivable are recorded at the invoiced amount. Generally, credit is granted to customers on a short-term basis without requiring collateral, and as such, these accounts receivable, do not bear interest, although a finance charge may be applied to such receivables that are past due. The Company extends credit to customers who it believes have the financial strength to pay. The Company has in place credit policies and procedures, an approval process for sales returns and credit memos, and processes for managing and monitoring channel inventory levels.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Management regularly analyzes accounts receivable including current aging, historical write-off experience, customer concentrations, customer creditworthiness, and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. We review customer accounts quarterly by first assessing accounts with aging over a specific duration and balance over a specific amount. We review all other balances on a pooled basis based on past collection experience. Accounts identified in our customer-level review as exceeding certain thresholds are assessed for potential allowance adjustment if we conclude the financial condition of that customer has deteriorated, adversely affecting their ability to make payments. Delinquent account balances are written off if the Company determines that the likelihood of collection is not probable. If the assumptions that are used to determine the allowance for doubtful accounts change, the Company may have to provide for a greater level of expense in future periods or reverse amounts provided in prior periods.

The Company's allowance for doubtful accounts activity for the years ended December 31, 2013 and 2012 was as follows:

	Year ended December 31,	
	2013	2012
Balance at beginning of the year	\$ 60	\$ 149
Charged to costs and expenses	96	25
Write offs, net of recoveries	(27)	(114)
Balance at end of the year	<u>\$ 129</u>	<u>\$ 60</u>

Inventories – Inventories are valued at the lower of cost or market, with cost computed on a first-in, first-out ("FIFO") basis. In addition to the price of the product purchased, the cost of inventory includes the Company's internal manufacturing costs, including warehousing, engineering, material purchasing, quality and product planning expenses and applicable overhead, not in excess of estimated realizable value. Consideration is given to obsolescence, excessive levels, deterioration, direct selling expenses, and other factors in evaluating net realizable value.

Distributor channel inventories include products that have been delivered to customers for which revenue recognition criteria have not been met.

The inventory also includes advance replacement units (valued at cost) provided by the Company to end-users to service defective products under warranty. The value of advance replacement units included in the inventory was \$45 and \$39, as of December 31, 2013 and 2012, respectively.

Property and Equipment – Property and equipment are stated at cost less accumulated depreciation and amortization. Expenditures that materially increase values or capacities or extend useful lives of property and equipment are capitalized. Routine maintenance, repairs, and renewal costs are expensed as incurred. Gains or losses from the sale, trade-in or retirement of property and equipment are recorded in current operations and the related book value of the property is removed from

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

property and equipment accounts and the related accumulated depreciation and amortization accounts. Estimated useful lives are generally two to ten years. Depreciation and amortization are calculated over the estimated useful lives of the respective assets using the straight-line method. Leasehold improvement amortization is computed using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets.

Goodwill and Intangible Assets – Intangible assets acquired in a purchase business combination are amortized over their useful lives unless these lives are determined to be indefinite. Intangible assets are carried at cost, less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets, which are generally three to ten years. Goodwill represents the excess of costs over the fair value of net assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized. In accordance with the provisions of FASB ASC Topic 350, *Intangibles – Goodwill and Other*, the Company tests goodwill and other intangible assets with indefinite lives for impairment at least annually at the beginning of the fourth quarter, or sooner if a triggering event occurs suggesting possible impairment of the values of these assets. Impairment testing for these assets involves a two-step process. In the first step, the fair value of the reporting unit holding the assets is compared to its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of the impairment loss, if any. In the second step, the fair value of the reporting unit is allocated to all of its assets and liabilities, including intangible assets and liabilities not recorded on the balance sheet. The excess, if any, of the fair value of the reporting unit over the sum of the fair values allocated to identified assets and liabilities is the value of goodwill to be compared to its carrying value (See [Note 3 – Business Combinations, Goodwill and Intangibles](#)). ClearOne and all of its subsidiaries are considered as one reporting unit for this purpose.

Impairment of Long-Lived Assets – Long-lived assets, such as property, equipment, and definite-lived intangibles subject to depreciation and amortization, are reviewed for impairment 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.

Revenue Recognition – Product revenue is recognized when (i) the products are shipped, (ii) persuasive evidence of an arrangement exists, (iii) the price is fixed and determinable, and (iv) collection is reasonably assured.

The Company provides a right of return on product sales to certain distributors and other resellers under a product rotation program. Under this seldom-used program, once a quarter, a distributor or reseller is allowed to return products purchased during the prior 180 days for a total value generally not exceeding 15% of the distributor's or reseller's net purchases during the preceding quarter. The distributor or reseller 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 fulfilled, 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 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 product is sold-through to customers of the Company's 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, the Company evaluates the inventory in the channel through information provided by our distributors. The level of inventory in the channel will fluctuate up-ward or down-ward each quarter, based upon our distributors' individual operations. Accordingly, at each quarter-end, the deferral for 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 the Company receives payment for the product sales made to such distributors or channel partners.

The amount of deferred cost of goods sold is included in distributor channel inventories.

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

The details of deferred revenue and associated cost of goods sold and gross profit are as follows:

	As of December 31,	
	2013	2012
Deferred revenue	\$ 4,158	\$ 3,593
Deferred cost of goods sold	1,520	1,289
Deferred gross profit	\$ 2,638	\$ 2,304

The Company offers rebates and market development funds to certain of its distributors, dealers/resellers, and end-users based upon the volume of product purchased by them. The Company records rebates as a reduction of revenue in accordance with GAAP.

The Company provides, at its discretion, advance replacement units to end-users on defective units of certain products under warranty. Since the purpose of these units is not revenue generating, the Company tracks the units due from the end-user, valued at retail price, until the defective unit has been returned, but no receivable balance is maintained on the Company's balance sheet.

Sales and Similar Taxes - Taxes collected from customers and remitted to government authorities are reported on a net basis and thus are excluded from revenues.

Shipping and Handling Costs – Shipping and handling billed to customers is recorded as revenue. Shipping and handling costs are included in cost of goods sold.

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:

	Year ended December 31,	
	2013	2012
Balance at the beginning of year	\$ 385	\$ 467
Accruals/additions	433	443
Usage/claims	(480)	(525)
Balance at end of year	\$ 338	\$ 385

Advertising – The Company expenses advertising costs as incurred. Advertising costs consist of trade shows, magazine advertisements, and other forms of media. Advertising expenses for the years ended December 31, 2013 and 2012 totaled \$472 and \$525, respectively, and are included under the caption "Sales and Marketing".

Research and Product Development Costs – The Company expenses research and product development costs as incurred.

Income Taxes – The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry-forwards. These temporary differences will result in deductible or taxable amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets may not be realized. The Company evaluates the realizability of its net deferred tax assets on a quarterly basis and valuation allowances are provided, as necessary. Adjustments to the valuation allowance increase or decrease the Company's income tax provision or benefit. As of December 31, 2013 and 2012, the Company had a valuation allowance of

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

\$378 and \$270 against capital loss carryovers, foreign net operating losses, and state research and development credits, respectively.

The Company follows the provisions contained in ASC Topic 740, *Income Taxes*. The Company recognizes the tax benefit from an uncertain tax position only if it is at least more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

Judgment is required in determining the provision for income taxes and related accruals, deferred tax assets and liabilities. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, the Company's tax returns are subject to audit by various tax authorities. Although the Company believes that its estimates are reasonable, actual results could differ from these estimates.

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

	Year ended December 31,	
	2013	2012
Numerator:		
Net income	\$ 5,179	\$ 26,647
Denominator:		
Basic weighted average shares	9,064,340	9,107,234
Dilutive common stock equivalents using treasury stock method	391,178	107,451
Diluted weighted average shares	9,455,518	9,214,685
Basic earnings per common share:	\$ 0.57	\$ 2.93
Diluted earnings per common share:	\$ 0.55	\$ 2.89
Weighted average options outstanding	1,128,045	1,197,487
Anti-dilutive options not included in the computation	149,773	681,820

Share-Based Payment – We estimate the fair value of stock options using the Black-Scholes option pricing model, which requires certain estimates, including an expected forfeiture rate and expected term of options granted. We also make decisions regarding the method of calculating expected volatilities and the risk-free interest rate used in the option-pricing model. The resulting calculated fair value of stock options is recognized as compensation expense over the requisite service period, which is generally the vesting period. When there are changes to the assumptions used in the option-pricing model, including fluctuations in the market price of our common stock, there will be variations in the calculated fair value of our future stock option awards, which results in variation in the compensation cost recognized.

Recent Accounting Pronouncements

After evaluating the recent accounting pronouncements through the date of this filing, the Company has concluded that their application will have no material impact on the Company's financial results.

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 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 December 31, 2013 were as follows:

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

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

Maturities of marketable securities classified as available-for-sale securities were as follows at December 31, 2013:

<i>(In thousands)</i>	Amortized cost	Estimated fair value
Due within one year	\$ 3,198	\$ 3,200
Due after one year through five years	20,711	20,737
Due after five years through ten years	1,581	1,589
Total available-for-sale securities	<u>\$ 25,490</u>	<u>\$ 25,526</u>

Debt securities in an unrealized loss position as of December 31, 2013 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 December 31, 2013 are summarized as follows:

<i>(In thousands)</i>	Less than 12 months		More than 12 months		Total	
	Estimated fair value	Gross unrealized holding losses	Estimated fair value	Gross unrealized holding losses	Estimated fair value	Gross unrealized holding losses
As of December 31, 2013						
Corporate bonds and notes	\$ 204	\$ (1)	\$ 6,687	\$ (42)	\$ 6,891	\$ (43)
Municipal bonds	355	(1)	1,125	(10)	1,480	(11)
	<u>\$ 559</u>	<u>\$ (2)</u>	<u>\$ 7,812</u>	<u>\$ (52)</u>	<u>\$ 8,371</u>	<u>\$ (54)</u>

3. Business Combinations, Goodwill and Intangibles

Acquisition of video conferencing business

On February 16, 2012, the Company completed the acquisition of the video conferencing business of Israel-based VCON Video Conferencing, Ltd. (“VCON”) through an asset purchase agreement. VCON was a pioneer in software-based video conferencing solutions with product offerings that include group video conferencing endpoints, desktop video conferencing endpoints, video conferencing infrastructure solutions and software development kits. This acquisition and the combination of streaming and digital signage technologies have provided us with complementary technology opportunities allowing us to enter new growth markets.

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

Pursuant to the asset purchase agreement, the Company paid consideration of \$4,632 in cash. The fair values of 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:

	Fair Value
Inventory	\$ 40
Property and equipment	34
Product warranty liability	(8)
Proprietary software	2,247
Goodwill	2,319
	\$ 4,632

The goodwill of \$2,319 is composed of expected synergies in utilizing VCON 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. This goodwill balance is not deductible for tax purposes.

Unaudited Supplemental Pro Forma information for the acquisition is as follows:

- 1) Revenue and net loss from the video conferencing business from February 16, 2012 to December 31, 2012 were \$1,319 and (\$1,170), respectively.
- 2) Revenue and earnings of the combined entity for the years ended December 31, 2013 and 2012 calculated as though the business combination occurred prior to the year ended December 31, 2012, were as follows:

	Year ended December 31,	
	2013	2012
Revenue	\$ 49,592	\$ 46,630
Net income	5,179	26,603

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

Goodwill

Changes in the carrying amount of the company's goodwill for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Balance as of January 1,		
Goodwill	\$ 3,472	\$ 1,153
Accumulated impairment losses	—	—
	3,472	1,153
Goodwill acquired during the year	—	2,319
Balance as of December 31,		
Goodwill	3,472	3,472
Accumulated impairment losses	—	—
	\$ 3,472	\$ 3,472

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

Intangible Assets

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

	Estimated useful lives	As of December 31,	
		2013	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
Other	5 years	208	49
		5,674	5,674
Accumulated amortization		(1,964)	(1,416)
		\$ 3,710	\$ 4,258

During the years ended December 31, 2013 and 2012, amortization of these intangible assets were \$548 and \$679, respectively.

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

Years ending December 31,

2014	\$	559
2015		515
2016		477
2017		389
2018		374
Thereafter		1,396
	\$	3,710

4. Inventories

Inventories, net of reserves, consisted of the following:

	As of December 31,	
	2013	2012
Current:		
Raw materials	\$ 1,362	\$ 734
Finished goods (including distributor channel inventories)	10,916	10,139
	\$ 12,278	\$ 10,873
Long-term:		
Raw materials	\$ 227	\$ 891
Finished goods	324	1,064
	\$ 551	\$ 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 have developed programs to reduce the inventory to normal operating levels in the near future. 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 distributor channel inventories in the amounts of approximately \$1,520 and \$1,289 as of December 31, 2013 and 2012, respectively. Distributor channel inventories represent inventory at distributors and other customers where revenue recognition criteria have not been achieved.

The losses incurred on valuation of inventory at the lower of cost or market value and write-off of obsolete inventory amounted to \$996 and \$1,235 during the years ended December 31, 2013 and 2012, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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5. Property and Equipment

Major classifications of property and equipment and estimated useful lives were as follows:

	Estimated useful lives	As of December 31,	
		2013	2012
Office furniture and equipment	3 to 10 years	\$ 6,676	\$ 9,552
Leasehold improvements	1 to 6 years	1,429	1,413
Manufacturing and test equipment	2 to 10 years	2,681	2,673
		10,786	13,638
Accumulated depreciation and amortization		(8,961)	(11,930)
Property and equipment, net		\$ 1,825	\$ 1,708

Depreciation and amortization expense on property and equipment for the years ended December 31, 2013 and 2012 was \$874 and \$1,238, respectively.

6. Leases and Deferred Rent

Rent expense is recognized on a straight-line basis over the period of the lease taking into account future rent escalation and holiday periods. Rent expense was \$909 and \$973, including amortization of deferred rent of \$110 and \$42, for the years ended December 31, 2013 and 2012, respectively.

We currently occupy a 31,000 square-foot facility in Salt Lake City, Utah under the terms of an operating lease expiring in May 2016 which supports our principal administrative, sales, marketing, customer support, and research and product development activities.

We occupy a 40,000 square-foot warehouse in Salt Lake City, Utah under the terms of an operating lease expiring in December 2017, which serves as our primary inventory fulfillment and repair center and digital signage product assembly workshop. Our earlier lease of a 24,000 square-foot warehouse in Salt Lake City terminated in January 2012.

We leased a warehouse measuring approximately 5,600 square-feet in Hong Kong to support our partners and customers located in the Asia-Pacific region. This operating lease expired February 2014 and has not been renewed. This warehouse is maintained to support our partners and customers located in the Asia-Pacific region.

We occupy a 11,100 square-foot facility in Austin, Texas under the terms of an operating lease expiring in August 2016, which serves as an additional facility to support our administrative, sales, marketing, customer support, and research and development activities.

We currently lease a 4,700 square foot office facility in Hod Hasharon, Israel to primarily support our research and development activities. We previously leased a 1,000 square foot warehouse in Tzur Yigal. The Hod Hasharon lease expired in December 2013 and was renewed for an additional 24-month period. Upon expiration, we will have the option to extend the lease for two to four additional years. The Tzur Yigal lease expired in August 2013 and was not renewed.

We entered into a new lease agreement in March 2014 for a manufacturing and office facility in Alachua, Florida measuring approximately 46,000 square feet for a period of two years with an option to extend the lease by two more years. The Alachua facility will primarily be used to manufacture our wireless microphone products and to support this business.

Future minimum lease payments under non-cancellable operating leases with initial terms of one year or more are as follows:

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Years ending December 31,		
2014	\$	914
2015		945
2016		581
2017		260
2018		91
Thereafter		91
Total minimum lease payments	\$	<u>2,882</u>

7. Accrued Liabilities

Accrued liabilities consist of the following:

	<u>As of December 31,</u>	
	<u>2013</u>	<u>2012</u>
Accrued salaries and other compensation	\$ 783	\$ 1,345
Other accrued liabilities	978	798
Total	<u>\$ 1,761</u>	<u>\$ 2,143</u>

8. Commitments and Contingencies

We establish contingent liabilities when a particular contingency is both probable and estimable. The Company is not aware of any pending claims or assessments, other than as described below, which may have a material adverse impact on the Company's financial position or results of operations.

Outsource Manufacturers. We have manufacturing agreements with electronics manufacturing service ("EMS") providers related to the outsourced manufacturing of our products. Certain manufacturing agreements establish annual volume commitments. We are also obligated to repurchase Company-forecasted but unused materials. The Company has non-cancellable, non-returnable, and long-lead time commitments with its EMS providers and certain suppliers for inventory components that will be used in production. The Company's purchase commitments under such agreements is approximately \$2,862 as of December 31, 2013.

Uncertain Tax Positions. As further discussed in Note 12 - Income Taxes of the Notes to Consolidated Financial Statements, we have adopted the provisions of Accounting Standards Codification ASC 740. We had \$1,901 of uncertain tax positions as of December 31, 2013. Due to the inherent uncertainty of the underlying tax positions, it is not possible to forecast the payment of this liability to any particular year.

Legal Proceedings. In addition to the legal proceedings described below, we are also involved from time to time in various claims and other legal proceedings which arise in the normal course of our business. Such matters are subject to many uncertainties and outcomes that are not predictable. However, based on the information available to us, we do not believe any such proceedings will have a material adverse effect on our business, results of operations, financial position, or liquidity, except as described below.

Former Officer Indemnification

In July 2007 and January 2008, the U.S. Attorney for the District of Utah indicted two of our former officers, Frances Flood ("Flood") and Susie Strohm ("Strohm"), for allegedly causing us to issue materially misstated financial statements for our 2001 and 2002 fiscal years and for perjury in connection with the investigation by the SEC into the alleged misstatements. In December 2003, we entered into indemnification agreements with each former officer, requiring payment of all reasonable attorneys' fees and costs incurred in defending against the charges in certain circumstances consistent with and subject to limitations imposed by our bylaws and applicable law. To date, we have paid approximately \$3,630 in attorneys' fees and costs to defend against the charges. In February 2009, Flood was convicted on nine counts and Strohm was convicted on one count. In June 2010, Flood was sentenced to four years in prison and three years of probation and Strohm was sentenced to two years of probation plus 150 hours of community service. In April 2011, the Tenth Circuit Court of Appeals in Denver affirmed Flood's conviction, but has allowed her to assert in a collateral proceeding her claim that she received ineffective assistance of counsel. In November 2011, the Tenth Circuit affirmed Strohm's perjury conviction as well.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The Tenth Circuit Court of Appeals issued a ruling in August 2010 vacating the District Court's preliminary injunction on the grounds that it rested on a legally erroneous interpretation of Flood's Employment Separation Agreement. ClearOne filed a motion in the United States District Court for the District of Utah seeking a return of the monies paid by ClearOne pursuant to the Court's order. The District Court granted ClearOne's motion in January 2012 for return of the \$248 held in the Court's escrow, but denied ClearOne's motion with respect to the \$373 paid to Flood's attorneys.

ClearOne filed a motion for summary judgment in August 2012 seeking dismissal of Flood's claims and judgment on our own claims against Flood. On or about March 1, 2013, Flood filed for bankruptcy in the U.S. Bankruptcy Court for the Eastern District of Virginia. On March 19, 2013, the US District Court for the District of Utah issued an order staying this case.

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

The District Court entered Judgment against ClearOne in June 2011 for \$973 in fees and expenses in the criminal case, plus \$362 in interest at 18% through February 1, 2011, which amounts were paid by ClearOne under protest to Dorsey on February 1, 2011. The Judgment also included \$865 in civil case fees and expenses plus interest. ClearOne has posted a cash bond to cover the civil case fees and interest pending ClearOne's appeal. ClearOne as well as Dorsey appealed against the judgment. The Utah Supreme Court heard oral arguments in September 2012.

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.

Theft of Intellectual Property and Related Cases

In January 2007, we filed a lawsuit in the Third Judicial District Court, Salt Lake County, Utah against WideBand Solutions, Inc. ("WideBand") and two of its principals, Dr. Jun Yang, and Andrew Chiang for misappropriation of our trade secrets (the "Trade Secret Case"). We also brought claims against Biamp Systems Corporation, Inc. ("Biamp"). The litigation eventually included other defendants, namely Lonny Bowers, Donald Bowers, David Sullivan, Dial HD and Versatile DSP. The matter was subsequently removed to federal court. The United States District Court, District of Utah, Central Division.

The litigation involved various appeals filed by all parties extended to various state courts, federal courts and the federal appeal court. The court found the defendants guilty of willfully and maliciously misappropriating our trade secrets. Various awards were made in ClearOne's favor and against the defendants. Biamp settled with us and paid \$3,860 after we won the appeal in the Tenth Circuit court. We also settled with one of the defendants and received \$250 in February 2012. We have various awards against other defendants amounting to approximately \$7,658 owed jointly and severally by them. While we intend to vigorously pursue collection of these outstanding awards, there can be no assurance that we will ultimately collect on all or a portion of these awards.

ARS Special Arbitration

We filed separate arbitration proceedings against UBS Financial Services, Inc. ("UBS") and Morgan Stanley & Co., Inc. ("Morgan Stanley") with the Financial Industry Regulatory Authority ("FINRA") pursuant to the Auction Rate Securities ("ARS") Special Arbitration Procedures established by FINRA. At the relevant time, we held an aggregate of \$12,200 in ARS from UBS and Morgan Stanley, which turned out to be illiquid. In October 2008, we accepted offers to repurchase our \$12,200 of ARS, at par value, from these two investment banks that sold them to us pursuant to the settlement agreements, but did not waive any claims for consequential damages. In both arbitration proceedings, we sought consequential damages as a result of our inability to access funds invested in ARS that UBS and Morgan Stanley sold to us, including losses with respect to a planned strategic business acquisition and related due diligence costs. No claims were asserted against us by UBS or Morgan Stanley.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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With respect to the Morgan Stanley arbitration, the arbitration panel denied our claims in their entirety. With respect to the UBS arbitration under a different panel, we settled the dispute for a total amount of \$45 million in December 2012. The settlement award was subject to a 15% contingency legal fee of \$6.75 million which was also paid in December 2012 to our litigation counsel.

Conclusion

These legal proceedings are subject to all of the risks and uncertainties of legal proceedings and there can be no assurance as to the probable result of the legal proceedings.

The Company believes it is adequately accrued for the aforementioned contingent liabilities. While we intend to defend ourselves in the above matters vigorously and diligently, there exists the possibility of adverse outcomes that we estimate could be up to \$1,000 over and above amounts already provided for. If these adverse outcomes were to occur, our financial position, results of operations and cash flows could be negatively affected materially for the period in which the adverse outcomes are known.

9. Share-Based Payments

The Company's share-based compensation primarily consists of two share-based compensation plans, one which was replaced on November 20, 2007, and one which became active on the same date. The plans are described below.

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

The Company also has a 2007 Equity Incentive Plan (the "2007 Plan"). Provisions of the 2007 Plan include the granting of up to 1,000,000 incentive and non-qualified stock options, stock appreciation rights, restricted stock and restricted stock units. Options may be granted to employees, officers, non-employee directors and other service providers and may be granted upon such terms as the Compensation Committee of the Board of Directors determines in their sole discretion. Under both plans, one new share is issued for each stock option exercised.

Of the options granted subsequent to June 2002, all vesting schedules are based on 3 or 4-year vesting schedules, with either one-third or one-fourth vesting on the first anniversary and the remaining options vesting ratably over the remainder of the vesting term. Generally, directors and officers have 3-year vesting schedules and all other employees have 4-year vesting schedules. Additionally, in the event of a change in control or the occurrence of a corporate transaction, the Company's Board of Directors has the authority to elect that all unvested options shall vest and become exercisable immediately prior to the event or closing of the transaction. All options outstanding as of December 31, 2013 had contractual lives of ten years. Under the 1998 Plan, 2,500,000 shares were authorized for grant. As of December 31, 2013, there were 550,000 options outstanding under the 1998 Plan, which includes the cliff vesting and 3 or 4-year vesting options discussed above. As of December 31, 2013, there were 561,274 options outstanding under the 2007 Plan. As of December 31, 2013, the 2007 Plan had 259,154 authorized unissued options, while there were no options remaining that could be granted under the 1998 Plan.

The Company also has an Employee Stock Purchase Plan ("ESPP"). Employees can purchase common stock through payroll deductions of up to 10 percent of their base pay. Amounts deducted and accumulated by the employees are used to purchase shares of common stock on or about the first day of each month. The Company contributes to the account of the employee one share of common stock for every nine shares purchased by the employee under the ESPP.

The Company uses 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, and the expected dividends of the awards. The Company uses the Black-Scholes option pricing model to determine the fair value of share-based payments granted under the guidelines of ASC Topic 718.

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

	Year ended December 31,	
	2013	2012
Risk-free interest rate, average	1.8%	1.3%
Expected option life, average	6.8 years	7.2 years
Expected price volatility, average	49.8%	51.4%
Expected dividend yield	—%	—%

The risk-free interest rate is determined using the U.S. Treasury rate in effect as of the date of the grant, based on the expected life of the stock option. The expected life of the stock option is determined using historical data.

The expected price volatility is determined using a weighted average of daily historical volatility of the Company's stock price over the corresponding expected option life. The Company does not currently intend to distribute any dividend payments to shareholders.

Under guidelines of ASC Topic 718, the Company recognizes compensation cost net of an expected forfeiture rate and recognized the associated compensation cost for only those awards expected to vest on a straight-line basis over the underlying requisite service period. The Company estimated the forfeiture rates based on its historical experience and expectations about future forfeitures.

