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, 2020

☐ **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)

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

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

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

Title of each class	Trading Symbol(s)	Name on each exchange on which registered
Common Stock, $0.001 par value	CLRO	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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒Yes ☐No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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 $11.5 million at June 30, 2020**,** (the Company's most recently completed second fiscal quarter), based on the $2.00 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 30, 2021 was 18,775,773.

Documents Incorporated by Reference: None

CLEARONE, INC.

Annual Report on Form 10-K For the year ended December 31, 2020

Table of Contents

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 expectations regarding pricing trends, the markets for our products, our anticipated capital expenditures, our cost reduction and operational restructuring initiatives, and future impact of regulatory developments; statements with regard to the nature and extent of competition we may face in the future; statements with respect to the anticipated sources of and need for future financing; and statements with respect to future strategic plans, goals, and objectives and forecasts of future growth and value. Forward-looking statements are contained in this report under “Business” included in Item 1 of Part I, and “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 Delaware corporation, and, unless the context otherwise requires or is otherwise expressly stated, its subsidiaries.

ITEM 1. BUSINESS

GENERAL

ClearOne, Inc. (the Company) was incorporated in Utah in 1983 and reincorporated in Delaware on October 25, 2018. The Company is headquartered in Salt Lake City, Utah. The Company has other locations in Gainesville, Florida; Austin, Texas; Zaragoza, Spain; Chennai, India; and Dubai, United Arab Emirates.

We have been a global market leader enabling conferencing, collaboration, and network streaming solutions. We design, develop and sell conferencing, collaboration and network streaming solutions for voice and visual communications. The performance and simplicity of our advanced comprehensive solutions offer unprecedented levels of functionality, reliability and scalability.

Our comprehensive line of high-quality conferencing and collaboration products are targeted for large, medium and small businesses, as well as for personal use. We have been a global market leader in the installed professional audio conferencing market, where our products are used in numerous industries such as enterprise, healthcare, education, government, legal and finance.

We have an established history of product innovation and plan to continue to apply our expertise in audio, video and networked AV to design, 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 through a global network of independent distributors who, in turn, sell our products to dealers, systems integrators and other value-added resellers. We also sell directly to dealers, systems integrators and other value-added resellers. Our solutions save end-users time and money by creating a natural environment for collaboration and communication. Our partners, who are involved in system integration are benefitted with simpler project design and support costs with our products designed and built to work with each other seamlessly.

On December 17, 2019, the Company completed the issuance and sale of $3,000,000 aggregate principal amount of secured convertible notes of the Company (the “Notes”) and warrants (the “Warrants”) to purchase 340,909 shares of common stock, par value $0.001 per share, of the Company (the “Common Stock”), in a private placement transaction. The Notes and Warrants were issued and sold to Edward D. Bagley, an affiliate of the Company, on the terms and conditions of a Note Purchase Agreement dated December 8, 2019 between the Company, certain subsidiary guarantors of the Company, and Mr. Bagley. The Notes are convertible to shares of the Company’s common stock at an initial conversion price of $2.11 per share, and the Warrants have an initial exercise price of $1.76 per share.

On September 13, 2020, the Company, entered into a Securities Purchase Agreement (the “Purchase Agreement”) with certain purchasers named therein (the “Purchasers”), pursuant to which the Company issued and sold in a registered direct offering 2,116,050 shares (the “Shares”) of the Company’s common stock, par value $0.001 per share (the “Common Stock”) at an offering price of $2.4925 per share, (the “Registered Offering”). The Company received gross proceeds of approximately $5,275,000 ($4,764,000 net of issuance costs) in connection with the Registered Offering, before deducting placement agent fees and related offering expenses. In a concurrent private placement, the Company issued to the Purchasers who participated in the Registered Offering warrants exercisable for an aggregate of 1,058,025 shares of common stock at an exercise price of $2.43 per share. Each warrant became immediately exercisable and had an expiry term of five years from the issuance date.

Company Information

Our website address is http://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. These reports are also available on the SEC’s website, which is located at http://www.sec.gov.

ITEM 1-BUSINESS

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.

Our Business Strategy

The Company's primary challenge is the loss in revenue due to infringement of our patents by competitors and consequent reduction in cash flows due to operating losses and litigation costs. Our current strategy consists of the following three elements to overcome this adverse situation:

- Continue our product innovation to bring to market products that are needed by our partners and end-users
- Cut costs to operate efficiently
- Defend our intellectual property through litigation

We currently participate in the following markets:

- All aspects of audio conferencing including installed professional audio conferencing through DSP mixers, USB based speakerphones and table-top conferencing;
- Professional microphones to support audio and video collaboration through patented beamforming microphones, ceiling microphones and wireless microphones;
- Visual collaboration in all forms including low-cost room appliances, professional cameras, Bring-Your-Own-Device and cloud video services encompassing conferencing, interactive whiteboarding, webinar, and wireless sharing; and
- Audio Visual Networking which includes network media streaming, video walls, sound reinforcement and audio distribution.

Our business goals are to:

- Improve our global market share in professional installed audio conferencing products for large businesses and organizations;
- Position ClearOne as the preferred AV channel partner uniquely offering a complete value-chain of natively integrated solutions from audio to video maximizing AV channel partner profitability;
- Extend total addressable market from installed audio conferencing beachhead to adjacent complementary markets – microphones, video collaboration and AV networking;
- Continue to leverage the video conferencing, collaboration and AV networking technologies to enlarge our current market share;
- Focus on the small and medium business market with appropriately scaled, lower cost and less complex products and solutions;
- Capitalize on the growing influence of information technology channels in the audio-visual market and introduce more solutions to these channels;
- Capitalize on the convergence of audio visual and information technology to meet enterprise and commercial multimedia needs and the end-users' transition from high-priced systems to low cost, complete AV room solutions and cloud services;
- Leverage software-based platforms across all our product lines; 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;
- Delivering the complete value chain for audio visual communication;
- Extending our capabilities in product innovation through software-based video collaboration and AV networking
- Offering greater innovation, interoperability and value to our end-users and channel partners;
- Leveraging and extending ClearOne technology, leadership and innovation;
- Leveraging our strong domestic and international channels to distribute new products; and
- Strengthening existing end-user and channel partner relationships through dedicated and comprehensive support.

ITEM 1- BUSINESS

PRODUCTS

Our products can be broadly categorized into the following:

- Audio conferencing including installed DSP based professional audio conferencing, USB-based speakerphones and table-top audio conferencing
- Professional microphones consisting of patented beamforming microphones, ceiling microphones and wireless microphones; and
- Video products including video collaboration and AV networking

AUDIO CONFERENCING

Our full range of audio conferencing products include (i) professional installed DSP based audio 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, (iii) affordable USB-based speakerphones that can be used with PCs, laptops, tablets, smartphones, and other portable devices, and (iv) traditional tabletop conferencing phones used in conference rooms and offices.

Our audio conferencing products 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.

Our audio conferencing products contributed 37.6% and 46.3% of our consolidated revenue in 2020 and 2019, respectively.

Professional installed audio conferencing and sound reinforcement

We have been a global market leader in the professional installed audio conferencing market. We have been a pioneer in the development of high-end, professional conferencing products and we have established strong brand recognition for these products worldwide. Our installed professional conferencing products include the CONVERGE® Pro 2, CONVERGE Pro and CONVERGE SR product lines.

Our flagship CONVERGE Pro 2 and CONVERGE Pro product lines lead 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 the 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.

We began shipping a limited number of SKUs of the latest generation of CONVERGE Pro products broadly called as CONVERGE Pro 2 at the end of 2016. We added more SKUs to CONVERGE Pro 2 line which now includes CONVERGE Pro 2 128, CONVERGE Pro 2 128D, CONVERGE Pro 2 128T, CONVERGE Pro 2 128TD, CONVERGE Pro 2 128V, CONVERGE Pro 2 128VD, CONVERGE Pro 2 128VT, CONVERGE Pro 2 128VTD, CONVERGE Pro 2 120, CONVERGE Pro 2 012, CONVERGE Pro 2 48T, CONVERGE Pro 2 48V, CONVERGE Pro 2 48VT, CONVERGE Pro 2 48VTD, CONVERGE Pro 2 128SR and CONVERGE Pro 2 128SRD.

CONVERGE Pro 2's broad DSP platform satisfies clients' diverse audio needs with these features:

- Best-in-class audio delivered through next-gen Acoustic Echo Cancellation and Noise Cancellation processing with Acoustic Intelligence, advanced microphone gating and built-in DARE™ feedback elimination.
- Powerful architecture with smaller footprint – 12 Mic/line inputs per unit, built-in USB audio interface, built-in optional Dante™ for networked audio.
- Daisy-chainable design to support up to 144 Mic/line inputs, C-Link expansion bus with 64 channels and P-Link bus for scalable connection of peripheral devices including any combination of ClearOne peripheral devices, such as the new Beamforming Microphone Array 2, USB Expander unit, GPIO Expander unit and/or the new DIALOG® 20 Wireless Microphone system.
- Supports video conferencing, audio and web conferencing, Skype® for Business meetings, in-room meetings, wireless presentation, and more.
- Integration of VoIP or telephony, USB, and Dante™ for maximum functionality.
- A new expansion bus that delivers increased audio-channel scalability to support large audio projects.
- Ability to control local meeting rooms and audio distribution applications with flexible options – touch panel controller, BYOD dialer apps or 3rd party control modules.
- Configure, manage, monitor and troubleshoot the entire system of auto-discovered devices with MatrixView™ and FlowView™ for visualized audio signal paths.

CONVERGE Pro 2 line of products is ably supported by a touch panel controller, a GPIO expansion box, a USB expansion box and a wall-mount Bluetooth Expander. CONVERGE Pro 2 VoIP SKUs are certified to interoperate with Cisco, Avaya and ShoreTel SIP based VoIP systems and also interoperate with Microsoft Skype for Business.

During February 2020, we announced a new Touch-Panel Controller, a highly intuitive 10-inch touch-screen device, designed for ClearOne's CONVERGE® Pro 2 audio DSP mixers as well as COLLABORATE Live video conferencing room systems. Paired with CONVERGE Pro 2 DSP mixers, users can make and receive PSTN and/or VoIP conference calls, and multiparty calls with the easy-to-use on-screen dial pad. When paired with COLLABORATE Live, users can make and receive video calls as well as manage content sharing options.

During September 2020, we shipped Conference Controller with 10-inch touch screen designed for easy control of ClearOne's CONVERGE® Pro 2 audio DSP mixers as well as COLLABORATE® Live video conferencing room systems from a single device. The Conference Controller functions can also be conveniently accessed from a personal mobile device, eliminating the need for touching shared surfaces by downloading the free mobile apps. A perfect addition to ClearOne's audio and video platforms, the Conference Controller can be paired with CONVERGE Pro 2 DSPs, allowing users to make and receive VoIP and/or PSTN conference calls and multiparty calls with the easy-to-use, on-screen dial pad. When paired with COLLABORATE Live room video systems, users can make and receive video calls as well as manage content-sharing options. A modern user interface makes controlling conferencing functions as intuitive and simple as familiar mobile and tablet devices. The Conference Controller enables easy contact management with built-in search. In addition, the slim and modern industrial design blends well with modern conference-room aesthetics.

During October 2020, we announced the latest update of CONVERGENCE AV Network Manager software. The new update now has an organizational portal for multiple user accounts with support for up to 2048 combined devices and users. It also includes LDAP support and two levels of access — a secure administrator level for full access and a viewer level for monitoring with 256-bit encrypted device and user password management. CONVERGENCE software is a unified AV network management platform to monitor, control, and audit ClearOne Pro Audio and Video products and services. Remote real-time system access provides at-a-glance and all-inclusive dashboard views with unlimited scalability designed to support organizations of any size. The solution provides a powerful and elegant user interface on any browser from desktop to mobile. Users can stay up to date with email status notifications and can search, sort, and filter to find what is needed quickly. Efficient batch firmware updates can be performed on multiple audio or video devices at once. Users can also download, back up, or restore project files simultaneously for multiple CONVERGE® Pro 2 and Huddle DSP mixers, as well as their P-Link peripherals.

The software also offers many other features, such as: provisioning CONVERGE Pro 2 VoIP lines and viewing VoIP registration status; configuring and managing COLLABORATE® Live room codecs and COLLABORATE Space user accounts; and downloading logs and reports for devices, users, histories, and calls. CONVERGENCE supports integration with third-party management systems like IBM Cognos Analytics and Barco Overture via a RESTful web service interface. ClearOne's AV network management platform is available in twelve languages.

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.

During 2018, we introduced and started shipping CONVERGE Huddle, another addition to the mid-tier premium conferencing line. CONVERGE Huddle is a versatile solution for multiple use huddle room environments at a price point that meets budget requirements for audio and video collaboration applications. CONVERGE Huddle connects to ClearOne or third-party peripheral devices, such as microphones, speakers, cameras, and display screens and applications such as Spontania®, Skype® for Business, GoToMeeting ™, WebEx® through single clutter-free connection via USB 3.0 to laptop. It comes with the latest Acoustic Echo Cancellation and Noise Cancellation algorithms and a user-friendly CONSOLE® software. It can be mounted easily under a table, behind a display, on a wall or in a rack.

Speakerphone

Our CHAT® product line of speakerphones includes affordable and stylish USB based personal and group speakerphones. CHAT speakerphones provide full-duplex and rich full bandwidth frequency response for superior audio clarity. CHAT products are designed for a wide variety of applications and devices (fixed or portable) for greatly enhanced collaboration wherever and whenever needed. CHAT speakerphones are offered either as personal speakerphones under CHAT 50, CHAT 60 or CHAT 70 SKUs or as group speakerphones under CHAT 150, CHAT 160 and CHAT 170 SKUs.

CHAT 50/60/70 personal speakerphones are approximately the size of a deck of cards, and connect to PCs and MACs for rich, clear, hands-free audio and playback. CHAT 150 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 150/160/170 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 150 group speakerphones which can be daisy-chained together to function as a single conferencing system for much larger coverage than a single CHAT 150. CHAT group speakerphones are integral to our media collaboration product line as our media collaboration products are tightly integrated with CHAT group speakerphones for high quality audio experience.

Tabletop Conferencing

Our tabletop conferencing product line offered under MAX® brand is comprised of the following product families: MAX EX and MAXAttach® wired conference phones; MAX Wireless and MAXAttach Wireless conference phones; and MAX IP and MAXAttach IP 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.

PROFESSIONAL MICROPHONES

Our microphones contributed 31.5% and 35.2% of our consolidated revenue in 2020 and 2019, respectively.

ITEM 1 - BUSINESS

Beamforming Microphone Array

ClearOne began shipping the first generation Beamforming Microphone Array in March 2013. This product works with CONVERGE Pro 880, CONVERGE Pro 880T, CONVERGE Pro 880TA and CONVERGE Pro 840T.

Beamforming Microphone Array 2, the next generation Beamforming Microphone Array started shipping in the last quarter of 2017 and affirmed ClearOne's clear industry leadership with the following outstanding features:

- Significantly enhanced and new echo cancellation, using direction of arrival determination for demanding acoustic environments.
- Acoustic intelligence with adaptive ambience - faster convergence and better adaptation to changes in room acoustics, such as ambient noise from chairs moving, doors closing, chatter in the background, or any spikes in sound that alter the path of the audio, using separate acoustic echo cancellation for each fixed beam and inhibiting beam selection when the far end is active.
- Dramatically better mic pickup, including using an augmenting microphone signal, sharpening the capability to detect softer voices.
- Natural and clearly intelligible audio, even when two people speak at once.
- Zero consumption of analog I/O and signal processing in the DSP mixer leaving those resources available for other needs.
- Single cable for power, audio and control.
- Two power options – P-Link and POE.
- Daisy-chains with all ClearOne P-Link devices and works with CONVERGE Pro 2 DSP AEC mixers.
- Easy configuration and management through CONSOLE software.

During the first quarter of 2019, the Company began shipping our patented Beamforming Microphone Array Ceiling Tile (BMA CT) to our partners. All of the innovations developed for the BMA CT make the integrator's job easier and more profitable. The BMA CT dramatically transforms how integrators can approach system design for ceiling tile installations, allowing for multi-array setups that can utilize a single, low-channel count DSP mixer while maintaining ClearOne's high level of performance and reliability. Further simplification comes from the array's built-in power amplifier, which allows each array to drive two 10-Watt, 8-Ohm loudspeakers. The BMA CT also features ClearOne's proprietary adaptive steering technology (think of it as smart switching). This provides impeccable room coverage while eliminating the need to adjust individual beams. Integrators can daisy chain ceiling tiles via P-Link (ClearOne's proprietary peripheral link) for larger conference setups – for simpler wiring and longer distances compared to networked home-run connections. P-Link also allows integrators to daisy chain additional peripherals such as wireless mics, USB Expanders, and GPIO Expanders. The system supports all of this functionality with zero consumption of analog I/O and signal processing in the DSP mixer leaving those resources available for other needs.

During the first quarter of 2020, we announced two new additions to our COLLABORATE Versa family of products. COLLABORATE® Versa Room CT, provides all the equipment and accessories needed for exceptional room cloud-based conferencing. At the heart of the system, is the USB audio-enabled Beamforming Mic Array Ceiling Tile (BMA CTH). Thanks to its onboard processing, the BMA CTH performs acoustic echo cancellation, noise cancellation, and beam selection, so no external DSP mixer is required. The array's adaptive steering (think of it as smart switching) provides impeccable room coverage. The Versa Room CT brings cost-effective professional conferencing audio to small and mid-sized meeting rooms. COLLABORATE Versa Lite CT is a USB audio enabled BMA CTH room solution. This solution dramatically enhances the audio experience for any cloud-collaboration application such as COLLABORATE Space, Zoom™, Microsoft® Teams, and Webex™, without the need for a DSP mixer. The system can be easily and quickly configured using ClearOne's CONSOLE® AI Lite software with Audio Intelligence™ and Auto Connect™. A laptop or a desktop PC can be connected to the BMA CTH directly through the USB port on the USB Expander to share room audio. The included 50-foot CAT6 cable connects the USB Expander to the BMA CTH.

