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

FORM 10-Q

(Mark One)

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

Commission file number: **001-33660**

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of ClearOne common stock outstanding as of January 8, 2016 was 9,148,596.

CLEARONE, INC.

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

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

ASSETS	September 30, 2015	December 31, 2014
Current assets:		
Cash and cash equivalents	$ 12,487	$ 7,440
Marketable securities	6,602	6,994
Receivables, net of allowance for doubtful accounts of $51 and $58, respectively	9,346	9,916
Inventories	14,162	12,766
Distributor channel inventories	1,663	1,698
Deferred income taxes	3,824	3,824
Prepaid expenses and other assets	1,440	2,143
Total current assets	49,524	44,781
Long-term marketable securities	20,434	19,162
Long-term inventories, net	597	876
Property and equipment, net	1,527	2,039
Intangibles, net	6,952	7,896
Goodwill	12,724	12,724
Deferred income taxes	1,268	1,265
Other assets	115	117
Total assets	$ 93,141	$ 88,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,494	$ 3,057
Accrued liabilities	3,036	2,694
Deferred product revenue	4,796	5,004
Total current liabilities	10,326	10,755
Deferred rent	172	248
Other long-term liabilities	1,237	1,841
Total liabilities	11,735	12,844
Shareholders' equity:		
Common stock, par value $0.001, 50,000,000 shares authorized, 9,148,596 and 9,097,827 shares issued and outstanding	9	9
Additional paid-in capital	45,828	44,939
Accumulated other comprehensive (loss)	(72)	(8)
Retained earnings	35,641	31,076
Total shareholders' equity	81,406	76,016
Total liabilities and shareholders' equity	$ 93,141	$ 88,860

See accompanying notes

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue	$ 15,913	$ 15,739	$ 43,513	$ 42,558
Cost of goods sold	5,725	6,099	15,873	17,152
Gross profit	10,188	9,640	27,640	25,406
Operating expenses:				
Sales and marketing	2,752	2,791	8,126	8,504
Research and product development	2,132	2,314	6,128	6,886
General and administrative	1,796	1,571	5,686	5,251
Total operating expenses	6,680	6,676	19,940	20,641
Operating income	3,508	2,964	7,700	4,765
Other income, net	54	70	244	215
Income before income taxes	3,562	3,034	7,944	4,980
Provision for income taxes	1,145	1,440	2,740	2,018
Net income	$ 2,417	$ 1,594	$ 5,204	$ 2,962
Basic earnings per common share	$ 0.26	$ 0.17	$ 0.57	$ 0.32
Diluted earnings per common share	$ 0.25	$ 0.17	$ 0.54	$ 0.31
Basic weighted average shares outstanding	9,139,329	9,198,730	9,119,925	9,182,875
Diluted weighted average shares outstanding	9,615,684	9,607,644	9,583,951	9,615,878
Comprehensive income:				
Net income	$ 2,417	$ 1,594	$ 5,204	$ 2,962
Other comprehensive income:				
Change in unrealized gains (losses) on available-for-sale securities, net of tax	17	(78)	(5)	60
Change in foreign currency translation adjustment	(8)	—	(59)	—
Comprehensive income	$ 2,426	$ 1,516	$ 5,140	$ 3,022

See accompanying notes

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

	Nine months ended September 30,	
	2015	**2014**
Cash flows from operating activities:		
Net income	$ 5,204	$ 2,962
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization expense	1,551	1,427
Amortization of deferred rent	(70)	(69)
Stock-based compensation expense	648	266
Provision for (recoveries of) doubtful accounts, net	(7)	40
Write-down of inventory to net realizable value	396	537
Tax benefit from exercise of stock options	(49)	(92)
Deferred income taxes	(2)	(333)
Changes in operating assets and liabilities:		
Receivables	552	(65)
Inventories	(1,478)	(1,136)
Prepaid expenses and other assets	635	(396)
Accounts payable	(553)	(298)
Accrued liabilities	(635)	828
Income taxes payable	1,006	1,381
Deferred product revenue	(183)	822
Other long-term liabilities	(605)	(62)
Net cash provided by operating activities	6,410	5,812
Cash flows from investing activities:		
Payment towards business acquisitions	—	(13,068)
Purchase of property and equipment	(98)	(496)
Purchase of intangibles	—	(90)
Proceeds from maturities and sales of marketable securities	5,102	6,790
Purchases of marketable securities	(5,987)	(6,655)
Net cash (used in) investing activities	(983)	(13,519)
Cash flows from financing activities:		
Net proceeds from equity-based compensation programs	274	1,297
Tax benefits from equity-based compensation programs	49	92
Stock registration costs	—	(55)
Dividends paid	(639)	—
Payments for stock repurchases	—	(1,927)
Net cash used in financing activities	(316)	(593)
Effect of exchange rate changes on cash and cash equivalents	(64)	—
Net increase (decrease) in cash and cash equivalents	5,047	(8,300)
Cash and cash equivalents at the beginning of the period	7,440	17,192
Cash and cash equivalents at the end of the period	$ 12,487	$ 8,892