The following table shows the stock option activity:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
As of December 31, 2012	1,137,283	\$ 4.63		
Granted	127,500	8.52		
Expired and canceled	(4,323)	4.03		
Forfeited prior to vesting	(26,536)	4.73		
Exercised	(122,650)	3.99		
As of December 31, 2013	1,111,274	\$ 5.15	4.86	\$ 4,016
Vested and Expected to Vest at December 31, 2013	1,111,274	\$ 5.15	4.86	\$ 4,016
Vested at December 31, 2013	850,159	\$ 4.76	3.62	\$ 3,395

The weighted average per share fair value of options granted during the years ending December 31, 2013 and 2012 was \$4.38 and \$2.16 respectively. The total intrinsic value of options exercised during the years ended December 31, 2013 and 2012 was \$448 and \$152, respectively.

The total pre-tax compensation cost related to stock options recognized during the years ended December 31, 2013 and 2012 was \$296 and \$241, respectively. Tax benefit from compensation cost related to stock options during the years ended December 31, 2013 and 2012 was \$86 and \$18, respectively. As of December 31, 2013, the total compensation cost related to stock options not yet recognized and before the effect of any forfeitures was \$784, which is expected to be recognized over approximately the next 2.6 years on a straight-line basis.

Stock Repurchase Program

In May 2012, our Board of Directors authorized a stock repurchase program to purchase the Company's common stock in the open market. A total of 300,087 and 94,744 shares costing \$2,416 and \$384 were purchased under this program during the years ended December 31, 2013 and 2012. The cost of shares purchased is recorded as a reduction to shareholders' equity. As of December 31, 2013, the Company was authorized to purchase approximately \$7.2 million worth of additional shares in the open market.

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10. Significant Customers

Sales to significant customers that represented more than 10 percent of total revenues are as follows:

	Year ended December 31,	
	2013	2012
Customer A	18.2%	17.5%
Customer B	10.8%	*
Total	29.0%	17.5%

* Sales didn't exceed 10% of the revenue.

The following table summarizes the percentage of total gross accounts receivable from significant customers:

	As of December 31,	
	2013	2012
Customer A	24.9%	20.3%
Customer B	12.4%	*
Total	37.3%	20.3%

These customers facilitate product sales to a large number of end-users, none of which is known to account for more than 10 percent of the Company's revenue from product sales. Nevertheless, the loss of one or more of these customers could reduce revenue and have a material adverse effect on the Company's business and results of operations.

11. Fair Value Measurements

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

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

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

Level 3 - Unobservable inputs.

The substantial majority of the Company's financial instruments are valued using quoted prices in active markets or based on other observable inputs. The following table sets forth the fair value of the financial instruments re-measured by the Company as of December 31, 2013:

	Level 1	Level 2	Level 3	Total
<i>(In thousands)</i>				
December 31, 2013				
Corporate bonds and notes	\$ —	\$ 18,857	\$ —	\$ 18,857
Municipal bonds	—	6,669	—	6,669
Total	\$ —	\$ 25,526	\$ —	\$ 25,526

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12. Income Taxes

Consolidated income before taxes for domestic and foreign operations consisted of the following:

	Year ended December 31,	
	2013	2012
Domestic	\$ 8,714	\$ 42,990
Foreign	(945)	(435)
Total	<u>\$ 7,769</u>	<u>\$ 42,555</u>

The Company's (provision) for income taxes consisted of the following:

	Year ended December 31,	
	2013	2012
Current:		
Federal	\$ (1,993)	\$ (16,910)
State	(765)	(381)
Foreign	144	(74)
Total current	<u>(2,614)</u>	<u>(17,365)</u>
Deferred:		
Federal	202	455
State	(234)	46
Foreign	165	160
	133	661
Change in valuation allowance	<u>(109)</u>	<u>796</u>
Total deferred	<u>24</u>	<u>1,457</u>
(Provision) for income taxes	<u>\$ (2,590)</u>	<u>\$ (15,908)</u>

The income tax (provision) differs from that computed at the federal statutory corporate income tax rate as follows:

	Year ended December 31,	
	2013	2012
Tax (provision) at Federal statutory rate	\$ (2,642)	\$ (14,894)
State income tax (provision), net of federal benefit	(293)	(1,476)
Research and development tax credits	616	357
Foreign earnings or losses taxed at different rates	(170)	(136)
Other	8	(555)
Change in valuation allowance	(109)	796
Tax (provision)	<u>\$ (2,590)</u>	<u>\$ (15,908)</u>

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The tax effects of significant temporary differences representing net deferred tax assets and liabilities consisted of the following:

	As of December 31, 2013		As of December 31, 2012	
	Current	Long-term	Current	Long-term
Deferred revenue	\$ 971	\$ —	\$ 856	\$ —
Basis difference in intangible assets	—	82	—	159
Inventory reserve	1,955	—	1,871	—
Net operating loss carryforwards	—	682	—	667
Research and development tax credits	—	31	—	248
Accrued expenses	159	—	140	—
Stock-based compensation	—	679	—	684
Allowance for sales returns and doubtful accounts	47	—	20	—
Difference in property and equipment basis	—	(388)	—	(475)
Other	458	51	462	(19)
Total net deferred income tax asset	3,590	1,137	3,349	1,264
Less: Valuation allowance	(265)	(113)	(201)	(69)
Net deferred income tax asset (liability)	\$ 3,325	\$ 1,024	\$ 3,148	\$ 1,195

The Company has not provided for U.S. deferred income taxes or foreign withholding taxes on undistributed earnings of its non-U.S. subsidiaries since these earnings are intended to be reinvested indefinitely, in accordance with guidelines contained in ASC Topic 740, *Accounting for Income Taxes*. It is not practical to estimate the amount of additional taxes that might be payable on such undistributed earnings.

In accordance with ASC Topic 740, the Company analyzed its valuation allowance at December 31, 2013 and determined that, based upon available evidence, it is more likely than not that certain of its deferred tax assets may not be realized and, as such, has established a valuation allowance against certain deferred tax assets. These deferred tax assets include capital loss carryovers, state research and development credits, and Hong Kong net operating loss carryforwards.

The statute allowing a federal research and development credit (the "R&D Credit") expired for years beginning after December 31, 2011. Congress renewed the R&D Credit for the years 2012 and 2013 with the American Taxpayer Relief Act of 2012 (the "Act"). Accounting guidance requires that the effects of a change in tax law be recognized in the period that includes the enactment date. For U.S. federal tax purposes, the enactment date of the Act is the date the President signs the bill into law. The President did not sign the Act into law until January 2, 2013. Therefore, the benefit for the 2012 R&D credit was recognized in the first quarter of 2013 as a discrete tax benefit. The total amount of 2012 federal R&D credit benefit recognized in 2013 was \$277.

As of December 31, 2013, the Company had state research credit carryforwards of \$34, which will begin to expire in 2027 if not utilized. The Company has federal net operating loss ("NOL") carryforwards of approximately \$1,118 (pre-tax) and Hong Kong NOL carryforwards of approximately \$1,827 (pre-tax). The federal NOL carryforwards will begin to expire in 2025. The Hong Kong NOL carryforwards do not expire.

Effective July 1, 2007, the Company adopted the accounting standards related to uncertain tax positions. This standard requires that tax positions be assessed using a two-step process. A tax position is recognized if it meets a "more likely than not" threshold, and is measured at the largest amount of benefit that is greater than 50 percent likely of being realized. Uncertain tax positions must be reviewed at each balance sheet date. Liabilities recorded as a result of this analysis must generally be recorded separately from any current or deferred income tax accounts.

The total amount of unrecognized tax benefits at December 31, 2013 and 2012, that would favorably impact our effective tax rate if recognized was \$623 and \$802, respectively. As of December 31, 2013 and 2012, we accrued \$51 and \$56, respectively, in interest and penalties related to unrecognized tax benefits. We account for interest expense and penalties for unrecognized tax benefits as part of our income tax provision.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Although we believe our estimates are reasonable, we can make no assurance that the final tax outcome of these matters will not be different from that which we have reflected in our historical income tax provisions and accruals. Such difference could have a material impact on our income tax provision and operating results in the period in which we make such determination.

A reconciliation of the beginning and ending amount of liabilities associated with uncertain tax positions is as follows:

	Year ended December 31,	
	2013	2012
Balance - beginning of year	\$ 2,384	\$ 523
Additions based on tax positions related to the current year	84	795
Additions for tax positions of prior years	45	1,082
Reductions for tax positions of prior years	(518)	—
Settlements	—	—
Lapse in statutes of limitations	(94)	(16)
Uncertain tax positions, ending balance	<u>\$ 1,901</u>	<u>\$ 2,384</u>

The Company's U.S. federal income tax returns for 2010 through 2013 are subject to examination. The Company also files in various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to federal, state, or non-U.S. income tax examinations by tax authorities for years prior to 2010. The Company completed its audit by the Internal Revenue Service ("IRS") for its 2006 tax return in 2010. As a result of the audit by the IRS, there were no material adjustments made to the Company's tax return.

The Inland Revenue Department of Hong Kong, a Special Administrative Region (the "IRD"), commenced an examination of the Company's Hong Kong profits tax returns for 2009 through 2011 in the fourth quarter of 2012 that is anticipated to be completed by the end of 2014. The Company does not anticipate the examination will result in a material change to its financial position. During the next twelve months, it is reasonably possible that the amount of the Company's unrecognized income tax benefits could change significantly. These changes could be the result of our ongoing tax audits or the settlement of outstanding audit issues. However, due to the issues being examined, at the current time, an estimate of the range of reasonably possible outcomes cannot be made, beyond amounts currently accrued.

13. Geographic Sales Information

The United States was the only country to contribute more than 10 percent of total revenues in each fiscal year. The Company's revenues are substantially denominated in U.S. dollars and are summarized geographically as follows:

	Year ended December 31,	
	2013	2012
United States	\$ 32,292	\$ 30,312
All other countries	17,300	16,105
Total	<u>\$ 49,592</u>	<u>\$ 46,417</u>

13. Subsequent Events

Agreement to Acquire Spontania:

On January 7, 2014, we entered into an agreement to acquire Spontania from Spain-based Dialcom Networks, S.L. in an all-cash deal for €3.65 million (approximately US \$5.00 million). Spontania is a software-based cloud collaboration solution which combines the benefits of video conferencing and web conferencing into a unique, effective and powerful enterprise solution that can scale to tens of thousands of users.

The addition of Spontania is expected to make ClearOne the only company offering an entirely software-based video conferencing product line that provides on-premise and cloud-based Software-as-a-Service (SaaS) and Platform-as-a-Service (PaaS) solutions and is expected to complement ClearOne's existing premise-based, enterprise video conferencing offering.

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COLLABORATE ® obtained from the VCON acquisition. ClearOne plans to fund the acquisition of substantially all of the assets of the Spontania business with available cash and will not assume any debt or cash. The acquisition is expected to close by the end of the first quarter of 2014, subject to customary closing conditions, including applicable regulatory approvals.

Acquisition of Sabine, Inc.:

On March 7, 2014, we completed the acquisition of Sabine, Inc. which will provide the company with reliable and exclusive access to the wireless microphones that are a critical component of ClearOne's complete microphone portfolio. Under the terms of the transaction, ClearOne paid approximately \$7.20 million in cash and approximately \$1.50 million in ClearOne shares. In addition, ClearOne paid off Sabine debt of \$1.25 million and may be required to make earn-out payments over the next three years, based on achievement of certain performance criteria. ClearOne expects to maintain Sabine operations at its current headquarters in Alachua, Florida.

STOCK PURCHASE AGREEMENT

BETWEEN

CLEARONE, INC.,

AND

DORAN M. OSTER

MARCH 4, 2014

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this “**Agreement**”), dated March 4, 2014, is entered into by and between ClearOne, Inc., a Utah corporation (“**ClearOne**” or “**Purchaser**”), and Doran M. Oster, an individual residing in Florida (the “**Seller**”). Purchaser and Seller are referred to collectively herein as the “**Parties**” and individually as a “**Party**.” Sabine, Inc., is also a party for the purposes of Section 10.2 hereof.

RECITALS

WHEREAS, Sabine, Inc., a Florida corporation (“**Sabine**”), designs, manufactures and sells wireless microphone systems and digital audio processors in the professional audio and systems integration industries (the “**Sabine Business**”);

WHEREAS, Seller owns all of the issued and outstanding shares of common stock, \$1.00 par value per share (the “**Shares**”) of Sabine;

WHEREAS, ClearOne desires to purchase from Seller, and Seller desires to sell to ClearOne, the Shares, subject to the terms and conditions set forth herein (the “**Acquisition Transaction**”);

WHEREAS, prior to the Closing, Sabine will transfer the Excluded Real Property to DMO Commercial Development, LLC, a Florida limited liability company Affiliated with Seller (the “**Real Estate Entity**”) and, at Closing, ClearOne will enter into the Lease Agreement with the Real Estate Entity for leasing the Excluded Real Property for continued operation of the Sabine Business (such transactions referred to as the “**Lease Transaction**”);

WHEREAS, immediately prior to the Closing, ClearOne Communications Hong Kong Limited, a private limited company established in Hong Kong (“**HK Purchaser**”) and Affiliated with ClearOne, will purchase Sabine’s Foreign Intellectual Property Rights by delivery of a promissory note (the “**HK Note**”) pursuant to an Asset Purchase Agreement of even date herewith (the “**Asset Purchase Agreement**”) between Sabine and HK Purchaser (such transaction referred to as the “**Foreign IP Transaction**”); and

WHEREAS, the Parties would not enter into this Agreement and complete the Acquisition Transaction without also completing the Lease Transaction and Foreign IP Transaction.

Now, therefore, in consideration of the foregoing Recitals, and in consideration of the mutual representations, warranties, and covenants herein contained, the Parties, intending to be legally bound, agree as follows.

ARTICLE I DEFINITIONS

1.1 Certain Definitions. As used in this Agreement, and unless otherwise defined, the following capitalized terms shall have the following meanings:

“**Action**” means any claim, action, cause of action, demand, lawsuit, arbitration, inquiry, audit, assessment, notice of violation, proceeding, litigation, citation, summons, subpoena or investigation of any nature, civil, criminal, administrative, regulatory or otherwise, whether at law or in equity.

“**Affiliate**” of a Person means any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. The term “control” (including the terms “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“**Charter Documents**” means the certificate or articles of incorporation and bylaws, or equivalent corporate documents under applicable state corporate Law, including all amendments thereto, of an Entity.

“**ClearOne Shares**” means that number of shares of common stock, par value \$0.001 per share, of ClearOne equal to \$1.5 million divided by the “**Closing Market Price**” of such shares, which for purposes of this Agreement shall be the actual closing price at the end of the Closing Date, provided, however, that if (a) the Closing Market Price is less than \$8.00 per share, then the Closing Market Price shall be deemed to be \$8.00 per share or (b) the Closing Market Price is greater than \$10.00 per share, then the Closing Market Price shall be deemed to be \$10.00 per share.

“**Code**” means the United States Internal Revenue Code.

“**Consent**” means any approval, consent, ratification, permission, waiver or authorization (including any Governmental Authorization).

“**Contract**” means any contract, lease, deed, mortgage, license, instrument, note, commitment, undertaking, indenture, joint venture and any other agreement, commitment or legally binding arrangement, whether written or oral.

“**Current Assets**” means the sum of the value of (a) cash and cash equivalents, (b) accounts receivable (after deduction for allowance for bad accounts), (c) Inventory and (d) prepaid expenses, but excluding (X) the HK Note (Y) any Tax asset and (Z) the portion of any prepaid expense with respect to which Purchaser or Sabine will not receive the benefit following the Closing, all determined in accordance with GAAP applied using accounting methods, practices, principles, policies and procedures, with consistent classifications, judgments and valuation and estimation methodologies required to be used in the preparation of audited Financial Statements for the most recent fiscal year end as if such accounts were being prepared and audited as of a fiscal year end. Notwithstanding the foregoing, in completing the Closing Statement pursuant to Section 2.5 below, Purchaser shall also have full discretion to choose to ignore all or any portion of the value of what would otherwise be a Current Asset that in Purchaser’s reasonable business judgment has no practical use or benefit in connection with the conduct of the Sabine Business; provided, however, that if Purchaser chooses to ignore any such asset in such calculation, Seller shall have the right to request that any such assets be transferred to Seller without the payment of any consideration by Seller.

“**Disclosure Schedule**” means the written set of the disclosures required by this Agreement and exceptions to representations and warranties made in this Agreement which, when mutually agreed to by the Parties, shall be incorporated herein by reference.

“**Dollars**” or “**\$**” means the lawful currency of the United States.

“**Earnout Products**” has the meaning set forth in Schedule 2.4(d).

“**Employee Pension Benefit Plan**” has the meaning set forth in ERISA §3(2).

“**Encumbrance**” means any charge, claim, community property interest, pledge, condition, equitable interest, lien (statutory or other), option, security interest, mortgage, easement, encroachment, right of way, right of first refusal, or restriction of any kind, including any restriction on use, voting, transfer, receipt of income or exercise of any other attribute of ownership.

“**Entity**” means a partnership, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or a governmental entity (or any department, agency, or political subdivision thereof).

“**Environmental Claim**” means any Action, Governmental Authorization, order of a Governmental Authority, lien, fine, penalty, or, as to each, any settlement or judgment arising therefrom, by or from any Person alleging liability of whatever kind or nature (including liability or responsibility for the costs of enforcement proceedings, investigations, cleanup, governmental response, removal or remediation, natural resources damages, property damages, personal injuries, medical monitoring, penalties, contribution, indemnification and injunctive relief) arising out of, based on or resulting from: (a) the presence, Release of, or exposure to, any Hazardous Materials; or (b) any actual or alleged non-compliance with any Environmental, Health and Safety Requirement.

“**Environmental, Health, and Safety Requirements**” means all Laws and policies concerning public health and safety, worker health and safety, and pollution or protection of the environment, including all those relating to the presence, use, production, generation, handling, transportation, treatment, storage, disposal, distribution, labeling, testing, processing, discharge, release, threatened release, control, or cleanup of any Hazardous Materials, substances or wastes, as such requirements are enacted and in effect on or prior to the Closing Date.

“**Equipment**” means all computers, telecommunications and other equipment, fixtures, furniture, tools, dies, stencils, machinery, supplies, testing equipment and other items of tangible personal property owned by Sabine or used in the Sabine Business. For purposes of clarity, the term “Equipment” does not include the artwork on display in the Excluded Real Property, which is the personal property of Seller.

“**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended.

“**Escrow Agent**” means the Person engaged to serve as the escrow agent under the Escrow Agreement, as the Parties mutually agree.

“**Escrow Agreement**” means the agreement to be entered into between and among the Parties and the Escrow Agent, substantially in the form attached as **Exhibit A**, providing for establishment of the Escrow Fund.

“**Escrow Fund**” means the escrow fund established pursuant to the Escrow Agreement to hold the cash and stock delivered to the Escrow Agent.

“**Escrow Period**” means a period of nine months following the date of Closing.

“**Exchange Act**” shall mean the Securities Exchange Act of 1934, as amended, or any successor federal statute, and the rules and regulations thereunder, which shall be in effect from time to time.

“**Excluded Real Property**” means that certain real property located at 13301 US Hwy 441, Alachua, Alachua County, Florida, including all building and improvements thereon, which such real property has been owned by Sabine and used in the Sabine Business but which will be transferred to the Real Estate Entity immediately prior to Closing as part of the Lease Transaction.

“**Excluded Liabilities**” means (a) those Liabilities to be paid or resolved by Sabine prior to the Closing, as set forth in Schedule 1.1, (b) any Liabilities (including Liabilities relating to distributions or dividends) owed to any of Sabine’s Affiliates, directors, employees, officers or stockholders and any of their respective Affiliates (other than Liabilities with respect to the pre-closing portion of any payroll period which includes the Closing Date) and (c) those Liabilities related to the Excluded Real Property, which will be assumed by the Real Estate Entity in connection with the Lease Transaction (including, but not limited to real estate taxes, real property insurance and similar items but not including the SBA Loan).

“**Fixed Assets**” means the value of the Equipment, less depreciation, determined in accordance with GAAP applied using accounting methods, practices, principles, policies and procedures, with consistent classifications, judgments and valuation and estimation methodologies required to be used in the preparation of the audited Financial Statements for the most recent fiscal year end as if such accounts were being prepared and audited as of a fiscal year end. Notwithstanding the foregoing, the value of the Fixed Assets shall not include the value of any of the following: (a) any real property or land; (b) any buildings; (c) any assets associated with the Excluded Real Property, any land or any buildings and (d) intangible assets. Notwithstanding the foregoing, in completing the Closing Statement pursuant to Section 2.5 below, Purchaser shall also have full discretion to choose to ignore all or any portion of the value of what would otherwise be a Fixed Asset that in Purchaser’s reasonable business judgment has no practical use or benefit in connection with the conduct of the Sabine Business; provided, however, that if Purchaser chooses to ignore any such asset in such calculation, Seller shall have the right to request that any such assets be transferred to Seller without the payment of any consideration by Seller.

“**Foreign Intellectual Property Rights**” means all rights to exploit the Sabine IP outside of the United States, including the right to manufacture, distribute, sell or market products and services employing such Sabine IP outside the United States, the right to license such Sabine IP outside of the United States, and the right to develop derivative properties for these same or similar

purposes. The Foreign Intellectual Property Rights will be sold to HK Purchaser prior to the Closing in the Foreign IP Transaction.

“**GAAP**” means United States generally accepted accounting principles in effect from time to time.

“**Governmental Authority**” means any: (a) nation, state, commonwealth, province, territory, county, municipality, district or other jurisdiction of any nature; (b) federal, state, local, municipal, foreign or other government; or (c) governmental or quasi-governmental authority of any nature (including any governmental division, department, agency, commission, instrumentality, official, organization, unit, body or entity and any court or other tribunal).

“**Governmental Authorization**” means any: (a) Permit, license, certificate, franchise, permission, clearance, registration, qualification or authorization issued, granted, given or otherwise made available by or under the authority of any Governmental Authority; (b) any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority; or (c) right under any Contract with any Governmental Authority.

“**Hazardous Materials**” means: (a) any material, substance, chemical, waste, product, derivative, compound, mixture, solid, liquid, mineral or gas, in each case, whether naturally occurring or manmade, that is hazardous, acutely hazardous, toxic, or words of similar import or regulatory effect under environmental Laws; and (b) any petroleum or petroleum-derived products, radon, radioactive materials or wastes, asbestos in any form, lead or lead-containing materials, urea formaldehyde foam insulation, and polychlorinated biphenyls.

“**Intellectual Property**” means all of the following and similar intangible property and related proprietary rights, interests and protections, however arising, pursuant to the Laws of any jurisdiction throughout the world: (a) trademarks, service marks, trade names, brand names, logos, slogans, trade dress and other proprietary indicia of goods and services, whether registered, unregistered or arising by Law, and all registrations and applications for registration of such trademarks, including intent-to-use applications, and all issuances, extensions and renewals of such registrations and applications, all of the foregoing including associated goodwill; (b) internet domain names, whether or not trademarks, registered in any generic top level domain by any authorized private registrar or Governmental Authority; (c) original works of authorship in any medium of expression, whether or not published, all copyrights (whether registered, unregistered or arising by Law), all registrations and applications for registration of such copyrights, and all issuances, extensions and renewals of such registrations and applications; (d) confidential information, formulas, designs, devices, technology, know-how, research and development, inventions, methods, processes, compositions and other trade secrets, whether or not patentable; (e) patented and patentable designs and inventions, all design, plant and utility patents, letters patent, utility models, pending patent applications and provisional applications and all issuances, divisions, continuations, continuations-in-part, reissues, extensions, reexaminations and renewals of such patents and applications; and (f) other proprietary rights in Technology.

“**Intellectual Property Licenses**” means all licenses, sublicenses and other agreements by or through which other Persons, including Sabine’s Affiliates, grant Sabine exclusive or non-

exclusive rights or interests in or to any Intellectual Property that is used in or necessary for the conduct of the Sabine Business.

“**Inventory**” means all inventory, finished goods, raw materials, work in progress, packaging, supplies, parts and other inventories of Sabine.

“**IRS**” means the United States Internal Revenue Service.

“**Knowledge**” means the actual or constructive knowledge of a Person. An individual shall be deemed to have “Knowledge” of a particular fact or other matter if: (a) such individual is actually aware of such fact or other matter; or (b) a prudent individual should have known such fact or other matter under the circumstances.

“**Law**” means any statute, law, ordinance, regulation, rule, code, order, constitution, treaty, common law, judgment, decree, other requirement or rule of law of any Governmental Authority.

“**Lease Agreement**” means that certain lease agreement, substantially in the form attached as **Exhibit B**, for office and manufacturing space to be entered into between ClearOne and the Real Estate Entity at the Closing as part of the Lease Transaction.

“**Lease Transaction**” means the series of transactions where Sabine will transfer the Excluded Real Property to the Real Estate Entity and Real Estate Entity and ClearOne will enter into the Lease Agreement for leasing such real property, and the SBA Loan shall be paid or assumed by ClearOne so that it is no longer secured by the Excluded Real Property, such transactions to occur prior to or at Closing.

“**Liabilities**” means, unless the context specifically provides otherwise, liabilities, debts, obligations or commitments of any nature whatsoever, asserted or unasserted, known or unknown, absolute or contingent, accrued or unaccrued, matured or unmatured or otherwise.

“**Losses**” means losses, damages, liabilities, deficiencies, Actions, judgments, interest, awards, penalties, fines, costs or expenses of whatever kind, including reasonable attorneys’ fees and the cost of enforcing any right to indemnification hereunder and the reasonable cost of pursuing any insurance providers.

“**Made Available**” means that the referenced item was provided in physical or electronic medium to Purchaser prior to the date of this Agreement.