During October 2020, we announced our new BMA 360, the world's most technologically advanced Beamforming Microphone Array Ceiling Tile, delivering unequaled audio performance and deployment ease. The ClearOne BMA 360 is the world's first truly wideband, frequency invariant beamforming mic array with uniform gain response across all frequency bands. With FiBeam™ technology, conference participants will experience the ultimate in natural and full fidelity audio across all beams and within a single beam. Deep sidelobe beamforming, DsBeam™, provides unparalleled maximum sidelobe depth, below -40 dB, resulting in superior rejection of reverberation and noise in difficult spaces for superb clarity and intelligibility.

ITEM 1 - BUSINESS

The BMA 360 is based on a dramatically new approach to beamforming that provides a new beam topology to easily achieve distortion-free, full 360-degree coverage of any room shape and any seating arrangement using ClearOne Audio Intelligence™. Further advancements in adaptive steering (think of it as smart switching) provide impeccable coverage of each conference participant as well as support for camera tracking. In addition to the advancements in beamforming technology, the 6G Acoustic Echo Cancellation (AEC) delivers unmatched per-beam full-duplex audio performance. On-board audio algorithms, like noise reduction, filtering, and Automatic Level Control, eliminate the need for per-beam processing in a DSP mixer - requiring fewer DSP mixer resources. Finally, robust built-in amplifiers, configurable as 4 x 15 Watt or 2 x 30 Watt, provide flexibility for driving loudspeakers. ClearOne's breakthrough technologies, FiBeam, DsBeam, and 6G AEC combine to create VividVoice™, a significant advancement for professional conferencing. The integrated features in the BMA 360 significantly reduce system design complexity, simplify installation, consume less rack space, and lower system cost. The BMA 360 also supports daisy-chaining of up to three ceiling tiles via P-Link for divisible rooms, or larger conference setups – for simpler wiring, longer distances, and lower-cost deployments compared to networked "home-run" connections via Ethernet. ClearOne's BMA technology is protected by at least a dozen patents and pending patent applications.

Ceiling Microphone Array

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.

This product line was further strengthened in 2018 by the introduction of the Ceiling Microphone Array Analog-X series of ceiling microphones. These products feature superior sound quality, adjustability for desired height from 0 to 7 feet and numbered microphone elements for easy identification. This product line was further expanded with the introduction of Ceiling Microphone Array Dante, a tri-element ceiling microphone array with built-in Dante audio networking for conferencing and sound reinforcement applications. Each Ceiling Microphone Array Dante utilizes three premium quality microphone elements to deliver 360-degree room coverage for boardrooms, conference rooms, telemedicine facilities and more. Dante networking technology offers simple installation with CAT5 or CAT6 cabling, and delivers uncompressed, multi-channel audio with near-zero latency and sample accurate time synchronization throughout the network.

Wireless Microphones

In 2013, ClearOne 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. Since the Sabine acquisition in 2014, our portfolio of wireless microphone systems was enhanced by the introduction of digital compressed versions, Dante standard compatible versions and more frequency ranges catering to various international markets.

During 2017, we started shipping DIALOG® 20, the two-channel wireless microphone system. Leveraging the full power of ClearOne's robust, adaptive frequency-hopping "spread" spectrum technology within the 2.4 GHz unlicensed spectrum, DIALOG 20 has several advantages over fixed-frequency transmission. DIALOG 20 incorporates flexible features and multiple options usually available only in much larger systems. While DIALOG 20 works seamlessly with all commercially available mixers, it boasts additional features when natively interfacing with our new CONVERGE Pro 2 or new Beamforming Microphone Array 2.

VIDEO

Our video products include video collaboration and AV networking products. Our video products contributed 30.9% and 18.4% of our consolidated revenue in 2020 and 2019, respectively.

Video Collaboration:

Our Media Collaboration suite of products is led by our comprehensive portfolio of industry-leading COLLABORATE® branded videoconferencing and collaboration solutions.

COLLABORATE Live 300 includes a free 90-day COLLABORATE Space web conferencing subscription, a Skype for Business client, SIP/H.323 video conferencing, wireless presentation and interactive whiteboard capabilities — along with one CHAT 150 speakerphone and one UNITE 150 PTZ camera with 1080p30, 12x optical zoom. COLLABORATE Live 300 succeeded COLLABORATE Pro 300, which included video appliance, UNITE® 150 camera, CHAT® 150C speakerphone and 90-days subscription to Spontania cloud video, audio and web conferencing, SIP/H.323 video conferencing, in-room wireless presentation and optional Skype® for Business native integration.

COLLABORATE Live 600 is a video collaboration system that delivers crystal-clear, full-duplex audio for medium-sized conference room environments. It offers the same suite of built-in video conferencing capabilities, the UNITE 200 PTZ camera, an ultra-friendly user interface, and a 90-day free COLLABORATE Space trial subscription. For audio, the system features two ClearOne CHAT® 150 speakerphones that daisy chain with CHATAttach® for crystal-clear audio quality. COLLABORATE Live 600 succeeded COLLABORATE Pro 600, which included video appliance, UNITE 200 camera, CHATAttach® 150 speakerphones, and 90-days subscription to Spontania cloud video, audio and web conferencing, SIP/H.323 video conferencing with 4-way built-in MCU, in-room wireless presentation, optional Skype for Business native integration, capture recording and streaming. This solution is targeted at medium-size rooms.

For large-sized boardrooms, auditoriums, conference rooms, lecture halls, courtrooms, training centers and telemedicine facilities, COLLABORATE Live 900 delivers a complete professional quality collaboration system solution featuring a powerful combination of video components integrated with the most advanced audio DSP technology for the richest possible large meeting room collaboration experience. COLLABORATE 900 features a suite of built-in video conferencing capabilities including a Skype® for Business client, SIP/H.323 video conferencing, wireless presentation, interactive whiteboard, recording and streaming and a user interface that's as simple and familiar as the interface found on a tablet or mobile device. It also includes a CONVERGE® Pro 2 DSP mixer, the industry's most advanced audio processor and ClearOne's Beamforming Microphone Array 2, which features adaptive steering technology (think of it as smart switching) to provide unsurpassed audio pick-up coverage of an entire room. For high-quality video capture of all participants in the room, the COLLABORATE Live 900 comes with the UNITE® 200 PTZ 1080p60 camera with 12x optical zoom. The system also includes a 90-day free trial of the ClearOne COLLABORATE Space cloud-based video conferencing application. COLLABORATE Live 900 succeeded COLLABORATE Pro 900, which included video appliance, UNITE 200 camera, CONVERGE® Pro installed audio endpoint, Beamforming Microphone Array and 90-days subscription to Spontania cloud video, audio and web conferencing, SIP/H.323 video conferencing with 4-way built-in MCU, multi-user in-room wireless presentation, optional Skype for Business native integration, capture recording and streaming. This solution is targeted at medium and large-size rooms.

COLLABORATE Live 1000 includes ClearOne's newest beamforming microphone product, the Beamforming Microphone Array Ceiling Tile (BMA CT). COLLABORATE Live 1000 also includes COLLABORATE Space cloud conferencing, Skype® for Business client, SIP/H.323 video conferencing, wireless presentation, interactive whiteboard, recording, and streaming. The system comes complete with the CONVERGE Pro 2 48VT DSP mixer, the industry's most advanced audio processor, and a user interface that's as simple and familiar as that found on a tablet or mobile device. A UNITE® 200 PTZ 1080p60 camera with 12x optical zoom ensures high-quality capture of all room participants.

Rounding out ClearOne's new COLLABORATE Live product line is COLLABORATE Live 200, a new video collaboration system with ultra-wide angle video capture, which is critical for viewing all conference participants in huddle spaces and smaller room environments. Designed specifically to meet huddle space budgets, COLLABORATE Live 200 features the UNITE 50 EPTZ 1080p30 camera with 3x digital zoom and a 120-degree wide-angle field of view. Other features are similar to those found in the COLLABORATE Live 300 system, including the free 90-day COLLABORATE Space subscription.

Our Media Collaboration series also include COLLABORATE Space, a suite of solutions that unifies messaging, calls, meetings and, perhaps most importantly, minds in a way that will energize workflows and increase productivity for everyone involved in the enterprise. Designed as a persistent, user-friendly collaboration suite, COLLABORATE Space contains many powerful UCC capabilities, as well as the seamless ability to make calls outside the network. By adding phone credits on the account, customers can reach anyone in the world on a standard landline or mobile phone with the system's integrated phone dialer.

ITEM 1 - BUSINESS

With COLLABORATE Space, users can work together one-on-one, or in groups of hundreds, with integrated file sharing, searchable archives, and user presence information. They can connect with colleagues and contacts, via audio and video, with the most intuitive collaboration tools. Users can meet immediately or schedule a meeting and access a full suite of collaboration features, including file sharing, whiteboarding, annotation, chat, and meeting minutes. Team members wishing to move from email can also create searchable private and public channels, organized by topic, which can be accessed from anywhere. They can also search, access and store agendas, notes, messages, documents, whiteboards, session recordings, and more. Finally, COLLABORATE Space runs on any device, from desktop to mobile, and on any standards-based video endpoint.

COLLABORATE Space Enterprise has all the functionality people have come to expect from a full-featured cloud collaboration app, with the increased security and full, enterprise control associated with on-premise platforms. In addition to “Enterprise” platform, COLLABORATE Space is available in cloud-based “Basic” and “Pro” versions.

COLLABORATE Space was preceded by Spontania cloud video, audio and web conferencing service that can be deployed on-premises or in the cloud. Spontania offered all sorts of collaboration tools such as screen sharing, application sharing, whiteboard, annotation over presentation, recording, hand-raise and chat. The service is targeted for any workspace including mobile, desktop and rooms of any size; and multiple use cases including meetings, classrooms and training sessions.

COLLABORATE Space, our powerful cloud-based collaboration solution, added two new valuable features in 2020 - webinar hosting and Web RTC. COLLABORATE Space Pro and Enterprise meeting plans can be upgraded to include the new Webinar feature allowing session hosts to conduct video and audio presentations for up to 1000 participants. The new Web RTC feature works with all popular browsers including Microsoft Edge, Google Chrome, Safari and Mozilla Firefox. The new Web RTC feature enables users to easily join full-featured COLLABORATE Space audio and video meetings using a browser with no downloads or plug-ins required. Users can accept meeting, webinar, and classroom invitations and join with a single click; easily sharing and viewing content within a browser window. COLLABORATE Space also added a feature where Microsoft Teams users can now enjoy a richer collaboration than that available within the Teams environment today. This richer collaboration experience includes better video quality, support for multiple cameras, support for multiple displays, and a persistent meeting space where chats, audio and video recordings, documents, meeting minutes, whiteboard sessions, and more can be shared in private or public channels for later access. Users can easily initiate a Space video meeting or join an existing Space video meeting within the MS Teams environment. Bring your own video and web conferencing – COLLABORATE Versa series offer a USB PTZ camera, a speakerphone and a central hub that connects the laptop to the meeting room peripherals via single USB 3.0 connectivity. COLLABORATE Versa, compatible with Cisco WebEx®, Google Hangouts®, Microsoft Skype for Business® and more, is also bundled with 90-days subscription of Spontania cloud video, audio and web conferencing. This solution is targeted at huddle spaces and medium conference rooms.

COLLABORATE Versa 50 features a ClearOne UNITE® 50 EPTZ 3x zoom 1080p30 camera to capture all participants in the room; a central hub for connecting to dual displays, cameras, audio endpoints, networks and other peripherals; a CHAT® 150 speakerphone with advanced audio processing for a rich conferencing experience; and a complimentary 90-day trial of COLLABORATE Space, ClearOne’s powerful cloud-based audio and video conferencing applications.

The COLLABORATE Versa Pro 50 addresses today’s AV collaboration needs for COLLABORATE Space, MS Teams, Skype® for Business, Zoom, WebEx, GoToMeeting and Spontania with a complete huddle space solution. It features a CONVERGE® Huddle audio DSP mixer for a professional audio experience, a ClearOne UNITE® 50 EPTZ 3x zoom 1080p30 camera, a ceiling microphone array with 360-degree coverage reducing reverberation and noise, and a complimentary 90-day trial of ClearOne COLLABORATE Space. Customers purchasing the COLLABORATE Versa Pro 150 get upgraded to a 1080p30 UNITE® 150 PTZ camera with 12x optical zoom.

COLLABORATE Versa Pro CT, includes a Huddle DSP mixer and the Huddle-compatible and patented BMA CTH that is a perfect fit for small-to medium-sized rooms. The COLLABORATE Versa Pro CT is a great room solution for Bring Your Own Device (BYOD) collaboration using any cloud-based service. such as COLLABORATE® Space, Microsoft® Teams, WebEx®, Zoom®, and more. The system includes the Company’s new BMA CTH Beamforming Microphone Array Ceiling Tile with built-in AEC, providing the same impeccable room coverage as the BMA CT using adaptive steering (think of it as smart switching). The COLLABORATE Versa Pro CT system also includes mic/line inputs with AEC, line outputs, 4x10 Watt power amps, USB audio, mobile phone jack, and HDMI. The system comes preloaded with a project file ready for the most common room configuration. Or it can be further configured using CONSOLE® AI software, now with enhanced visualization and Audio Intelligence.

Additionally, both COLLABORATE Versa Pro 50 and Versa Pro 150 solutions feature a CONVERGE® Huddle audio DSP mixer for a professional audio experience, a Ceiling Microphone Array with 360-degree coverage that reduces reverberation and noise; and an optional clutter-free CONVERGE Huddle VESA mount.

UNITE 200/150 is a professional-grade PTZ camera series supporting USB, HDMI and IP connectivity. It delivers 1080p HD resolution, 12X optical zoom and is compatible with PC-based and Pro-AV applications, supporting wide range of meeting spaces.
UNITE 50 4K camera is plug-and-play ready with 120-degree field-of-view, digital zoom and pairs easily with any microphone/speaker combination. The UNITE 50 4K camera's ultra-wide-angle field-of-view is ideally suited for PC-based video conferencing, web conferencing and unified communications, and other collaboration experiences in huddle spaces and small conference rooms. The camera also supports the USB Video Class (UVC) 1.1 standard for maximum compatibility with a wide variety of cloud and room-based solutions. Along with 4K30 resolution, the autofocus camera features 3x digital zoom and a full-function USB 3.0 interface for video and power. Its wide dynamic range provides support for optimal image capture — critical for all video conferencing.

During April 2020, we introduced UNITE 20 Pro Webcam, which easily mounts on a PC or laptop to provide full 1080p30 image with an ultra wide-angle field-of-view up to 120°. A super-high signal-to-noise ratio and advanced 2D and 3D noise reduction provides superior desktop camera video quality.

AV Networking

Our AV networking products are primarily sold under VIEW® Pro and VIEW Lite brands and 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. VIEW Pro 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. Alternatively, any PC, laptop, tablet, iPod, or other device with a built-in web browser can control the equipment connected to the system. VIEW Pro 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. The number of devices could be determined by the network bandwidth availability, number of media streams and its bandwidth requirements.

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 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.

VIEW Pro solution provides 1080p60, H.264 high definition HDMI video-audio, 4:4:4 true-color, 24 bit per pixel video output. It comes with dual inputs encoder, single input encoder and single output decoder with balanced audio, general purpose control ports and clock synchronized video output. VIEW Pro system also provides PANORAMA™, a multi-view video composition and video-wall software application using its built-in video processing engine, without using external expensive hardware video processors. This continues to be truly differentiated in the professional market by offering complete AV streaming and distribution systems that can scale to fulfill projects of any size and complexity, from light commercial to the very largest environments. VIEW Pro products include E110 and E120 encoders and D110, D210 and D310 decoders. VIEW Pro solution also comes with multiple license options including audio mixing, video composition, video wall, multicast RTSP and local playback.

VIEW CONSOLE software gives integrators a comprehensive platform from which to configure, manage, monitor, and control VIEW Pro system installation using an easy, modern interface. The new toolset, which spotlights the latest in advanced software development technologies, works across ClearOne's full line of VIEW Pro products. In 2017, we released an updated version of VIEW CONSOLE and PANORAMA software applications.

During 2018, our AV Networking line of products was strengthened by the introduction of VIEW Lite. The VIEW Lite series which includes an encoder, a decoder and a controller, provide essential functionality that meets the full needs of simple AV over IP applications while simultaneously delivering superb price-to-performance value.

ITEM 1 - BUSINESS

PROFESSIONAL AUDIO AND VIDEO HOME OFFICE SOLUTIONS

During November 2020, we introduced Aura™, a comprehensive range of Good, Better and Best packages of enterprise quality audio, video, audio-video options and a free COLLABORATE® Space lifetime subscription, the award-winning video collaboration app to meet the growing home office market demand for professional audio and video collaboration solutions that match the quality found in a traditional corporate office.

COVID 19 pandemic had brought long lasting changes to the workplace. Home has become the new office for tens of millions of professionals who now need a work environment every bit as productive as their corporate office. Aura was developed to deliver that much-needed enterprise quality experience in the home. For homeowners, prospective homebuyers, builders, architects and designers, the purpose-built home office is rapidly replacing the home theater in importance. Aura solutions are geared for high performance professionals across multiple industries. Aura meets this growing need for easy to purchase and install commercial quality solutions that deliver HDConference® audio and true-to-life video technology through a variety of professional microphone, audioconferencing, videoconferencing, camera and collaboration component choices that optimize home office acoustic and aesthetic aspirations. Designed to be easily installed by both homeowners and installers, Aura owners are also supported by a dedicated sales and support team that is available 24/7.

MARKETING AND SALES

We use a two-tier channel model through which we sell our commercial products to a worldwide network of independent professional 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-visual consultants. We also sell our commercial products directly to certain dealers, systems integrators, value-added resellers, and end-users.