See accompanying notes

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

The following is a summary of supplemental cash flow activities:

	Nine months ended September 30,	
	2015	**2014**
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 2,285	$ 1,695
Issuance of common stock in connection with acquisition of business	—	1,679

See accompanying notes

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

Business Description:

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

Basis of Presentation:

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

These accompanying interim condensed consolidated financial statements for the three and nine months ended September 30, 2015 and 2014, respectively, have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and are not audited. Certain information and footnote disclosures that are usually included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been either condensed or omitted in accordance with SEC rules and regulations. The accompanying condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial position as of September 30, 2015 and December 31, 2014, the results of operations for the three and nine months ended September 30, 2015 and 2014, and cash flows for the nine months ended September 30, 2015 and 2014. The results of operations for the three and nine months ended September 30, 2015 and 2014 are not necessarily indicative of the results for a full-year period. These interim condensed consolidated financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC.

Significant Accounting Policies:

The significant accounting policies were described in Note 1 to the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2014. There have been no changes to these policies during the nine months ended September 30, 2015 that are of significance or potential significance to the Company.

Recent Accounting Pronouncements:

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

(Dollars in thousands, except per share amounts)

2. Earnings Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income	$ 2,417	$ 1,594	$ 5,204	$ 2,962
Denominator:				
Basic weighted average shares outstanding	9,139,329	9,198,730	9,119,925	9,182,875
Dilutive common stock equivalents using treasury stock method	476,355	408,914	464,026	433,003
Diluted weighted average shares outstanding	9,615,684	9,607,644	9,583,951	9,615,878
Basic earnings per common share	$ 0.26	$ 0.17	$ 0.57	$ 0.32
Diluted earnings per common share	$ 0.25	$ 0.17	$ 0.54	$ 0.31
Weighted average options outstanding	1,061,705	923,424	1,045,697	955,606
Anti-dilutive options not included in the computations	218,875	276,459	255,375	169,306

3. Business Combination

Acquisition of Sabine

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

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

The following table summarizes the consideration paid for the acquisition:

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

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

(Dollars in thousands, except per share amounts)

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

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

Supplemental Pro Forma Information:

1) Revenue and net loss from the Sabine business from March 8, 2014 to September 30, 2014 were $2,887 and $374 respectively.

2) Revenue and earnings of the combined entity as of September 30, 2014 as though the business combination occurred as of January 1, 2014 were as follows:

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
			2014	
Revenue	$	15,739	$	42,827
Earnings		1,646		2,830
Basic earnings per common share	$	0.18	$	0.31
Diluted earnings per common share	$	0.17	$	0.29

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

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

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

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

(Dollars in thousands, except per share amounts)

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

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

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

Supplemental Pro Forma Information:

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

Acquisition Expenses:

During the nine months ended September 30, 2015 and 2014, the Company incurred $302 and $459 in total acquisition related expenses for the Sabine and Spontania acquisitions, all of which are categorized under general and administrative expenses in the Condensed Consolidated Statement of Income and Comprehensive Income.

***Retroactive Restatement**:*

Following the completion of the valuation process for the acquisition of Sabine we reported intangible amortization to reflect the final adjusted values in our Form 10-K, as amended, for the year ended December 31, 2014. For the quarter and nine months ended September 30, 2015 we reported amortization based on the final valuation of intangible items. For the comparative quarter and nine months ended September 30, 2014 we have retroactively adjusted net income to reflect the inclusion of the revised amortization applicable to those periods. Net income changed from $1,646 and $3,070 originally reported for the three and nine months ended September 30, 2014 to $1,594 and $2,962, respectively. The reported retained earnings balance of $30,135 at September 30, 2014 retroactively adjusted would be $30,082. The retroactive adjustment resulted in changes in basic and diluted earnings per share for the three months ended September 30, 2014 from $0.18 and $0.17 to $0.17 and $0.17, respectively. The retroactive adjustment resulted in changes in basic and diluted earnings per share for the nine months ended September 30, 2014 from $0.33 and $0.32 to $0.32 and $0.31, respectively.

(Dollars in thousands, except per share amounts)

4. Marketable Securities

The Company has classified its marketable securities as available-for-sale securities. These securities are carried at estimated fair value with unrealized holding gains and losses included in accumulated other comprehensive income/loss in stockholders' equity until realized. Gains and losses on marketable security transactions are reported on the specific-identification method. Dividend and interest income are recognized when earned.