“**Material Adverse Effect**” means any event, occurrence, fact, condition or change that is, or could reasonably be expected to become, individually or in the aggregate, materially adverse to (a) the business, operations, results of operations, prospects, condition (financial or otherwise) or assets of the Sabine Business, (b) the value of Sabine’s assets or operations, or (c) the ability of any Party to consummate the Transactions contemplated hereby on a timely basis; provided, however, that “Material Adverse Effect” shall not include any event, occurrence, fact, condition, or change, directly or indirectly, arising out of or attributable to changes, conditions or effects that generally

affect the industries in which the Sabine Business operates, and not affecting the Sabine Business in a disproportionate manner.

“**Material Contracts**” has the meaning set forth in Section 3.13.

“**Net Assets**” means (a) the sum of Current Assets and Fixed Assets less (b) Liabilities of Sabine as set forth on Schedule 1.1, which are Liabilities that would be on a balance sheet of Sabine prepared on the date of Closing (but not Excluded Liabilities) and the outstanding aggregate amount owed on the SBA Loan prior to payment or assumption by ClearOne, all determined in accordance with GAAP applied using accounting methods, practices, principles, policies and procedures, with consistent classifications, judgments and valuation and estimation methodologies required to be used in the preparation of the audited Financial Statements for the most recent fiscal year end as if such accounts were being prepared and audited as of a fiscal year end. For clarification, Net Assets shall not include any value for deferred Tax balances. The rules and computation method specified in Schedule 1.1 shall be adhered in determining Net Assets.

“**Open Source Code**” means any software code that is distributed as “free software” or “open source software” or is otherwise distributed publicly in source code form under terms that permit modification and redistribution of such software. Open Source Code includes software code that is licensed under the GNU General Public License, GNU Lesser General Public License, Mozilla License, Common Public License, Apache License, BSD License, Artistic License, or Sun Community Source License.

“**Ordinary Course of Business**” means the ordinary course of business of an Entity consistent with past custom and practice (including with respect to quantity and frequency).

“**Permits**” means all permits, licenses, franchises, approvals, authorizations, registrations, certificates, variances and similar rights obtained, or required to be obtained, from Governmental Authorities.

“**Person**” means an individual or an Entity.

“**Personal Data**” means a natural Person’s name, street address, telephone number, e-mail address, photograph, social security number (or similar number), driver’s license number, passport number, or customer or account number, or any other piece of information or data that allows (whether or not in accordance with and under the rules of any requirement of Law) the identification of a natural person.

“**Pre-Closing Period**” means the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement pursuant to Article IX or the Closing,

“**Purchase Price**” means the amount to be paid for the Shares, as set forth in Section 2.2(a).

“**Real Estate Entity**” means DMO Commercial Development, LLC, a Florida limited liability company which is an Affiliate of Seller.

“Registered IP” means all Sabine IP that is subject to any issuance, registration, application or other filing by, to or with any Governmental Authority or authorized private registrar in any jurisdiction, including registered trademarks, domain names and copyrights, issued and reissued patents and pending applications for any of the foregoing.

“Representative” means, with respect to any Entity, any and all directors, managers, officers, employees, consultants, financial advisors, counsel, accountants and other agents of such Person.

“Release” means any actual or threatened release, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, abandonment, disposing or allowing to escape or migrate into or through the environment (including, without limitation, ambient air (indoor or outdoor), surface water, groundwater, land surface or subsurface strata or within any building, structure, facility or fixture).

“Sabine Domains” means the domain names owned by Sabine and/or used in the Sabine Business, as listed on Section 3.22 of the Disclosure Schedule, including all related URLs and websites.

“Sabine Employee” means each Person currently or previously employed by Sabine.

“Sabine IP” means the Sabine Software and all Technology and Intellectual Property in which Sabine has (or purports to have) an ownership interest and that is used in or necessary for the conduct of the Sabine Business.

“Sabine Privacy Policy” means each external or internal, past or present privacy policy of Sabine for the Sabine Business, including any policy and/or bilateral agreement between the Sabine and a third party regarding the provision of services in connection with the Sabine Business by or to the benefit of Sabine that involve the processing of Personal Data or User Data relating to: (a) the privacy of users of the Sabine services or any Sabine website; (b) the collection, storage, disclosure, and transfer of any User Data or Personal Data; and (c) any employee information.

“Sabine Software” means any Software (including firmware and other software embedded in hardware devices but excluding any Shrink-Wrap Code) and all versions of such Software, or other product or service that is currently being or at any time has been developed, manufactured, supported, marketed, distributed, licensed, sold or made available (as part of a service bureau, time-sharing, application service or similar arrangement or otherwise) by Sabine in the Sabine Business.

“SBA Loan” means SBA Loan Number 64984050-08 from Alarion Bank in the original principal amount of \$1,250,000, which loan is secured by the Excluded Real Property and guaranteed by Seller.

“SEC” shall mean the Securities and Exchange Commission or any other federal agency administering the Securities Act and the Exchange Act at the time.

“**Securities Act**” means the Securities Act of 1933, as amended, or any successor federal statute, and the rules and regulations thereunder, which shall be in effect from time to time.

“**Seller Consulting Agreement**” means a separate agreement, substantially in the form of **Exhibit C**, to be entered into at Closing by ClearOne and Seller.

“**Shares**” means the outstanding equity interests in Sabine, all of which are held by Seller.

“**Shrink-Wrap Code**” means generally commercially available binary software code (other than development tools and development environments and Open Source Software) where available for an average cost of not more than \$5,000 for a perpetual license for a single user or work station (or \$15,000 in the aggregate for all users and work stations) that is used by Sabine but not incorporated into any Sabine Software and that has not been customized for use by Sabine.

“**Software**” means computer programs (including firmware and other software embedded in hardware devices and databases, compilations, tool sets, compilers, higher level or “proprietary” languages), including any and all software implementations of algorithms, models and methodologies, whether in Source Code or object code, design documents, flow-charts, user manuals and training materials relating thereto and any translations thereof.

“**Source Code**” means computer Software and code, in form other than object code or machine readable form, including related programmer comments and annotations, help text, data and data mining structure, instructions and procedural, object-oriented and other code, which may be printed out or displayed in human readable form.

“**Straddle Period**” means any Tax period that includes (but does not end on) the Closing Date.

“**Taxes**” means any tax (including any gross or net income tax, capital gains tax, value-added tax, sales tax, payroll tax, excise tax, property tax, gift tax, escheat tax, withholding tax, or estate tax), levy, assessment, tariff, duty (including any customs duty), deficiency, or other fee, and any related charge or amount (including any fine, penalty, interest, or addition to tax), imposed, assessed, or collected by or under the authority of any Governmental Authority or payable pursuant to any tax-sharing agreement or any other Contract relating to the sharing or payment of any such tax, levy, assessment, tariff, duty, deficiency, or fee.

“**Tax Return**” means any return (including any information return), report, statement, declaration, remittance, schedule, notice, form, or other document or information filed with or submitted to, or required to be filed with or submitted to, any Governmental Authority in connection with the determination, assessment, collection, or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any Law relating to any Tax.

“**Technology**” shall mean sales methodologies and processes, training protocols and similar methods and processes, algorithms, APIs, apparatus, circuit designs and assemblies, gate arrays, net lists, test vectors, design rules, models, databases, data collections, diagrams, formulae, marks, methods, network configurations and architectures, processes, proprietary information, protocols,

schematics, specifications, Software, Software code (in any form, including Source Code), subroutines, techniques, user interfaces, and other forms of technology (whether or not embodied in any tangible form and including all tangible embodiments of the foregoing, such as instruction manuals, laboratory notebooks, prototypes, samples, studies and summaries).

“**Transaction Documents**” means those documents to be delivered in connection with the Closing of the Acquisition Transaction, including this Agreement, the Stock Power, the Escrow Agreement, the Seller Consulting Agreement, the Lease Agreement, and the other agreements, instruments and documents required to be delivered prior to or at the Closing.

“**Transactions**” means the Acquisition Transaction, the Foreign IP Transaction and the Real Estate Transaction.

“**User Data**” means any Personal Data or information collected by or on behalf of the Sabine from users of the Sabine Software.

1.2 Additional Defined Terms. The following terms have the meaning assigned to such terms in the Sections of the Agreement set forth below:

Term	Section
Accounting Firm	2.6
Acquisition Transaction	Recitals
Aggregate Earnout Period	2.5(a)
Allowable Grace Period	5.15(a)(vi)
Annual Earnout Period	2.5(a)
Agreement	Introductory Paragraph
Asset Purchase Agreement	Recitals
Balance Sheet	3.5(a)
Balance Sheet Date	3.5(a)
Base Purchase Price	2.2(a)(i)
Basic Earnout	2.5(b)
Benefit Plans	3.16(b)
Bonus Earnout	2.5(b)
ClearOne	Introductory Paragraph
Closing	2.7
Closing Adjustment Statement	2.5
Closing Payment Amount	2.2(b)
Direct Claim	8.5(c)

Term	Section
Earnout Payment Statement	2.5(b)
Escrow Fund	2.3
Escrow Payment	2.5(a)
Estimated Net Assets Statement	2.2(a)(ii)
Effectiveness Deadline	5.15(a)
Filing Deadline	5.15(a)
Financial Statements	3.5(a)
Foreign IP Transaction	Recitals
Fundamental Representations	8.1
HK Note	Recitals
HK Purchaser	Recitals
Inadvertent Termination Ruling	5.5(h)
Inadvertent Termination Ruling Request	5.5(h)
Indemnification Period	8.1
Indemnified Party	8.5
Indemnifying Party	8.5
Initial Net Asset Adjustment Amount	2.2(a)(ii)
Lease Transaction	Recitals
Material Contracts	3.13
Material Customers	3.21(a)
Material Suppliers	3.21(b)
Net Asset Adjustment Amounts	2.2(a)(ii)
Party or Parties	Introductory Paragraph
Pre-Closing Period	5.6
Purchase Price Adjustment	5.5(d)
Purchase Price	2.2(a)
Purchaser	Introductory Paragraph
Purchaser's Agents	5.15(g)(ii)
Purchaser Indemnitees	8.2
Quarterly Earnout Period	2.5(b)
Real Estate Entity	Recitals
Registration Expenses	5.15(a)(iv)

Term	Section
Registration Statement	5.15(a)
Registration Termination Date	5.15(a)
Registry	Recitals
Sabine	Recitals
Sabine Business	Recitals
Sabine Database	3.12(h)
Sabine Net Revenue	Schedule 2.4(d)
Section 338(h)(10) Election	5.5(d)
Seller	Introductory Paragraph
Seller's Agents	5.15(g)(i)
Selling Expenses	5.15(a)(iv)
Shares	Recitals
Statement of Objections	2.6
Tax Adjustment	5.5(d)
Third Party Claim	8.5(a)
Use	3.11(g)

1.3 **Interpretation.** For purposes of this Agreement: (a) the words “include,” “includes” and “including” shall be deemed to be followed by the words “without limitation”; (b) the word “or” is not exclusive and is used in the inclusive sense of “and/or”; (c) the words “herein,” “hereof,” “hereby,” “hereto” and “hereunder” refer to this Agreement as a whole; (d) references to the plural include the singular, and references to the singular include the plural; (e) references to one gender include the other gender; and (f) if a word or phrase is defined, then its other grammatical or derivative forms have a corresponding meaning. Unless the context otherwise requires, references herein: (x) to Articles, Sections, Disclosure Schedules and Exhibits mean the Articles and Sections of, and Disclosure Schedules and Exhibits attached to, this Agreement; (y) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and (z) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted. The Disclosure Schedules and Exhibits referred to herein shall be construed with, and as an integral part of, this Agreement to the same extent as if they were set forth verbatim herein.

ARTICLE II
SALE AND PURCHASE OF SHARES AND RELATED TRANSACTIONS

2.1 Sale and Purchase of Shares. At the Closing, Seller shall sell, assign, transfer and deliver the Shares to ClearOne and ClearOne shall purchase the Shares from the Seller, on the terms and conditions set forth in this Agreement. Prior to the Closing, Sabine shall have (a) completed the Foreign IP Transaction, (b) completed the transfer of the Excluded Real Property to the Real Estate Entity and (c) either paid any Excluded Liabilities or arranged for such Excluded Liabilities to be assumed by another Person with no further obligation of Sabine with respect to such Excluded Liabilities.

2.2 Purchase Price.

(a) Subject to the other terms and conditions of this Article II, the aggregate consideration payable by the Purchaser for the Shares shall be an amount equal to the following payments and assumptions of Liabilities (the “**Purchase Price**”), which amount is subject to adjustment and shall be paid by Purchaser as set forth herein:

(i) The base amount of the Purchase Price of \$7.5 million in cash, and \$1.5 million in ClearOne Shares (the “**Base Purchase Price**”).

(ii) The cash portion of the Base Purchase Price will be subject to upward or downward adjustment by the amount that the value of the Net Assets at Closing are less than or greater than \$61,000 (such adjustment the “**Net Asset Adjustment Amount**”). At Closing, Seller and Purchaser shall review and agree on a statement (the “**Estimated Net Assets Statement**”) certifying in reasonable detail Seller’s good faith, reasonable estimate of the Net Assets at Closing, which shall be calculated based on the rules and computations methods specified and set forth in Schedule 1.1. The Base Purchase Price shall be adjusted at Closing based on the preliminary Net Asset Adjustment Amount shown on the Estimated Net Assets Statement (the “**Initial Net Asset Adjustment Amount**”).

(iii) Earnout Payments that will be made to Seller in connection with the annual Sabine Net Revenue in the relevant period for the three years following Closing, as described in Section 2.4 below.

(iv) At the Closing, Purchaser shall either pay or assume the SBA Loan, as it determines, subject to approval by the relevant lending parties, with the result that (A) the Excluded Real Property will no longer be Encumbered by the SBA Loan and (B) Seller will no longer be obligated to guarantee the repayment of the SBA Loan. Any prepayment penalty or similar payment shall be the obligation of Seller and, if paid by Purchaser, shall reduce the Purchase Price.

(b) At the Closing, Purchaser shall pay to Seller the Base Purchase Price plus or minus the Initial Net Asset Adjustment Amount (the “**Closing Payment Amount**”) in cash and the ClearOne Shares, provided that 15% of the Closing Payment Amount will be paid to the Escrow Agent pursuant to Section 2.3.

2.3 Escrow. At Closing, Purchaser shall deposit with the Escrow Agent an amount equal to 15% of the Closing Payment Amount (the “**Escrow Fund**”). The Parties acknowledge and agree that the Escrow Fund shall be used for the purpose of securing the Seller’s indemnification

obligations pursuant to Article VI. The Escrow Fund shall be administered by the Escrow Agent in accordance with the provisions of the Escrow Agreement. Subject to applicable Law, the Escrow Fund shall be held as a trust fund and shall not be subject to any lien, attachment, trustee process or any other judicial process of any creditor of any Party and shall be held and disbursed solely for the purposes and in accordance with the respective terms of the Escrow Agreement.

2.4 Earnout.

(a) The Purchase Price shall include additional earn-out payments to be made by Purchaser to Seller (each such payment being an “**Earnout Payment**”) based on the financial performance of the Sabine Business, after acquisition by Purchaser, in each of the three years following Closing (each, an “**Annual Earnout Period**” and collectively, the “**Aggregate Earnout Period**”).

(b) The calculation for the Earnout Payments shall be (i) 5% of certain Sabine Net Revenue in year one and year two, as described below (the “**Basic Earnout**”), which will be paid in eight payments (each measuring period, for ease of reference, referred to as a “**Quarterly Earnout Period**,” even though certain Quarterly Earnout Periods may be shorter or longer than a quarter) and (ii) 10% of certain Sabine Net Revenue during the Aggregate Earnout Period (the “**Bonus Earnout**”), which will be paid annually.

(c) The following sets forth the calculation of the Earnout Payments:

▪ **Basic Earnout:**

- o 5% for all Sabine Net Revenue earned up to \$5 million in Year 1 (as reflected in the chart below), payable as provided in the chart below.
- o 5% for all Sabine Net Revenue earned up to \$7.5 million in Year 2 (as reflected in the chart below), payable as provided in the chart below.

§ **Bonus Earnout:**

- o 10% for all Sabine Net Revenue exceeding \$5 million in the first Annual Earnout Period after Closing, payable as provided in the chart below following such first Annual Earnout Period.
- o 10% for all Sabine Net Revenue exceeding \$7.5 million in the second Annual Earnout Period after Closing, payable as provided in the chart below following such second Annual Earnout Period.
- o 10% for all Sabine Net Revenue exceeding \$10 million in the third and final Annual Earnout Period after Closing, payable as provided in the chart below following such third Annual Earnout Period.

(d) The method for calculating Earnout Payments is set forth on Schedule 2.4(d) attached hereto.

(e) Within 7 days after ClearOne's public announcement of its financial results for the relevant fiscal quarter or year-end, Purchaser shall prepare and deliver to Seller an unaudited statement (the "**Earnout Payment Statement**") setting forth the calculation of the Sabine Net Revenue and the Earnout Payment for the preceding Quarterly Earnout Period and/or Annual Earnout Period, as applicable, accompanied by payment of the applicable Earnout Amount. The calculations will be done consistent with the method set forth on Schedule 2.4(d). Promptly upon Seller's request, Purchaser shall make available to Seller copies of the work papers and back-up materials used by Purchaser in preparing the Earnout Payment Statement and such other documents as Seller may reasonably request in connection with its review thereof. Seller may dispute any Earnout Payment Statement and the calculations thereon in accordance with Section 2.6.

(f) In the Lease Transaction, ClearOne or an Affiliate will be leasing from the Real Estate Entity the Gainesville Florida manufacturing facility located on the Excluded Real Property (the "Sabine Manufacturing Facility". The Sabine Manufacturing Facility may be used to continue to manufacture the Sabine Products, which are subject to the Earnout Payments. If ClearOne elects to manufacture or modify at the Sabine Manufacturing Facility, ClearOne products which are not Sabine Products as of the Closing (such products referred to as "Other ClearOne Products"), such Other ClearOne Products will be deemed to be included as an Earnout Product and sales net revenue attributable to such Other ClearOne Products shall be included in the calculation of Sabine Net Revenue for the purpose of calculating Earnout Payments in an Annual Earnout Period. Notwithstanding the foregoing, if the sales net revenue in a particular Annual Earnout Period attributable to all such Other ClearOne Products is less than 5% of the Sabine Net Revenue for the same Annual Earnout Period, such sales net revenue from such Other ClearOne Products will be disregarded in calculating required Earnout Payments. In calculating sales net revenue attributable to Other ClearOne Products, for each Other ClearOne Product, the amount of sales net revenue attributable to each such product shall be equal to the number of units of such products made or modified in the Sabine Manufacturing Facility during the Annual Earnout Period multiplied by (i) the average selling price of such units in the Annual Earnout Period or the immediately preceding Annual Earnout Period if no products were sold in such period or, (ii) if no such products have previously been sold, the sales net revenue shall equal the Bill of Material Cost of such products multiplied by 1.4. The Basic Earnout and Bonus Earnout for Other ClearOne Products will be calculated and paid yearly as part of each Annual Earnout Period and each Annual Earnout Period shall be calculated separately.

(g) Upon notice to Seller specifying in reasonable detail the basis for such deferral, Purchaser shall have the right to defer the payment of Earnout Payments and, with respect to the amount of any Losses which have been finally determined to be due to the Purchaser Indemnitees pursuant to Article VIII of this Agreement, to withhold and set off such Losses against any subsequent Earnout Payment. In the event Purchaser provides notice of the basis for deferral, and the amount of the Loss has not been finally determined and Seller disputes such basis for deferral, ClearOne may deposit the disputed portion of the Earnout Payment into the Escrow Account with the Escrow Agent until such amount has been finally determined.

(h) The following chart illustrates the payment of the Basic Earnout, assuming the Closing Date is on March 7, 2014:

<u>Earnout Period</u> <u>From</u>	<u>Earnout Period To</u>	<u>Purchaser's Anticipated Financial</u> <u>Release Date</u>	<u>Anticipated Payment</u> <u>Date</u>	<u>Payment Type</u>
03-08-14	06-30-14	07-25-14	08-01-14	Year One Payment 1
07-01-14	09-30-14	10-25-14	11-01-14	Year One Payment 2
10-01-14	12-31-14	01-25-15	02-01-15	Year One Payment 3
01-01-15	03-31-15	04-25-15	05-02-15	Year One Payment 4
04-01-15	06-30-15	07-25-15	08-01-15	Year Two Payment 5
07-01-15	09-30-15	10-25-15	11-01-15	Year Two Payment 6
10-01-15	12-31-15	01-25-16	02-01-16	Year Two Payment 7
01-01-16	03-07-16	04-25-16	05-02-16	Year Two Payment 8

(i) The following chart illustrates the payment of the Bonus Earnout, assuming the Closing Date is on March 7, 2014:

<u>Earnout Period</u> <u>From</u>	<u>Earnout Period</u> <u>To</u>	<u>Purchaser's Anticipated</u> <u>Financial Release Date</u>	<u>Anticipated Payment</u> <u>Date</u>	<u>Payment Type</u>
03-08-14	03-07-15	04-25-15	05-02-15	Bonus Earnout for the first Annual Earnout Period
03-08-15	03-07-16	04-25-16	05-02-16	Bonus Earnout for the second Annual Period
03-08-16	03-07-17	04-25-17	05-02-17	Bonus Earnout for the third Annual Period

2.1 Closing Statement. Within 30 days following the Closing, Purchaser shall prepare and deliver to Seller an unaudited statement (the "**Closing Adjustment Statement**") of Purchaser's determination of the Net Assets Adjustment Amount. Promptly upon Seller's request, Purchaser shall make available to Seller copies of the work papers and back-up material used by Purchaser in preparing the Closing Adjustment Statement and such other documents as Seller may reasonably request in connection with its review thereof. Within five business days after the date the Closing Adjustment Statement becomes final and binding in accordance with Section 2.6, (a) if the Net Assets Adjustment Amount is greater than the Initial Net Assets Adjustment Amount, then Purchaser shall pay Seller the excess amount or (b) if the Net Assets Adjustment Amount is less than the Initial Net Assets Adjustment Amount, then Seller shall pay Purchaser such difference.

2.2 Resolution of Certain Disputes.

(c) Within 15 days after Seller's respective receipt of the Closing Adjustment Statement and any Earnout Payment Statement, the Seller shall deliver to the Purchaser a written statement either accepting the Closing Adjustment Statement or the Earnout Payment Statement, as the case may be, or specifying in reasonable detail, indicating each disputed item or amount and the basis for Seller's disagreement therewith, any objections (a "**Statement of Objections**") thereto. If Seller does not deliver a Statement of Objections within such 15-day period, the Closing

Adjustment Statement or the Earnout Payment Statement, as the case may be, shall become final and binding upon all parties. If the Seller does deliver a Statement of Objections within such 15-day period, and the Parties cannot resolve such objections within 15 days after Purchaser's receipt thereof, any remaining disputes shall be resolved by an independent accounting firm (the "**Accounting Firm**").

(d) The Accounting Firm shall be BDO USA, LLP's affiliate firm Mantyla McReynolds LLC, or, if such firm is unable or unwilling to act, such other independent public accounting firm as shall be agreed in writing by the parties. If, in this situation, the parties cannot agree on an Accounting Firm, then selection of the Accounting Firm shall be by binding arbitration under the rules of the American Arbitration Association and the arbitrator will pick the accountant following a non-evidentiary hearing before the arbitrator, which shall be as brief as reasonably possible, with respect to this matter. Each Party will bear one-half of the cost of the arbitration fees and expenses, which amount must be estimated and paid at in advance prior to the arbitration. If a Party fails to make such advance payment within five business days of the date the other Party makes and gives notice to the other Party of the making of such payment, the paying Party shall have the sole right to choose the Accounting Firm and the arbitration shall not be necessary.

(e) In any proceeding pursuant to this Section, the Accounting Firm shall be instructed to resolve such disputes within 45 days after its appointment, based solely on the presentations of Purchaser and Seller as to whether such objections have been determined in a manner consistent with this Agreement. The parties will enter into an engagement letter with the Accounting Firm specifying in detail the terms of the engagement, including procedures for communication, correspondence, and payment of any invoices of the Accounting Firm, so that once the firm is engaged, the parties will not interfere with the Accounting Firm's determination. The Accounting Firm shall only decide the specific items under dispute by the Parties and its decision for each disputed amount must be within the range of values assigned to each such item in the Closing Adjustment Statement or the Earnout Payment Statement, as the case may be, and the related Statement of Objections, respectively. The resolution of such disputes by the Accounting Firm shall be set forth in writing and shall be conclusive and binding upon all parties and the Closing Adjustment Statement or the Earnout Payment Statement, as the case may be, as modified by such resolution, shall become final and binding upon the date of such resolution. The fees and expenses of the Accounting Firm shall be apportioned by the Accounting Firm between Seller, on the one hand, and Purchaser, on the other hand, based on the degree to which such party's claims were unsuccessful, and the parties shall pay the Accounting Firm in accordance with such determination. In addition to the foregoing, if and only if a party prevails by more than 50% with respect to an objection affecting the Purchase Price, such party shall be awarded all legal fees and costs billed to it by its attorneys, but if such party prevails by 50% or less, then it shall pay the legal fees and costs of the other party. For example, if pursuant to this Section 2.6 Seller submitted an objection affecting the Purchase Price in the amount of \$280,000 and prevailed only as to \$70,000 of such amount, Seller would pay 75% of the fees and expenses of the Accounting Firm and pay all legal fees and costs billed to Purchaser by Purchaser's attorneys in connection with the dispute.