Our product sales generated in the United States and outside the United States for the years ended December 31 are as follows:

Revenue in millions	2020		2019	
	Revenue	%	Revenue	%
In the United States	$ 18.0	62%	$ 13.5	54%
Outside United States	11.1	38%	11.6	46%
	$ 29.1	100%	$ 25.1	100%

We sell directly to our distributors and resellers in approximately 56 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 312 distributors and direct resellers throughout the world during 2020. Distributors and resellers purchase our products at a discount from list price and resell them worldwide to hundreds of independent systems 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

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. We also conduct public relations initiatives to get press coverage and product reviews in industry and non-industry publications alike.

Customers

Since we sell through distributors and value-added resellers, we do not have comprehensive information on end-users who ultimately use our products. As a result, we do not know whether any end-user accounted for more than 10% of our total revenue during any of the periods reported in this Annual Report. Our customers are distributors and value-added resellers. During the year ended December 31, 2020, no distributor accounted for more than 10% of our total consolidated revenue. During the year ended December 31, 2019 one distributor with approximately 11% of the consolidated revenue accounted for more than 10% of consolidated revenue .

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 orders fulfilled on which we had not recognized revenue were $0.1 million and $0.2 million as of December 31, 2020 and 2019, respectively. We had a backlog of unfulfilled orders of approximately $1.0 million and $0.2 million as of December 31, 2020 and 2019, respectively.

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. It is critical for our success to be able to defend our intellectual property including trademarks, trade secrets and patents from our competitors who have far more resources.

We believe the following principal factors drive our sales:

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

ITEM 1 - BUSINESS

In the professional audio conferencing system and sound reinforcement markets our main competitors include AcousticMagic, Biamp, BOSE, Crestron, Extron, Harman (Samsung), Peavey, Phoenix Audio, Poly, QSC, Shure, Symetrix, Vaddio and Yamaha and any original equipment manufacturing (OEM) partners, along with several other companies potentially poised to enter the market.

Our primary competitors in the USB-based speakerphones market are Jabra, Logitech, Phoenix Audio, Plantronics, Poly, Sennheiser, Yamaha and Yealink and any OEM partners.

In the tabletop conference phones, we face significant competition from Avaya/Konftel, Phoenix Audio, Poly, Yamaha and Yealink, and from any OEM partnerships. A significant portion of the tabletop market is covered by sales through OEM partnerships.

In the microphones market, our primary competitors include AKG, Audio Technica, Audix, Avlex/Mipro, Beyerdynamic, Biamp, Clock Audio, Lectrosonics, Nureva, Mediavision/Taiden, Poly, Phoenix Audio, Sennheiser, Shure, TeachLogic, TOA, Yamaha and Vaddio and any OEM partners.

Our video conferencing products face tremendous competition from well established players as well as emerging players, including Acano/CISCO, Adobe Connect, Amazon Chime, Avaya (Radvision), Aver, Barco, Blackboard Collaborate, Blue Jeans, Cisco, Citrix, Fuze, Huawei, InFocus, Kramer, LifeSize, Magor, Pexip, Poly, Microsoft, Starleaf, UNIFY, Videxio, Vidyo, Yealink, Zoom and ZTE.

Our AV networking products face intense competition from a few well-established corporations of diversified capabilities and strengths, including Atlona, Aurora Multimedia, Barco, Biamp, Crestron, Extron, Gefen, Haivision, Hall Research, Harman, Infocus (Jupiter), Key Digital, Kramer, Liberty AV, Magenta Research, Matrox, Mediasite, Ncast, RGB Spectrum, voLANte, Teracue, tvONE, VBrick, Visionary Solutions, WyreStorm and ZeeVee. We believe that our software based patented technology delivers superior audio and video streaming performance and flexibility and provides us with a competitive edge over other industry players.

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. During 2020, we witnessed a significant tightening of the electronics market with demand for electronic products especially for memories and processors far exceeding the supply caused price increases and longer fulfillment cycles. COVID-19 completely disrupted the entire supply chain and extended the already lengthy fulfillment cycles. Continued tariff wars between USA and China created more uncertainty with respect to pricing and consequently affected the supply chain.

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 are manufactured by EMS providers. Our primary EMS provider is Flextronics.

Seasonality

We do not recognize a consistent pattern between the quarters to identify seasonality.

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 $5.5 million and $5.8 million during the years ended December 31, 2020 and 2019, respectively.

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, (c) video technologies, and (d) cloud technologies. We also have expertise in wireless technologies, VoIP, software and network 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.

As of December 31, 2020, we had approximately 85 patents and 10 pending patent applications, including foreign counterpart patents and foreign applications. Our patents and pending patent applications cover a wide range of our products and services including, but not limited to acoustic echo cancellation, beamforming microphone arrays, systems that enable streaming media over IP networks, algorithms for video processing, wireless conferencing systems, spatial audio, and technologies for the Internet of Things. The durations of our patents are determined by the laws of the country of issuance. For the U.S., patents may be 17 years from the date of issuance of the patent or 20 years from the date of its filing, depending upon when the patent application was filed. In addition, we hold numerous U.S. trademarks. The laws of foreign countries may not protect our intellectual property to the same degree as the laws of the United States.

We will obtain patents and other intellectual property rights used in connection with our business when practicable and appropriate. Our intellectual property policy is to protect our products, technology and processes by asserting our intellectual property rights where appropriate and prudent. From time to time, assertions of infringement of certain patents or other intellectual property rights of others have been made against us. In addition, the Company is involved in patent infringement lawsuits against Shure Inc. ("Shure"). See Note 8 – Commitments and Contingencies – Legal Proceedings – Intellectual Property Litigation for a discussion of these legal proceedings.

We are dependent on our intellectual property. If we are not able to protect our proprietary rights or if those rights are invalidated or circumvented, our business may be adversely affected. We may be subject to litigation and infringement claims, which could cause us to incur significant expenses or prevent us from selling our products or services. For more information concerning the risks related to patents, trademarks, and other intellectual property, please see "Risk Factors-Risks Related to our 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, 2020, we had 126 full-time employees. Of these employees, 76 were located in the U.S. and 50 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.

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. Our success is dependent in part on obtaining, maintaining and enforcing our intellectual property rights. If we are unable to obtain, maintain and enforce intellectual property legal protection covering our products, then 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 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. We currently hold only a limited number of patents. To the extent that we have patentable technology that is material to our business and 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, which could have a material adverse effect on our business. With respect to any patent application we have filed, we cannot ensure that a patent will be awarded.

ITEM 1A - RISK FACTORS

We are currently subject to patent litigation, including claims challenging the validity and enforceability of some of our patents, which could cause us to incur significant expenses or prevent us from protecting our products or services against competing products.

Our industry is characterized by vigorous protection of intellectual property rights. We have initiated litigation to enforce our intellectual property rights, which has resulted in our adversaries in such litigation challenging the validity, scope, and/or enforceability of our intellectual property. Irrespective of the merits of these claims, any resulting litigation could be costly and time consuming and could divert the attention of management and key personnel from other business issues. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. See Part I, Item 3. Legal Proceedings and Note 8 – Commitments and Contingencies of the Notes to Consolidated Financial Statements (Part II, Item 8) for information regarding current legal proceedings involving our intellectual property rights.

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.

A material weakness was identified in our internal control over financial reporting. If we fail to maintain effective internal control over financial reporting in the future, we may be unable to report our financial results accurately on a timely basis, investors could lose confidence in our reported financial information, the trading price of our common shares could decline and our access to the capital markets or other financing sources could become limited.

In connection with the audit of our consolidated financial statements as of December 31, 2017, our independent registered public accounting firm identified deficiencies in our system of internal control over financial reporting that it considered to be a material weakness related to the accurate and timely reporting of our financial results and disclosures for the fiscal year ended December 31, 2017 and our testing and assessment of the design and operating effectiveness of internal controls over financial reporting in a timely manner. The Public Company Accounting Oversight Board's Auditing Standard No. 5 defines a material weakness as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. See Part II, Item 9A, “Controls and Procedures.”

We initiated remedial measures and conducted an evaluation of the effectiveness of our internal control over financial reporting for the years 2019 and 2020 based on the framework set forth in *Internal Control - Integrated Framework* (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and concluded that remediation of the material weakness identified during the 2017 audit has been completed.

We conducted an evaluation of the effectiveness of our internal control over financial reporting for years 2019 and 2020 based on the framework set forth in *Internal Control - Integrated Framework* (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission, concluding that our internal control over financial reporting was effective as of December 31, 2019 and December 31, 2020, respectively.

However, there can be no assurance that these actions, as well as further actions we may take, will allow us to prevent any material weakness in the future and provide a solid foundation to meet our reporting obligations under the Exchange Act. If we fail to implement and maintain effective internal control over financial reporting, or if additional material weaknesses or any significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements, and we could be required to restate our financial results. In addition, if we are unable to successfully remediate future material weakness and if we are unable to produce accurate and timely financial statements, our stock price may be materially adversely affected and we may be unable to maintain compliance with applicable stock exchange listing requirements.

ITEM 1A - RISK FACTORS

We have identified two significant deficiencies in internal control over financial reporting, and if we fail to maintain effective internal controls over financial reporting, the price of our common stock may be adversely affected.

We are required to establish and maintain appropriate internal controls over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely impact our public disclosures regarding our business, financial condition or results of operations. Any failure of these controls could also prevent us from maintaining accurate accounting records and discovering accounting errors and financial fraud.

In the course of completing its assessment of internal control over financial reporting as of December 31, 2020, management did not identify any material weaknesses but did identify the continued existence of two significant deficiencies in the lack of end user segregation in our accounting system and a failure to following update procedures relating to updating inventory standard costs. Specifically, management believes that we may not be able to adequately segregate responsibility over financial transaction processing and reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting, that is less severe than a material weakness yet important enough to merit attention by those responsible for oversight of the Company’s financial reporting. Although we are unable to remediate the end user segregation significant deficiency with current personnel, we are mitigating its potential impact, primarily through a review of all employee’s access rights in our accounting system.

In addition, management’s assessment of internal controls over financial reporting may identify additional weaknesses and conditions that need to be addressed or other potential matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in our internal control over financial reporting or disclosure of management’s assessment of our internal controls over financial reporting may have an adverse impact on the price of our common stock.

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 both parties, 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 loss of revenues from these and other sources or 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 been providing inventory reports consistently and the inventory was bought within the six months preceding the price adjustment date. 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.

ITEM 1A - RISK FACTORS

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 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 outside the U.S. 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, 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 large portion of our products.

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.

EMS providers often require long range forecasts to help them plan their operations as well as to allocate their resources. We are tied to these forecasts through contracts as well as to maintain harmony in business relationships. Our ability to react to actual demand from our customers and order optimum levels of inventory is severely limited due to these forecasts provided to the EMS providers. Our inability to accurately forecast our future demands could lead to either excess inventory causing potential inventory obsolescence and cashflow problems or shortage in inventory causing potential loss of revenue.

Additionally, the sourcing and availability of raw materials necessary for our EMS providers to manufacture certain of our products, including "conflict minerals" has been and could continue to be significantly constrained, which is likely to result in continued elevated price levels. Furthermore, compliance with SEC disclosure and reporting requirements in the future regarding the use of "conflict minerals" mined from the Democratic Republic of Congo and adjoining countries could adversely affect the sourcing, supply and pricing of materials used in our products. 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 economic growth in large emerging markets such as China and India, 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.

ITEM 1A - RISK FACTORS

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.

Difficulties in integrating future acquisitions could adversely affect our business.

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 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 any future acquisitions we may make.

Profitability could be negatively impacted if we do not adequately forecast the demand for our products and are unable to monetize our long-term inventories.

We hold approximately $4.6 million in long-term inventories. There can be no assurance that we will be able to successfully anticipate changing consumer preferences and product trends or economic conditions and, as a result, we may not successfully monetize our long-term inventory. Inventory levels in excess of consumer demand may result in inventory write-downs and the sale of excess inventory at discounted prices, which could have an adverse effect on the image and reputation of our brands and negatively impact profitability.

Conditions in China, India, Spain and United Arab Emirates may affect our operations.

We have different teams working outside the U.S. in China, India, Spain and United Arab Emirates offering various services including research and development, sales and marketing, and manufacturing operations support. Our ability to operate the company smoothly may be affected significantly if either one or more of these countries are adversely impacted by political, economic, security and military conditions in these countries.

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.

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:

ITEM 1A - RISK FACTORS

- 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. In addition, given the current political climate regarding the U.S. immigration laws, we may not be able attract highly-skilled technical employees from abroad.

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 of 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.

ITEM 1A - RISK FACTORS

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our employees, customers, licensors, vendors and business partners, including personally identifiable information of our customers and employees, in our data centers and on our networks. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Security breaches have occurred with increased frequency and sophistication in recent years. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, disrupt our operations, and damage our reputation, which could adversely affect our business.

We may require additional financing to fund future operations, which may not be available to us on acceptable terms or at all.

As of December 31, 2020, we had approximately $3.8 million of cash and cash equivalents. Although we anticipate having sufficient cash on hand, cash from future operations and cash from the sale of marketable securities to fund our operations for the next twelve months, there can be no assurance that efforts to enforce our patents will be successful or that our marketing and sales efforts will progress as anticipated or that our cash generated from operations will be as expected, and we may need additional debt or equity financing in the next twelve months to execute our business plan and to be able to continue as a going concern. If in the future, we fail to satisfy the continued listing standards of NASDAQ, we may not be able to sell shares of our common stock. Accordingly, if additional debt or equity financings are needed, market conditions may limit our ability to raise capital on favorable terms, or at all, and the terms of any public or private offerings of debt or equity securities likely would be significantly dilutive to existing shareholders.

Risks Relating to Share Ownership

Global Financial, Economic and Social Conditions Could Deteriorate.

Our business could be materially affected by conditions in the global financial markets and economic conditions generally. The recent outbreak of a novel coronavirus, which causes the disease now known as COVID-19, was first identified in December 2019 in Wuhan, China, and has since spread globally. Government efforts to contain the spread of the coronavirus through lockdowns of cities, business closures, restrictions on travel and emergency quarantines, among others, and responses by businesses and individuals to reduce the risk of exposure to infection, including social distancing in the form of reduced travel, cancellation of meetings and public and private events, and implementation of work-at-home policies, among others, have caused significant disruptions to the global economy and normal business operations across a growing list of sectors and countries, including in the United States. The foregoing have, and are likely to continue to adversely affect business confidence and consumer sentiments, and have been, and may continue to be, accompanied by significant volatility and declines in financial markets and asset values. The spread of the coronavirus, particularly if its development into a worldwide health crisis worsens, also may have broader macro-economic implications, including reduced levels of economic growth and possibly a global recession, the effects of which could be felt well beyond the time the pandemic is contained, and which could adversely affect demand for our products and our results of operations and financial condition. The impact of COVID-19 on any of our suppliers, co-manufacturers, distributors or transportation or logistics providers may negatively affect the price and availability of our products and impact our supply chain. If the pandemic continues to evolve into a severe worldwide health crisis, the disease could have a material adverse effect on our business, results of operations, financial condition and cash flows and adversely impact the trading price of our common stock.

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;
- 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.

Our stock price may in the future not meet the minimum bid price for continued listing on the Nasdaq Capital Market. Our ability to publicly or privately sell equity securities and the liquidity of our common stock could be adversely affected if we are delisted from The Nasdaq Capital Market.

Nasdaq Listing Rule 5450(a)(1) provides that the closing bid price for our common stock may not be below $1.00 per share for any period of 30 consecutive trading days to maintain our continued listing on The Nasdaq Capital Market ("Minimum Bid Price Rule"). Although we are currently in compliance with the Minimum Bid Price Rule, there can be no assurance that our common stock will continue to satisfy this rule. If we were to fail to comply with the Minimum Bid Price Rule in the future and became subject to delisting, such delisting from Nasdaq would adversely affect our ability to raise additional financing through the public or private sale of equity securities, would significantly affect the ability of investors to trade our securities and would negatively affect the value and liquidity of our common stock. Delisting also could have other negative results, including the potential loss of confidence by employees, the loss of institutional investor interest and fewer business development opportunities.

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

As of December 31, 2020, there were outstanding options to acquire approximately 843,446 shares of our common stock at a weighted average exercise price of $6.60 per share. 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, such as the Rights Offering that we completed in December 2018 and the Notes and Warrants that we issued in December 2019, 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.

ITEM 1A - RISK FACTORS

If equity research analysts do not publish research or reports about our business or if they issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.

The liquidity of the trading market for our common stock may be affected in part by the research and reports that equity research analysts publish about us and our business. We do not control the opinions of these analysts. The price of our stock could decline if one or more equity analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business.

Write off of capitalized legal expenses related to our defense of patents could negatively impact our net income and stockholders' equity.

Our intangible assets include capitalized legal expenses net of amortization of $16.6 million related to our defense of patents from infringement by our competitors. Legal expenses have been capitalized upon satisfaction of two conditions: (a) a determination being made that a successful defense of this litigation is probable, and (b) that the monetary benefits arising out of such successful defense will be in excess of the costs for the defense. If either one of these conditions fail to be satisfied in the future, the carrying amount in the books may have to be written off either completely or partially. There can be no assurance that we will be successful in the defense of these litigation claims, in whole or in part.

Our certification of incorporation designates the Court of Chancery in the State of Delaware as the sole and exclusive forum for certain actions or proceedings that may be initiated by our stockholders, which could discourage claims or limit stockholders' ability to make a claim against the Company, our directors, officers, and employees.

Our certificate of incorporation states that unless we consent in writing to the selection of an alternative forum, the Court of Chancery in the State of Delaware shall be the sole and exclusive forum for any stockholder to bring (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim for breach of a fiduciary duty owed by any director, officer, employee or agent of the Company to the Company or the Company's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our certificate of incorporation or our bylaws or (iv) any action asserting a claim governed by the internal affairs doctrine, in each case subject to the Delaware Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein.