2.3 Closing; Time and Place of Closing. The consummation of the Acquisition Transaction contemplated by this Agreement (the "**Closing**") shall take place at a virtual meeting

(i.e., a meeting at which all deliveries may be effected by telephone, facsimile, email, PDF, wire transfer and/or similar means involving the exchange of electronic images of signed originals of documentation) to be held at the offices of Parsons Behle & Latimer, 201 South Main Street, Salt Lake City, Utah, and at which meeting the various payments and deliveries contemplated by this Agreement to be made by the parties will be made. The Closing shall take place on such date as the Parties may mutually agree after the satisfaction of any other covenants or conditions precedent set forth herein (including Article VI and Article VII), but in no event later than March 30, 2014. Notwithstanding the foregoing, neither Party shall be required to proceed to Closing unless all conditions precedent set forth in this Agreement have been satisfied or waived. If Closing has not taken place by March 30, 2014, either Party may terminate this Agreement by written notice to the other subject to the terms of Article IX. All transactions occurring at the Closing shall be deemed to take place simultaneously, and no transaction shall be deemed to have been completed and no document or certificate shall be deemed to have been delivered until all transactions are completed and all documents delivered. Unless otherwise indicated, all documents and certificates shall be dated on or as of the Closing Date.

(a) Seller Closing Deliveries. At the Closing Seller shall deliver to Purchaser:

- (i) a counterpart of the Escrow Agreement duly executed by Seller and by the Escrow Agent;
- (ii) an executed Stock Power to transfer the Shares, accompanied by the certificates for the Shares;
- (iii) duly executed counterpart signature page to the Lease Agreement, executed by the Real Estate Entity;
- (iv) the Seller Consulting Agreement duly executed by Seller;
- (v) the Consents listed on Section 2.7(a)(v) of the Disclosure Schedule;

(vi) an officers' certificate to the effect that the representations and warranties set forth in Article III are true and correct in all material respects, except that as to (A) such representations and warranties as are qualified by terms such as "material" and "Material Adverse Effect" and (B) the Fundamental Representations, such certificate shall state that such representations and warranties are true and correct in all respects;

(vii) such other customary instruments of transfer, assumption, filings or documents, in form and substance reasonably satisfactory to Purchaser, as may be required to give effect to this Agreement.

(b) Purchaser Closing Deliveries. At the Closing Purchaser shall deliver to Seller:

(i) the Closing Payment Amount (with a portion thereof to be placed in the Escrow Fund as contemplated herein), including certificates representing the ClearOne Shares;

- (ii) a counterpart of the Escrow Agreement duly executed by each Purchaser (which shall also be delivered to Escrow Agent, together with the amounts to be deposited into the Escrow Fund as contemplated herein;
- (iii) duly executed counterpart signature page to the Lease Agreement;
- (iv) the Seller Consulting Agreement duly executed by ClearOne; and
- (v) such other customary instruments of transfer, assumption, filings or documents, in form and substance reasonably satisfactory to Seller, as may be required to give effect to this Agreement.

**ARTICLE III
REPRESENTATIONS AND WARRANTIES OF SELLER**

Except as set forth in the correspondingly numbered Section of the Disclosure Schedule, Seller represents and warrants to Purchaser as follows as of the date of this Agreement and as of the Closing:

3.1 Authority of Seller. Seller is an individual resident of Florida. Seller has all legal capacity to execute and deliver this Agreement and the Transaction Documents to which Seller is a party and to perform his obligations hereunder and thereunder to consummate the Transactions. This Agreement and each of the Transaction Documents to which Seller is a party constitutes a legal, valid and binding obligation of Seller, in each case enforceable against Seller in accordance with its respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

3.2 Organization, Authority and Qualification of Sabine.

(c) Sabine is a corporation duly organized, validly existing and in good standing under the Laws of the state of Florida, and has full corporate power and authority to own, operate or lease the properties and assets owned, operated or held by it (including the Excluded Real Property that will be transferred prior to Closing), and to carry on the Sabine Business as it has been and is currently conducted.

(d) Section 3.2(b) of the Disclosure Schedule sets forth each jurisdiction in which Sabine is licensed or qualified to do business, and Sabine is duly licensed or qualified to do business and is in good standing in each jurisdiction in each jurisdiction in which the properties owned or leased by it or the operation of its business as currently conducted makes such licensing or qualification necessary. All corporate actions taken by Sabine in connection with this Agreement and the other Transaction Documents will be duly authorized on or prior to the Closing.

(e) Sabine has not granted to any Person any power of attorney in respect of it or any of its assets or properties.

3.3 Capitalization.

(j) The authorized capital stock of Sabine consists of 500 shares of common stock, par value \$1.00 per share, of which 100 shares are issued and outstanding and constitute the Shares. All of the Shares have been duly authorized, are validly issued, fully paid and non-assessable, and are owned of record and beneficially by Seller, free and clear of all Encumbrances. Upon consummation of the Acquisition Transaction contemplated by this Agreement, Purchaser shall own all of the Shares, free and clear of all Encumbrances.

(k) All of the Shares were issued in compliance with applicable Laws. None of the Shares were issued in violation of any agreement, arrangement or commitment to which Seller or Sabine is a party or is subject to or in violation of any preemptive or similar rights of any Person.

(l) Except as set forth on Section 3.3(c) of the Disclosure Schedule, Sabine does not own any shares of capital stock or any other equity interest in or control any other Person.

(m) Neither Sabine nor the Seller has ever approved, or commenced any proceeding or made any election contemplating, the dissolution or liquidation of Sabine or the winding up or cessation of Sabine's affairs or the Sabine Business.

(n) There are no outstanding or authorized options, warrants, convertible securities or other rights, agreements, arrangements or commitments of any character relating to the capital stock of Sabine or obligating Seller or Sabine to issue or sell any shares of capital stock of, or any other interest in, Sabine. Sabine does not have outstanding or authorized any stock appreciation, phantom stock, profit participation or similar rights. There are no voting trusts, stockholder agreements, proxies or other agreements or understandings in effect with respect to the voting or transfer of any of the Shares.

3.4 Consents and Approvals; Authority Relative to this Agreement. The execution, delivery, and performance by Seller of this Agreement and the other Transaction Documents to which Seller is a party, and the consummation of the Transactions contemplated hereby and thereby, do not and will not: (a) conflict with or result in a violation or breach of, or default under, any provision of the Charter Documents of Sabine, as amended to date, or any shareholders' agreement to which Seller or Sabine is a party; (b) conflict with or result in a violation or breach of any provision of any Law or Governmental Authorization applicable to Seller or Sabine; (c) except as set forth in Section 3.4 of the Disclosure Schedule, require the Consent, notice or other action by any Person under, conflict with, result in a violation or breach of, constitute a default or an event that, with or without notice or lapse of time or both, would constitute a default under, result in the acceleration of or create in any party the right to accelerate, terminate, modify or cancel any Contract to which Seller or Sabine is a party or by which Seller or Sabine is bound or to which any of their respective properties and assets are subject (including any Material Contract) or any Permit affecting the properties, assets or business of Sabine; or (d) result in the creation or imposition of any Encumbrance on any properties or assets of Sabine. Except as set forth on Section 3.4 of the Disclosure Schedule, no Consent, approval, Permit, Governmental Authorization, declaration or filing with, or notice to, any Governmental Authority is required by or with respect to Seller or Sabine in connection with the execution and delivery of this Agreement or any of the other Transaction Documents and the

consummation of the Transactions contemplated hereby and thereby and the performance by Seller of Seller's obligations hereunder and thereunder.

3.5 Financial Statements; No Undisclosed Liabilities.

(a) Seller has Made Available to Purchaser complete copies of Sabine's financial statements consisting of the balance sheet of Sabine as at December 31 in each of the years 2011, 2012 and 2013 and the related statements of income and retained earnings, stockholders' equity and cash flow for the years then ended (the "**Financial Statements**"). Other than as set forth in Section 3.5(a) of the Disclosure Schedule, the Financial Statements have been prepared in accordance with GAAP applied on a consistent basis throughout the period involved, subject to the absence of footnotes that would be required under GAAP. The Financial Statements are based on the books and records of Sabine, and fairly present in all material respects the financial condition of Sabine as of the respective dates they were prepared and the results of the operations of Sabine for the periods indicated. The balance sheet of Sabine as of December 31, 2013 is referred to herein as the "**Balance Sheet**" and the date thereof as the "**Balance Sheet Date**". The Balance Sheet has been audited. Other than as set forth in Section 3.5(a) of the Disclosure Schedule, Sabine maintains a standard system of accounting established and administered in accordance with GAAP.

(b) Except as set forth in the Financial Statements, the Estimated Net Assets Statement or Section 3.5(b) of the Disclosure Schedule, Sabine has no Liabilities.

(c) Section 3.5(c) of the Disclosure Schedule provides an accurate and complete breakdown and aging, as of the last day of the calendar month preceding the calendar month which includes the date of this Agreement, of all accounts receivable, notes receivable and other receivables of Sabine. An updated schedule will be provided as of the date that is three business days prior to the Closing. Except as set forth in Section 3.5(c) of the Disclosure Schedule, as updated at Closing, all existing accounts receivable (i) represent valid obligations of customers of Sabine arising from bona fide transactions entered into in the Ordinary Course of Business; and (ii) are current and collectible in full, without any counterclaim or set off, when due.

3.6 Absence of Certain Effects or Changes. Except as set forth in Section 3.6 of the Disclosure Schedule, and other than as expressly contemplated by this Agreement or the Transaction Documents (including with respect to the incurrence of costs associated with the negotiation, execution and consummation of the Transactions), since the Balance Sheet Date there has not been any:

- (a) event, occurrence or development that has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;
- (b) amendment to the Organizational Documents of Sabine;
- (c) split, combination or reclassification of any shares of Sabine's capital stock;

- (d) issuance, sale or other disposition of any of its capital stock, or grant of any options, warrants or other rights to purchase or obtain (including upon conversion, exchange or exercise) any of Sabine's capital stock;
- (e) redemption, purchase, or acquisition of Sabine's capital stock;
- (f) change in any method of accounting or accounting practice for Sabine;
- (g) damage, destruction, or loss (whether or not covered by insurance) materially and adversely affecting Sabine or any of the assets of Sabine;
- (h) material change in cash management practices and policies, practices and procedures with respect to collection of accounts receivable, establishment of reserves for uncollectible accounts receivable, accrual of accounts receivable, inventory control, prepayment of expenses, payment of accounts payable, accrual of other expenses, deferral of revenue and acceptance of customer deposits;
- (i) entry into any Contract other than in the Ordinary Course of Business;
- (j) acceleration, termination, modification to or cancellation of any Contract or Permit other than in the Ordinary Course of Business;
- (k) incurrence, assumption or guarantee of any indebtedness for borrowed money except unsecured current obligations and Liabilities incurred in the Ordinary Course of Business;
- (l) transfer, assignment, sale or other disposition of any of the assets of Sabine other than in the Ordinary Course of Business;
- (m) transfer, assignment or grant of any license or sublicense of any rights under or with respect to any Sabine IP or Intellectual Property Licenses other than in the Ordinary Course of Business;
- (n) imposition of any Encumbrance upon any Sabine properties, capital stock or assets, tangible or intangible;
- (o) adoption of any plan of merger, consolidation, reorganization, liquidation or dissolution or filing of a petition in bankruptcy under any provisions of bankruptcy or reorganization Law or consent to the filing of any bankruptcy petition against it under any similar Law;
- (p) the commencement or settlement of any legal proceedings or other Action;
- (q) (i) grant of any bonuses, whether monetary or otherwise, or increase in any wages, salary, severance, pension or other compensation or benefits in respect of Sabine's employees, officers, directors, independent contractors or consultants, other than as provided for in any written agreements or required by applicable Law, (ii) change in the terms of employment for any employee or any termination of any employees for which the aggregate costs and expenses

exceed 3% of such employee's base salary, or (iii) action to accelerate the vesting or payment of any compensation or benefit for any employee, officer, director, independent contractor or consultant;

(r) adoption, modification, or termination of any: (i) employment, severance, retention, or other agreement with any current or former employee, officer, director, independent contractor, or consultant, (ii) Benefit Plan or (iii) collective bargaining or other agreement with a union, works council, or labor organization, in each case whether written or oral;

(s) any loan to (or forgiveness of any loan to), or entry into any other transaction with, any of its stockholders, directors, officers and employees;

(t) entry into a new line of business or abandonment or discontinuance of existing lines of business;

(u) purchase, lease or other acquisition of the right to own, use or lease any property or assets for an amount in excess of \$2,500, individually (in the case of a lease, per annum) or \$2,500 in the aggregate (in the case of a lease, for the entire term of the lease, not including any option term), except for purchases of inventory or supplies in the Ordinary Course of Business;

(v) acquisition by merger or consolidation with, or by purchase of a substantial portion of the assets or stock of, or by any other manner, any business or any Person or any division thereof;

(w) action by Sabine to make, change or rescind any Tax election, amend any Tax Return or take any position on any Tax Return, take any action, omit to take any action or enter into any other transaction that would have the effect of increasing the Tax liability or reducing any Tax asset of Purchaser in respect of any post-closing Tax period; or

(x) any Contract to do any of the foregoing, or any action or omission that would result in any of the foregoing.

3.7 Inventories. Section 3.7 of the Disclosure Schedule lists all items of Inventory of Sabine as of the last day of the calendar month preceding the calendar month which includes the date of this Agreement, such schedule to be updated as of the date that is three business days prior to the Closing Date. The Inventory is fairly reflected on the books of accounts of Sabine, stating items of Inventory at the lower of cost or market value, with adequate allowance for excessive or obsolete inventories. All Inventory, whether or not reflected in the Balance Sheet, consists of a quality and quantity usable and salable in the Ordinary Course of Business, except for obsolete, damaged, defective or slow-moving items that have been written off or written down to fair market value or for which adequate reserves have been established. All such Inventory is owned by Sabine free and clear of all Encumbrances other than the SBA Loan, and no Inventory is held on a consignment basis. The quantities of each item of Inventory (whether raw materials, work-in-process or finished goods) are not excessive, but are reasonable in the present circumstances of Sabine

3.8 Title to, Sufficiency and Condition of Assets. Sabine has good and valid title to, and is the lawful owner of, all of its assets, as reflected in the Financial Statements, free and clear of all Encumbrances other than the SBA Loan. The assets held by Sabine are sufficient for the continued conduct of the Sabine Business after the Closing in substantially the same manner as conducted prior to the Closing and, except as set forth in Section 3.8 of the Disclosure Schedule, constitute all of the assets, properties and rights currently used by Sabine or reasonably necessary in the conduct of the Sabine Business.

3.9 Real Property.

(a) Other than the Excluded Real Property, Sabine does not own and has never owned any real property, nor does it hold any option to acquire any real property.

(b) Except as disclosed in Section 3.9(b) of the Disclosure Schedule:

(i) Sabine currently has and, for the past five years or for such period of time that Sabine has owned the Excluded Real Property, whichever is shorter, has obtained, all Permits (including certificates of use and occupancy, licenses and permits) required by applicable Law in connection with its use, occupation and operation of the Excluded Real Property;

(ii) there are no pending or, to Seller's Knowledge, threatened condemnation, fire, health, safety, building, zoning or other land use regulatory proceedings, lawsuits or administrative actions relating to any portion of the Excluded Real Property or any other matters which do or may adversely affect Sabine's current use, occupancy or value thereof, nor has Sabine or any Seller received notice of any pending or threatened eminent domain or special assessment proceedings affecting any portion of the Excluded Real Property;

(iii) there is no Person other than Sabine in possession of any portion of the Excluded Real Property and no Contract grants any Person (other than Sabine or the Real Estate Entity) the right of use or occupancy of any portion of the Excluded Real Property;

(iv) all utilities required by any applicable Law or by the use and operation of the Excluded Real Property in the conduct of the Sabine Business are fully operable and are adequate to service the Excluded Property in the operation of the Sabine Business as presently conducted and, to Seller's Knowledge, to permit full compliance with the requirements of all Laws in the operation of the Sabine Business as presently conducted;

(v) to Seller's Knowledge, no fact or condition exists which could result in the termination or material reduction of the current access from the Excluded Real Property to existing roads or to water, sewer or other utility services presently serving such Excluded Real Property;

(vi) none of Sabine's Equipment located on the Excluded Real Property or the operation or maintenance thereof, or the conduct of the Sabine Business, violates any restrictive covenant applicable to the Excluded Real Property and no activity on or condition of the

Excluded Real Property has constituted or constitutes a nuisance, trespass or other tortious condition with respect to any Person;

(vii) to Seller's Knowledge, the use, occupancy and operation of the Excluded Real Property as currently used, occupied and operated in the conduct of the Business does not constitute a nonconforming use and is not the subject of a special use permit under any applicable Law; and

(viii) to Seller's Knowledge, all structures and all structural, mechanical and other physical systems that constitute part of the Excluded Real Property are free of defects and in good operating condition and repair, ordinary wear and tear excepted, no maintenance or repair thereto has been unreasonably deferred by Sabine, and no portion of the Excluded Real Property has suffered any damage by fire or other casualty which has not heretofore been repaired and restored.

(c) Sabine has fee title to the Excluded Real Property and, upon conveyance to the Real Estate Entity, the Real Estate Entity shall have fee title to such Excluded Real Property.

(d) There are no Encumbrances on the Excluded Real Property other than the SBA Loan and, at Closing and execution of the Lease Agreement by the parties in the Lease Transaction, there will be no Encumbrances on the Excluded Real Property.

3.10 Equipment and Tangible Assets. Section 3.10 of the Disclosure Schedule is a true, correct and complete list of all Equipment having an individual book value in excess of \$2,500 and of each lease of Equipment included in the Assets of Sabine having aggregate minimum annual lease payments in excess of \$2,500 binding upon Sabine. Seller has Made Available to Purchaser true, correct and complete copies of any and all such Equipment leases. Except as set forth in Section 3.10 of the Disclosure Schedule, all of the Equipment and other tangible assets of Sabine are in good operating condition and repair (with the exception of normal wear and tear) for the purposes of the Sabine Business as currently operated and none of them is in need of maintenance or repairs other than routine maintenance and repairs.

3.11 Intellectual Property.

(a) Section 3.11(a) of the Disclosure Schedule is a true, correct and complete list of all (i) Sabine IP that is not registered but that is material to the operation of the Sabine Business as presently conducted and (ii) Registered IP that is held by Sabine. With respect to the Registered IP, including such registrations that may have lapsed, the schedule includes (i) the name of the applicant/registrant, inventor/author, if applicable, and current owner; (ii) the jurisdiction in which such item of Registered IP has been registered or filed; (iii) the applicable registration or serial number; (iv) the filing date, and issuance/registration/grant date; and (v) a brief description of the prosecution status thereof. All required filings and fees related to the Registered IP have been timely filed with and paid to the relevant Governmental Authorities and authorized registrars, and all Sabine IP registrations (other than those registrations that may have lapsed as shown on Section 3.11(a) of the Disclosure Schedule) are otherwise in good standing and enforceable. Seller has Made Available to Purchaser a true, correct and complete copy of the file histories, documents, certificates, office

actions, correspondence and other materials related to all Registered IP. Seller has no Knowledge of any information, materials, facts or circumstances that would render any Sabine IP that is Registered IP invalid or unenforceable or would materially and adversely affect any pending application for such Registered IP.

(b) Sabine owns all right, title and interest in and to the Sabine IP, free and clear of Encumbrances (other than nonexclusive licenses to customers in the Ordinary Course of Business), and none of the Sabine IP has been subject to any Encumbrances except where a release has been properly filed. Without limiting the generality of the foregoing, except as set forth in Section 3.11(b) of the Disclosure Schedule, Sabine has entered into binding, written agreements with every current and former Sabine Employee, and with every current and former consultant and independent contractor, whereby such Sabine Employees, consultants and independent contractors assign to Sabine any ownership interest and right they may have in any Sabine IP. Sabine has Made Available to Purchaser true, correct and complete copies of all such agreements. Sabine is in material compliance with all legal requirements applicable to the Sabine IP and Sabine's ownership and use thereof

(c) Section 3.11(c) of the Disclosure Schedule sets forth a true, correct and complete list of all inbound Intellectual Property Licenses excluding licenses for Shrink-Wrap Code. Seller has Made Available to Purchaser true, correct and complete copies of all such Intellectual Property Licenses. All such Intellectual Property Licenses are valid, binding and enforceable between Sabine and the other parties thereto, and Sabine and to Seller's Knowledge such other parties are in full compliance with the terms and conditions of such Intellectual Property Licenses.

(d) The Sabine IP and Intellectual Property Licenses as previously and currently owned, licensed or used by Sabine, and the conduct of the Sabine Business as previously and currently conducted has not and does not infringe, violate or misappropriate the Intellectual Property of any Person. Neither Seller nor Sabine has received any written communication, and no Action has been instituted, settled or, to Seller's Knowledge, threatened, that alleges any such infringement, violation or misappropriation, and none of the Sabine IP is subject to any outstanding Governmental Authorization.

(e) Section 3.11(e) of the Disclosure Schedule is a true, correct and complete list of all Contracts, licenses, sublicenses and other agreements pursuant to which Sabine grants rights or authority to any Person with respect to any Sabine IP or Intellectual Property Licenses. Seller has Made Available to Purchaser true, correct and complete copies of all such agreements. All such agreements are valid, binding and enforceable between Sabine and the other parties thereto, and Sabine and to Seller's Knowledge such other parties are in full compliance with the terms and conditions of such agreements. To Seller's Knowledge, no Person has infringed, violated or misappropriated, or is infringing, violating or misappropriating, any Sabine IP.

(f) There is no pending or, to Seller's Knowledge, threatened Action challenging the registrability of any Sabine IP. Seller has no written notice of any, or Knowledge of any basis for any, claim that the Sabine Business infringes, misappropriates, or violates any Intellectual Property or any such rights of any other Person. Seller has no Knowledge of any basis for a claim that any Sabine IP is invalid or unenforceable.

(g) Sabine has the sole and exclusive right to bring Actions for infringement, misappropriation, dilution, violation or unauthorized use of the Sabine IP and, to Seller's Knowledge, there is no basis for any such action. Sabine is not bound by, and no Sabine IP is subject to, any Contract containing any covenant or other provision that in any way limits or restricts the ability of Sabine to use, exploit, license, transfer, assert or enforce any Sabine IP anywhere in the world.

(h) Except as set forth on Section 3.11(h) of the Disclosure Schedule, no funding, facilities or personnel of any Governmental Authority or college, university or other educational institution were used, directly or indirectly, to develop or create, in whole or in part, any Sabine IP.

(i) Sabine has taken commercially reasonable steps to maintain the confidentiality of and otherwise protect and enforce its rights in all proprietary information of Sabine.

(j) Section 3.11(j) of the Disclosure Schedule contains a complete and accurate list and summary of all royalties, fees, commissions and other amounts payable by Sabine to any other Person for the use or exploitation of any Sabine IP incorporated into or used in the development, testing, distribution, provision, maintenance or support of, any product offering by Sabine.

(k) Neither the execution, delivery or performance of this Agreement or any other Transaction Documents nor the consummation of any of the Transactions contemplated hereby or thereby will, with or without notice or lapse of time, result in, or give any other Person the right or option to cause or declare: (i) a loss of, or Encumbrance on, any Sabine IP or any other Technology or Intellectual Property incorporated into or used in the development, testing, distribution, provision, maintenance or support of the Sabine Software; (ii) a breach of or default under any Material Contract; (iii) a payment or increased royalty or an obligation to offer any discount or be bound by any "most favored pricing" terms under any Material Contract; (iv) the release, disclosure or delivery of any Sabine IP by or to any escrow agent or other Person; (v) any right of termination or cancellation under any Material Contract; or (vi) the grant, assignment or transfer to any other Person of any license or other right or interest in, under, or with respect to, either any of the Sabine IP or any other Technology or the Intellectual Property of Purchaser. Immediately following the Closing, all Sabine IP will be transferable, alienable or licensable by Purchaser to the same extent such Sabine IP would have been transferable, alienable or licensable by Sabine had the Closing not occurred, without payment of any kind to any third party.

(l) Seller has delivered to the Purchaser a complete and accurate copy of each standard form of Contract used by Sabine with respect to the Sabine IP, including each standard form of: (i) end user license agreement; (ii) software license, software-as-a-service (SaaS) or cloud-based services agreement, (iii) development agreement; (iv) employee agreement containing any assignment or license of Technology or Intellectual Property or any confidentiality provision; (v) maintenance agreement; (vi) consulting or independent contractor agreement containing any assignment or license of Technology or Intellectual Property or any confidentiality provision; or (vii) confidentiality or nondisclosure agreement

3.12 Sabine Software.

(a) Except as set forth on Section 3.12(a) of the Disclosure Schedule, the Sabine Software was either (i) developed by employees of Sabine within the scope of their employment thereby or (ii) developed by independent contractors who have assigned all of their right, title and interest therein to Sabine pursuant to written agreements. Except as set forth in Section 3.12(a) of the Disclosure Schedule, none of the Sabine Software contains any code, documentation or other materials or development environments that embody Intellectual Property of any Person other than Sabine. Section 3.12(a) of the Disclosure Schedule is a true, correct and complete copy of the most recent “bug list” with respect to the Sabine Software.

(b) Section 3.12(b) of the Disclosure Schedule is a true, correct and complete list of and description of all material Software, other than the Sabine Software and Shrink-Wrap Code, licensed to or used by Sabine and with respect to each such item of Software the number or type of installations thereof and nature and physical location of proofs of purchase of the related license thereof to the extent the Software is not Sabine Software.