These exclusive forum provisions do not apply to claims under the Securities Act or the Exchange Act. The exclusive forum provision may discourage claims or limit stockholders' ability to submit claims in a judicial forum that they find favorable and may create additional costs as a result. If a court were to determine the exclusive forum provision to be inapplicable and unenforceable in an action, we may incur additional costs in conjunction with our efforts to resolve the dispute in an alternative jurisdiction, which could have a negative impact on our results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

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

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

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

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

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

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

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-Legal Proceedings 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 is traded on the NASDAQ Capital Market under the symbol CLRO. On March 30, 2021, there were 18,775,773 shares of our common stock issued and outstanding held by approximately 300 shareholders of record. Each broker dealer or a clearing corporation that holds shares for customers is counted as a single shareholder of record.

Dividends

The Company paid a cash dividend of $0.07 per share of ClearOne common stock in the first quarter of 2018. As part of the focus on preserving cash in connection with our litigation to defend our strategic patents from infringement, on June 13, 2018, the Company announced the suspension of its dividend program until such time as the Company deems it appropriate to once again declare dividends.

Issuer Purchases of Equity Securities

None.

Sales of Unregistered Securities

None.

ITEM 6. SELECTED CONSOLIDATED 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

ClearOne is a global market leader enabling conferencing, collaboration and network streaming solutions. The performance and simplicity of our advanced, comprehensive solutions offer unprecedented levels of functionality, reliability and scalability.

We derive a major portion of our revenue from audio conferencing products and microphones by primarily promoting our products in the professional audio-visual channel. We have extended our total addressable market from the installed audio conferencing market to adjacent complementary markets – microphones, video collaboration and AV networking. We have achieved this historically through strategic technological acquisitions as well as by internal product development.

During the first quarter of 2020, we announced two new additions to our COLLABORATE Versa family of products. COLLABORATE® Versa Room CT, provides all the equipment and accessories needed for exceptional room cloud-based conferencing. At the heart of the system, is the USB audio-enabled Beamforming Mic Array Ceiling Tile (BMA CTH). Thanks to its onboard processing, the BMA CTH performs acoustic echo cancellation, noise cancellation, and beam selection, so no external DSP mixer is required. The array's adaptive steering (think of it as smart switching) provides impeccable room coverage. The Versa Room CT brings cost-effective professional conferencing audio to small and mid-sized meeting rooms.

COLLABORATE Versa Lite CT is a USB audio enabled BMA CTH room solution. This solution dramatically enhances the audio experience for any cloud-collaboration application such as COLLABORATE Space, Zoom™, Microsoft® Teams, and Webex™, without the need for a DSP mixer. The system can be easily and quickly configured using ClearOne's CONSOLE® AI Lite software with Audio Intelligence™ and Auto Connect™. A laptop or a desktop PC can be connected to the BMA CTH directly through the USB port on the USB Expander to share room audio. The included 50-foot CAT6 cable connects the USB Expander to the BMA CTH.

During February 2020, we announced a new Touch-Panel Controller, a highly intuitive 10-inch touch-screen device, designed for ClearOne's CONVERGE® Pro 2 audio DSP mixers as well as COLLABORATE Live video conferencing room systems. Paired with CONVERGE Pro 2 DSP mixers, users can make and receive PSTN and/or VoIP conference calls, and multiparty calls with the easy-to-use on-screen dial pad. When paired with COLLABORATE Live, users can make and receive video calls as well as manage content sharing options.

COLLABORATE Space, our powerful cloud-based collaboration solution, added two new valuable features - webinar hosting and Web RTC. COLLABORATE Space Pro and Enterprise meeting plans can be upgraded to include the new Webinar feature allowing session hosts to conduct video and audio presentations for up to 1000 participants. The new Web RTC feature works with all popular browsers including Microsoft Edge, Google Chrome, Safari and Mozilla Firefox. The new Web RTC feature enables users to easily join full-featured COLLABORATE Space audio and video meetings using a browser with no downloads or plug-ins required. Users can accept meeting, webinar, and classroom invitations and join with a single click; easily sharing and viewing content within a browser window. COLLABORATE Space also added a feature where Microsoft Teams users can now enjoy a richer collaboration than that available within the Teams environment today. This richer collaboration experience includes better video quality, support for multiple cameras, support for multiple displays, and a persistent meeting space where chats, audio and video recordings, documents, meeting minutes, whiteboard sessions, and more can be shared in private or public channels for later access. Users can easily initiate a Space video meeting or join an existing Space video meeting within the MS Teams environment.

During April 2020, we introduced UNITE 20 Pro Webcam, which easily mounts on a PC or laptop to provide full 1080p30 image with an ultra wide-angle field-of-view up to 120°. A super-high signal-to-noise ratio and advanced 2D and 3D noise reduction provides superior desktop camera video quality.

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

During July 2020, we were awarded a significant new patent relating to beamforming microphone array technology by the US Patent and Trademark Office. ClearOne's innovative new patent, US Patent No. 10,728,653 (the "'653 Patent"), describes a ceiling tile microphone that includes beamforming, acoustic echo cancellation, and adaptive acoustic processing that automatically adjusts to a room configuration. There is no language in the claims of the new patent limiting its scope to flush-mounted ceiling tile beamforming microphone arrays, as opposed to non-flush mounted ceiling tile beamforming microphone arrays. The '653 Patent is a member of a family of patents and applications that includes US Patent No. 9,813,806 (the "'806 Patent"). That patent family includes issued patents and patent applications that cover ceiling tile and wall tile embodiments of beamforming microphone arrays, as well as augmentation of beamforming microphone arrays with non-beamforming microphones.

During September 2020, we shipped Conference Controller with 10-inch touch screen designed for easy control of ClearOne's CONVERGE® Pro 2 audio DSP mixers as well as COLLABORATE® Live video conferencing room systems from a single device. The Conference Controller functions can also be conveniently accessed from a personal mobile device, eliminating the need for touching shared surfaces by downloading the free mobile apps. A perfect addition to ClearOne's audio and video platforms, the Conference Controller can be paired with CONVERGE Pro 2 DSPs, allowing users to make and receive VoIP and/or PSTN conference calls and multiparty calls with the easy-to-use, on-screen dial pad. When paired with COLLABORATE Live room video systems, users can make and receive video calls as well as manage content-sharing options. A modern user interface makes controlling conferencing functions as intuitive and simple as familiar mobile and tablet devices. The Conference Controller enables easy contact management with built-in search. In addition, the slim and modern industrial design blends well with modern conference-room aesthetics. During 2020, we continued our efforts, primarily through litigation, to stop the infringement of our strategic patents. We also maintained our programs to cut costs and to speed up product development that we believe will enable us to get back to a growth path.

During October 2020, we announced the latest update of CONVERGENCE AV Network Manager software. The new update now has an organizational portal for multiple user accounts with support for up to 2048 combined devices and users. It also includes LDAP support and two levels of access — a secure administrator level for full access and a viewer level for monitoring with 256-bit encrypted device and user password management. CONVERGENCE software is a unified AV network management platform to monitor, control, and audit ClearOne Pro Audio and Video products and services. Remote real-time system access provides at-a-glance and all-inclusive dashboard views with unlimited scalability designed to support organizations of any size. The solution provides a powerful and elegant user interface on any browser from desktop to mobile. Users can stay up to date with email status notifications and can search, sort, and filter to find what is needed quickly. Efficient batch firmware updates can be performed on multiple audio or video devices at once. Users can also download, back up, or restore project files simultaneously for multiple CONVERGE® Pro 2 and Huddle DSP mixers, as well as their P-Link peripherals.

The software also offers many other features, such as: provisioning CONVERGE Pro 2 VoIP lines and viewing VoIP registration status; configuring and managing COLLABORATE® Live room codecs and COLLABORATE Space user accounts; and downloading logs and reports for devices, users, histories, and calls. CONVERGENCE supports integration with third-party management systems like IBM Cognos Analytics and Barco Overture via a RESTful web service interface. ClearOne's AV network management platform is available in twelve languages.

During October 2020, we also announced our new BMA 360, the world's most technologically advanced Beamforming Microphone Array Ceiling Tile, delivering unequaled audio performance and deployment ease. The ClearOne BMA 360 is the world's first truly wideband, frequency invariant beamforming mic array with uniform gain response across all frequency bands. With FiBeam™ technology, conference participants will experience the ultimate in natural and full fidelity audio across all beams and within a single beam. Deep sidelobe beamforming, DsBeam™, provides unparalleled maximum sidelobe depth, below -40 dB, resulting in superior rejection of reverberation and noise in difficult spaces for superb clarity and intelligibility. The BMA 360 is based on a dramatically new approach to beamforming that provides a new beam topology to easily achieve distortion-free, full 360-degree coverage of any room shape and any seating arrangement using ClearOne Audio Intelligence™. Further advancements in adaptive steering (think of it as smart switching) provide impeccable coverage of each conference participant as well as support for camera tracking.

In addition to the advancements in beamforming technology, the 6G Acoustic Echo Cancellation (AEC) delivers unmatched per-beam full-duplex audio performance. On-board audio algorithms, like noise reduction, filtering, and Automatic Level Control, eliminate the need for per-beam processing in a DSP mixer - requiring fewer DSP mixer resources. Finally, robust built-in amplifiers, configurable as 4 x 15 Watt or 2 x 30 Watt, provide flexibility for driving loudspeakers. ClearOne's breakthrough technologies, FiBeam, DsBeam, and 6G AEC combine to create VividVoice™, a significant advancement for professional conferencing. The integrated features in the BMA 360 significantly reduce system design complexity, simplify installation, consume less rack space, and lower system cost. The BMA 360 also supports daisy-chaining of up to three ceiling tiles via P-Link for divisible rooms, or larger conference setups – for simpler wiring, longer distances, and lower-cost deployments compared to networked "home-run" connections via Ethernet. ClearOne's BMA technology is protected by at least a dozen patents and pending patent applications.

During November 2020, we introduced Aura™, a comprehensive range of Good, Better and Best packages of enterprise quality audio, video, audio-video options and a free COLLABORATE® Space lifetime subscription, the award-winning video collaboration app to meet the growing home office market demand for professional audio and video collaboration solutions that match the quality found in a traditional corporate office. COVID 19 pandemic had brought long lasting changes to the workplace. Home has become the new office for tens of millions of professionals who now need a work environment every bit as productive as their corporate office. Aura was developed to deliver that much-needed enterprise quality experience in the home. For homeowners, prospective homebuyers, builders, architects and designers, the purpose-built home office is rapidly replacing the home theater in importance. Aura solutions are geared for high performance professionals across multiple industries. Aura meets this growing need for easy to purchase and install commercial quality solutions that deliver HDConference® audio and true-to-life video technology through a variety of professional microphone, audioconferencing, videoconferencing, camera and collaboration component choices that optimize home office acoustic and aesthetic aspirations. Designed to be easily installed by both homeowners and installers, Aura owners are also supported by a dedicated sales and support team that is available 24/7.

During 2020, our overall revenue increased by 16% when compared to revenue during 2019. The increase in revenues were largely due to increase in revenue from video products, also helped by increase in revenue from microphones and partially offset by declines in revenue from audio conferencing products. Despite the negative impact of COVID-19 and the infringement of our patents by Shure on all professional installed products, our new solutions incorporating Beamforming Microphone Array Ceiling Tile ("BMA-CT") resulted in overall Beamforming Microphone Array ("BMA") revenue being significantly higher than last year. However, revenue from BMA products as well as from our pro audio products are far below the levels prior to infringement of our patents. Our revenue performance reflects an impact of the on-going harm of infringement of ClearOne's patents despite the preliminary injunction granted against Shure as we believe Shure continues to infringe our patents and violates the preliminary injunction. The patent infringement also has negatively impacted directly the revenue from ClearOne's other products not related to the infringed patents notwithstanding a significant growth in revenue from video products this year. Our gross profit margin decreased to 43.2% during 2020 from 44.7% during 2019. Net profit changed from net loss of $8.4 million in 2019 to net income of $0.5 million in 2020. The change from net loss to net income is primarily due to recognition of income tax refund receivable of approximately $7.1 million arising out of the carryback of net operating losses that became possible due to the enactment of the CARES Act, as well as an increase in gross profit due to increase in revenues and decrease in operating costs.

We believe the decision by the U.S. District Court in August 2019 granting our request for a preliminary injunction to prevent Shure from manufacturing, marketing, and selling its competing ceiling microphone array in an infringing configuration is an incredibly valuable ruling for ClearOne and its business. The decision validates the strength and importance of ClearOne's intellectual property rights, recognizes ClearOne's innovations in this space, and stops Shure from further infringing the '806 patent pending a full trial. Although there can be no assurance of any outcome of a full trial, we believe this ruling will help pave the way for ClearOne's recovery from the immense harm inflicted by Shure's infringement of our valuable patents. However, we are not getting the full benefits of the Court's extraordinary remedy in the form of the preliminary injunction granted against Shure with respect to infringement of our '806 Patent as we believe that Shure is still infringing ClearOne's patent. On September 1, 2020, the U.S. District Court of Northern Illinois held that "Shure has violated the preliminary injunction order and is found in contempt because it designed the MXA910-A in such a way that allows it to be easily installed flush in most ceiling grids". The Court also opined that, "[t]he record is clear and convincing that Shure - through its design choices - violated the injunction order by allowing integrators to install the MXA910-A in the enjoined flush configuration." Ultimately, the Court ordered that "Shure shall no longer manufacture, market, or sell the MXA910..." . ClearOne's motion to accuse Shure's MXA910-US of infringing the '806 Patent is still pending with the Court.

Industry conditions

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

Economic conditions, challenges and risks

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

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

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

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

Deferred Revenue

Deferred revenue decreased from $173 thousand in 2019 to $123 thousand in 2020.

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

DISCUSSION OF RESULTS OF OPERATIONS

The following table sets forth certain items from our consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2020 and 2019, together with the percentage change each item represents. Throughout this discussion, we compare results of operations for the year ended December 31, 2020 ("2020") to the year ended December 31, 2019 ("2019" or "the comparable period").

(In thousands, except percentages)	2020	2019	Change% Favorable (Adverse)
Revenue	$ 29,069	$ 25,042	16%
Cost of goods sold	16,510	13,849	19%
Gross profit	12,559	11,193	12%
Sales and marketing	6,728	7,935	15%
Research and product development	5,512	5,775	5%
General and administrative	5,886	6,045	3%
Total operating expenses	18,126	19,755	8%
Operating loss	(5,567)	(8,562)	35%
Loss before income taxes	(5,924)	(8,352)	29%
Provision for (benefit from) income taxes	(6,429)	56	11580%
Net income (loss)	$ 505	$ (8,408)	106%

Revenue

Our revenue increased to $29.1 million in 2020 compared to $25.0 million in 2019. The highest increase was seen in video products with a 95% increase, followed by an increase in microphones of 4%. These increases were partially offset by a 6% decline in audio conferencing. The increase in revenue from video products was mainly fueled by growth in demand for media collaboration products. Microphones increased in revenue on the back of significant growth from BMA products despite decline in revenues from other microphones. Except personal audio conferencing products, which had a significant increase in revenues, all other categories under audio conferencing declined in revenue during 2020. We believe the on-going infringement of ClearOne's patents is the major cause of our revenue decline in certain categories of audio conferencing and microphones.

The share of audio conferencing products in our product mix declined sharply from 46% in 2019 to 38% in 2020. The share of microphones in the revenue mix marginally dropped from 35% in 2019 to 31% in 2020. Share of video products in the revenue mix jumped up significantly from 18% in 2019 to 31% in 2020.

During 2020, revenue increased significantly in North America and Europe, while it declined considerably in China and the Middle East. Asia Pacific including the Middle East decreased by 23%, Europe and Africa increased by 47% and the Americas increased by approximately 30%.

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

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, and the allocation of overhead expenses.

Our gross profit during 2020 was approximately $12.6 million or 43% compared to approximately $11.2 million or 45% in 2019. The gross profit margin was negatively impacted due to increase in share of lower margin products in the revenue mix, increased freight and tariff costs and increased inventory obsolescence costs, partially offset by increased deferral of overhead costs added to the inventory.

Our profitability in the near-term continues to depend significantly on our revenues from audio conferencing products. We hold long-term inventory and if we are unable to sell our long-term inventory, our profitability might be affected by inventory write-offs and price mark-downs. Our long-term inventory includes approximately $1.1 million of wireless microphone-related finished goods and assemblies, $0.9 million of Converge Pro and Beamforming microphone array products, $0.3 million of network media streaming products and about $1.9 million of raw materials that will be used primarily for manufacturing installed professional audio conferencing products.

Operating Expenses and Profits (Losses)

Operating income (loss), or income (loss) from operations, is the surplus or deficit 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 were $18.1 million in 2020, compared to $19.8 million in 2019. 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.

S&M expenses in 2020 decreased by 15% from $7.9 million in 2019 to $6.7 million in 2020. The decrease was mainly due to decreases in trade-show related expenses, demonstration inventory costs and employee travel related expenses partially offset by an increase in sales commissions.

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

R&D expenses decreased from $5.8 million in 2019 to $5.5 million in 2020 . The decrease was primarily due to decreases in employee-related costs partially offset by increase in consulting expenses and project related expenses.

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.

G&A expenses were approximately $5.9 million in 2020 compared with approximately $6.0 million in 2019. The slight decrease was primarily due to decreases in audit and accounting fees, stock based compensation, miscellaneous taxes and overhead allocations, partially offset by increases in legal expenses and amortization of intangible assets.

Provision for income taxes

The effective tax benefit rate was 110% (benefit) in 2020 as compared to the effective tax rate of 1% during 2019. Income tax benefit for 2020 was $6.4 million as compared to an income tax provision of $0.1 million in 2019. The significant change in income taxes was primarily due to recognition of income tax refunds receivable of approximately $7.1 million arising out of the carryback of net operating losses that became possible due to the enactment of the CARES Act. Since the company had set up a full valuation allowance against net operating losses from earlier years, the carryback of these losses resulted in the recognition of a substantial tax benefits. We have been recording a valuation allowance against net deferred tax assets since 2018 and have not been claiming tax benefit for our losses as we have concluded that it is more likely than not that our deferred tax assets were not realizable, primarily due to our recent pre-tax losses.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

As of December 31, 2020, our cash and cash equivalents were approximately $3.8 million compared to $4.1 million as of December 31, 2019. Our working capital was $22.2 million and $18.9 million as of December 31, 2020 and 2019, respectively.

Net cash flows used in operating activities were approximately $1.0 million during 2020, a decrease of approximately $3.7 million from $4.7 million used in operating activities in 2019. The decrease in cash used was primarily due to a decrease in net loss by $8.9 million and an increase in non-cash charges of $1.1 million, partially offset by an increase in cash outflows due to change in operating assets and liabilities of $6.4 million which includes an increase of $7.5 million in income tax receivable, partially offset among other things by decrease in inventories by $2.4 million.

Net cash used in investing activities was $5.5 million in 2020 compared to $5.1 million in 2019, an increase in cash used of $0.4 million. The increase in cash used in investing activities was primarily due to increase of about $1.6 million in the capitalization of our patent defense costs partially offset by increase in net cash inflows from marketable securities of approximately $1.4 million.

Capitalization of patent defense costs. We capitalize external legal costs incurred in the defense of our patents when we believe that a significant, discernible increase in value will result from the defense and a successful outcome of the legal action is probable. When we capitalize patent defense costs we amortize the costs over the remaining estimated useful life of the patent, which is 15 to 17 years. During 2020 we spent $6.7 million of legal costs related to the defense of our patents and capitalized the entire amount.

We are currently pursuing all available legal remedies to defend our strategic patents from infringement. We have already spent approximately $20.3 million from 2016 through 2020 towards this litigation and may be required to spend more to continue our legal defense. We believe the decision by the U.S. District Court in August 2019 granting our request for a preliminary injunction to prevent our competitor from manufacturing, marketing, and selling its competing ceiling microphone array in an infringing configuration is an incredibly valuable ruling for ClearOne and its business. We believe that the decision validates the strength and importance of ClearOne’s intellectual property rights, recognizes ClearOne’s innovations in this space, and stops our competitor from further infringing our Graham patent (U.S. Patent No. 9,813,806) pending a full trial. Although there can be no assurance of any outcome of a full trial, we believe this ruling will help pave way for ClearOne’s recovery from the immense harm inflicted by our competitor's infringement of our valuable patents. However, we are not getting the full benefits of the Court’s extraordinary remedy in the form of the preliminary injunction granted against Shure with respect to infringement of our ’806 Patent as we believe that Shure is still infringing ClearOne’s patent. During September 2020, the U.S District Court of Northern Illinois held Shure in contempt for marketing and selling their new design in violation of the preliminary injunction.

Net cash provided by financing activities was $6.3 million during 2020 compared to net cash provided by financing activities of $2.7 million during 2019, an increase in cash provided of $3.6 million. The increase was primarily to cash inflows from issuance of common stock and borrowing through the Paycheck Protection Program.

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

We also believe that the measures taken by us will yield higher revenues in the future. We believe, although there can be no assurance, that all of these measures and effective management of working capital will provide the liquidity needed to meet our operating needs through at least through March 31, 2022. We also believe that our strong portfolio of intellectual property and our solid brand equity in the market will enable us to raise additional capital if and when needed to meet our short and long-term financing needs; however, there can be no assurance that, if needed, we will be successful in obtaining the necessary funds through equity or debt financing. If we need additional capital and are unable to secure financing, we may be required to further reduce expenses, delay product development and enhancement, or revise our strategy regarding ongoing litigation.

At December 31, 2020, we had open purchase orders of approximately $3.4 million mostly for purchase of inventory.

At December 31, 2020, we had inventory totaling $15.1 million, of which non-current inventory accounted for $4.6 million. This compares to total inventories of $17.7 million and non-current inventory of $6.3 million as of December 31, 2019.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of December 31, 2020 (in millions):

	Payment Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 years
Senior Convertible Notes	$ 3.0	$ 0.4	$ 2.6	$ —	$ —
Payroll Protection Program borrowing	1.5	0.3	1.2	—	—
Operating lease obligations	2.3	0.7	1.2	0.4	—
Purchase obligations	3.4	3.4	—	—	—
Total	$ 10.2	$ 4.8	$ 5.0	$ 0.4	$ —

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 ("GAAP"). We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We evaluate our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. We believe that the estimates we use are reasonable; however, actual results could differ from those estimates. Our significant accounting policies are described in Note 1 - Business Description, Basis of Presentation and 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

The Company recognizes revenue when it satisfies a performance obligation. The Company recognizes revenue from sales agreements upon transferring control of a product to the customer. This typically occurs when products are shipped or delivered, depending on the delivery terms, or when products that are consigned at customer locations are sold to dealers or end users. Revenue recognized during the twelve months ended December 31, 2020 for equipment sales was $28.7 million, and for software, licenses, etc. was $0.4 million. Sales returns and allowances are estimated based on historical experience. Provisions for discounts and rebates to customers, estimated returns and allowances, ship and credit claims and other adjustments are provided for in the same period the related revenues are recognized, and are netted against revenues. For returns, the Company recognizes a related asset for the right to recover returned products with a corresponding reduction to cost of goods sold. The Company reviews warranty and related claims activity and records provisions, as necessary.

Frequently, the Company receives orders with multiple delivery dates that may extend across reporting periods. Since each delivery constitutes a performance obligation, the Company allocates the transaction price of the contract to each performance obligation based on the stand-alone selling price of the products. The Company invoices the customer for each delivery upon shipment and recognizes revenues in accordance with delivery terms. Although payment terms vary, distributors typically pay within 45 days of invoicing and dealers pay within 30 days of invoicing. As scheduled delivery dates are within one year, revenue allocated to future shipments of partially completed contracts are not disclosed.

The Company has elected to record freight and handling costs associated with outbound freight after control over a product has transferred to a customer as a fulfillment cost and include it in cost of revenues. Taxes assessed by government authorities on revenue-producing transactions, including value-added and excise taxes, are presented on a net basis (excluded from revenues) in the Consolidated Statements of Operations and Comprehensive Income (Loss).

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

	As of December 31,	
	2020	2019
Deferred revenue	$ 123	$ 173
Deferred cost of goods sold	—	—
Deferred gross profit	$ 123	$ 173

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, until the defective unit has been returned. Any amount due from the customer upon failure to return the products is accounted as receivable only after establishing customer's failure to return the products. The inventory due from the customer is accounted at cost or market value whichever is lower.

Impairment of Long-Lived Assets

We assess the impairment of long-lived assets, such as property and equipment and definite-lived intangible assets subject to amortization, 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 account for income taxes following ASC 740, *Accounting for Income Taxes*, recognizing deferred tax assets and liabilities using enacted tax rates for the effect of temporary differences between book and tax basis of recorded assets and liabilities. 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 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, 2020 and determined that based upon available evidence it is more likely than not that certain of our net deferred tax assets will not be realized and, accordingly, we have recorded a full valuation allowance against these deferred tax assets in the amount of $11.2 million. Please refer to Note 13 - Income Taxes in the Notes to Consolidated Financial Statements for additional information.

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

For descriptions of recently issued accounting standards, see Note 1. Business Description, Basis of Presentation and Significant Accounting Policies of our Notes to Consolidated Financial Statements.

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 Senior Vice President of Finance, 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 Senior Vice President of Finance, of the effectiveness and the design and operation of our disclosure controls and procedures as of December 31, 2020. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Based upon this evaluation, our Chief Executive Officer and Senior Vice President of Finance concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were effective at a reasonable assurance level as of December 31, 2020.

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 U.S. 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, 2020 based on the framework set forth in *Internal Control - Integrated Framework* (2013 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, 2020.

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 as of April 29, 2019.

Name	Age	Position	Director or Officer Since
Zeynep “Zee” Hakimoglu	66	Chairman, Chief Executive Officer, and President	2006
Larry R. Hendricks	77	Director *	2003
Lisa B. Higley	53	Director *	2020
Eric L. Robinson	54	Director *	2015
Bruce Whaley	70	Director *	2019
Narsi Narayanan	50	Senior Vice President of Finance and Corporate Secretary	2009

* Member of the Audit and Compliance Committee, Compensation Committee and Nominating Committee

Zee Hakimoglu is our President, Chief Executive Officer and Chairman. She joined our company in December 2003 as Vice President of Product Line Management with additional responsibility for Research & Development and was appointed President and Chief Executive Officer in July 2004; she has served as a director of our company since April 2006 and was named Chairman of the Board in July 2007. Prior to joining ClearOne, Ms. Hakimoglu has held senior executive level positions for a variety of high-tech Silicon Valley firms in such areas as business development, product marketing, engineering and product-line management. She served as Vice President of Product Line Management for a publicly traded developer of fiber optic subsystems and components, from December 2001 to December 2002; and, President of a manufacturer of fiber optic test equipment and components, from August 2000 to November 2001. From October 1998 to August 2000, she was Vice President of Business Development for Kaifa Technology and was instrumental in its acquisition by E-Tek Dynamics and later by JDS Uniphase. Through these acquisitions, she held the role of Deputy General Manager of the Kaifa Technology business unit. From May 1982 until it was acquired in September 1996, Ms. Hakimoglu held various positions including Vice President of Wireless Engineering and Vice President of the Wireless Business Unit for Aydin Corp., a global telecommunications equipment company that formerly traded on the New York Stock Exchange. 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.

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.

Lisa B. Higley was appointed a director of our company effective July 20, 2020. Ms. Higley has been self-employed as a CPA since June 2009. Previously, she was the CFO for Daisy D’s Paper Company from March 2007 until January 2009, where she managed all aspects of the company’s financial and accounting responsibilities. Additionally, Ms. Higley was the CFO for Tunex International from April 2006 to March 2007 where she was accountable for all financial aspects of the corporation. Prior to that, Ms. Higley was a staff tax accountant at Wisen, Smith, Racker & Prescott LLP from February 2004 to April 2006. Ms. Higley earned her Bachelor of Science in Accounting from the University of Oregon and her MBA from Utah State University, and has been a Utah CPA since 2004. Ms. Higley is the daughter of Edward D. Bagley, our former Chairman of the Board. Mr. Edward D. Bagley beneficially owns 44% of our issued and outstanding common stock.

Eric. L Robinson has served as a director of our company since July 2015. Mr. Robinson spent fourteen years in private practice as a corporate attorney, including eleven years as a partner in the Salt Lake City, Utah law firm of Blackburn & Stoll, LC. Mr. Robinson's law practice focused on securities, corporate and other business transactions. Since 2009, Mr. Robinson has been principally employed by MicroPower Global Limited, a company in the semiconductor business. At MicroPower, Mr. Robinson has acted as General Counsel, Chief Financial Officer and a director. Mr. Robinson also maintains a small law practice and serves as counsel to a number of companies in the fields of genetics, regenerative medicine, transportation and commercial construction. He also served as General Counsel, Chief Financial Officer and a director to a genetic research company from 2008 until 2015. Mr. Robinson previously acted as General Counsel and Chief Financial Officer to a commercial construction company from 2007 until 2008 which had revenues in excess of $100 million during his tenure.

Mr. Robinson previously served as chief financial officer, in-house counsel, secretary and treasurer of ActiveCare, Inc. from July 2016 until his voluntary resignation in June 2017, and subsequent to Mr. Robinson's departure, ActiveCare filed a voluntary bankruptcy petition under Chapter 11 of the U.S. Bankruptcy Code on July 15, 2018. His legal practice includes working with companies in connection with public and private offerings of securities, corporate partnering, mergers and acquisitions, licensing technology transfer, contracts and construction. He graduated from the University of Utah with honors with a B.S. degree in accounting and he subsequently passed the CPA exam (unlicensed). He graduated from Vanderbilt University with a J.D. where he graduated Order of the Coif and acted as a Managing Editor of the Law Review. Mr. Robinson has previously served as corporate and securities legal counsel to the Company and the Company's largest shareholder, E. Dallin Bagley.

Bruce Whaley was appointed a director of our company effective April 16, 2019. Mr. Whaley has extensive experience as a stock broker for nearly five decades. Mr. Whaley is currently a broker trading at Wilson & Davis, a regional brokerage firm based in Salt Lake City, Utah. He has been with Wilson & Davis since 1988. Mr. Whaley also holds a real estate license and works as a real estate agent for Coldwell Banker. Mr. Whaley attended University of Utah between 1968 and 1971 and studied many subjects including business administration, accounting and finance. He did not graduate with a degree.

Narsi Narayanan (now serving as Senior Vice President of Finance) has served as our Vice President of Finance since July 2009 and has more than two decades 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, Sarbanes-Oxley Act ("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 senior finance positions in India with a large conglomerate. He is a Certified Public Accountant with graduate degrees in accounting (University of Utah, M. Acc.) and business (University of Illinois, MBA-Finance).

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act, of 1934 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, 2019, 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: Larry Hendricks, a director, filed one Form 4 late for one transaction; Bruce Whaley, a director, filed one Form 4 late for one transaction and Dallin E Bagley, a greater than 10% shareholder filed one Form 4 late for three transactions.

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 and Compliance Committee and its members are Eric L. Robinson (Chairman), Larry R. Hendricks and Bruce Whaley. The Board of Directors has determined that Eric L. Robinson 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

EXECUTIVE COMPENSATION

The following table sets forth the compensation paid or earned by each named executive officer for the years ended December 31, 2020 and 2019.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Salary	Option Awards[(1)]	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Zeynep Hakimoglu - Chief Executive Officer and President					
Year ended December 31, 2020	$ 355,000	$ 68,500	$ —	$ —	$ 423,500
Year ended December 31, 2019	$ 355,000	$ —	$ —	$ —	$ 355,000
Narsi Narayanan - Senior Vice President of Finance					
Year ended December 31, 2020	$ 196,500	$ 41,100	$ —	$ —	$ 237,600
Year ended December 31, 2019	$ 196,500	$ —	$ —	$ —	$ 196,500

(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 10 - Share-Based Compensation in our Notes to Consolidated Financial Statements included in Part IV of this Form 10-K.

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, 2020.

Name	Number of Securities Underlying Unexercised Options		Option Exercise Price ($)	Option Grant Date	Option Expiration Date
	Exercisable	Unexercisable			
Zeynep Hakimoglu	10,000	—	5.480	08-05-2011	08-05-2021
	25,000	—	3.920	05-11-2012	05-11-2022
	25,000	—	8.220	08-22-2013	08-22-2023
	40,000	—	8.340	09-12-2014	09-12-2024
	50,000	—	11.960	03-11-2016	03-11-2026
	10,000	—	11.000	12-14-2016	12-14-2026
	40,000	—	9.900	06-01-2017	06-01-2027
	—	50,000	2.500	12-14-2020	12-14-2026
Narsi Narayanan	10,000	—	5.480	08-05-2011	08-05-2021
	20,000	—	3.920	05-11-2012	05-11-2022
	15,000	—	8.220	08-22-2013	08-22-2023
	20,000	—	8.340	09-12-2014	09-12-2024
	25,000	—	11.960	03-11-2016	03-11-2026
	2,500	—	11.000	12-14-2016	12-14-2026
	20,000	—	9.900	06-01-2017	06-01-2027
	—	25,000	2.500	12-14-2020	12-14-2030

(1) One-third of the shares underlying each stock option vest on the first anniversary of the grant date and the remaining shares vest equally over a period of 24 months following the first anniversary of the grant date.

OPTION EXERCISES AND STOCK VESTED

There were no exercises of stock options by named executive officers during 2020. There were no equity awards that vested for the named executive officers during 2020.

DIRECTOR COMPENSATION

The following table summarizes the compensation paid by us to non-employee directors for the year ended December 31, 2020. Ms. Hakimoglu did not receive additional compensation for her service as a director.

Name	Fees Earned or Paid in Cash	Option Awards	Other Compensation	Total
Larry R. Hendricks	33,600	—	—	33,600
Lisa B. Higley	11,250	—	—	11,250
Eric L. Robinson	40,800	—	—	40,800
Bruce Whaley	33,600	—	—	33,600

Historically, the Company's non-employee directors have received an annual grant of stock options to purchase 10,000 shares of the Company's common stock, of which one-third of the shares vest on the first anniversary of the grant date, and the remaining vest in equal monthly increments over the subsequent 24-month period. However, the Board decided to terminate the annual stock option award to non-employee directors in 2018, and consequently, no such grants were made in 2020. All directors are reimbursed by the Company for their out-of-pocket travel and related expenses, if any, incurred in attending all Board of Directors and committee meetings.

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

The following table sets forth certain information regarding ownership of our common stock as of March 28, 2021, 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.

	Shares Beneficially Owned				
Name of Beneficial Owner [1]	Currently Owned (A)	Currently Owned Percent [2] (B)	Shares that could be acquired within 60 days (C)	Total [2] (D)	Percent [2] (E)
Directors and Executive Officers:					
Zeynep Hakimoglu	865,341	4.61%	205,015	1,070,356	5.01%
Larry R. Hendricks	4,048	0.02%	55,000	59,048	0.28%
Lisa B. Higley [3]	14,501	0.08%	—	14,501	0.07%
Eric L. Robinson	65	—%	28,333	28,398	0.13%
Bruce Whaley	9,000	0.05%	—	9,000	0.04%
Narsi Narayanan	—	—%	112,500	112,500	0.53%
Total (Directors and Officers)	892,955	4.76%	400,848	1,293,803	6.06%
5% Shareholders:					
Edward D. Bagley	8,348,357	44.46%	1,862,917	10,211,274	47.77%
E. Bryan Bagley	1,236,630	6.59%	336,675	1,573,305	7.36%

(1) Except as otherwise indicated, each person named in the table has sole voting and investment power, 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 18,775,773 shares of common stock outstanding on March 29, 2021. The numbers shown in Column (D) and percentages shown in Column (E) include the shares of common stock actually owned as of March 29, 2021 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 29, 2021 upon the exercise of the stock options, secured convertible notes and warrants 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) This information is based upon the Form 3 filed with the SEC as of July 20, 2020. Lisa Higley, who was appointed a Director effective July 20, 2020, is the daughter of Edward D. Bagley, and each of them has previously disclaimed beneficial ownership of common stock beneficially owned by the other. The share amounts indicated for Ms. Higley do not include any shares held by Edward D. Bagley. The share amounts indicated for Ms. Higley do not include 6,546 shares owned by her spouse and 2,252,636 shares held by a trust in which she is a co-trustee.