(c) The Source Code for all Sabine Software has been documented in a professional manner that is sufficient to independently enable a programmer of reasonable skill and competence to understand, analyze, and interpret program logic, correct errors and improve, enhance, modify and support the Sabine Software. Except as set forth in Section 3.12(c) of the Disclosure Schedule, no Source Code for any Sabine Software has been delivered, licensed or made available to any escrow agent or other Person who is not, as of the date of this Agreement, an employee of Sabine. Sabine does not have any duty or obligation (whether present, contingent or otherwise) to deliver, license or make available the Source Code for any Sabine Software to any escrow agent or other Person. To Seller’s Knowledge, no event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time) will, or could reasonably be expected to, result in the delivery, license or disclosure of the Source Code for any Sabine Software to any other Person.

(d) Section 3.12(d) of the Disclosure Schedule is a true, correct and complete list and description of: (i) each item of Open Source Code that is contained in, distributed with, or used in the development of the Sabine Software or from which any part of any Sabine Software is derived; (ii) the applicable license terms for each such item of Open Source Code and (iii) the product and services to which each such item of Open Source Code relates. Except as set forth in Section 3.12(d) of the Disclosure Schedule, no Sabine Software contains, is derived from, is distributed by Sabine with, or is being or was developed using Open Source Code that is licensed under any terms that (i) impose a requirement or condition that any Seller Owned Software or part thereof: (A) be disclosed or distributed in source code form; (B) be licensed for the purpose of making modifications or derivative works or (C) be redistributable at no charge or (ii) otherwise impose any other limitation, restriction, or condition on the right or ability of Sabine to use or distribute such Sabine Software.

(e) None of the Sabine Software (a) contains any bug, defect, or error (including any bug, defect, or error relating to or resulting from the display, manipulation, processing, storage, transmission, or use of any data) that materially and adversely affects the use, functionality, or

performance of such Sabine Software or any product or system containing or used in conjunction with such Sabine Software; or (b) fails to comply in all material respects with any applicable warranty or other contractual commitment relating to the use, functionality, or performance of such Sabine Software or any product or system containing or used in conjunction with such Sabine Software. The Seller has provided to the Purchaser a complete and accurate list of all bugs, defects, and errors known to Seller or Sabine in each version of the Sabine Software.

(f) None of the Sabine Software contains any “back door,” “drop dead device,” “time bomb,” “Trojan horse,” “virus,” or “worm” (as such terms are commonly understood in the software industry) or any other code designed or intended to have, or capable of performing, any of the following functions: (i) disrupting, disabling, harming or otherwise impeding in any manner the operation of, or providing unauthorized access to, a computer system or network or other device on which such code is stored or installed; or (ii) damaging or destroying any data or file without the user’s consent.

(g) Section 3.12(g) of the Disclosure Schedule contains each Sabine Privacy Policy and identifies, with respect to each Sabine Privacy Policy: (i) the period of time during which such privacy policy was or has been in effect; (ii) whether the terms of a later Sabine Privacy Policy apply to the data or information collected under such privacy policy; and (iii) if applicable, the mechanism (such as opt-in, opt-out or notice only) used to apply a later Sabine Privacy Policy to data or information previously collected under such privacy policy. Sabine has complied at all times in all material respects with all of the Sabine Privacy Policies, any third-party privacy policies applicable to Sabine, and with all applicable legal requirements pertaining to privacy, data security, User Data or Personal Data. Sabine has had at all times the right to receive, collect, retain, disclose, store, transfer, dispose or otherwise use (collectively, “Use”) the User Data and Personal Data received by Sabine, and Sabine at all times has required all applicable Persons to obtain the right for Sabine to Use the User Data in accordance with the most current Sabine Privacy Policy. Neither the execution, delivery or performance of this Agreement or any of the other agreements referred to in this Agreement nor the consummation of any of the Transactions contemplated by this Agreement or any such other agreements will result in any violation of any Sabine Privacy Policy or any legal requirement pertaining to privacy, data security, User Data or Personal Data. No claim is pending or to Seller’s Knowledge has since inception been threatened against Sabine alleging a violation of any Person’s rights under any Sabine Privacy Policy or otherwise pertaining to privacy, data security, User Data or Personal Data.

(h) Section 3.12(h) of the Disclosure Schedule identifies and describes each distinct electronic or other database containing (in whole or in part) Personal Data and User Data maintained by or for Sabine at any time (the “**Sabine Databases**”), the types of Personal Data and User Data in each such database, the means by which the Personal Data was collected, the security policies that have been adopted and maintained with respect to each such database, and the reports, audits, investigations, administrative proceedings in regard to violations of legal requirements pertaining to privacy, data security, User Data or Personal Data, as well as a list of incidents of data security breaches falling under and/or as to be reported in accordance with legal requirements. No breach or violation of any such security policy by Sabine has occurred or to Seller’s Knowledge is threatened, and to Seller’s Knowledge there has been no unauthorized or illegal Use, modification

or disclosure of or access to any of the data or information in any of the Sabine Databases or any other Personal Data or User Data collected by Sabine. Sabine has at all times taken reasonable steps (including without limitation implementing and monitoring compliance with adequate measures with respect to technical and physical security) to ensure that all Personal Data, User Data and Sabine Databases are protected against loss and against unauthorized or illegal Use, modification, disclosure or access.

3.13 Contracts.

(a) Section 3.13(a) of the Disclosure Schedule lists each of the following Contracts of Sabine (such Contracts, together with all Contracts related to Intellectual Property set forth in Section 3.11 and Section 3.12 of the Disclosure Schedule being “**Material Contracts**”):

(i) each Contract of Sabine involving aggregate consideration in excess of \$5,000 and which, in each case, cannot be cancelled by Sabine without penalty and/or without more than 60 days’ notice;

(ii) all Contracts that require Sabine to purchase its total requirements of any product or service from a third party or that contain “take or pay” provisions;

(iii) all Contracts that provide for the indemnification by Sabine of any Person or the assumption of any Tax, environmental or other Liability of any Person;

(iv) all Contracts that relate to the acquisition or disposition of any business, a material amount of stock or assets of any other Person or any real property (whether by merger, sale of stock, sale of assets or otherwise);

(v) all broker, distributor, dealer, manufacturer’s representative, franchise, agency, sales promotion, market research, marketing consulting and advertising Contracts to which Sabine is a party;

(vi) all employment agreements and Contracts with independent contractors or consultants (or similar arrangements) to which Sabine is a party and which are not cancellable without material penalty or without more than 30 days’ notice;

(vii) except for Contracts relating to trade receivables, all Contracts relating to indebtedness (including, without limitation, guarantees) of Sabine;

(viii) all Contracts with any Governmental Authority to which Sabine is a party;

(ix) all Contracts that limit or purport to limit the ability of Sabine to compete in any line of business or with any Person or in any geographic area or during any period of time;

(x) any Contracts to which Sabine is a party that provide for any joint venture, partnership or similar arrangement by Sabine;

(xi) all Contracts between or among Sabine on the one hand and Seller or any Affiliate of Seller (other than Sabine) on the other hand;

(xii) all collective bargaining agreements or Contracts with any union, works council, or labor organization to which Sabine is a party; and

(xiii) any other Contract that is material to Sabine and not previously disclosed pursuant to this Section 3.13.

(b) Seller has Made Available to Purchaser a true, correct and complete copy of each Material Contract (including all modifications, amendments and supplements thereto and waivers thereunder).

(c) Each Material Contract is valid and binding on Sabine in accordance with its terms and is in full force and effect. No Person other than Seller has guaranteed Sabine's performance under any Material Contract. Neither Sabine nor, to Seller's Knowledge, any other party thereto is in breach of or default under (or is alleged to be in breach of or default under), or has provided or received any notice of any intention to terminate, any Material Contract. No event or circumstance has occurred that, with notice or lapse of time or both, would constitute an event of default under any Material Contract or result in a termination thereof or would cause or permit the acceleration or other changes of any right or obligation or the loss of any benefit thereunder. Seller is not currently renegotiating or paying liquidated damages in lieu of performance under any of the Material Contracts. There are no material disputes pending or threatened under any Material Contract.

3.14 Permits. Section 3.14 of the Disclosure Schedule is a true, correct and complete list of all Permits, including their dates of expiration, which are held by Sabine. All presently due fees and charges with respect to the Permits so listed have been paid in full and such are in full force and effect. Neither Seller nor Sabine has received any notice that any such Permit will be revoked or canceled and Seller has no Knowledge of any basis under which any such Permit may be revoked or cancelled. Except for the Permits listed on Section 3.14 of the Disclosure Schedule, there are no Permits that are necessary to entitle Sabine to own or lease, operate and use its assets or are otherwise necessary for the lawful continued operation of the Sabine Business. Completion of the Acquisition Transaction will not result in the cancellation or termination of any Permit.

3.15 Insurance. Section 3.15 of the Disclosure Schedule is a true, correct and complete list of all policies of fire, liability, workers' compensation and other forms of insurance owned or held by Sabine and all claims made or notices given by Sabine thereunder since January 1, 2012. Seller has Made Available to Purchaser true, correct and complete copies of all such policies. Sabine has complied with each of such policies and all policies set forth in Section 3.15 of the Disclosure Schedule are in full force and effect. Such policies are of the type and in the amounts customarily carried by Persons conducting a business similar to the Sabine Business and are sufficient for compliance with all applicable Laws and Contracts. The insurance policies will not be subject to cancellation or termination as the result of the consummation of the Acquisition Transaction.

3.16 Employee Benefit Plans and Employment Agreements.

(a) Section 3.16(a) of the Disclosure Schedule lists (i) any “employee benefit plan” (as defined in Section 3(3) of ERISA) covering any employee, contractor or consultant or former employee, contractor or consultant of Sabine; or (ii) any retirement, savings, thrift, deferred compensation, performance, incentive compensation, stock ownership, stock purchase, stock option, unemployment compensation, vacation or holiday pay, severance pay, bonus, hospitalization or other medical, disability, life or other insurance, fringe benefit arrangement or other welfare, retiree welfare or benefit plan, policy, trust, understanding or arrangement of any kind, whether written or oral, which does not constitute an employee benefit plan and which covers any current or former employee, contractor or consultant of Sabine.

(b) A true, correct and complete copy of each of the plans, arrangements and agreements listed in Section 3.16(a) of the Disclosure Schedule (collectively, the “**Benefit Plans**”), each as in effect on the date hereof, has been Made Available to Purchaser. With respect to each Benefit Plan, Sabine has provided to the Buyer a copy of the plan document and, if applicable, the most recent copies of the following: summary plan description, Forms 5500 and 5500-SF with all attachments for the last three years, unaudited financial statements for the Benefit Plans for the last three years if applicable, trust agreements and determination or qualification letters from the IRS. There are no loans or advances by Sabine to any of the Sabine Employees other than advances for expenses made in the Ordinary Course of Business.

(c) No Benefit Plan is subject to Title IV of ERISA. None of the Benefits Plans is an Employee Pension Benefit Plan. Sabine has never maintained an Employee Pension Benefit Plan and has never been required to contribute to any Multiemployer Plan, as set forth in ERISA §3(37).

(d) Each Benefit Plan which is intended to qualify under Section 401(a) of the Code has received a favorable determination letter or opinion letter from the IRS that such plan is so qualified under the Code; and no circumstance exists which might cause such plan to cease being so qualified.

(e) All Benefit Plans comply, and have been administered in compliance, in all material respects, with all Laws applicable thereto, and there has been no notice issued by any Governmental Authority questioning or challenging such compliance, and there are no actions, suits or claims (other than routine claims for benefits) pending or, to Seller’s Knowledge, threatened, involving any such Benefit Plan or the assets of any such Benefit Plan.

(f) Sabine has not engaged in any “prohibited transaction,” as defined in Section 4975 of the Code or ERISA Section 406 with respect to the Benefit Plans, and all “fiduciaries,” as defined in Section 3(21) of ERISA, with respect to the Benefit Plans, have complied with the requirements of Section 404 of ERISA.

(g) Except as set forth in Section 3.16(g) of the Disclosure Schedule, other than routine claims for benefits, there are no Actions, audits, investigations, suits, or claims pending or threatened against any of the Benefit Plans or any fiduciary thereof or against the assets of any of

the Benefit Plans. To the Seller's Knowledge, no event has occurred, and there exists no condition or set of circumstances in connection with which Sabine (or an Affiliate) could, directly, or indirectly be subject to any liability under ERISA, the Code or any other applicable Law with respect to the Benefit Plans, except liability for benefit claims and funding obligations payable in the ordinary course of business.

(h) Except as to the plan terminations (if any) as required by the terms of this Agreement and except as set forth in Section 3.16(h) of the Disclosure Schedule, the consummation of the Transactions contemplated hereby will not accelerate the time of vesting or payment or increase any of the rights or benefits to which Sabine's employees or former employees may be entitled under any Benefit Plan, nor will the consummation of the Transactions contemplated hereby entitle any employee or former employee of Sabine to severance pay, change-in-control payments or transaction bonuses.

3.17 Employment and Labor Matters.

(a) Section 3.17(a) of the Disclosure Schedule is a true, correct and complete list of all Persons who are employees, consultants, or contractors of Sabine as of the date hereof, and sets forth for each such individual the following: (i) name; (ii) title or position (including whether full or part time); (iii) hire date; (iv) current annual base compensation rate; (v) commission, bonus or other incentive-based compensation; and (vi) a description of the fringe benefits provided to each such individual as of the date hereof. As of the date hereof, and subject to payment of payroll in the Ordinary Course of Business, all compensation, commissions, bonuses, and fringe benefits payable to Employees, consultants, or contractors of Sabine for services performed on or prior to the date hereof have been paid in full and there are no outstanding agreements, understandings or commitments of Sabine with respect to any commissions, bonuses or increases in compensation. Sabine is not a party to, or bound by, any collective bargaining or other Contract with a labor organization representing any of its employees, and there are no labor organizations representing, purporting to represent or, to Seller's Knowledge, attempting to represent any employee. Since January 1, 2010 there has not been, nor has there been any threat of, any strike, slowdown, work stoppage, lockout, concerted refusal to work overtime or other similar labor activity or dispute affecting Sabine or any of its employees.

(b) Sabine is and has been in compliance with all applicable Laws pertaining to employment and employment practices to the extent they relate to the Sabine Employees, including all Laws relating to labor relations, equal employment opportunities, fair employment practices, employment discrimination, harassment, retaliation, reasonable accommodation, disability rights or benefits, immigration, wages, hours, overtime compensation, child labor, health and safety, workers' compensation, leaves of absence and unemployment insurance. All individuals characterized and treated by Sabine as consultants or contractors are properly treated as independent contractors under all applicable Laws. There are no Actions against Sabine pending, or to the Seller's Knowledge, threatened to be brought or filed, by or with any Governmental Authority or arbitrator in connection with the employment of any current or former employee, consultant or independent contractor, including, without limitation, any claim relating to unfair labor practices, employment

discrimination, harassment, retaliation, equal pay or any other employment related matter arising under applicable Laws.

(c) To Seller's Knowledge, no Sabine Employee, officer, independent contractor, director, management or Affiliate of Sabine has any direct or indirect interests in the business of Sabine competitors.

3.18 Taxes.

(a) All Tax Returns required to be filed by Sabine for any Tax period ending on or prior to the Closing Date have been, or will be, timely filed. Such Tax Returns are, or will be, true, complete and correct in all respects. All Taxes due and owing by Sabine and by the Seller with respect to Sabine's operations (whether or not shown on any Tax Return) have been, or will be, timely paid. All deficiencies asserted, or assessments made, against Sabine or the Seller as a result of any examinations by any taxing authority have been fully paid.

(b) There is no Action pending or proposed or threatened with respect to Taxes and, to Seller's Knowledge, no basis exists therefor.

(c) Seller has delivered to Purchaser correct and complete copies of all federal Tax Returns for Income Taxes, examination reports, and statements of deficiencies assessed against or agreed to by Sabine since January 1, 2007. Section 3.18(c) of the Disclosure Schedule (i) lists all federal, state, local, and foreign Tax Returns filed with respect to Sabine for taxable periods ended on or after January 1, 2007 (the "Subject Periods"), (ii) indicates those Tax Returns for the Subject Periods that have been audited, and (iii) indicates those Tax Returns for the Subject Periods that currently are the subject of audit. Except as disclosed in Section 3.18(c) of the Disclosure Schedule, Sabine has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(d) All Taxes which Sabine is required by Law to withhold or collect, including sales and use Taxes, and amounts required to be withheld for Taxes of employees and other withholding taxes, have been duly withheld or collected and, to the extent required, have been paid over to the proper Governmental Authorities or are held in separate bank accounts for such purpose. Sabine has complied with all information reporting and backup withholding requirements.

(e) There are no Tax liens (other than liens for Taxes not yet due and payable) upon any of Sabine's assets.

(f) Sabine has not granted or been requested to grant any waiver of any statutes of limitations applicable to any claims for Taxes.

(g) No transaction contemplated by this Agreement is subject to withholding and no sales Taxes, use Taxes, real estate transfer Taxes or other similar Taxes will be imposed on the Acquisition Transaction.

(h) The amount of Sabine's Liability for unpaid Taxes for all periods ending on or before December 31, 2013 does not, in the aggregate, exceed the amount of accruals for Taxes (excluding reserves for deferred Taxes) reflected on the Financial Statements. The amount of Sabine's Liability for unpaid Taxes for all periods following the end of the recent period covered by the Financial Statements shall not, in the aggregate, exceed the amount of accruals for Taxes (excluding reserves for deferred Taxes) as adjusted for the passage of time in accordance with the past custom and practice of Sabine.

(i) Sabine is not a party to any Contract or arrangement that has resulted or could result, separately or in the aggregate, in the payment of (i) any "excess parachute payment" within the meaning of Code §280G (or any corresponding provision of state, local, or non-U.S. Tax law) or (ii) any amount that will not be fully deductible as a result of Code §162(m) (or any corresponding provision of state, local, or non-U.S. Tax law). Sabine is not a party to or bound by any Tax allocation or sharing agreement. Sabine (A) has not been a member of any Affiliated group (within the meaning of Code §1504(a) or any similar group defined under a similar provision of state, local or non-U.S. Law) filing a consolidated federal income Tax Return and/or (B) has no Liability for the Taxes of any Person under regulation §1.1502-6 (or any similar provision of state, local, or non-U.S. Law), as a transferee or successor, by Contract, or otherwise

(j) Except as disclosed in Section 3.18(j) of the Disclosure Schedule, Sabine will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any Taxable period (or portion thereof) ending after the Closing Date as a result of any:

(i) change in method of accounting for a Taxable period ending on or prior to the Closing Date;

(ii) "closing agreement" as described in Code Section 7121 (or any corresponding or similar provision of Laws related to state, local or foreign income Taxes) executed on or prior to the Closing Date;

(iii) intercompany transactions or any excess loss account described in Treasury Regulations under Code Section 1502 (or any corresponding or similar provision of Laws related to state, local or foreign income Taxes);

(iv) installment sale or open transaction disposition made on or prior to the Closing Date; or

(v) prepaid amount received on or prior to the Closing Date.

(k) Sabine has not distributed stock of another entity, nor had its stock distributed by another entity, in a transaction that was purported or intended to be governed in whole or in part by Section 355 or Section 361 of the Code.

(l) Sabine has been a validly electing S corporation within the meaning of Section 1361 and Section 1362 of the Code at all times since its organization and will be an S corporation up to and immediately prior to the Closing. Sabine will not be subject to Tax under

Section 1374 of the Code in the event an election is filed under Code Section 338(h)(10). Sabine has not, in the past ten years, (A) acquired assets from another corporation in a transaction in which Sabine's Tax basis for the acquired assets was determined, in whole or in part, by reference to the Tax basis of the acquired assets (or any other property) in the hands of the transferor or (B) acquired the stock of any corporation that is a qualified subchapter S subsidiary.

(m) Sabine has not entered into any transaction that is or would be part of any "reportable transaction" under Sections 6011, 6111 or 6112 of the Code (or any similar provision under any state or local Law).

3.19 Compliance with Laws. To the Seller's Knowledge, Sabine has complied and is in compliance with all Laws applicable to or binding on it, the operation of the Sabine Business or the ownership and use of the Sabine's assets (including, subject to the more specific provisions of this Article III and the Disclosure Schedule, any labor, environmental, occupational health, zoning or other law, regulation or ordinance). Sabine has not received written notice from any Governmental Authority claiming any violation by Sabine of any Law.

3.20 Litigation; Governmental Authorizations. There are no Actions pending or, to Seller's Knowledge, threatened, against or by Sabine or any of its officers, directors, employees, consultant, contractors or shareholders in their capacity as such (a) relating to or affecting the Sabine Business or (b) that challenge or seek to prevent, enjoin or otherwise delay the Transactions contemplated by this Agreement. No event has occurred or circumstances exist that may give rise to, or serve as a basis for, any such Action. There are no outstanding Governmental Authorizations and no unsatisfied judgments, penalties or awards against, relating to or affecting the Sabine Business.

3.21 Customers and Suppliers.

(a) Section 3.21(a) of the Disclosure Schedule sets forth (i) each customer who has paid aggregate consideration to Sabine for goods or services rendered in an amount greater than or equal to \$10,000 for each of 2012 and 2013 (collectively, the "**Material Customers**"); and (ii) the amount of consideration paid by each Material Customer during such periods. Sabine has not received any notice, and has no reason to believe, that any of the Material Customers has ceased, or intends to cease after the Closing, to use the goods or services of the Sabine Business or to otherwise terminate or materially reduce its relationship with the Sabine Business.

(b) Section 3.21(b) of the Disclosure Schedule sets forth (i) each supplier to whom Sabine has paid consideration for goods or services rendered in an amount greater than or equal to \$10,000 for each of 2012 and 2013 (collectively, the "**Material Suppliers**"); and (ii) the amount of purchases from each Material Supplier during such periods. Sabine has not received any notice, and has no reason to believe, that any of the Material Suppliers has ceased, or intends to cease, to supply goods or services to the Sabine Business or to otherwise terminate or materially reduce its relationship with the Sabine Business.

3.22 Domain Names.

(a) Section 3.22(a) of the Disclosure Schedule is a true, correct and complete list of all Sabine Domains (by name, owner, Gtld or ccTLD, registrar and expiration date), whether owned exclusively, jointly with another Person or otherwise, together with user name, password and “whois” information for such domain name necessary to effect a revision of and to each registration record. Sabine owns the entire right, title and interest to all Sabine Domains free and clear of all Encumbrances other than liens for current Taxes not yet due. Each Sabine Domain is validly and properly registered to Seller and reflects “whois” information that is accurate, correct and up-to-date and was validly and legally obtained, including in compliance with the procedures or policies of, and were registered without fraud on or misrepresentation to, ICANN or any other applicable domain name registry or registrar and without infringement or misappropriation of the Intellectual Property of any Person.

(b) There have been no challenges to the ownership or use by Sabine of any Sabine Domains used, owned or purported to be owned by it and to the Knowledge of Seller there are no facts which would constitute a basis for such a challenge.

(c) Section 3.22(c) of the Disclosure Schedule is a true, correct and complete list of each Contract between Sabine and any domain name registry or registrar and the amount of deposits that are held at each domain registry and registrar as prepayment for future domain name registrations and the name of each such registry and registrar.

3.23 Product Quality. Sabine’s products performs on a consistent basis, in all respects, the functions described in the marketing materials, the agreed specifications and end-user documentation and customer agreements, subject only to routine bugs and errors that can be corrected promptly by Seller in the course of providing customer support without further liability to Seller. All development services, support services, training services, upgrade services and other services that have been performed by Sabine were performed properly and to the Seller’s Knowledge in all respects in full conformity with the applicable Laws and Contracts. Except as set forth on Section 3.23 of the Disclosure Schedule, excluding complaints in the Ordinary Course of Business regarding nonmaterial product or service issues, other than any of which have a common root cause and in the aggregate are material, since January 1, 2012, no Person has asserted or threatened to assert any claim against Sabine under or based upon any warranty.

3.24 Certain Business Practices.

(a) Neither Sabine nor any director, officer, agent, employee, contractor or consultant of Sabine, or any other Person associated with or acting for or on behalf of Sabine, has directly or indirectly: (i) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person, private or public, regardless of form, whether in money, property, or services: (A) to obtain favorable treatment or an improper advantage in securing business; (B) to pay for favorable treatment for business secured or (C) to obtain special concessions or for special concessions already obtained, for or in respect of Sabine or any Affiliate of Sabine; (ii)) used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to political activity; (iii) made any unlawful payment to foreign or domestic government

officials or employees or to foreign or domestic political parties or campaigns or violated any provision of the Foreign Corrupt Practices Act of 1977, as amended; or (iv) established or maintained any fund or asset that has not been recorded in the books and records of Sabine.

(b) Sabine has (i) not exported or transmitted Software or other material or items, including technological data, in connection with the Sabine Business to any country, or made available to non-United States citizens, with respect to which such export, transmission or availability is restricted by any Law, without first having obtained all legally required authorizations and (ii) maintained all records to the extent required by any Law.

3.25 Brokers. Except as set forth in Section 3.25 of the Disclosure Schedule, no agent, broker, finder, investment banker, financial advisor or other Person retained or engaged by Sabine or any of its Affiliates or any Person acting on its behalf is or will be entitled to any brokers' or finders' fee or any other commission or similar fee in respect of any of the Transactions contemplated by this Agreement.