(4) Mr. Edward D. Bagley may be deemed to own an additional 2,252,636 shares of common stock that are deemed to be owned by his wife, Carolyn Bagley, as a result of her acting as one of four co-trustees of a trust. Mr. Bagley may be deemed to own an additional 355,257 shares of common stock that Carolyn Bagley owns individually. Mr. Bagley, however, disclaims beneficial ownership of these shares that may be indirectly beneficially owned by Mr. Bagley and they are excluded from the amounts reported in the table above. Mr. Edward D. Bagley has sole voting and dispositive power over 10,211,274 shares (including the shares that may be acquired pursuant to exercise of options to purchase 28,333 shares of common stock, secured convertible notes to purchase 1,149,289 shares of common stock and warrants to purchase 685,295 shares of common stock) and shared voting and dispositive power over the 355,257 shares held by Mr. Edward D. Bagley's spouse. This information is based upon Schedule 13D/A and Form 4 as filed by Mr. Bagley with the SEC in September 2020 and December 2020, respectively. 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. Lisa Higley, who was appointed a Director effective July 20, 2020, is the daughter of Edward D. Bagley, and each of them has previously disclaimed beneficial ownership of common stock beneficially owned by the other. The share amounts indicated for Mr. Edward D. Bagley do not include any shares held by E. Bryan Bagley or Lisa Higley.

(5) Mr. E. Bryan Bagley has sole voting and dispositive power over 1,573,305 shares (including the shares that may be acquired pursuant to exercise of secured convertible notes to purchase 229,857 shares of common stock and warrants to purchase 106,818 shares of common stock) This information is based upon Schedule 13D/A as filed by E. Bryan Bagley with the SEC in September 2020. 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 share amounts indicated for Mr. E. Bryan Bagley do not include any shares held by Edward D. Bagley. The share amounts indicated for Mr. E. Bryan Bagley do not include 2,252,636 shares held by a trust in which he is a co-trustee.

Equity Compensation Plan Information

The following table summarizes information, as of December 31, 2020, relating to equity compensation plans of the Company (including individual compensation arrangements) pursuant to which equity securities of the Company are authorized for issuance.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options and rights	(b) Weighted-Average Exercise Price of Outstanding Options and Rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
Equity Compensation Plans Approved by Stockholders	843,446	$6.60	1,035,276
Equity Compensation Plans Not Approved by Stockholders	—	—	—
Total	843,446	$6.60	1,035,276

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

We recognize that transactions between us and any of our directors, executives or other related persons 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. The Company’s Board of Directors adopted the Company's Related Party Transactions Policy on January 18, 2017. This policy is available on our website at http://investors.clearone.com/corporate-governance.

Related Party Transactions: Consulting Agreement with Edward D. Bagley

On June 3, 2015, the Company entered into a Consulting Agreement with Edward D. Bagley, former Chairman of the Board and greater than 10% shareholder (“Consulting Agreement”) which became effective on July 29, 2015 for an initial term of three years which was renewed in 2018 for an additional term of three years through 2021. Pursuant to the terms of the Consulting Agreement Mr. Bagley is paid a fee of $5,000 per month and is eligible to participate in our equity incentive programs and will be granted stock options commensurate with grants of stock options made to our directors. During 2020, he was paid $60,000 as consulting fees but was not awarded any stock options.

Director Independence

Our Board of Directors has determined, after considering all the relevant facts and circumstances, that Larry Hendricks, Eric Robinson and Bruce Whaley 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.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

amounts:

	2020	2019
Audit fees[1]	$ 210,500	$ 242,520
Audit-related fees[2]	26,523	3,400
Tax fees[3]	52,900	45,700
All other fees	—	—
Total	$ 289,923	$ 291,620

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

(2) Represents fees billed for consents provided with respect to registration statements and related amendments.

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

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 services 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 2020, 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.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Form	Exhibit Incorporated Herein by Reference	Filing Date
3.1	Certificate of Incorporation of ClearOne, Inc.	8-K	3.1	10/29/18
3.2	Bylaws	8-K	3.2	10/29/18
4.1	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934	10-K	4.1	03/30/20
10.1	1997 Employee Stock Purchase Plan	S-8	4.9	10/06/06
10.2	1998 Stock Option Plan	S-8	4.8	10/06/06
10.3	2007 Equity Incentive Plan	S-8	4.7	01/22/08
10.4	ClearOne, Inc. Equity Incentive Plan	S-8	4.8	01/26/16
10.5	Amendment No. 1 to the ClearOne, Inc. Equity Incentive Plan	S-8	4.11	06/30/15
10.6	ClearOne, Inc. Employee Stock Purchase Plan	S-8	4.3	06/30/15
14.1	Code of Ethics, approved by the Board of Directors on August 23, 2006	10-K	14.1	09/14/06
21.1†	Subsidiaries of the registrant			
23.1†	Consent of Tanner LLC, 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 31, 2021

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
(principal executive officer)
March 31, 2021

/s/ Narsi Narayanan
Narsi Narayanan
Senior Vice President of Finance
(principal accounting and principal financial officer)
March 31, 2021

/s/ Eric L. Robinson
Eric L. Robinson
Director
March 31, 2021

/s/ Larry R. Hendricks
Larry R. Hendricks
Director
March 31, 2021

/s/ Bruce Whaley
Bruce Whaley
Director
March 31, 2021

/s/ Lisa B. Higley
Lisa B. Higley
Director
March 31, 2021

CLEARONE, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of ClearOne, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of ClearOne, Inc. and subsidiaries (collectively, the Company) as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2020, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material aspects, the financial position of ClearOne as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Capitalized patent defense costs
As described in Notes 3 and 8 to the consolidated financial statements, the Company is involved in litigation against a competitor related to intellectual property rights. The Company has capitalized legal expenses related to the defense of certain patents as intangible assets on the balance sheet based on the satisfaction of two conditions: (i) a determination being made that a successful defense is probable, and (ii) that the monetary benefits arising out of such a successful defense will be in excess of the costs for the defense.

We identified the capitalization of patent defense costs as a critical audit matter because evaluating the likelihood of potential outcomes of the litigation as well as determining the expected monetary benefit involves significant judgment by management. This required a high degree of auditor judgement and subjectivity in performing procedures and evaluating audit evidence related to management's assertions that a successful defense is probable and that the monetary benefits will be in excess of the costs.

Addressing this critical audit matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures included, among others: (1) testing of legal expenses related to the litigation, (2) obtaining and evaluating a legal confirmation obtained from the Company's lead counsel in the case (3) obtaining and evaluating a legal opinion letter from another third party intellectual property law firm related to their evaluation of the likelihood of potential outcomes of the litigation based on their review of the case, (4) reviewing and evaluating management's cost analysis, (5) obtaining and evaluating an expert witness damages report and, (6) evaluating the reasonableness of management's assumptions.

Assessment of lower of cost or net realizable value of inventories
As described in Notes 1 and 4 to the consolidated financial statements, inventories totaling $15,053,000 as of December 31, 2020 are stated at the lower of cost or market. The Company performs analyses to identify and estimate the net realizable value of excess or slow-moving inventories based on forecasted future product demand.

We identified the inventory valuation as a critical audit matter because of the significant balance of inventory held by the Company and because forecasting future product demand involves significant judgement by management. This required a high degree of auditor judgement, subjectivity and effort in performing procedures and evaluating audit evidence to evaluate management's assumptions related to estimating the reserve of obsolete and slow-moving inventory.

Addressing this critical audit matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures included, among others: (1) evaluating management's process for estimating obsolete and slow moving inventory levels, (2) comparing historical sales trends and inventory consumption reports for selected products to quantities on hand in order to evaluate potential excess or obsolete inventory, (3) evaluating and discussing forecasts and expectations with management as well as assumptions regarding alternative uses, and (4) evaluating the reasonableness of management's assumptions.

We have served as the Company's auditor since October 14, 2015.

/s/ TANNER LLC

Salt Lake City, Utah
March 31, 2021

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

	December 31, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,803	$ 4,064
Marketable securities	1,117	3,026
Receivables, net of allowance for doubtful accounts of $506 and $424, respectively	5,194	5,468
Inventories, net	10,463	11,441
Income tax receivable	7,169	110
Prepaid expenses and other assets	1,536	1,074
Total current assets	29,282	25,183
Long-term marketable securities	1,762	1,517
Long-term inventories, net	4,590	6,284
Property and equipment, net	906	1,044
Operating lease – right of use assets, net	1,936	2,459
Intangibles, net	19,248	14,009
Other assets	4,599	4,614
Total assets	$ 62,323	$ 55,110
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,950	$ 2,871
Accrued liabilities	2,352	3,205
Deferred product revenue	123	173
Short-term debt	672	—
Total current liabilities	7,097	6,249
Long-term debt	3,245	2,222
Operating lease liability, net of current	1,489	2,021
Other long-term liabilities	678	140
Total liabilities	12,509	10,632
Shareholders' equity:		
Common stock, par value $0.001, 50,000,000 shares authorized, 18,775,773 and 16,650,725 shares issued and outstanding, respectively	19	17
Additional paid-in capital	63,359	58,520
Accumulated other comprehensive loss	(186)	(176)
Accumulated deficit	(13,378)	(13,883)
Total shareholders' equity	49,814	44,478
Total liabilities and shareholders' equity	$ 62,323	$ 55,110

See accompanying notes

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

	Year ended December 31,	
	2020	**2019**
Revenue	$ 29,069	$ 25,042
Cost of goods sold	16,510	13,849
Gross profit	12,559	11,193
Operating expenses:		
Sales and marketing	6,728	7,935
Research and product development	5,512	5,775
General and administrative	5,886	6,045
Total operating expenses	18,126	19,755
Operating loss	(5,567)	(8,562)
Interest expense	(436)	(26)
Other income, net	79	236
Loss before income taxes	(5,924)	(8,352)
Provision for (benefit from) income taxes	(6,429)	56
Net income (loss)	$ 505	$ (8,408)
Basic income (loss) per common share	$ 0.03	$ (0.51)
Diluted income (loss) per common share	$ 0.03	$ (0.51)
Basic weighted average shares outstanding	17,271,629	16,638,580
Diluted weighted average shares outstanding	17,325,351	16,638,580
Comprehensive income (loss):		
Net income (loss)	$ 505	$ (8,408)
Other comprehensive income (loss):		
Unrealized gain on available-for-sale securities, net of tax	8	68
Change in foreign currency translation adjustment	(18)	(63)
Comprehensive income (loss)	$ 495	$ (8,403)

See accompanying notes

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

	Year ended December 31, 2020	Year ended December 31, 2019
Common stock and paid-in capital		
Balance, beginning of period	$ 58,537	$ 57,857
Issuance of common stock	4,764	—
Issuance of warrants and senior convertible notes	—	440
Share-based compensation expense	63	217
Proceeds from employee stock purchase plan	14	23
Balance, end of period	$ 63,378	$ 58,537
Accumulated other comprehensive loss		
Balance, beginning of period	$ (176)	$ (181)
Unrealized gain on available-for-sale securities, net of tax	8	68
Foreign currency translation adjustment	(18)	(63)
Balance, end of period	$ (186)	$ (176)
Accumulated deficit		
Balance, beginning of period	$ (13,883)	$ (5,475)
Net income (loss)	505	(8,408)
Balance, end of period	$ (13,378)	$ (13,883)
Total shareholders' equity	$ 49,814	$ 44,478

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2020	2019
Cash flows from operating activities:		
Net income (loss)	$ 505	$ (8,408)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization expense	2,313	1,914
Amortization of right of use of assets	563	561
Share-based compensation expense	63	217
Provision for doubtful accounts, net	82	(207)
Write-down of inventory to net realizable value	1,517	891
Loss on disposal of assets	—	34
Changes in operating assets and liabilities:		
Receivables	192	1,511
Inventories	1,155	3,565
Prepaid expenses and other assets	(417)	(4,148)
Accounts payable	1,079	(858)
Accrued liabilities	(865)	627
Income taxes receivable	(7,087)	368
Deferred product revenue	(50)	(110)
Operating lease liabilities	(570)	(557)
Other long-term liabilities	538	(56)
Net cash used in operating activities	(982)	(4,656)
Cash flows from investing activities:		
Capitalized patent defense costs	(6,728)	(5,086)
Purchase of property and equipment	(284)	(205)
Purchase of intangible assets	(205)	(76)
Proceeds from maturities and sales of marketable securities	4,605	9,243
Purchase of marketable securities	(2,932)	(9,003)
Net cash used in investing activities	(5,544)	(5,127)
Cash flows from financing activities:		
Issuance of common stock	4,764	—
Net proceeds from issuance of senior convertible notes	—	2,654
Proceeds from Paycheck Protection Program loan	1,499	—
Proceeds from equity-based compensation programs	14	23
Net cash provided by financing activities	6,277	2,677
Effect of exchange rate changes on cash and cash equivalents	(12)	(41)
Net increase (decrease) in cash and cash equivalents	(261)	(7,147)
Cash and cash equivalents at the beginning of the year	4,064	11,211
Cash and cash equivalents at the end of the year	$ 3,803	$ 4,064

CLEARONE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2020	2019
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 79	$ 1
Interest paid	244	—

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 market leader enabling conferencing, collaboration, and network streaming solutions. The performance and simplicity of our advanced, comprehensive solutions offer unprecedented levels of functionality, reliability and scalability.

Basis of Presentation:

Fiscal Year – This report on Form 10-K includes consolidated balance sheets for the years ended December 31, 2020 and 2019 and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years 2020 and 2019.

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.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 receivable and product returns, provisions for obsolete inventory, potential impairment of long-lived assets, and deferred income tax asset valuation allowances. Actual results could differ materially from these estimates.

Foreign Currency Translation – We are exposed to foreign currency exchange risk through our foreign subsidiaries. Other than our subsidiaries in India and Spain, all other foreign subsidiaries are U.S. dollar functional, for which gains and losses arising from remeasurement are included in earnings. Our Spanish subsidiary is Euro functional, for which gains and losses arising from translation are included in accumulated other comprehensive income or loss. Our Indian subsidiary is Indian Rupee functional, for which gains and losses arising from translation are included in accumulated other comprehensive income or loss. We translate and remeasure foreign assets and liabilities at exchange rates in effect at the balance sheet dates. We translate revenue and expenses using average rates during the year.

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 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.

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

Marketable Securities - The Company has classified its marketable securities as available-for-sale securities. These debt securities are carried at estimated fair value with unrealized holding gains and losses included in other comprehensive income (loss) in shareholders’ 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, 2020 and 2019.

Accounts Receivable – Accounts receivable are recorded at the invoiced amount, net of expected returns and allowance for doubtful accounts. 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, 2020 and 2019 is as follows:

	Year Ended December 31,	
	2020	**2019**
Balance at beginning of the year	$ 424	$ 631
Allowance increase	120	92
Write offs, net of recoveries	(38)	(299)
Balance at end of the year	$ 506	$ 424

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.

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 $35 and $102, as of December 31, 2020 and 2019, respectively.

The inventory consists of current inventory of $10,463 and long-term inventory of $4,590. Long term inventory represents inventory held in excess of our current (next 12 months) requirements based on our recent sales and forecasted level of sales.

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

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 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.

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. Intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized.

Impairment of Long-Lived Assets - Long-lived assets, such as property, equipment, and definite-lived intangible assets 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. Assets held for sale are reported at the lower of the carrying amount or fair value, less the estimated costs to sell.

Recent accounting standard related to leases: In February 2016, the FASB issued ASU 2016-02, Leases (“ASU 2016-02”). This new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. In July 2018, the FASB issued ASU No. 2018-11 which provides an alternative transition method that allows entities to apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company has adopted the requirements of ASU 2016-02 on January 1, 2019, the first day of fiscal year 2019, using the optional transition method. The Company elected to use certain practical expedient options, which allows an entity not to reassess whether any existing or expired contracts contain leases. There was an increase in assets of $2,966 and liabilities of $3,101 due to the recognition of the required right-of-use asset and corresponding liability for all lease obligations that are currently classified as operating leases with the difference of $135 related to existing deferred rent that reduced the ROU asset recorded. The standard did not have a material impact on our condensed consolidated statements of operations and comprehensive income (loss).

Change in accounting policy related to leases: We determine if an arrangement is a lease at inception. Operating leases are included in operating lease - right of use (“ROU”) assets, accrued liabilities, and operating lease liability in our consolidated balance sheets. As of adoption of ASC 842 and as of December 31, 2020 and December 31, 2019, the Company was not party to finance lease arrangements. ROU assets represent our right to use an underlying asset for the lease term and operating lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and operating lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense is recognized on a straight-line basis over the lease term. Under the available practical expedient, we account for the lease and non-lease components as a single lease component.

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

Revenue Recognition Policy: The Company generates revenue from sales of its audio and video conferencing equipment to distributors, system integrators and value-added resellers. The Company also generates revenue, to a much lesser extent, from sale of software and licenses to distributors, system integrators, value-added resellers and end-users. The Company recognizes revenue when it satisfies a performance obligation in an amount reflecting the consideration to which it expects to be entitled. For sales agreements, the Company has identified the promise to transfer products, each of which are distinct, to be the performance obligation. The Company applies a five-step approach in determining the amount and timing of revenue to be recognized: (1) identifying the contract with a customer, (2) identifying the performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations in the contract and (5) recognizing revenue when the performance obligation is satisfied. Substantially all of the Company's revenue is recognized at the time control of the products transfers to the customer.

Sales agreements with customers are renewable periodically and contain terms and conditions with respect to payment, delivery, warranty and supply, but typically do not require mandatory purchase commitments. In the absence of a sales agreement, the Company's standard terms and conditions at the time of acceptance of purchase orders apply. The Company considers the customer purchase orders, governed by sales agreements or the Company's standard terms and conditions, to be the contract with the customer. The Company evaluates certain factors including the customer's ability to pay (or credit risk).

In determining the transaction price, the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. Sales to distributors, are typically made pursuant to agreements that provide return rights with respect to discontinued or slow-moving products, referred to as stock rotation. Sales to distributors can also be subject to price adjustment on certain products, primarily for distributors with drop-shipping rights. Although payment terms vary, most distributor agreements require payment within 45 days of invoicing.

The Company recognizes revenue when it satisfies a performance obligation. The Company recognizes revenue from sales agreements upon transferring control of a product to the customer. This typically occurs when products are shipped or delivered, depending on the delivery terms, or when products that are consigned at customer locations are sold to dealers or end users. Revenue recognized during the twelve months ended December 31, 2020 for equipment sales was $28,698, and for software, licenses, etc. was $371. Sales returns and allowances are estimated based on historical experience. Provisions for discounts and rebates to customers, estimated returns and allowances, ship and credit claims and other adjustments are provided for in the same period the related revenues are recognized, and are netted against revenues. For returns, the Company recognizes a related asset for the right to recover returned products with a corresponding reduction to cost of goods sold. The Company reviews warranty and related claims activity and records provisions, as necessary.

Frequently, the Company receives orders with multiple delivery dates that may extend across reporting periods. Since each delivery constitutes a performance obligation, the Company allocates the transaction price of the contract to each performance obligation based on the stand-alone selling price of the products. The Company invoices the customer for each delivery upon shipment and recognizes revenues in accordance with delivery terms. Although payment terms vary, distributors typically pay within 45 days of invoicing and dealers pay within 30 days of invoicing. As scheduled delivery dates are within one year, revenue allocated to future shipments of partially completed contracts are not disclosed.

The Company has elected to record freight and handling costs associated with outbound freight after control over a product has transferred to a customer as a fulfillment cost and include it in cost of revenues. Taxes assessed by government authorities on revenue-producing transactions, including value-added and excise taxes, are presented on a net basis (excluded from revenues) in the consolidated statements of operations and comprehensive income (loss).

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

	As of December 31,	
	2020	2019
Deferred revenue	$ 123	$ 173
Deferred cost of goods sold	—	—
Deferred gross profit	$ 123	$ 173

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

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, until the defective unit has been returned. Any amount due from the customer upon failure to return the products is accounted as receivable only after establishing customer's failure to return the products. The inventory due from the customer is accounted at cost or market value whichever is lower.

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

	Year Ended December 31	
	2020	2019
Audio Conferencing	$ 10,926	$ 11,609
Microphones	9,149	8,818
Video products	8,994	4,615
	$ 29,069	$ 25,042

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

	Year Ended December 31,	
	2020	2019
North and South America	$ 18,320	$ 14,040
Asia (including Middle East) and Australia	5,998	7,773
Europe and Africa	4,751	3,229
	$ 29,069	$ 25,042

Warranty Costs – The Company accrues for warranty costs based on estimated warranty return rates and estimated costs to repair. These reserve costs are classified as accrued liabilities on the consolidated balance sheets. 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,	
	2020	2019
Balance at the beginning of year	$ 194	$ 194
Accruals/additions	119	121
Usage/claims	(119)	(121)
Balance at end of year	$ 194	$ 194

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

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, 2020 and 2019 totaled $440 and $902, respectively, and are included in sales and marketing on the consolidated statements of operations and comprehensive income (loss).

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. On a quarterly basis, the Company tests the value of deferred tax assets for impairment at the taxpaying-component level within each tax jurisdiction. Significant judgment and estimates are required in determining whether valuation allowances should be established as well as the amount of such allowances.

The valuation allowance is based on our estimates of future taxable income and the period over which we expect the deferred tax assets to be recovered. Our assessment of future taxable income is based on historical experience and current and anticipated market and economic conditions and trends. In 2018, as a result of negative evidence, principally three years of cumulative pre-tax operating losses, we concluded that it was more likely than not that net operating losses, tax credits and other deferred tax assets were not realizable and therefore, we recorded a full valuation allowance against those net deferred tax assets. Adjustments to the valuation allowance increase or decrease the Company’s income tax provision or benefit.

As of December 31, 2020 the Company had no net deferred tax assets due to valuation allowances recorded to account for the consecutive quarters with losses before taxes.

Recent changes: There were no changes that had a material impact on the Company's consolidated financial position, results of operations or cash flows.

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

	Year Ended December 31,	
	2020	**2019**
Numerator:		
Net income (loss)	$ 505	$ (8,408)
Denominator:		
Basic weighted average shares	17,271,629	16,638,580
Dilutive common stock equivalents using treasury stock method	53,722	—
Diluted weighted average shares	17,325,351	16,638,580
Basic income (loss) per common share:	$ 0.03	$ (0.51)
Diluted income (loss) per common share:	$ 0.03	$ (0.51)
Weighted average options, warrants and convertible portion of senior convertible notes outstanding	2,611,574	566,200
Anti-dilutive options, warrants and convertible portion of senior convertible notes not included in the computation	3,323,272	566,200

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.

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

Liquidity:

As of December 31, 2020, our cash and cash equivalents were approximately $3,803 compared to $4,064 as of December 31, 2019. Our working capital was $22,185 as of December 31, 2020 compared to $18,934 as of December 31, 2019. Net cash used in operating activities was $982 for the twelve months ended December 31, 2020, a decrease of cash used of $3,674 from $4,656 of cash used in operating activities in the twelve months ended December 31, 2019.

We are currently pursuing all available legal remedies to defend our strategic patents from infringement. We have already spent approximately $20,319 from 2016 through 2020 towards this litigation and may be required to spend more to continue our legal defense. We believe the decision by the U.S. District Court in August 2019 granting our request for a preliminary injunction to prevent our competitor from manufacturing, marketing, and selling its competing ceiling microphone array in an infringing configuration is an incredibly valuable ruling for ClearOne and its business. We believe that the decision validates the strength and importance of ClearOne’s intellectual property rights, recognizes ClearOne’s innovations in this space, and stops our competitor from further infringing our Graham patent (U.S. Patent No. 9,813,806) pending a full trial. We believe this ruling will help pave way for ClearOne’s recovery from the immense harm inflicted by our competitor's infringement of our valuable patents.

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

We also believe that the measures taken by us will continue to yield higher revenues in the future. We believe all of these and effective management of working capital will provide the liquidity needed to meet our operating needs through at least March 31, 2022. We also believe that our strong portfolio of intellectual property and our solid brand equity in the market will enable us to raise additional capital if and when needed to meet our short and long-term financing needs; however, there can be no assurance that, if needed, we will be successful in obtaining the necessary funds through equity or debt financing. If we need additional capital and are unable to secure financing, we may be required to further reduce expenses, delay product development and enhancement, or revise our strategy regarding ongoing litigation.

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

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 shareholders' 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, 2020 and 2019 were as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
December 31, 2020				
Available-for-sale securities:				
Corporate bonds and notes	$ 1,312	26	—	1,338
Municipal bonds	1,536	5	—	1,541
Total available-for-sale securities	$ 2,848	31	—	2,879
December 31, 2019				
Available-for-sale securities:				
Corporate bonds and notes	$ 1,814	$ 21	$ (3)	$ 1,832
Municipal bonds	2,707	5	(1)	2,711
Total available-for-sale securities	$ 4,521	$ 26	$ (4)	$ 4,543

Maturities of marketable securities classified as available-for-sale securities were as follows at December 31, 2020:

	Amortized cost	Estimated fair value
Due within one year	$ 1,106	1,117
Due after one year through five years	1,742	1,762
Total available-for-sale securities	$ 2,848	2,879

There were no debt securities in an unrealized loss position as of December 31, 2020.

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

3. Intangible Assets

Intangible assets as of December 31, 2020, and 2019 consisted of the following:

	Estimated useful lives (in years)	As of December 31, 2020	2019
Tradename	5 to 7	$ 555	$ 555
Patents and technological know-how	10	25,427	18,494
Proprietary software	3 to 15	2,981	2,981
Other	3 to 5	323	323
Total intangible assets, gross		29,286	22,353
Accumulated amortization		(10,038)	(8,344)
Total intangible assets, net		$ 19,248	$ 14,009

Patents and technological know-how include capitalized legal expenses, net of amortization of $16,582 related to our defense of patents from infringement by our competitors. Legal expenses have been capitalized upon satisfaction of two conditions: (a) a determination being made that a successful defense of this litigation is probable, and (b) that the monetary benefits arising out of such successful defense will be in excess of the costs for the defense. Please refer to Note 8 - Commitments and Contingencies for additional information.

During the years ended December 31, 2020 and 2019, amortization of these intangible assets were $1,694 and $1,402 respectively.

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

Years ending December 31,	
2021	$ 1,959
2022	1,959
2023	1,952
2024	1,689
2025	1,628
Thereafter	10,061
Total	$ 19,248

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

4. Inventories

Inventories, net of reserves, consisted of the following:

	As of December 31,	
	2020	2019
Current:		
Raw materials	$ 1,182	$ 847
Finished goods	9,281	10,594
Total	$ 10,463	$ 11,441
Long-term:		
Raw materials	$ 1,977	$ 1,915
Finished goods	2,613	4,369
Total	$ 4,590	$ 6,284

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.

The losses incurred on valuation of inventory at the lower of cost or market value and write-off of obsolete inventory amounted to $1,517 and $891 during the years ended December 31, 2020 and 2019, respectively.

5. Property and Equipment

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

	Estimated useful lives in years	As of December 31,	
		2020	2019
Office furniture and equipment	3 to 10	$ 5,219	$ 4,979
Leasehold improvements	2 to 10	1,610	1,609
Vehicles	5 to 10	206	206
Manufacturing and test equipment	2 to 10	2,833	2,779
		9,868	9,573
Accumulated depreciation and amortization		(8,962)	(8,529)
Property and equipment, net		$ 906	$ 1,044

Depreciation expense on property and equipment for the years ended December 31, 2020 and 2019 was $422 and $512, respectively.

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

6. Leases

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

Rent expense for the years ended December 31, 2020 and 2019 was as follows:

	Year ended December 31,	
	2020	2019
Rent expense	$ 719	$ 804

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

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

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

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

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

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

Supplemental cash flow information related to leases was as follows:

	Year ended December 31,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 718	$ 708
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 97	$ 51

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

Supplemental balance sheet information related to leases was as follows:

	December 31, 2020	December 31, 2019
Operating lease right-of-use assets	$ 1,936	$ 2,459
Current portion of operating lease liabilities, included in accrued liabilities	$ 579	$ 577
Operating lease liabilities, net of current portion	1,489	2,021
Total operating lease liabilities	$ 2,068	$ 2,598
Weighted average remaining lease term for operating leases (in years)	3.54	4.43
Weighted average discount rate for operating leases	6.1%	6.1%

The following represents maturities of operating lease liabilities as of December 31, 2020:

Years ending December 31,	
2021	$ 689
2022	634
2023	610
2024	306
2025	69
Total lease payments	2,308
Less: Imputed interest	(240)
Total	$ 2,068

7. Accrued Liabilities

Accrued liabilities consist of the following:

	As of December 31,	
	2020	2019
Accrued salaries and other compensation	$ 773	$ 835
Sales and marketing programs and customer credit balances	575	378
Product warranty	194	194
Current portion of operating lease liabilities	579	577
Accrued legal fees and costs	78	772
Other accrued liabilities	153	449
Total	$ 2,352	$ 3,205

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 $3,369 as of December 31, 2020.

Uncertain Tax Positions. As further discussed in Note 13 - Income Taxes, we had $861 of uncertain tax positions as of December 31, 2020. 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.

Intellectual Property Litigation

The Company is involved in litigation against Shure Incorporated ("Shure").

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

Shure filed the first lawsuit on April 24, 2017, by filing a complaint in the U.S. District Court for the Northern District of Illinois seeking a declaratory judgment of non-infringement and invalidity of the Company's U.S. Patent No. 9,635,186 ("'186 Patent") and Patent No. 9,264,553 ("'553 Patent"). The matter is *Shure Inc. v. ClearOne, Inc.*, Case No. 17-cv-03078 (the "2017 N.D. Illinois Matter"). In early 2018, Shure added a claim that the '186 Patent is unenforceable. The Court dismissed Shure's request for declaratory judgment relating to the '553 Patent, which at the time in 2017, had not been threatened or asserted by the Company against Shure and had been submitted to the USPTO for reissue. The Company has filed counterclaims against Shure for willful infringement of the Company's '186 Patent and the Company's U.S. Patent No. 9,813,806 ("'806 Patent").

On August 6, 2017, the Company filed a motion seeking a preliminary injunction to enjoin Shure from continuing to infringe on the Company's '186 Patent. On March 16, 2018, the Court denied the Company's motion for preliminary injunction regarding the '186 Patent. On February 6, 2019, the Company filed a motion for reconsideration in light of the PTAB's January 24, 2019, decision confirming the patentability of the related '553 Patent. On August 25, 2019, the Court denied the Company's motion for reconsideration.

On April 17, 2018, the Company filed a motion seeking a preliminary injunction to enjoin Shure from continuing to infringe on the Company's '806 Patent. On August 6, 2019, the Court granted the Company's motion for preliminary injunction regarding the '806 Patent preventing Shure from manufacturing, marketing, and selling the Shure MXA910 Ceiling Array Microphone for use in its "drop-ceiling mounting configuration." The Court determined that such sales are likely to infringe the '806 Patent and that Shure had not raised a substantial question of the '806 Patent validity. The Court's order also prevents Shure from encouraging others to use the Shure MXA910 beamforming microphone array in the "drop-ceiling mounting configuration" and "applies to Shure's officers, agents, servants, employees, and attorneys, as well as anyone who is in active concert or participation with those listed persons." On August 20, 2019, the Company deposited $4,452,149.60 with the Court to satisfy a bond securing the preliminary injunction.

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

On February 21, 2020, the Company asked for a Court order that Shure has been manufacturing, marketing, and selling its redesigned MXA910, the MXA910-A released in December 2019, in violation of a preliminary injunction issued on August 20, 2019. On September 1, 2020, the Court held Shure in contempt of court for violating the Court's August 2019 preliminary injunction order. The Court held that "Shure has violated the preliminary injunction order and is found in contempt because it designed the MXA910-A in such a way that allows it to be easily installed flush in most ceiling grids." The Court's order prohibited Shure from continuing to "manufacture, market, or sell the MXA910-A." In addition, the Court held that "[t]he record is also clear as to the MXA910-60CM, but in an abundance of caution, the Court will refrain from granting that aspect of the contempt motion to allow for additional discovery" on that and the "possibility that Shure also violated the preliminary injunction order" by "pushing" sales of the MXA910 immediately after the issuance of the August 2019 preliminary injunction order. The parties will soon complete supplemental briefing relating to this contempt finding. On September 15, 2020, Shure filed an appeal of the contempt ruling with the United States Court of Appeals for the Federal Circuit, seeking reversal of the Court's order finding contempt and disallowing further sales of the MXA910-A. The briefing on Shure's appeal will be complete in April 2021 and then the Federal Circuit may order a hearing on the appeal.

On July 9, 2020, the Company moved for summary judgment, or partial summary judgment, of infringement by Shure of the '186 and '806 patents, and Shure moved on the same day for summary judgment of invalidity of the '186 and '806 patents. On August 12, 2020, Shure also moved for summary judgment on various other aspects of the Company's infringement claims, including arguing that the MXA910 after a recent firmware update does not infringe the '186 Patent, that the MXA910-A and MXA910-US do not infringe the '806 Patent, and that the Company is not entitled to lost profits or treble damages. The motions remain pending.

Shure Incorporated v. ClearOne, Inc., No. IPR2017-01785 (PTAB)

On July 14, 2017, Shure filed a petition with Patent Trial and Appeals Board ("PTAB") for *inter partes* review against the '553 Patent. The matter is *Shure Incorporated v. ClearOne, Inc.*, No. IPR2017-01785. On January 29, 2018, the PTAB instituted *inter partes* review of the '553 Patent. On January 24, 2019, PTAB issued a final written decision confirming the patentability of all claims of the '553 Patent. Shure filed a request for a rehearing, which the PTAB denied on March 25, 2019. Shure appealed the PTAB's decision to the U.S. Court of Appeals for the Federal Circuit, which issued a judgment affirming the PTAB's decision on March 6, 2020.

ClearOne, Inc. v. Shure Acquisition Holdings, Inc., IPR2019-00683 (PTAB)

On February 15, 2019, the Company filed a petition for *inter partes* review of Shure's U.S. Patent No. 9,565,493 ("'493 Patent"), arguing that all claims of the '493 Patent should be cancelled in light of several prior art references, including the '806 Patent. The matter is *ClearOne, Inc. v. Shure Acquisition Holdings, Inc.*, IPR2019-00683. Shure opposed the petition, but the PTAB instituted *inter partes* review on August 16, 2019. Shortly over a year later, on August 14, 2020, the PTAB issued its final written decision, holding that all but two of the original claims in the '493 Patent, claims 6 and 34, are unpatentable in light of the '806 and other prior art, and granting Shure's request to amend 11 claims. On August 24, the Company filed a request for rehearing with the PTAB, arguing that the 11 amended claims are not patentable based upon the Company's allegation that Shure withheld from the PTAB two allegedly material references that render those claims unpatentable. Also on August 24, the Company filed a request for sanctions with the PTAB, arguing that Shure's failure to disclose two material references to the PTAB violated Shure's duty of candor. PTAB denied both the request for hearing and request for sanctions. The Company has appealed the PTAB's final written decision to the U.S Court of Appeal for the Federal Circuit.