3.26 Environmental Matters.

(a) Sabine is in compliance with all applicable Environmental, Health, and Safety Requirements. Sabine has not received any written notice (or, to the Seller's Knowledge, other communication), whether from a Governmental Authority, citizens group, Employee or otherwise, that alleges that Sabine is not in compliance with any Environmental, Health, and Safety Requirements and there are no circumstances that may prevent or interfere with Sabine's compliance with any Environmental, Health, and Safety Requirements in the future.

(b) To the Seller's Knowledge, no current or prior owner of any property owned, leased or controlled by Sabine, including the Excluded Real Property, has received any written notice (or, to the Seller's Knowledge, other communication), whether from a Governmental Authority, citizens group, Employee or otherwise, that alleges that such current or prior owner or Sabine is not in compliance with any Environmental, Health, and Safety Requirements. No real property currently or formerly owned, operated or leased by Sabine is listed on, or has been proposed for listing on, the National Priorities List (or CERCLIS) under CERCLA, or any similar state list.

(c) Sabine has not and, to the Seller's Knowledge, no current or previous owner, tenant, occupant, operator or user of the Excluded Real Property or any other Person has engaged in or permitted any operation or activity at or upon, or any use or occupancy of, the Excluded Real Property, or any portion thereof, for the purpose of or in any way involving the handling, manufacture, treatment, storage, use, generation, Release, discharge, refining, dumping or disposal of any Hazardous Materials (whether legal or illegal, accidental or intentional) on, under, in or about the Excluded Real Property or transported any Hazardous Materials to, from or across the Excluded Real Property nor are any Hazardous Materials presently constructed, deposited, stored or otherwise located on, under, in or about any of the Excluded Real Property, nor have any Hazardous Materials migrated or, to the Seller's Knowledge, threatened to migrate from the Excluded Real Property onto, about or beneath any other properties, nor to the Seller's Knowledge have any Hazardous Materials migrated or threatened to migrate from other properties onto, about or beneath the Excluded Real Property.

(d) There has been no Release of Hazardous Materials in contravention of Environmental, Health and Safety Requirements with respect to the business or assets of Sabine or the Excluded Real Property, and neither Sabine nor Seller has received any notice that that the Excluded Real Property or any other real property currently or formerly owned, operated or leased in connection with the business of Sabine (including soils, groundwater, surface water, buildings and other structure located on any such real property) has been contaminated with any Hazardous Material which could reasonably be expected to result in an Environmental Claim against, or a violation of any environmental Law or term of any environmental Permit by, Seller or Sabine.

(e) No (i) underground improvement, including without limitation any treatment or storage tank or water, gas or oil well or (ii) above ground storage tank, is or to the Seller's Knowledge ever has been located on the Excluded Real Property.

3.27 Books and Records. The minute books and stock record books of Sabine, all of which have been Made Available to Purchaser, are materially complete and correct and have been maintained in accordance with sound business practices. The minute books of Sabine contain accurate and materially complete records of all meetings, and actions taken by written consent of, the stockholders, the board of directors and any committees of the board of directors of Sabine, and no meeting, or action taken by written consent, of any such stockholders, board of directors or committee has been held for which minutes have not been prepared and are not contained in such minute books. At the Closing, all of those books and records will be in the possession of Sabine.

3.28 Government Grant Programs Sabine has no Liability due to any pending or outstanding Grants, Tax benefits, incentives, and/or subsidies from any Governmental Authority.

3.29 Disclosure. No representation or warranty of Seller in this Agreement, no statement in the Disclosure Schedule and no document delivered pursuant hereto by Seller contains any untrue statement or omits to state a material fact necessary to make the statements herein or therein, in light of the circumstances in which they were made, not misleading. Except for those matters disclosed in this Agreement and the Disclosure Schedule, there are no facts not disclosed in this Agreement or the Disclosure Schedule which, if learned by Purchaser, might reasonably be expected to materially diminish Purchaser's evaluation of the value of the Shares or which, if learned by Purchaser or Seller, might reasonably be expected to deter Purchaser from completing the Transactions contemplated by this Agreement on the terms and conditions contemplated hereby.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to Seller that the statements contained in this Article IV are true and correct as of the date hereof and as of Closing.

4.1 Organization of Purchaser. ClearOne is a corporation duly incorporated and validly existing under the laws of the State of Utah. HK Purchaser is a private limited company duly and validly existing under the laws of Hong Kong.

4.2 Authority of Purchaser. Purchaser has full corporate power and authority to enter into this Agreement and the other Transaction Documents to which Purchaser is a party, to carry out its obligations hereunder and thereunder and to consummate the Transactions contemplated hereby and thereby. The execution and delivery by Purchaser of this Agreement and any other Transaction Document to which Purchaser is a party, the performance by Purchaser of its obligations hereunder and thereunder and the consummation by Purchaser of the Transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of Purchaser. This Agreement has been duly executed and delivered by Purchaser, and (assuming due authorization, execution and delivery by Seller) this Agreement constitutes a legal, valid and binding obligation of Purchaser enforceable against Purchaser in accordance with its terms. When each other Transaction Document to which Purchaser is or will be a party has been duly executed and delivered by Purchaser (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of Purchaser enforceable against it in accordance with its terms.

4.3 No Conflicts; Consents. The execution, delivery and performance by Purchaser of this Agreement and the other Transaction Documents to which it is a party, and the consummation of the Transactions contemplated hereby and thereby, do not and will not: (a) conflict with or result in a violation or breach of, or default under, any provision of the Charter Documents of Purchaser, as amended to date, or any other organizational documents of Purchaser; (b) conflict with or result in a violation or breach of any provision of any Law or Governmental Authorization applicable to Purchaser; or (c) require the consent, notice or other action by any Person under any Contract to which Purchaser is a party. No Consent, approval, Permit, Governmental Authorization, declaration or filing with, or notice to, any Governmental Authority is required by or with respect to Purchaser in connection with the execution and delivery of this Agreement and the other Transaction Documents and the consummation of the Transactions contemplated hereby and thereby, except for such consents, approvals, Permits, Governmental Authorizations, declarations, filings or notices which, in the aggregate, would not have a Material Adverse Effect.

4.4 Brokers. No agent, broker, finder, investment banker, financial advisor or other Person retained or engaged by Purchaser or any of its Affiliates or any Person acting on its behalf is or will be entitled to any brokers' or finders' fee or any other commission or similar fee in respect of any of the Transactions contemplated by this Agreement.

ARTICLE V COVENANTS

5.1 Preservation of Books and Records Following Closing; Access. As necessary following the Closing Date, Purchaser and Seller will make available to each other material data or information in such Party's custody or control reasonably necessary for the purpose of preparing any financial statement or Tax Return or reasonably necessary in preparing for or defending any Tax-related examination of the requesting party or Seller or Sabine by any Governmental Authority. Purchaser and Seller will afford to each other reasonable access to such records during normal business hours, upon reasonable advance notice.

5.2 Employees; Employee Benefit Plans.

(a) Sabine shall be solely responsible, and Purchaser shall have no obligations whatsoever for, any compensation or other amounts payable to any Sabine Employee (or former Sabine Employee), including, without limitation, hourly pay, commission, bonus, salary, accrued vacations, healthcare benefits, fringe, pension or profit sharing benefits, or severance pay payable to any Sabine Employee (or former Sabine Employee) for any period relating to the service with Sabine at any time prior to the Closing Date and Sabine shall pay all such amounts to all entitled Employees on or prior to the Closing Date.

(b) Seller shall remain solely responsible for the satisfaction of all claims for medical, dental, life insurance, health, accident or disability benefits brought by or in respect of Sabine Employees (or former Sabine Employees) or agents of Seller which claims relate to events occurring prior to the Closing Date. Seller also shall remain solely responsible for all worker's compensation claims of any Sabine Employees (or former Sabine Employees) or agents of Seller which relate to events occurring prior to the Closing Date. Seller shall pay, or cause to be paid, all such amounts to the appropriate persons as and when due.

(c) Sabine will make all efforts to secure the retention and full cooperation of key employees, as identified by Purchaser.

(d) The Benefit Plans will not be changed or terminated prior to Closing. Purchaser may ultimately determine to transition employees to its own plans. Each Sabine Employee who is transitioned to a Purchaser plan shall be given service credit for the purpose of eligibility under Purchaser's group health plan and vesting under such plans for his or her period of service with Sabine; provided, however, that (i) such credit shall be given pursuant to payroll or plan records, at the election of Purchaser, in its sole and absolute discretion; and (ii) with respect to Purchaser's defined contribution retirement plan, such service crediting shall be permitted under and consistent with such defined contribution retirement plan.

(e) As practicable following the Closing, the Purchaser shall cause Sabine to take all actions as are necessary or advisable in its sole and absolute discretion to remediate any legal compliance deficiencies of the Benefit Plans (including any predecessor or successor plans thereof) including without limitation any failure of each of the Benefit Plans to comply with the requirements of Section 401 of the Code, to operate in compliance with its terms, or to make any timely filing or disclosure required by Title I of ERISA, including Form 5500 or 5500-SF. Such actions may include but are not limited to submitting an application to the Internal Revenue Service under the Employee Plans Compliance Resolution System or with the Department of Labor under either the Delinquent Filer Voluntary Compliance Program or the Voluntary Fiduciary Correction Program, and other actions as required to remediate ("Benefit Plan Remediation") any legal compliance deficiencies. Seller shall be solely responsible for and shall pay on behalf of or promptly reimburse Purchaser and/or Sabine as and when incurred for any cost or expense (including interest, penalties, excise taxes, reasonable attorneys', consultants', auditors' and experts' fees and expenses) incurred in connection with or relating to any legal compliance deficiencies or the Benefit Plan Remediation. Any limitations in Article VIII or otherwise in this Agreement shall not apply to this obligation. Notwithstanding anything to the contrary in this Agreement, without limitation on any

other remedies Purchaser may have, Purchaser may offset any amounts owed against the Escrow Fund or Earnout Payments. In no event shall Purchaser have any obligation to Seller or any party related to Seller for any cost or expense incurred as a result of Purchaser failing to carry out the Benefit Plan Remediation.

5.3 Confidentiality. From and after the Closing, Seller shall, and shall cause its Affiliates and Representatives to, hold in confidence any and all information, whether written or oral, concerning Sabine and the Sabine Business, except to the extent that Seller can show that such information (a) is generally available to and known by the public through no fault of Seller, any of its Affiliates or their respective Representatives; or (b) is lawfully acquired by Seller, any of its Affiliates or their respective Representatives from and after the Closing from sources which are not prohibited from disclosing such information by a legal, contractual or fiduciary obligation. If Seller or any of his Affiliates or Representatives are compelled to disclose any information by judicial or administrative process or by other requirements of Law, Seller shall promptly notify Purchaser in writing and shall disclose only that portion of such information which Seller is advised by its counsel in writing is legally required to be disclosed, provided that Seller shall use reasonable best efforts to obtain an appropriate protective order or other reasonable assurance that confidential treatment will be accorded such information. Nothing in this Section 5.3 shall prevent Seller from sharing information with Seller's legal, accounting and tax advisors who are bound by confidentiality obligations.

5.4 Covenant Not to Compete or Solicit Business.

(y) In furtherance of the sale of the Shares and the Sabine Business to Purchaser hereunder by virtue of the Acquisition Transaction contemplated hereby and more effectively to protect the value and goodwill of the Shares and the Sabine Business so sold, Seller agrees that, neither Seller nor any Affiliate of Seller will:

(i) for a period ending on the fourth anniversary of the Closing Date, directly or indirectly (whether as principal, agent, consultant, independent contractor, partner or otherwise) own, manage, operate, control, participate in, perform services for, or otherwise carry on, a business competitive with the Sabine Business anywhere in the world; or

(ii) employ, retain or hire any employee, contractor, consultant, agent or customer of the Sabine Business or induce or attempt to persuade, on behalf of any other business organization in competition with the Sabine Business, any employee, contractor, consultant, agent or customer of Purchaser to terminate such employment, consulting, agency or business relationship in order to enter into any such relationship with any such business organization.

(z) Nothing set forth in this Section 5.4 shall prohibit Seller or any Affiliate of Seller from owning as a passive investment not in excess of 2% in the aggregate of any class of capital stock of any corporation if such stock is publicly traded, nor will anything set forth in this Section 5.4 prevent or prohibit the Real Estate Entity from leasing or selling the Excluded Real Property to any party following termination of the Lease in accordance with its terms.

(aa) If Seller or any Affiliate of Seller violates any of its obligations under this Section 5.4, Purchaser may proceed against it in law or in equity for such damages or other relief as a court may deem appropriate. Seller acknowledges that a violation of this Section 5.4 may cause Purchaser irreparable harm which may not be adequately compensated for by money damages. Seller therefore agrees that in the event of any actual or threatened violation of this Section 5.4, Purchaser shall be entitled, in addition to other remedies that it may have, to a temporary restraining order and to preliminary and final injunctive relief against Seller or its Affiliates to prevent any violations of this Section 5.4, without the necessity of posting a bond. The prevailing party in any action commenced under this Section 5.4 shall also be entitled to receive reasonable attorneys' fees and court costs.

(bb) Seller acknowledges that the restrictions contained in this Section are reasonable and necessary to protect the legitimate interests of Purchaser and constitute a material inducement to Purchaser to enter into this Agreement and consummate the transactions contemplated hereby. It is the intent and understanding of each party hereto that if, in any action before any court or agency legally empowered to enforce this Section 5.4, any term, restriction, covenant or promise in this Section 5.4 is found to be unreasonable and for that reason unenforceable, then such term, restriction, covenant or promise shall be deemed modified to the extent necessary to make it enforceable by such court or agency.

5.5 Tax Matters.

(a) Seller shall be responsible for the preparation and filing of all Tax Returns with respect to Sabine (including Tax Returns required to be filed after the Closing Date) attributable to taxable periods of Sabine ending on or prior to the Closing Date after review and approval by the Purchaser, which approval shall not be unreasonably withheld. Such Tax Returns shall be true, complete and correct in all material respects and shall be prepared consistent with past practices. Seller will be responsible for and make all payments of Taxes shown to be due on such Tax Returns.

(b) Purchaser will be responsible for the preparation and filing of all Tax Returns that it is required to file with respect to Sabine attributable to taxable periods (or portions thereof) commencing after the Closing Date. Such Tax Returns shall be true, complete and correct in all material respects. Purchaser will make all payments of Taxes shown to be due on such Tax Returns.

(c) Purchaser shall prepare or cause to be prepared and file or cause to be filed, after review and approval by the Seller, which approval shall not be unreasonably withheld, all Tax Returns for Sabine for any Straddle Period in accordance with applicable Law. Such Tax Returns shall be true, complete and correct in all material respects. Seller shall pay to the Purchaser within 20 days after the date on which Taxes are paid with respect to a Straddle Period an amount equal to the portion of such Taxes that relates to the period prior to Closing to the extent such Taxes were not paid prior to Closing, were not paid by Seller after Closing, or are not accrued and reflected as Liabilities for the purpose of calculating the Net Assets at Closing. For purposes of this Section 5.5(c), in case of any Taxes that are imposed on a periodic basis and are payable for a Straddle Period, the portion of such Tax that relates to the period prior to Closing shall (i) in the case of any Tax based upon or related to income or receipts, be deemed equal to the amount that would be payable if the relevant taxable period ending at the end of the Closing Date and (ii) in the case of any Taxes

other than Taxes described in (i) above, be deemed to be the amount of such Tax for the entire taxable period multiplied by a fraction the numerator of which is the number of days in the taxable period ending at the end of the Closing Date and the denominator of which is the number of days in the entire taxable period. All determinations necessary to give effect to the foregoing allocations shall be made in a manner consistent with prior practice of Sabine. For purposes of determining the allocation of any Income Tax liability between the Parties in accordance with this Section 5.5(c), Seller will, and Purchaser will cause Sabine to, with respect to any taxable period of Sabine that would otherwise include but does not end on the Closing Date take all steps as are reasonably necessary, to the extent permitted under applicable Law, to cause such period to end on the Closing Date.

(d) At Purchaser's option, Sabine and Seller shall join with Purchaser in making an election under Code Section 338(h)(10) (and any corresponding election under Laws related to state, local or foreign income Taxes) with respect to the purchase and sale of the Shares hereunder (collectively, a "**Section 338(h)(10) Election**"). Seller shall include any income, gain, loss, deduction, or other tax item resulting from the Section 338(h)(10) Election on Seller's Tax Returns to the extent required by applicable Law. In connection with Sabine making a Section 338(h)(10) Election, Purchaser shall pay Seller, in cash, the amount of additional consideration necessary to cause Seller's net after-Tax proceeds from the sale of the Shares with the Section 338(h)(10) Election, and the Foreign IP Transaction having occurred, to be equal to the net after-Tax proceeds that Seller would have received had the Section 338(h)(10) Election not been made and the Foreign IP Transaction not occurred, taking into account all appropriate state, federal, and local Tax implications (the "**Tax Adjustment**"); provided, however, that the Tax Adjustment shall be computed without regard to any Tax imposed by reason of Section 1374 of the Code. The Tax Adjustment shall allocate any Earnout Payments to Class VII assets in accordance with the provisions of Treas. Reg. Section 1.338-6. The amount of the Tax Adjustment shall be paid to Seller in readily available funds, without right of offset, prior to or at the time Seller signs Form 8023 to make the federal §338(h)(10) Election. Seller shall provide Purchaser with a schedule computing the amount of the Tax Adjustment within twenty (20) days after the Parties have agreed to the allocation of the Purchase Price. In the event Purchaser objects to the calculation of the Tax Adjustment, it shall notify Seller of such objection within twenty (20) days after having been notified of such calculation. If Purchaser and Seller are unable to timely agree on the amount of the Tax Adjustment, the Parties shall submit the dispute to the Accounting Firm for determination, whose determination shall be binding and conclusive upon the Parties. The costs of the Accounting Firm in making such determination shall be borne equally by the Parties. Purchaser shall prepare and deliver the purchase price allocation ("**Purchase Price Allocation**") to Seller within 90 days following the Closing. Seller will have the right to raise reasonable objections to the Purchase Price Allocation within ten (10) days after receipt thereof, in which event Purchaser and Seller shall negotiate in good faith to resolve such objections. If Purchaser and Seller are unable to timely agree on the Purchase Price Allocation, the Purchaser and Seller shall submit the dispute to the Accounting Firm for determination, such firm to be determined (if it has not already been selected) under Section 2.6. The Accounting Firm's determination shall be binding and conclusive on Purchaser and Seller with respect to the initial payment of the Tax Adjustment. The costs of the Accounting Firm in making the determination shall be borne equally by the Purchaser and Seller. If the Parties cannot agree upon the Accounting Firm, they shall proceed to have an arbitrator appoint the Accounting Firm as provided in Section 2.6. Purchaser, Sabine

and Seller agree that the Purchase Price and the Liabilities of Sabine, as applicable, (plus other relevant items) will be allocated to the assets of Sabine for purposes (including Tax and financial accounting) in a manner consistent with the Purchase Price Allocation and that they will file all Tax Returns (including amended returns and claims for refund) and information reports in a manner consistent with such allocation. For purposes of Article VII, “**Damages**” shall include (i) any amount of Taxes, which are in excess of the Tax Adjustment, which Seller is required to pay as a result of the 338(h)(10) election after the audit or other examination of Seller’s Tax Returns reporting the proceeds from the Acquisition Transaction by the IRS or any applicable Tax authority and (ii) Taxes that are payable directly as a result of the transactions contemplated by the Foreign IP Transaction. For clarity, Damages under subparagraph (i) of the immediately preceding sentence shall not include Taxes owed by Seller which are unrelated to the Section 338(h)(10) Election.

(e) Purchaser, Sabine and Seller shall cooperate fully, as and to the extent reasonably requested by the other Party, in connection with the filing of Tax Returns pursuant to this Section 5.5(d) and any audit or legal proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other Party’s request) the provision of records and information that are reasonably relevant to any such audit or legal proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Seller and Sabine agree (i) to retain all books and records with respect to Tax matters pertinent to Sabine relating to any taxable period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by Purchaser or Seller, any extensions thereof) of the respective taxable periods, and to abide by all record retention agreements entered into with any taxing authority, and (ii) to give the other Party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other Party so requests, Sabine or Seller, as the case may be, shall allow the other Party to take possession of such books and records. Subject to the provisions of Article VIII, Seller shall bear the costs and expenses incurred by Sabine or Purchaser for any Pre-Closing Period Tax Return that is amended as a result of any audit by the IRS or any other governmental taxing authority or any legal proceeding with respect to Taxes.

(f) All transfer, documentary, sales, use, stamp, registration and other such Taxes and fees (including any penalties and interest) incurred in connection with this Agreement shall be paid by Seller, and Seller shall, at its own expense, file all necessary Tax Returns and other documentation with respect to all such transfer, documentary, sales, use, stamp, registration and other Taxes and fees, and, if required by applicable Law, Purchaser shall, and shall cause its Affiliates to, join in the execution of any such Tax Returns and other documentation.

(g) Sabine and Seller shall not revoke Sabine’s election to be taxed as an S corporation within the meaning of Code §1361 and §1362. Other than the Transactions contemplated by this Agreement, Sabine and Seller shall not take or allow any action that would result in the termination of Sabine’s status as a validly electing S corporation within the meaning of Code §1361 and §1362.

(h) Following the Closing, if Purchaser determines it is necessary to request a determination from the IRS with respect to Sabine under Code Section 1362(f) or any comparable

provision Laws related to state income Tax (“**Inadvertent Termination Ruling**”, and the request therefor, the “**Inadvertent Termination Ruling Request**”), Seller shall cooperate as reasonably requested by Purchaser with the preparation and filing of the Inadvertent Termination Ruling Request. If as part of obtaining the Inadvertent Termination Ruling the IRS requests that the Seller make lawful and necessary adjustments with respect to Taxes at the shareholder level for flow-through income of Sabine attributable to any Tax period, Code Section 1366 or any corresponding provision of state income Laws related to state income Tax, Seller shall agree to make, and to make, such adjustments and pay (without any right to reimbursement from Sabine, Purchaser or any Affiliate thereof) all Taxes required to be paid in order to secure the Inadvertent Termination Ruling. All reasonable legal, accounting, filing and other fees and expenses incurred to prepare and file the Inadvertent Termination Ruling Request and obtain the Inadvertent Termination Ruling shall be borne by Seller.

5.6 Access and Investigation. During the Pre-Closing Period, the Seller shall, and shall cause Sabine and its Representatives to: (a) provide the Purchaser and the Purchaser’s Representatives with reasonable access during normal business hours to Sabine and Sabine’s Representatives, personnel and assets and to all existing books, records, Tax Returns, work papers and other documents and information relating to Sabine and the Sabine Business, including the Excluded Real Property; (b) provide the Purchaser and the Purchaser’s Representatives with copies of such existing books, records, Tax Returns, work papers and other documents and information relating to Sabine and the Sabine Business, including the Excluded Real Property, and with such additional financial, operating and other data and information regarding Sabine and the Sabine Business, including the Excluded Real Property, as the Purchaser may reasonably request; and (c) cause Sabine’s officers to report regularly to the Purchaser, upon the Purchaser’s request, concerning the status of Sabine and the Sabine Business; *provided, however*, that (x) such access does not unreasonably disrupt the normal operations of Sabine and (y) neither Seller nor Sabine is under no obligation to disclose to the Purchaser or the Purchaser’s Representatives any information the disclosure of which is subject to attorney-client privilege. During the Pre-Closing Period, the Purchaser may make inquiries of Persons having business relationships with Sabine (including suppliers, licensors, distributors and customers) and Sabine shall help facilitate (and shall cooperate fully with the Purchaser in connection with) such inquiries. Without limiting the foregoing, Seller shall permit Purchaser and its Representatives to conduct environmental due diligence of Sabine and the Excluded Real Property. No investigation by Purchaser of any information received by Purchaser shall operate as a waiver or otherwise affect any representation, warranty or agreement given or made by Seller in this Agreement.

5.7 Operation of the Sabine Business. During the Pre-Closing Period, except as contemplated by this Agreement and the Transaction Documents, the Seller shall ensure that (a) Sabine shall conduct the Sabine Business in the Ordinary Course of Business and in substantially the same manner as such business and operations have been conducted prior to the date of this Agreement and in conformance with its stated compliance policies; (b) Sabine shall use commercially reasonable efforts to preserve intact its current business organization, keep available the services of its current officers and employees and maintain its relations and goodwill with all suppliers, customers, sale representatives, distributors, resellers, channel partners, landlords, creditors, employees and other Persons having business relationships with Sabine; (c) Sabine shall

not cancel any of its current insurance policies; (d) Sabine shall not amend or permit the adoption of any amendment to Sabine's Charter Documents, or effect any merger, acquisition, recapitalization, reclassification of shares, stock split, reverse stock split or similar transaction; (e) Sabine shall not form any subsidiary or acquire any equity interest or other interest in any other Entity; (f) Sabine shall not make any capital expenditure, except for capital expenditures that, when added to all other capital expenditures made on behalf of Sabine during the Pre-Closing Period, do not exceed \$10,000; (g) Sabine shall not: (i) enter into, or permit any of the assets of Sabine to become bound by, any Contract other than in the Ordinary Course of Business; or (ii) amend or prematurely terminate, or waive any material right or remedy under, any existing Contract other than in the Ordinary Course of Business; (h) Sabine shall not: (i) acquire, lease or license any right or other asset from any other Person for an aggregate value in excess of \$3,000; (ii) sell or otherwise dispose of, or lease or license, any right or other asset to any other Person (other than (I) with respect to the Excluded Real Property, (II) cash dividends to the Shareholder the effect of which shall be reflected in the calculation of Net Assets, and (III) non-exclusive licenses of its products or services in the Ordinary Course of Business); or (iii) waive or relinquish any right, except in the Ordinary Course of Business; (i) Sabine shall not: (i) lend money to any Person (except that Sabine may make routine advances for travel and other business expenses to Sabine Employees in the Ordinary Course of Business); or (ii) incur or guarantee any material indebtedness; (j) Sabine shall not: (i) establish, adopt, amend or terminate any benefit plan applicable to Sabine Employees; (ii) pay any bonus or make any profit-sharing payment, cash incentive payment or similar payment, other than commissions paid in the Ordinary Course of Business; (iii) increase the amount of the wages, salary, commissions, fringe benefits or other compensation (including equity-based compensation, whether payable in cash or otherwise) or remuneration payable to any of its directors, officers or employees; (iv) promote or change the title of any of its Sabine Employees (retroactively or otherwise); or (v) hire or make an offer to hire any new employee; (k) Sabine shall not change any of its methods of accounting or accounting practices in any material respect; (l) Sabine shall not make or change any material Tax election, adopt or change a material accounting method in respect of Taxes, enter into a Tax allocation agreement, Tax sharing agreement, Tax indemnity agreement or closing agreement, settle or compromise a claim, notice, audit report or assessment in respect of Taxes, consent to an extension or waiver of the statutory limitation period applicable to a claim or assessment in respect of Taxes, or file any income or other material Tax Return (including any amended Tax Return) unless such Tax Return has been provided to Purchaser within a reasonable period prior to filing and Purchaser has consented to such filing; (m) Sabine shall not commence or settle any legal Action; (n) Sabine shall not accelerate or delay the collection of any accounts receivable or delay or accelerate the payment of any accounts payable, Taxes or other obligations; (o) Sabine shall preserve and maintain its Permits; (p) Sabine shall maintain its books and records in accordance with past practice; (q) Sabine shall comply in all material respects with all applicable Laws; and (r) Sabine shall not agree or commit to take any of the actions described in clauses "(a)" through "(q)" above.

5.8 Notification; Updates to Disclosure Schedule.

(a) During the Pre-Closing Period, the Seller shall promptly notify the Purchaser in writing of: (i) the discovery by the Seller of any event, condition, fact or circumstance that occurred or existed on or prior to the date of this Agreement and that caused or constitutes a breach

of or an inaccuracy in any representation or warranty made by the Seller in this Agreement; (ii) any event, condition, fact or circumstance that occurs, arises or exists after the date of this Agreement and that would cause or constitute a breach of or an inaccuracy in any representation or warranty made by the Seller in this Agreement if: (A) such representation or warranty had been made as of the time of the occurrence, existence or discovery of such event, condition, fact or circumstance; or (B) such event, condition, fact or circumstance had occurred, arisen or existed on or prior to the date of this Agreement; (iii) any breach of any covenant or obligation of the Seller; and (iv) any event, condition, fact or circumstance that would make the timely satisfaction of any of the conditions set forth in Article VI impossible or unlikely.

(b) If any event, condition, fact or circumstance that is required to be disclosed pursuant to Section 5.8(a) requires any change in the Disclosure Schedule, or if any such event, condition, fact or circumstance would require such a change assuming the Disclosure Schedule were dated as of the date of the occurrence, existence or discovery of such event, condition, fact or circumstance, then the Seller shall promptly deliver to the Purchaser an update to the Disclosure Schedule specifying such change. No such update, other than those reflecting the obtainment of required consents, shall be deemed to supplement or amend the Disclosure Schedule for the purpose of determining whether any of the conditions set forth in Article VI has been satisfied. Purchaser's receipt of information pursuant to this Section 5.8 shall not operate as a waiver or otherwise affect any representation, warranty, or agreement given or made by Seller in this Agreement.

5.9 No Negotiation. During the Pre-Closing Period, the Seller shall not, and shall not authorize or permit any of its Affiliates (including Sabine) or any of his or their Representatives to, directly or indirectly: (a) solicit or encourage the initiation or submission of any expression of interest, inquiry, proposal or offer from any Person (other than the Purchaser) relating to a possible acquisition or merger involving Sabine, the Shares, the Sabine Business or the assets of Sabine; (b) participate in any discussions or negotiations or enter into any agreement, understanding or arrangement with, or provide any non-public information to, any Person (other than the Purchaser or its Representatives) relating to or in connection with a possible acquisition or merger involving Sabine, the Shares, the Sabine Business or the assets of Sabine; or (c) entertain or accept any proposal or offer from any Person (other than the Purchaser) relating to a possible acquisition or merger involving Sabine, the Shares, the Sabine Business or the assets of Sabine. The Seller shall promptly (and in any event within 24 hours of receipt thereof) notify the Purchaser in writing of any inquiry, indication of interest, proposal or offer relating to a possible acquisition or merger involving Sabine, the Shares, the Sabine Business or assets of Sabine that is received by Sabine or the Seller during the Pre-Closing Period (including, the identity of the Person making or submitting such inquiry, indication of interest, proposal or offer, and the terms thereof).

5.10 Closing Conditions. From the date hereof until the Closing, each Party shall use reasonable best efforts to take such actions as are necessary to expeditiously satisfy the closing conditions set forth in Article VI and Article VII hereof.

5.11 Resignations. Seller shall deliver to Purchaser written resignations, effective as of the Closing Date, of the officers and directors of Sabine set forth on Section 5.11 **Error! Reference source not found.** of the Disclosure Schedule at least five days prior to the Closing.

5.12 Public Announcements. Unless otherwise required by applicable Law, or applicable stock exchange or securities law reporting requirements, no Party to this Agreement shall make any public announcements in respect of this Agreement or the Transactions contemplated hereby or otherwise communicate with any news media without the prior written consent of the other Party (which consent shall not be unreasonably withheld or delayed), and the parties shall cooperate as to the timing and contents of any such announcement.

5.13 Consents and Regulatory Approvals.

(a) Each Party hereto shall, as promptly as possible, (i) make, or cause or be made, all filings and submissions required under any Law applicable to such party or any of its Affiliates; and (ii) use reasonable best efforts to obtain, or cause to be obtained, all consents, authorizations, orders and approvals from all Governmental Authorities that may be or become necessary for its execution and delivery of this Agreement and the performance of its obligations pursuant to this Agreement and the other Transaction Documents. Each Party shall cooperate fully with the other Party and its Affiliates in promptly seeking to obtain all such consents, authorizations, orders and approvals. The Parties hereto shall not willfully take any action that will have the effect of delaying, impairing or impeding the receipt of any required consents, authorizations, orders and approvals.

(b) Seller shall use its best efforts to give all notices to, and obtain all Consents from, all Persons that are described in Section 3.4 of the Disclosure Schedule.

5.14 Representations Regarding Securities Issuances. Seller hereby makes the following representations and warranties with respect to the issuance and holding of the ClearOne Shares, and the issuance by ClearOne of such shares is expressly conditioned on the following:

(i) Seller is acquiring the ClearOne Shares for his own account for investment and not with a view to, or for resale in connection with, any “distribution” thereof for purposes of the Securities Act. Seller is an “accredited investor” as such term is defined in Regulation D under the Securities Act of 1933, as amended (the “Securities Act”). Seller acknowledges that the ClearOne Shares shall be “restricted securities” within the meaning of SEC Rule 144, will contain a transfer restriction legend and may only be resold pursuant to an effective registration statement filed with the SEC under the Securities Act, or pursuant to Rule 144 promulgated under the Securities Act (“**SEC Rule 144**”) or another valid exemption from the registration requirements of the Securities Act as established by an opinion of counsel reasonably acceptable to ClearOne. Notwithstanding the foregoing, Seller does not agree to hold any of the ClearOne Shares for any minimum period of time and reserves the right, subject to the provisions of this Agreement, at all times to sell or otherwise dispose of all or any part of such ClearOne Shares pursuant to an effective registration statement under the Securities Act or under an exemption from such registration and in compliance with applicable federal and state securities laws.

(j) Seller acknowledges that he has been given full access by Purchaser to all information concerning the business and financial condition, properties, operations and prospects of ClearOne and its Affiliates that Seller has deemed relevant for purposes of making an investment and acquiring the ClearOne Shares in the Acquisition Transaction. By reason of Seller’s knowledge

and experience in financial and business matters in general, and the business of ClearOne and its Affiliates in particular, Seller is capable of evaluating the merits and risks of making the investment in the ClearOne Shares and is able to bear the economic risk of the investment. Seller has conducted such investigation as he deems relevant in connection with his acquiring the ClearOne Shares in the Acquisition Transaction.

(k) Seller understands that no federal or state agency has passed on the merits or risks of an investment in the ClearOne Shares or made any finding or determination concerning the fairness or advisability of investing in the ClearOne Shares.

(l) Neither the Seller nor any person acting on Seller's behalf or at Seller's direction has engaged in any purchase or sale of any ClearOne common stock (including without limitation any short sale, pledge, transfer, or establishment of an open "put equivalent position" within the meaning of Rule 16a-1(h) under the Exchange Act) after learning about the transaction contemplated hereby.

(m) All certificates representing the ClearOne Shares shall bear a legend in substantially the following form (in addition to any legend required by the blue sky or securities laws of any state or jurisdiction to the extent such laws are applicable to the ClearOne Shares represented by the certificate so legended):

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR AN APPLICABLE EXEMPTION TO THE REGISTRATION REQUIREMENTS OF SUCH ACT OR SUCH LAWS, PROVIDED THAT THE SELLER DELIVERS TO CLEARONE, INC., AN OPINION OF COUNSEL (WHICH OPINION AND COUNSEL ARE REASONABLY SATISFACTORY TO CLEARONE, INC.) CONFIRMING THE AVAILABILITY OF SUCH EXEMPTION."

5.15 Registration Rights.

(d) ClearOne shall prepare and file or cause to be prepared and filed with the SEC, as soon as practicable but in any event no later than thirty (30) days after the Closing Date (the "**Filing Deadline**"), a Registration Statement on Form S-3 (or such other form as ClearOne is then eligible to use) for an offering to be made on a delayed or continuous basis pursuant to Rule 415 of the Securities Act registering the resale from time to time by the Seller of the ClearOne Shares pursuant to plans of distribution reasonably acceptable to the Seller (the "**Registration Statement**"). Seller agrees to promptly provide to ClearOne, in writing, such information as ClearOne may reasonably request for inclusion in the Registration Statement. ClearOne shall use its reasonable best efforts to cause the Registration Statement to be declared effective under the Securities Act no later than the earlier of (i) ninety (90) days after the Closing Date or, in the event of SEC review, one hundred and twenty (120) days after the Closing Date and (ii) the third business

day following the date on which ClearOne is notified (orally or in writing, whichever is earlier) by the SEC that the Registration Statement will not be reviewed or is no longer subject to further review and comments (the “**Effectiveness Deadline**”), unless upon the advice of counsel it is advisable not to accelerate the effectiveness of such Registration Statement, for such reasons including but not limited to: ClearOne issues an earnings release or material news or a material event relating to ClearOne occurs in which case such third business day shall be the third business day following the fifteen (15) calendar day period after such event occurs, and to keep such Registration Statement continuously effective under the Securities Act until the earlier of (i) the date on which all ClearOne Shares covered by the Registration Statement may be sold pursuant to SEC Rule 144 without the requirement for ClearOne to be in compliance with the current public information required under SEC Rule 144 and without volume or manner of sale restriction by persons who are not Affiliates of ClearOne, or (ii) such date as all ClearOne Shares registered on such Registration Statement have been resold either pursuant to such Registration Statement or under SEC Rule 144 (the earlier to occur of (i) or (ii) is the “**Registration Termination Date**”).

(i) Notwithstanding the registration obligations set forth in Section 5.15(a), in the event the SEC informs ClearOne that all of the ClearOne Shares cannot, as a result of the application of Rule 415, be registered for resale as a secondary offering on a single registration statement, ClearOne agrees to promptly (i) inform Seller and use its commercially reasonable efforts to file amendments to the initial Registration Statement as required by the SEC and/or (ii) withdraw the initial Registration Statement and file a new Registration Statement, in either case covering the maximum number of ClearOne Shares permitted to be registered by the SEC, on Form S-3 or such other form available to register for resale the ClearOne Shares as a secondary offering; provided, however, that prior to filing such amendment or new Registration Statement, ClearOne shall be obligated to use its commercially reasonable efforts to advocate with the SEC for the registration of all of the ClearOne Shares in accordance with SEC guidance. Notwithstanding any other provision of this Agreement, if any SEC guidance sets forth a limitation of the number of ClearOne Shares or other shares of ClearOne common stock permitted to be registered on a particular Registration Statement as a secondary offering (and notwithstanding that ClearOne used diligent efforts to advocate with the SEC for the registration of all or a greater number of ClearOne Shares), the number of ClearOne Shares or other shares of ClearOne common stock to be registered on such Registration Statement will be reduced as so required, as determined in good faith in the sole discretion of ClearOne. In the event ClearOne amends the initial Registration Statement or files a new Registration Statement, as the case may be, under clauses (i) or (ii) above, ClearOne will use its commercially reasonable efforts to file with the SEC, as promptly as allowed by SEC guidance provided to ClearOne or to registrants of securities in general, one or more Registration Statements on Form S-3 or such other form available to register for resale those ClearOne Shares that were not registered for resale on the initial Registration Statement, as amended, or the new Registration Statement. Any Registration Statements filed hereunder shall be kept effective until the Registration Termination Date. Seller shall not be named as an “underwriter” in any Registration Statement without Seller’s prior written consent.

(ii) If a Registration Statement ceases to be effective for any reason at any time prior to the applicable Registration Termination Date, ClearOne shall use its reasonable best efforts to reinstate the effectiveness thereof.

(iii) ClearOne shall supplement and amend the Registration Statement if required by the rules, regulations or instructions applicable to the registration form used by ClearOne for such Registration Statement, if required by the Securities Act or, to the extent to which ClearOne does not reasonably object, as requested by Seller.

(iv) All Registration Expenses incurred in connection with the registrations pursuant to this Section 5.15(a) shall be borne by ClearOne. “**Registration Expenses**” shall mean all expenses incurred by ClearOne in complying with Section 5.15(a) including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for ClearOne, blue sky fees and expenses, and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of ClearOne which shall be paid in any event by ClearOne and Selling Expenses, as defined hereinafter). All Selling Expenses incurred in connection with any registrations hereunder, shall be borne by Seller. “**Selling Expenses**” shall mean all brokerage and selling commissions applicable to a sale of the ClearOne Shares pursuant to the Registration Statement.

(v) Notwithstanding the Filing Deadline and the Effectiveness Deadline, ClearOne may postpone for up to thirty (30) days the filing or effectiveness of a Registration Statement pursuant to this Section 5.15(a) if ClearOne’s board of directors determines in its reasonable good faith judgment that such Registration Statement would (i) materially interfere with a significant acquisition, corporate organization or other similar transaction of ClearOne; (ii) require premature disclosure of material information that ClearOne has a bona fide business purpose for preserving as confidential; (iii) render ClearOne unable to comply with the Securities Act or Exchange Act; or (iv) require ClearOne to prepare (A) audited financial statements as of a date other than its fiscal year end (unless Seller agree to pay the reasonable expenses of this audit) or (B) pro forma financial statements that are required to be included in a registration statement.

(vi) ClearOne may suspend sales of the ClearOne Shares pursuant to the Registration Statement for a period of not more than fifteen (15) days during any six (6) month period (an “**Allowable Grace Period**”) in the event it determines in good faith that such Registration Statement contains an untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statement therein not misleading; provided that (i) ClearOne shall immediately notify Seller of such suspension and (ii) ClearOne shall promptly amend such Registration Statement in order to correct any untrue statement and/or ensure that such Registration Statement is not misleading; provided further that subject to the time limitations set forth above, ClearOne may delay such amendment if ClearOne determines that such delay is in the best interest of ClearOne in order to avoid premature public announcements of potential acquisitions or other extraordinary transactions. At the time the Registration Statement is declared effective, Seller shall be named as a selling security holder in the Registration Statement and the related prospectus in such a manner as to permit Seller to deliver such prospectus to purchasers of ClearOne Shares in accordance with applicable law.

(vii) At Seller’s reasonable request, ClearOne shall furnish to Seller such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the

requirements of the Securities Act, and such other documents as Seller may reasonably request in order to facilitate the disposition of the ClearOne Shares owned by Seller.

(viii) ClearOne shall use its reasonable best efforts to register and qualify the securities covered by a Registration Statement under such other securities or blue sky laws of such jurisdictions as shall be reasonably requested by the Seller, provided that ClearOne shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(ix) ClearOne shall notify immediately Seller at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing; provided, however, that, subject to Section 5.15(a)(iv), Purchaser shall promptly amend such Registration Statement in order to correct any untrue statement and/or ensure that such Registration Statement is not misleading. Purchaser shall immediately notify Seller (i) when such registration statement or any post-effective amendment thereto has become effective; (ii) of any request by the SEC or any other federal or state governmental authority for amendments or supplements to a Registration Statement or prospectus or for additional information that pertains to the Seller as a selling stockholder; (iii) of the issuance by the SEC of any stop order suspending the effectiveness of a Registration Statement covering any or all of the ClearOne Shares or the initiation of any proceedings for that purpose, including pursuant to Section 8A of the Securities Act; (iv) of the receipt by Purchaser of any notification with respect to the suspension of the qualification or exemption from qualification of any of the ClearOne Shares for sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose; and (v) of the occurrence of any other event that results in the Seller being unable to sell ClearOne Shares pursuant to the Registration Statement or related prospectus. ClearOne shall use commercially reasonable efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of a Registration Statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the ClearOne Shares for sale in any jurisdiction, as soon as practicable. ClearOne shall, by 9:30 a.m. New York City time on the second business day after the effective date of a Registration Statement, file a final prospectus with the SEC under Rule 424(b).

(e) All rights and obligations provided for in Section 5.15(a) shall terminate on the Registration Termination Date.

(f) With a view to making available to Seller the benefits of SEC Rule 144 and any other rule or regulation of the SEC that may at any time permit Seller to sell securities of ClearOne to the public without registration or pursuant to a Registration Statement, ClearOne agrees to:

(i) use its reasonable best efforts to make and keep public information available, as those terms are understood and defined in SEC Rule 144, at all times so long as ClearOne remains subject to the periodic reporting requirements under Sections 13 or 15(d) of the Exchange Act;

(ii) use its reasonable best efforts to take such action as is necessary to enable Seller to utilize Form S-3 or such other registration statement form as may be applicable for the sale of the ClearOne Shares;

(iii) use its reasonable best efforts to file with the SEC in a timely manner all reports and other documents required of ClearOne under the Securities Act and the Exchange Act;

(iv) furnish to Seller, so long as Seller owns any ClearOne Shares, forthwith upon request (i) a written statement by ClearOne that it has complied with the reporting requirements of the Securities Act and the Exchange Act, or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (or such other form as ClearOne is then eligible to use), (ii) a copy of the most recent annual or quarterly report of ClearOne and such other reports and documents so filed by ClearOne, and (iii) such other information as may be reasonably requested in availing Seller of any rule or regulation of the SEC which permits the selling of any such securities without registration or pursuant to such form; and

(v) cooperate with Seller to remove restrictive legends from any certificates representing the ClearOne Shares as needed (and as lawful) to facilitate sales pursuant to Rule 144.

(g) ClearOne shall not, and shall use its reasonable best efforts to ensure that no subsidiary or Affiliate of ClearOne shall, sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that will be integrated with the offer or sale of the ClearOne Shares in a manner that would require the registration under the Securities Act of the sale of the ClearOne Shares to the Seller, or that will be integrated with the offer or sale of the ClearOne Shares for purposes of the rules and regulations of the NASDAQ, including, without limitation, the rules and regulations relating to stockholder approval.

(h) ClearOne, on or before the Closing Date, shall take such action as ClearOne shall reasonably determine is necessary in order to obtain an exemption for or to qualify the ClearOne Shares issued to the Seller at the Closing pursuant to this Agreement under applicable securities laws of the United States and securities or "Blue Sky" laws of the states of the United States (or to obtain an exemption from such qualification). ClearOne shall make all filings and reports relating to the offer and sale of the ClearOne Shares required under applicable securities laws of the United States and securities or "Blue Sky" laws of the states of the United States following the Closing Date.

(i) Nothing herein shall prevent ClearOne from including shares of ClearOne common stock other than the ClearOne Shares held by the Seller in the Registration Statement, including shares to be offered in one of more primary offerings by ClearOne for its own account on a continued or delayed basis in the future.

(j) The following provisions shall apply only to the indemnification matters in this Section 5.15:

(i) ClearOne will indemnify, defend and hold harmless Seller and his Affiliates, agents, representatives and legal counsel (collectively, the “**Seller’s Agents**”) against all Liabilities, joint or several, arising out of or based on (A) (i) any untrue statement (or alleged untrue statement) of a material fact contained in the Registration Statement, any prospectus, offering circular or other similar document or any amendments or supplements thereto (including any related registration statement and amendments or supplements thereto, notification or the like), or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made, and will reimburse the Seller and the Seller’s Agents for any legal or any other expenses reasonably incurred in connection with investigating or defending any Liabilities, as such expenses are incurred, or (ii) any violation by ClearOne of any federal, state or common law rule or regulation applicable to ClearOne in connection with any registration, qualification or compliance relating to the ClearOne Shares, and will reimburse Seller, and each Seller’s Agents, for any legal and any other expenses reasonably incurred in connection with investigating or defending any Liabilities; or (B) any breach of any covenant, agreement, representation or warranty of ClearOne in this Agreement. Notwithstanding the foregoing, ClearOne shall not be liable under this Section 5.15(g)(i): (A) in any such case to the extent that any Liabilities or expense arises out of or based on any untrue statement or omission in reliance upon and in conformity with written information furnished to ClearOne by an instrument duly executed by Seller and stated to be specifically for use therein, (B) for any amount paid in settlement of claims without ClearOne’s written consent (which consent shall not be unreasonably withheld), or (C) to an indemnified party to the extent that it is finally judicially determined that such Liabilities resulted primarily from the fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) of such indemnified party; provided, further, that if and to the extent that such indemnification against any Liabilities is held, by final judicial determination to be unenforceable, in whole or in part, for any reason, ClearOne shall make the maximum contribution to the payment and satisfaction of such indemnified Liabilities. In connection with the obligation of ClearOne to indemnify for expenses as set forth above, if an indemnified party is reimbursed hereunder for any expenses, such reimbursement of expenses shall be refunded without any interest thereon to the extent it is finally judicially determined that the Liabilities in question resulted primarily from the fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) of such indemnified party.

(ii) In connection with any Registration Statement in which Seller is participating, Seller will indemnify ClearOne, each of its directors and officers, each legal counsel and independent accountant of ClearOne, each person who controls ClearOne within the meaning of the Securities Act, any underwriter (the “**ClearOne’s Agents**”), against all Liabilities arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in the Registration Statement, any prospectus, offering circular or other similar document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made, and will reimburse ClearOne and ClearOne’s Agents for any legal or any other expenses reasonably incurred in connection with investigating or defending any Liabilities, as such expenses are incurred, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in the Registration Statement, any

prospectus, offering circular or other similar document in reliance upon and in conformity with written information furnished to ClearOne by an instrument duly executed by Seller and stated to be specifically for use therein. Notwithstanding the foregoing, the indemnity agreement provided in this Section 5.15(g) shall not apply to amounts paid in settlement of any Liabilities if such settlement is effected without the written consent of Seller, which consent shall not be unreasonably withheld. In no event shall Seller's indemnification obligation exceed the net proceeds received from its sale of the ClearOne Shares.

(A) Each party entitled to indemnification under this Section 5.15 (the "**Indemnified Party**") shall give notice to the party required to provide indemnification (the "**Indemnifying Party**") promptly after such Indemnified Party has received written notice of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld). The Indemnified Party may participate in such defense at such party's expense; provided, however, that the Indemnifying Party shall bear the expense of such defense of the Indemnified Party if (i) representation of both parties by the same counsel would be inappropriate due to actual or potential conflicts of interest or (ii) the Indemnifying Party shall have failed promptly to assume the defense of such proceeding and to employ counsel reasonably satisfactory to such Indemnified Party. The failure of any Indemnified Party to give notice within a reasonable period of time as provided herein shall relieve the Indemnifying Party of its obligations under this Section 5.15, but only to the extent that such failure to give notice shall materially adversely prejudice the Indemnifying Party in the defense of any such claim or any such litigation. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

(B) If the indemnification provided for in this Section 5.15(g) is held to be unavailable to an Indemnified Party with respect to any Liabilities or expense referred to therein, then the Indemnifying Party, in lieu of indemnifying such Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Liabilities or expense in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand and of the Indemnified Party on the other in connection with the statements or omissions that resulted in such Liabilities or expense as well as any other relevant equitable considerations; provided, that in no event shall any contribution by Seller under this Section 5.15(g) exceed the net proceeds received by Seller from its sale of the ClearOne Shares. The relative fault of the Indemnifying Party and of the Indemnified Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Indemnifying Party or by the Indemnified Party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission. The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section were determined by pro rata

allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding sentence.

(C) The obligations of ClearOne and Seller under this Section 5.15 shall survive the Closing and the completion of any offering of the ClearOne Shares in a Registration Statement, any investigation made by or on behalf of the Indemnified Party or any officer, director or controlling person of such Indemnified Party and will survive the transfer of securities.

(D) Seller shall furnish in writing to ClearOne such information regarding Seller and the distribution proposed by Seller as ClearOne may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification or compliance referred to in this Section 5.15.

5.16 Further Assurances. Following the Closing, each Party and its respective Affiliates shall execute and deliver such additional documents, instruments, conveyances and assurances and take such further actions as may be reasonably required to carry out the provisions hereof and give effect to the Transactions contemplated by this Agreement.