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

On April 10, 2019, the Company filed a lawsuit against Shure in the United States District Court for the Northern District of Illinois alleging that Shure's MXA910 and MXA310 infringes the '553 Patent and that Shure has misappropriated ClearOne's trade secrets. The matter is *ClearOne, Inc. v. Shure, Inc.*, 19-cv-02421 (the "2019 N.D. Illinois Matter"), and has been coordinated with the initial matter filed in 2017 for trial purposes. On December 16, 2019, the Court granted the Company's motion for leave to amend its complaint to add claims against Shure for intentional interference with prospective economic advantage and trade libel. On January 13, 2020, Shure moved to dismiss the Company's new claims.

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

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

On July 18, 2019, Shure, Inc. filed a lawsuit against the Company in the U.S. Court for the District of Delaware alleging that ClearOne's BMA CT product, launched in February of 2019, infringes Shure's '493 Patent and that ClearOne engaged in unfair competition, tortious interference, deceptive trade practices, and false advertising. The matter is *Shure, Incorporated v. ClearOne, Inc.*, 19-cv-1343 (D. of Delaware). Shure is seeking monetary damages and injunctive relief. ClearOne successfully moved to stay Shure's infringement claim relating to the '493 Patent because the PTAB instituted *inter partes* review of the '493 Patent. On November 19, 2019, the Court granted Shure's request for leave to amend its complaint to add a claim of infringement of Shure's recently issued U.S. Patent No. D865723 (the "Design Patent") and additional claims of trade libel. In July 2020, the Company filed counterclaims accusing Shure of false advertising. Both parties' claims are still pending. The Company believes that Shure's lawsuit is without merit and intends to vigorously defend itself.

On April 14, 2020, Shure moved for a temporary restraining order and preliminary injunction to prevent the Company from selling the BMA CT and BMA CTH, alleging that these products infringed Shure's Design Patent. The Company opposed the motions, and on May 1, Magistrate Judge Burke issued a report and recommendation denying Shure's request for a temporary restraining order, finding that Shure had failed to show that it would suffer irreparable harm in the absence of injunctive relief and that ClearOne had raised a "substantial question" as to the validity of the Design Patent. On September 21, 2020, the Court held a hearing on Shure's motion for a preliminary injunction seeking to enjoin further sale of the BMA CT and Versa bundles that included the BMA CTH. On January 20, 2021, Magistrate Judge Burke issued a report and recommendation denying Shure's motion for failure to show both a likelihood of success on the merits and irreparable harm. After Shure did not file an objection to the report and recommendation, Judge Andrews adopted it and denied Shure's preliminary injunction motion. Shure did not file a notice of appeal.

On July 28, 2020, Judge Burke held a claim construction hearing on the Design Patent and issued a report and recommendation on claim construction in October 2020. Since neither party objected, the district court judge adopted the report and recommendation in November 2020.

Shure, Incorporated v. ClearOne. Inc., PGR2020-00079 (PTAB)

Also on July 28, 2020, Shure challenges the patentability of the Company's U.S. Patent No. 10,728,653 in a post-grant review proceeding before the PTAB. The matter is *Shure, Incorporated v. ClearOne. Inc.*, PGR2020-00079 (PTAB). The Company filed a preliminary response on November 17, 2020, and the PTAB instituted trial by an institution decision dated February 16, 2021. The institution decision found that five of the seven challenges in the petition were not reasonably likely to prevail, but instituted trial under its all-or-nothing institution policy. The Company may file its initial set of trial papers by May 11, 2021. A trial hearing is scheduled to take place November 16, 2021, and a final written decision is due from the PTAB by February 16, 2022.

The Company intends to continue to vigorously enforce and defend its intellectual property rights in these proceedings.

The Company capitalized $6,728 and $5,086 of litigation expenses related to this matter during the twelve months ended December 31, 2020 and 2019, respectively.

In addition, the Company is also involved from time to time in various claims and 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 other proceedings will have a material adverse effect on our business, results of operations, financial position, or liquidity.

Conclusion

We believe there are no other items that will have a material adverse impact on the Company's financial position or results of operations. 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 any legal proceedings.

The Company believes it has adequately accrued for the aforementioned contingent liabilities. If 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.

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

9. Long-Term Debt

Senior Convertible Notes and Warrants

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

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

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

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

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

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

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

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

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

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

	December 31, 2020	December 31, 2019
Liability component:		
Principal	$ 3,000	$ 3,000
Less: debt discount and issuance costs, net of amortization	(581)	(778)
Net carrying amount	$ 2,419	$ 2,222
Equity component(1):		
Warrants	$ 318	$ 318
Conversion feature	122	122
Net carrying amount	$ 440	$ 440
Current portion of liability component included under short-term debt	$ 360	$ —
Long-term portion of liability component included under long-term debt	2,059	2,222
Liability component total	$ 2,419	$ 2,222

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

Debt discount and issuance costs are amortized over the life of the note to interest expense using the effective interest method. During the year ended December 31, 2020, amortization of debt discount and issuance costs was $197. The following table represents schedule of maturities of principal amount contained in the Notes as of December 31, 2020:

Year ending December 31,	Principal Amount Maturing
2021	$ 360
2022	720
2023	1,920
Net carrying amount	$ 3,000

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

Paycheck Protection Program Loan

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

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

	December 31, 2020	December 31, 2019
Current portion of the PPP Loan included under short-term debt	$ 312	$ —
Long-term portion of the PPP Loan included under long-term debt	1,187	—
Total	$ 1,499	$ —

10. Share-Based Payments

Employee Stock Option Plans

The Company's share-based incentive plan offering stock options is primarily through 2007 Equity Incentive Plan (the "2007 Plan"). Under this plan, one new share is issued for each stock option exercised. The plan is described below.

The 2007 Plan was restated and approved by the shareholders on December 12, 2016. Provisions of the restated 2007 Plan include the granting of up to 2,000,000 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.

All vesting schedules for options granted 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. As of December 31, 2020, the Company had 505,946 options with contractual lives of ten years and 337,500 options with contractual lives of 6 years.

As of December 31, 2020, there were 843,446 options outstanding under the 2007 Plan. As of December 31, 2020, the 2007 Plan had 621,408 authorized unissued options.

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.

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

The Company did not grant any options during the year ended December 31, 2019. In applying the Black-Scholes methodology to the options granted during the year ended December 31, 2020, the Company used the following assumptions:

Risk free interest rate, average	0.37%
Expected option life, average	5 years
Expected price volatility, average	67.23%
Expected dividend yield	0%

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.

Under guidelines of ASC Topic 718, the Company recognizes 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 Company did not grant any options during the years ended December 31, 2020 and 2019.

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, 2018	624,256	$ 8.87	5.28	$ —
Granted	—	—		
Expired and canceled	(78,786)	7.85		
Forfeited prior to vesting	(823)	11.97		
Exercised	—	—		
As of December 31, 2019	544,647	$ 9.01	4.93	$ —
Granted	337,500	2.50		
Expired and canceled	(38,701)	4.81		
Forfeited prior to vesting	—	—		
Exercised	—	—		
As of December 31, 2020	843,446	$ 6.60	4.91	$ —
Vested and Expected to Vest at December 31, 2019	544,647	$ 9.01	4.93	$ —
Vested at December 31, 2019	527,181	$ 8.97	4.85	$ —
Vested and Expected to Vest at December 31, 2020	843,446	$ 6.60	4.91	$ —
Vested at December 31, 2020	505,946	$ 9.33	4.21	$ —

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

The total pre-tax compensation cost related to stock options recognized during the years ended December 31, 2020 and 2019 was $58 and $208, respectively. Tax benefit from compensation cost related to stock options during the years ended December 31, 2020 and 2019 was $0. As of December 31, 2020, the total compensation cost related to stock options not yet recognized and before the effect of any forfeitures was $457, which is expected to be recognized over approximately the next 3.72 years on a straight-line basis.

Employee Stock Purchase Plan

During the years ended December 31, 2020 and 2019, the Company issued shares to employees under the Company's 2016 Employee Stock Purchase Plan (the "ESPP"). The ESPP was approved by the Company's shareholders on December 12, 2016. As of December 31, 2020, and December 31, 2019, 413,868 and 422,866, respectively of the originally approved 500,000 shares were available for offerings under the ESPP. Offering periods under the ESPP commence on each Jan 1 and July 1 and continue for a duration of six months. The ESPP is available to all employees who do not own, or are deemed to own, shares of stock making up an excess of 5% of the combined voting power of the Company, its parent or subsidiary.

During each offering period, each eligible employee may purchase shares under the ESPP after authorizing payroll deductions. Under the ESPP, each employee may purchase up to the lesser of 2,500 shares or $25 of fair market value (based on the established purchase price) of the Company's stock for each offering period. Unless the employee has previously withdrawn from the offering, his or her accumulated payroll deductions will be used to purchase common stock on the last business day of the period at a price equal to 85% (or a 15% discount) of the fair market value of the common stock on the first or last day of the offering period, whichever is lower.

Shares purchased and compensation expense associated with Employee Stock Purchase Plans were as follows:

	2020	2019
Shares purchased under ESPP plan	8,998	20,128
Plan compensation expense	$ 5	$ 9

Issuance of Common Stock and Warrants

On September 13, 2020, the Company, entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain purchasers named therein (the "Purchasers"), pursuant to which the Company issued and sold, in a registered direct offering 2,116,050 shares (the "Shares") of the Company's common stock, par value $0.001 per share (the "Common Stock") at an offering price of $2.4925 per share, (the "Registered Offering"). The Company received gross proceeds of approximately $5,275 (4,764 net of issuance costs) in connection with the Registered Offering, before deducting placement agent fees and related offering expenses. In a concurrent private placement, the Company issued to the Purchasers who participated in the Registered Offering warrants exercisable for an aggregate of 1,058,025 shares of common stock at an exercise price of $2.43 per share. Each warrant became immediately exercisable and had an expiry term of five years from the issuance date.

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

11. Significant Customers

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

	Year ended December 31, 2020	2019
Customer A	*	10.7%

The following table summarizes the percentage of total gross accounts receivable from significant customers that represented more than 10 percent of total gross accounts receivable:

	As of December 31, 2020	2019
Customer A	*	14.8%

* Sales and accounts receivable from Customer A in 2020 did not exceed 10% of revenue and total gross accounts receivable.

12. 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 tables set forth the fair value of the financial instruments re-measured by the Company as of December 31, 2020 and 2019:

	Level 1	Level 2	Level 3	Total
December 31, 2020				
Corporate bonds and notes	$ —	$ 1,338	$ —	$ 1,338
Municipal bonds	—	1,541	—	1,541
Total	$ —	$ 2,879	$ —	$ 2,879
December 31, 2019				
Corporate bonds and notes	$ —	$ 1,832	$ —	$ 1,832
Municipal bonds	—	2,711	—	2,711
Total	$ —	$ 4,543	$ —	$ 4,543

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

13. Income Taxes

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

	Year ended December 31, 2020	Year ended December 31, 2019
Domestic	$ (4,574)	$ (6,207)
Foreign	(1,350)	(2,145)
Total	$ (5,924)	$ (8,352)

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

	Year ended December 31, 2020	Year ended December 31, 2019
Current:		
Federal	$ 6,543	$ 26
State	(36)	(23)
Foreign	(78)	(59)
Total current	6,429	(56)
Deferred:		
Federal	(3,104)	1,621
State	286	413
Foreign	216	393
Total	(2,602)	2,427
Change in valuation allowance	2,602	(2,427)
Total deferred	—	—
Tax benefit (provision)	$ 6,429	$ (56)

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

	Year ended December 31, 2020	Year ended December 31, 2019
Tax benefit at federal statutory rate	$ 1,244	$ 1,754
State income tax benefit (provision), net of federal benefit	244	318
Research and development tax credits	272	290
Foreign earnings or losses taxed at different rates	(38)	(27)
Tax rate change, due primarily to loss carryback	2,720	(31)
Other	(615)	67
Change in valuation allowance	2,602	(2,427)
Tax provision	$ 6,429	$ (56)

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

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

	2020	2019
Deferred revenue	$ 21	$ 36
Basis difference in intangible assets	2,994	3,157
Inventory reserve	2,434	2,247
Net operating loss carryforwards	3,605	6,438
Research and development tax credits	1,272	1,042
Accrued expenses	61	163
Stock-based compensation	309	322
Allowance for sales returns and doubtful accounts	128	107
Difference in property and equipment basis	(145)	(134)
Other	479	382
Total net deferred income tax asset	11,158	13,760
Less: Valuation allowance	(11,158)	(13,760)
Net deferred income tax asset (liability)	$ —	$ —

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted on March 27, 2020. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side payroll tax, Paycheck Protection Program, net operating loss carryback periods, and modifications to the net interest deduction limitations. The most significant impact to the Company from the CARES Act relates to the Paycheck Protection Program and modifications to the net operating loss carryback periods. In November 2020, the Company completed its assessment of the impact of the carryback provisions from the CARES Act and elected to carry back its net operating losses to previous years.

The Company has not provided for 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.

The Company routinely evaluates the likelihood of realizing the benefit of its deferred tax assets and may record a valuation allowance if, based on all available evidence, it determines that it is more likely than not some portion of the tax benefit will not be realized. As of December 31, 2020, the Company had an aggregate of approximately $11.2 million in deferred tax assets primarily related to intangible assets, net operating losses, tax credit carryforwards, and inventory basis differences. On a quarterly basis, the Company tests the value of deferred tax assets for impairment at the taxpaying-component level within each tax jurisdiction. Significant judgment and estimates are required in determining whether valuation allowances should be established as well as the amount of such allowances. When making such determination, consideration is given to, among other things, the following:

- sufficient taxable income within the allowed carryback or carryforward periods;
- future reversals of existing taxable temporary differences, including any tax planning strategies that could be utilized;
- nature or character (e.g., ordinary vs. capital) of the deferred tax assets and liabilities; and
- future taxable income exclusive of reversing temporary differences and carryforwards.

Based on the foregoing criteria, the Company determined that it no longer meets the "more likely than not" threshold that net operating losses, tax credits and other deferred tax assets will be realized. Accordingly, the Company recorded a full valuation allowance at September 30, 2018, and continues to be in a full valuation allowance position at December 31, 2020.

Under the five-year carryback provision of the CARES Act, the Company carried back its 2018 and 2019 taxable losses to 2013 and 2014. The Company also intends to carry back its 2020 taxable loss to 2015. As no tax benefit was previously recorded for the 2018 – 2020 losses, due to the full valuation allowance, the carryback of these losses resulted in a tax benefit of $7.1M.

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

As of December 31, 2020 the Company has federal net operating loss ("NOL") carryforwards of approximately $0.8 million (pre-tax), state NOL carryforwards of approximately $20.5 million (pre-tax) and Spain NOL carryforwards of approximately $9.9 million (pre-tax). The federal NOL carryforward begins to expire in 2029. The Spain NOL carryforward does not expire. The state NOL carryforwards expire over various periods.

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, 2020 and 2019, that would favorably impact our effective tax rate if recognized was $861 and $298, respectively. As of December 31, 2020 and 2019, we accrued $23 and $9, 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.

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,	
	2020	2019
Balance - beginning of year	$ 298	$ 679
Additions based on tax positions related to the current year	661	50
Additions for tax positions of prior years	—	43
Reductions for tax positions of prior years	—	—
Settlements	(43)	(375)
Lapse in statutes of limitations	(55)	(99)
Uncertain tax positions, ending balance	$ 861	$ 298

The Company's U.S. federal income tax returns for 2017 through 2020 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 2017.

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

14. 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,	
	2020	2019
United States	$ 17,983	$ 13,463
All other countries	11,086	11,579
Total	$ 29,069	$ 25,042

15. The Impact of Covid-19

As of the time of this filing the Company's operating activities have been curtailed by the impact of Covid-19. Government directives have suspended manufacturing and limited workplace activities beginning March 23, 2020. The Company has empowered its employees to work remotely wherever possible to minimize the disruption to Company operations. The Company has received no communications from customers that indicate cancellations or substantial change in delivery schedules. Public health directives from governments around the world are advising or prohibiting large gatherings to inhibit the spread of Covid-19. This has suspended the use of our products for much of our installed customer base. Continued restrictions and the positional behavioral changes resulting from the impact of Covid-19 may continue to influence the demand for our products which typically attract a large audience. Also, the ongoing impact of Covid-19 on the world's economy could ultimately have material adverse consequences to the Company; however, as of now, the Company is unable to determine the likelihood or degree of such adverse consequences.

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

NetStreams, Inc. (DE)
NetStreams, LLC. (TX)
ClearOne Web Solutions, Inc. (DE)
ClearOne Communications Hong Kong Limited (Hong Kong)
ClearOne Ltd. (Israel)
ClearOne DMCC Branch (Dubai)
ClearOne Innovation India Private Ltd. (India)
ClearOne Spain SL (Spain)

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements (Nos. 333-205356, 333-209130, 333-148789 and 333-137859) on Form S-8 on Form S-1 (No. 333-249506) and on Form S-3 (Nos. 333-248412 and 333-238085) of ClearOne, Inc. of our report dated March 31, 2021, 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, 2020.

/s/ Tanner LLC

Salt Lake City, UT
March 31, 2021

EXHIBIT 31.1

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 31, 2021

By: */s/ Zeynep Hakimoglu*
Zeynep Hakimoglu
Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

CERTIFICATION

I, Narsi Narayanan, certify that:

1. I have reviewed this 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 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;

   b) 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;

   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 31, 2021

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

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

I, Zeynep Hakimoglu, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the annual report of ClearOne, Inc. (the "Company") on Form 10-K for the year ended December 31, 2020 , fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such annual report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 31, 2021

By: */s/ Zeynep Hakimoglu*
Zeynep Hakimoglu
Chief Executive Officer
(principal executive officer)

This certification accompanies each Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by §906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

I, Narsi Narayanan, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the annual report of ClearOne, Inc. (the "Company") on Form 10-K for the year ended December 31, 2020 , fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such annual report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 31, 2021

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

This certification accompanies each Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by §906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.