ARTICLE VI CONDITIONS PRECEDENT TO OBLIGATIONS OF THE PURCHASER

The obligations of the Purchaser to purchase the Shares and to take the other actions required to be taken by the Purchaser at the Closing are subject to the satisfaction (or waiver by the Purchaser), at or prior to the Closing, of each of the following conditions:

6.1 Accuracy of Representations.

(f) The representations and warranties made by the Seller in this Agreement shall have been accurate in all material respects as of the date of this Agreement; provided, however, that for purposes of determining the accuracy of such representations and warranties: (i) all materiality qualifications limiting the scope of such representations and warranties shall be disregarded; and (ii) any update of or modification to the Disclosure Schedule made or purported to have been made on or after the date of this Agreement shall be disregarded.

(g) The representations and warranties made by the Seller in this Agreement shall be accurate in all material respects as of the Closing Date as if made on and as of the Closing Date, other than representations and warranties which by their terms are made as of a specific date, which shall have been accurate in all material respects as of such date; provided, however, that for purposes of determining the accuracy of such representations and warranties: (i) all materiality qualifications limiting the scope of such representations and warranties shall be disregarded; and (ii) any update of or modification to the Disclosure Schedule made or purported to have been made on or after the date of this Agreement shall be disregarded.

6.2 Performance of Covenants. Seller shall have or shall have caused Sabine to duly perform and comply in all material respects with all agreements, covenants and conditions required

by this Agreement and each of the other Transaction Documents to be performed or complied with by Seller or Sabine prior to or on the Closing Date.

6.3 Governmental and Other Consents. All filings with and other Consents of any Governmental Body and other Persons that are listed in Section 3.4 of the Disclosure Schedule required to be made or obtained in connection with the Acquisition Transaction shall have been made or obtained and shall be in full force and effect and any waiting period under any applicable Law, regulation or other legal requirement shall have expired or been terminated.

6.4 No Material Adverse Effect. Since the date of this Agreement, there shall not have occurred and be continuing any Material Adverse Effect and no event shall have occurred or circumstance shall exist that, in combination with any other events or circumstances, could reasonably be expected to have or result in any Material Adverse Effect.

6.5 Agreements and Documents. All of the documents required to be delivered by Seller or Sabine in accordance with Article II shall have been delivered. Seller shall have delivered, or caused to be delivered, to Purchaser stock certificates evidencing the Shares, free and clear of Encumbrances, duly endorsed in blank or accompanied by stock powers or other instruments of transfer duly executed in blank and with all required stock transfer tax stamps affixed.

6.6 No Restraints. No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the Acquisition Transaction or Lease Transaction shall have been issued by any court of competent jurisdiction and remain in effect, and there shall not be any legal requirement enacted or deemed applicable to any of the Transactions that makes consummation thereof illegal.

6.7 Completion of the Lease Transaction. The Excluded Real Property shall have been transferred to the Real Estate Entity, and Purchaser and the Real Estate Entity shall enter into the Lease Agreement contemporaneously with Closing.

6.8 Completion of Foreign IP Transaction. Prior to Closing, the Foreign IP Transaction shall have been completed.

6.9 Payment or Assumption of Excluded Liabilities. Prior to Closing, Seller shall assume all Excluded Liabilities or shall cause Sabine to pay such Excluded Liabilities, as agreed by the Parties, so that following the Closing, Sabine will have no obligation with respect to any such Excluded Liability.

6.10 No Legal Proceedings. No Action shall have been commenced against Purchaser, Seller or Sabine, which would prevent the Closing. No injunction or restraining order shall have been issued by any Governmental Authority, and be in effect, which restrains or prohibits any of the Transaction.

ARTICLE VII CONDITIONS PRECEDENT TO OBLIGATIONS OF THE SELLER

The obligations of the Seller to sell the Shares and to take the other actions required to be taken by the Seller at the Closing are subject to the satisfaction (or waiver by the Seller), at or prior to the Closing, of each of the following conditions:

7.1 Accuracy of Representations.

(d) Each of the representations and warranties made by the Purchaser in this Agreement shall have been accurate in all material respects as of the date of this Agreement, except where the failure of the representations and warranties to be accurate has not impaired or delayed the Purchaser's ability to consummate the Transactions; provided, however, that for purposes of determining the accuracy of such representations and warranties, all materiality qualifications limiting the scope of such representations and warranties shall be disregarded.

(e) Each of the representations and warranties made by the Purchaser in this Agreement shall be accurate in all material respects as of the Closing Date as if made on and as of the Closing Date, other than representations and warranties which by their terms are made as of a specific date, which shall have been accurate in all material respects as of such date, except where the failure of the representations and warranties to be accurate has not impaired or delayed the Purchaser's ability to consummate the Transactions; provided, however, that for purposes of determining the accuracy of such representations and warranties, all materiality qualifications limiting the scope of such representations and warranties shall be disregarded.

7.2 Performance of Covenants. Seller shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement and each of the other Transaction Documents to be performed or complied with by it prior to or on the Closing Date.

7.3 Agreements and Documents. All of the documents required to be delivered by Purchaser in accordance with Article II shall have been delivered.

7.4 No Restraints. No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the sale of the Shares shall have been issued by any court of competent jurisdiction and remain in effect, and there shall not be any legal requirement enacted or deemed applicable to the sale of the Shares that makes consummation thereof illegal.

ARTICLE VIII INDEMNIFICATION

8.1 Survival. The representations and warranties contained herein shall survive the Closing for the Escrow Period (the "**Indemnification Period**"); except for (a) the representations and warranties set forth in Sections 3.1, 3.3(a), 3.3(b), 3.3(e), 3.8, 3.11, 3.12, 3.16, 3.18, 3.25 and 3.26 in the case of the Seller, and Sections 4.1 and 4.2 in the case of the Purchaser (the "**Fundamental Representations**"), all of which shall survive the Closing and until the applicable statute of limitations has expired; and (b) any indemnification or right thereto arising out of any breach or alleged breach of which the indemnified Person has notified the indemnifying Person in writing on or prior to the date such representation or warranty would otherwise terminate in accordance with

this Section 8.1, which shall not terminate until after the liability of the indemnifying Persons shall have been determined and the indemnifying Persons shall have paid the indemnified Persons the full amount of such liability, if any.

8.2 Indemnification of Purchaser. Subject to the other terms and conditions of this Article VIII, Seller shall indemnify, hold harmless and defend Purchaser and its directors, officers, shareholders, and employees (collectively, the “**Purchaser Indemnitees**”) from and against any and all Losses incurred by or suffered by the Purchaser Indemnities arising out of any of the following:

(i) any breach or any inaccuracy in any representation or warranty made by Seller in (i) this Agreement or any Transaction Document or any certificate delivered by or on behalf of the Seller pursuant hereto or (ii) by Sabine in the Asset Purchase Agreement;

(j) any breach of or failure by the Seller to perform, any of its covenants or obligations required to be performed by it pursuant to this Agreement or any Transaction Document;

(k) any liability or obligation of Seller arising out of or in connection with the ownership of the assets of Sabine or the operation of the Sabine Business arising on or before the Closing; or

(l) any failure of the Seller to perform or otherwise pay or discharge any Excluded Liability.

Notwithstanding anything contained herein to the contrary, the Seller’s aggregate indemnification obligation pursuant to Section 8.2(a) above with respect to Seller’s representations and warranties hereunder shall not exceed the amount then remaining in the Escrow Fund and the unpaid Earnout Payments as of the date of the Loss unless and to the extent the Losses for which indemnification is being sought arise from any representation or warranty that was fraudulently provided.

8.3 Indemnification of Seller. From and after the Closing, Purchaser shall indemnify, hold harmless and defend the Seller and its directors, officers and shareholders from and against any and all Losses incurred by or suffered by the Seller arising out of any of the following:

(a) any breach or any inaccuracy in any representation or warranty made by Purchaser in this Agreement or any Transaction Document or any certificate delivered by or on behalf of Purchaser pursuant hereto;

(b) any breach by Purchaser of, or any failure by Purchaser to perform, any covenant or obligation required to be performed by it pursuant to this Agreement or any Transaction Document;

(c) any liability or obligation arising out of or in connection with the ownership of the assets of Sabine or the operation of the Sabine Business arising after the Closing;

(d) any failure of the Purchaser to perform or otherwise pay or discharge any Liability of Sabine which is not an Excluded Liability; and

(e) Damages, as referenced in the last sentence of Section 5.5(d) provided that the amount of this indemnification shall be limited to and shall not exceed \$250,000.

8.4 Payment. The Purchaser may make a claim against the Escrow Fund until the expiration of the Escrow Period and against unpaid Earnout Payments after the expiration of the Escrow Period for indemnification pursuant to this Article VIII on the terms and conditions of the Escrow Agreement. Subject to the limitations set forth in the last paragraph of Section 8.2 above, if the amount of the Escrow Fund is insufficient to pay any indemnification claims, the Purchaser may make a claim directly against the Seller.

8.5 Indemnification Procedures. The party making a claim under this Article VIII is referred to as the "**Indemnified Party**", and the party against whom such claims are asserted under this Article VIII is referred to as the "**Indemnifying Party**". The following provisions shall not apply to the indemnification rights related to registration of the ClearOne Shares set forth in Section 5.15, which section includes procedures applicable to such indemnification.

(c) Third Party Claims. If any Indemnified Party receives notice of the assertion or commencement of any Action made or brought by any Person who is not a party to this Agreement or an Affiliate of a party to this Agreement or a Representative of the foregoing (a "**Third Party Claim**") against such Indemnified Party with respect to which the Indemnifying Party is obligated to provide indemnification under this Agreement, the Indemnified Party shall give the Indemnifying Party reasonably prompt written notice thereof, but in any event not later than 30 calendar days after receipt of such notice of such Third Party Claim. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Party shall describe the Third Party Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have the right to participate in, or by giving written notice to the Indemnified Party, to assume the defense of any Third Party Claim at the Indemnifying Party's expense and by the Indemnifying Party's own counsel, and the Indemnified Party shall cooperate in good faith in such defense; provided, that if the Indemnifying Party is Seller, such Indemnifying Party shall not have the right to defend or direct the defense of any such Third Party Claim that (x) is asserted directly by or on behalf of a Person that is a supplier or customer of the Company, or (y) seeks an injunction or other equitable relief against the Indemnified Party. In the event that the Indemnifying Party assumes the defense of any Third Party Claim, subject to Section 8.5(b), it shall have the right to take such action as it deems necessary to avoid, dispute, defend, appeal or make counterclaims pertaining to any such Third Party Claim in the name and on behalf of the Indemnified Party. The Indemnified Party shall have the right to participate in the defense of any Third Party Claim with counsel selected by it subject to the Indemnifying Party's right to control the defense thereof. The fees and disbursements of such counsel shall be at the expense of the Indemnified Party, provided, that if in the reasonable opinion of counsel to the Indemnified Party, (A) there are legal defenses available to an Indemnified Party that are different from or additional to those available to the Indemnifying Party; or (B) there exists a conflict of interest between the Indemnifying Party and the Indemnified Party that cannot be waived, the Indemnifying Party shall

be liable for the reasonable fees and expenses of counsel to the Indemnified Party in each jurisdiction for which the Indemnified Party determines counsel is required. If the Indemnifying Party elects not to compromise or defend such Third Party Claim, fails to promptly notify the Indemnified Party in writing of its election to defend as provided in this Agreement, or fails to diligently prosecute the defense of such Third Party Claim, the Indemnified Party may, subject to Section 8.5(b), pay, compromise, defend such Third Party Claim and seek indemnification for any and all Losses based upon, arising from or relating to such Third Party Claim. Seller and Buyer shall cooperate with each other in all reasonable respects in connection with the defense of any Third Party Claim, including making available (subject to the provisions of Section 5.6) records relating to such Third Party Claim and furnishing, without expense (other than reimbursement of actual out-of-pocket expenses) to the defending party, management employees of the non-defending party as may be reasonably necessary for the preparation of the defense of such Third Party Claim.

(d) Settlement of Third Party Claims. Notwithstanding any other provision of this Agreement, the Indemnifying Party shall not enter into settlement of any Third Party Claim without the prior written consent of the Indemnified Party, except as provided in this Section 8.5(b). If a firm offer is made to settle a Third Party Claim without leading to liability or the creation of a financial or other obligation on the part of the Indemnified Party and provides, in customary form, for the unconditional release of each Indemnified Party from all liabilities and obligations in connection with such Third Party Claim and the Indemnifying Party desires to accept and agree to such offer, the Indemnifying Party shall give written notice to that effect to the Indemnified Party. If the Indemnified Party fails to consent to such firm offer within ten days after its receipt of such notice, the Indemnified Party may continue to contest or defend such Third Party Claim and in such event, the maximum liability of the Indemnifying Party as to such Third Party Claim shall not exceed the amount of such settlement offer. If the Indemnified Party fails to consent to such firm offer and also fails to assume defense of such Third Party Claim, the Indemnifying Party may settle the Third Party Claim upon the terms set forth in such firm offer to settle such Third Party Claim. If the Indemnified Party has assumed the defense pursuant to Section 8.5(a), it shall not agree to any settlement without the written consent of the Indemnifying Party (which consent shall not be unreasonably withheld or delayed).

(e) Direct Claims. Any Action by an Indemnified Party on account of a Loss which does not result from a Third Party Claim (a "**Direct Claim**") shall be asserted by the Indemnified Party giving the Indemnifying Party reasonably prompt written notice thereof, but in any event not later than 30 days after the Indemnified Party becomes aware of such Direct Claim. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Party shall describe the Direct Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have 30 days after its receipt of such notice to respond in writing to such Direct Claim. The Indemnified Party shall allow the Indemnifying Party and its professional advisors to investigate the matter or circumstance alleged to give rise to the Direct Claim, and whether and to what extent any amount is payable in respect of the Direct Claim and the Indemnified Party shall assist the Indemnifying Party's investigation

by giving such information and assistance (including access to Sabine's premises and personnel and the right to examine and copy any accounts, documents or records) as the Indemnifying Party or any of its professional advisors may reasonably request. If the Indemnifying Party does not so respond within such 30 day period, the Indemnifying Party shall be deemed to have rejected such claim, in which case the Indemnified Party shall be free to pursue such remedies as may be available to the Indemnified Party on the terms and subject to the provisions of this Agreement.

8.6 Purchase Price Adjustments. To the extent permitted by Law, any amounts payable under Section 8.2 or Section 8.3 shall be treated by the Parties as an adjustment to the Purchase Price.

8.7 Sole and Exclusive Monetary Remedy. The Parties acknowledge and agree that the indemnification provisions in this Article VIII are the sole and exclusive monetary remedy of the Purchaser and ClearOne with respect to the Acquisition Transaction, except in the case of fraud on the part of the Seller and except as otherwise provided in Section 5.15.

ARTICLE IX TERMINATION

9.1 Termination. This Agreement may be terminated at any time prior to the Closing:

(m) by the mutual written consent of Seller and Purchaser;

(n) by Purchaser by written notice to Seller, if Purchaser is not then in breach of any provision of this Agreement, and there has been a breach, inaccuracy in or failure to perform any representation, warranty, covenant or agreement made by Seller pursuant to this Agreement that would give rise to the failure of any of the conditions specified in Article VI and such breach, inaccuracy or failure has not been cured by Seller within ten days of Seller's receipt of written notice of such breach from Purchaser;

(o) by Seller by written notice to Purchaser, if Seller is not then in breach of any provision of this Agreement, and there has been a breach, inaccuracy in or failure to perform any representation, warranty, covenant or agreement made by Purchaser pursuant to this Agreement that would give rise to the failure of any of the conditions specified in Article VII and such breach, inaccuracy or failure has not been cured by Purchaser within ten days of Purchaser's receipt of written notice of such breach from Seller; or

(p) by Purchaser or Seller in the event that (i) there shall be any Law that makes consummation of the Transactions contemplated by this Agreement illegal or otherwise prohibited or (ii) any Governmental Authority shall have issued a Governmental Order restraining or enjoining the Transactions contemplated by this Agreement, and such Governmental Order shall have become final and non-appealable or

(q) by either Party as provided in Section 2.7 if the Closing has not occurred prior to March 30, 2014.

9.2 Effect of Termination. In the event of the termination of this Agreement in accordance with this Article, this Agreement shall forthwith become void and there shall be no liability on the part of any party hereto except:

(f) as set forth in this Article IX and Article X hereof ; and

(g) that nothing herein shall relieve any party hereto from liability for any willful breach of any provision hereof.

ARTICLE X MISCELLANEOUS

10.1 No Third-Party Beneficiaries. This Agreement is for the sole benefit of the Parties and shall not confer any legal or equitable, rights, benefits or remedies of any nature whatsoever upon any Person other than the Parties and their respective successors and permitted assigns.

10.2 Entire Agreement. This Agreement and the other Transaction Documents constitute the entire agreement among the Parties and supersedes all prior and contemporaneous understandings, agreements, or representations by or among the Parties, written or oral, to the extent they have related in any way to the subject matter hereof, including that certain Letter of Intent executed by Sabine and Purchaser on January 8, 2014, provided, however, that the Parties agree that Section 7(c) and 7(i) of such Letter of Intent shall continue until Closing, at which time those provisions shall terminate. In the event of any inconsistency between the statements in the body of this Agreement and (a) those in the other Transaction Documents or (b) the Exhibits and Schedules to this Agreement or the other Transaction Documents, the statements in the body of this Agreement will control.

10.3 Further Assurances. Following the Closing, each of the Parties hereto shall, and shall cause their respective Affiliates to, execute and deliver such additional documents, instruments, conveyances and assurances and take such further actions as may be reasonably required to carry out the provisions hereof and give effect to the Transactions contemplated by this Agreement and the other Transaction Documents.

10.4 Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. Seller may not assign this Agreement or any of his or its rights, interests, or obligations hereunder without prior written approval of Purchaser.

10.5 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

10.6 Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

10.7 Notices. All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given: (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next business day if sent after normal business hours of the recipient or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses:

If to Seller: Doran M. Oster
1425 NW 35th Terrace
Gainesville, Florida 32605
E-mail: doran.oster@yahoo.com

with a copy to: Hutchison PLLC
3110 Edwards Mill Road, Suite 300
Raleigh, North Carolina 27612
Facsimile: 855 373 3417
E-mail: atuffin@hutchlaw.com
Attention: Amalie L. Tuffin

If to Purchaser: Clearone, Inc.
5225 Wiley Post Way, Suite 500
Salt Lake City, Utah 84116
Facsimile: +1 8013033333
Attention: Zee Hakimoglu, President and CEO

with a copy to: Parsons Behle & Latimer
PO Box 45898
Salt Lake City, Utah 84145-0898
Telephone: 801 532 1234
Facsimile: 801 536 6111
E-mail: gmangum@parsonsbehle.com
Attention: Geoff Mangum

Any Party may send any notice, request, demand, claim, or other communication hereunder to the intended recipient at the address set forth above using any other means (including personal delivery, expedited courier, messenger service, telecopy, telex, ordinary mail, or electronic mail), but no such notice, request, demand, claim, or other communication shall be deemed to have been duly given unless and until it actually is received by the intended recipient. Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Parties notice in the manner herein set forth.

10.8 Governing Law; Jurisdiction; Service of Process.

(c) This Agreement shall be governed by and construed in accordance with the domestic laws of the State of Utah without giving effect to any choice or conflict of law provision or rule (whether of the State of Utah or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Utah.

(d) ANY LEGAL SUIT, ACTION OR PROCEEDING ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE OTHER TRANSACTION DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY MAY BE INSTITUTED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF UTAH OR THE STATE OF FLORIDA, AS APPLICABLE, IN EACH CASE LOCATED (IF IN UTAH) IN THE CITY OF SALT LAKE CITY AND COUNTY OF SALT LAKE OR (IF IN FLORIDA) IN THE CITY OF GAINESVILLE AND COUNTY OF ALACHUA, AND EACH PARTY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS IN ANY SUCH SUIT, ACTION OR PROCEEDING. SERVICE OF PROCESS, SUMMONS, NOTICE OR OTHER DOCUMENT BY MAIL TO SUCH PARTY'S ADDRESS SET FORTH HEREIN SHALL BE EFFECTIVE SERVICE OF PROCESS FOR ANY SUIT, ACTION OR OTHER PROCEEDING BROUGHT IN ANY SUCH COURT. THE PARTIES IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY OBJECTION TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR ANY PROCEEDING IN SUCH COURTS AND IRREVOCABLY WAIVE AND AGREE NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. ANY SUIT BROUGHT BY SELLER OR AN AFFILIATE SHALL BE BROUGHT IN THE ABOVE-DESCRIBED COURTS LOCATED IN UTAH. ANY SUIT BROUGHT BY PURCHASER OR AN AFFILIATE SHALL BE BROUGHT IN THE ABOVE-DESCRIBED COURTS LOCATED IN FLORIDA.

(e) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT OR THE OTHER TRANSACTION DOCUMENTS IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE OTHER TRANSACTION DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. EACH PARTY TO THIS AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT (A) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION, (B) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (C) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (D) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

10.9 Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by the all the Parties. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

10.10 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the Transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

10.11 Expenses. Except as expressly set forth herein, each of the Parties will bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the Transactions contemplated hereby.

10.12 Specific Performance. The parties agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy to which they are entitled at law or in equity.

10.13 Incorporation of Exhibits and Schedules. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

10.14 Waiver of Conflicts. Recognizing that Hutchison PLLC has acted as legal counsel to Sabine, the Seller, the Real Estate Entity and certain of their respective Affiliates prior to date hereof, and that Hutchison PLLC intends to act as legal counsel to Seller, the Real Estate Entity and certain of their Affiliates (which shall not include Sabine) after the Closing, each of ClearOne, Purchaser and Sabine hereby waives, on its own behalf and agrees to cause its Affiliates, to waive, any conflicts that may arise in connection with Hutchison PLLC representing Seller, the Real Estate Entity, and their Affiliates after the Closing as such representation may relate to ClearOne, Purchaser, Sabine or the Transactions. In addition, all communications involving attorney-client confidences between Seller, the Real Estate Entity, Sabine and their respective Affiliates, on the one hand, and Hutchison PLLC on the other hand, in the course of the negotiation, documentation and consummation of the transactions contemplated hereby shall be deemed to be attorney-client confidences that belong solely to the Seller, the Real Estate Entity and their respective Affiliates (and not Sabine). Accordingly, ClearOne, the Purchaser and Sabine shall not have access to any such communications or to the files of Hutchison PLLC relating to such engagement from and after the Closing Date. Without limiting the generality of the foregoing, from and after the Closing Date, (a) Seller, the Real Estate Entity and their respective Affiliates (and not ClearOne, the Purchaser or Sabine) shall be the sole holders of the attorney-client privilege with respect to such engagement, and none of the Surviving Corporation or the Subsidiaries shall be a holder thereof, (b) to the extent

that files of Hutchison PLLC in respect of such engagement constitute property of the client, only Seller, the Real Estate Entity their respective Affiliates (and not ClearOne, the Purchaser or Sabine) shall hold such property rights and (c) Hutchison PLLC shall have no duty whatsoever to reveal or disclose any such attorney-client communications or files to ClearOne, Purchaser or Sabine by reason of any attorney-client relationship between Hutchison PLLC and the Seller or Sabine or otherwise. This Section 10.14 will be irrevocable, and no term of this Section 10.14 may be amended, waived or modified, without the prior written consent of Hutchison PLLC. Each of the parties hereto acknowledges that such consent and waiver is voluntary, has been carefully considered and the parties have consulted with counsel or been advised they should do so.

IN WITNESS WHEREOF, the Parties have executed this Agreement on as of the date first above written.

SELLER:

Doran M. Oster

PURCHASER:

CLEARONE, INC.

By:
Name:
Title:

COMPANY:

SABINE, INC.

By:
Doran M. Oster, President

SUBSIDIARIES OF THE REGISTRANT

NetStreams, Inc. (DE)
NetStreams, LLC. (TX)
ClearOne Web Solutions, Inc. (DE)
ClearOne Communications Hong Kong Limited (Hong Kong)
ClearOne Communications Limited (United Kingdom)
ClearOne Ltd. (Israel)
ClearOne Middle East FZE (Dubai)
Gentner Communications Limited (Ireland)
Gentner Ventures, Inc. (UT)
E.mergent, Inc. (DE)
Sabine, Inc. (FL)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement (Nos. 333-148789 and 333-137859) on Form S-8 of ClearOne, Inc. of our report dated March 19, 2014, relating to our audit of the consolidated financial statements, which appears in this Annual Report on Form 10-K of ClearOne, Inc. for the year ended December 31, 2013.

/s/ McGladrey LLP
Irvine, California
March 19, 2014

CERTIFICATION

I, Zeynep Hakimoglu, certify that:

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

March 19, 2014

By: /s/ Zeynep Hakimoglu
Zeynep Hakimoglu
Chief Executive Officer

CERTIFICATION

I, Narsi Narayanan, certify that:

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

March 19, 2014

By: /s/ Narsi Narayanan
Narsi Narayanan
Senior Vice President of Finance

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

I, Zeynep Hakimoglu, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the annual report of ClearOne, Inc. on Form 10-K for the year ended December 31, 2013, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such annual report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of ClearOne, Inc.

March 19, 2014

By: /s/ Zeynep Hakimoglu
Zeynep Hakimoglu
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

I, Narsi Narayanan, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the annual report of ClearOne Inc. on Form 10-K for the year ended December 31, 2013, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such annual report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of ClearOne, Inc.

March 19, 2014

By: /s/ Narsi Narayanan

Narsi Narayanan
Vice President of Finance