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for available-for-sale securities by major security type and class of security at September 30, 2015 and December 31, 2014 were as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
September 30, 2015				
Available-for-sale securities:				
Corporate bonds and notes	$ 21,317	$ 91	$ (72)	$ 21,336
Municipal bonds	5,668	33	(1)	5,700
Total available-for-sale securities	$ 26,985	$ 124	$ (73)	$ 27,036

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

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

	Amortized cost	Estimated fair value
September 30, 2015		
Due within one year	$ 6,609	$ 6,602
Due after one year through five years	19,959	20,017
Due after five years through ten years	417	417
Total available-for-sale securities	$ 26,985	$ 27,036

Debt securities in an unrealized loss position as of September 30, 2015 were not deemed impaired at acquisition and subsequent declines in fair value are not deemed attributed to declines in credit quality. Management believes that it is more likely than not that the securities will receive a full recovery of par value. The following table summarizes the fair value and gross unrealized losses of the Company’s investments with unrealized losses, aggregated by type of investment instrument and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2015:

	Less than 12 months		More than 12 months		Total	
(In thousands)	Estimated fair value	Gross unrealized holding losses	Estimated fair value	Gross unrealized holding losses	Estimated fair value	Gross unrealized holding losses
As of September 30, 2015						
Corporate bonds and notes	$ 5,137	$ (26)	$ 2,462	$ (45)	$ 7,599	$ (71)
Municipal bonds	201	(1)	229	(1)	430	(2)
	$ 5,338	$ (27)	$ 2,691	$ (46)	$ 8,029	$ (73)

5. Intangible Assets

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

	Estimated useful lives	September 30, 2015	December 31, 2014
Tradename	5 to 7 years	$ 555	$ 555
Patents and technological know-how	10 years	5,850	5,850
Proprietary software	3 to 15 years	4,341	4,341
Other	5 years	324	324
		11,070	11,070
Accumulated amortization		(4,118)	(3,174)
		$ 6,952	$ 7,896

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Amortization of intangible assets	$ 314	$ 268	$ 944	$ 701

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

<u>**Years ending December 31,**</u>	
2015 (remainder)	$ 314
2016	1,121
2017	925
2018	851
2019	778
Thereafter	2,963
	$ 6,952

6. Inventories

Inventories, marked to lower of cost or market, as of September 30, 2015 and December 31, 2014 consisted of the following:

	September 30, 2015	December 31, 2014
Current:		
Raw materials	$ 3,003	$ 3,056
Finished goods	12,822	11,408
	$ 15,825	$ 14,464
Long-term:		
Raw materials	$ 67	$ 59
Finished goods	530	817
	$ 597	$ 876

(Dollars in thousands, except per share amounts)

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

Current finished goods include consigned inventory in the amounts of approximately $1,663 and $1,698 as of September 30, 2015 and December 31, 2014, respectively. Consigned inventory represents inventory at distributors and other customers where revenue recognition criteria have not yet been achieved.

The following table summarizes the losses incurred on valuation of inventory at lower of cost or market value and write-off of obsolete inventory during the three and nine months ended September 30, 2015 and 2014, respectively.

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net loss on valuation of inventory and write-off of obsolete inventory	$ 266	$ 113	$ 396	$ 537

7. Share-based Compensation

Share-based compensation expense has been recorded as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Cost of goods sold	$ 5	$ 2	$ 15	$ 6
Sales and marketing	32	20	111	60
Research and product development	33	12	100	33
General and administrative	123	64	422	167
	$ 193	$ 98	$ 648	$ 266

As of September 30, 2015, the total remaining unrecognized compensation cost related to non-vested stock options, net of forfeitures, was approximately $1,161, which will be recognized over a weighted average period of 2.29 years.

(Dollars in thousands, except per share amounts)

8. Shareholders' Equity

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Balance at the beginning of the period	$ 78,665	$ 73,877	$ 76,016	$ 70,335
Net income during the period	2,417	1,594	5,204	2,962
Treasury stock purchased	—	(706)	—	(1,872)
Share-based compensation	193	98	648	266
Proceeds from employee stock purchase plan	40	—	40	—
Tax benefit - stock option exercise	20	2	49	92
Exercise of stock options	62	32	152	1,297
Dividends	—	—	(639)	—
Stock issued for acquisitions	—	—	—	1,679
Unrealized gain or loss on investments, net of tax	17	(78)	(5)	60
Foreign currency translation adjustment	(8)	—	(59)	—
Balance at end of the period	$ 81,406	$ 74,819	$ 81,406	$ 74,819

On November 12, 2015, the Company announced a quarterly cash dividend of $0.05 per share to be paid on December 21, 2015 to shareholders of record as of December 4, 2015.

9. Fair Value Measurements

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

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

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

Level 3 - Unobservable inputs.

The substantial majority of the Company's financial instruments are valued using quoted prices in markets that are not active or based on other observable inputs. The following table sets forth the fair value of the financial instruments re-measured by the Company as of September 30, 2015 and December 31, 2014:

	Level 1	Level 2	Level 3	Total
September 30, 2015				
Corporate bonds and notes	$ —	$ 21,336	$ —	$ 21,336
Municipal bonds	—	5,700	—	5,700
Total	$ —	$ 27,036	$ —	$ 27,036

(Dollars in thousands, except per share amounts)

	Level 1	Level 2	Level 3	Total
December 31, 2014				
Corporate bonds and notes	$ —	$ 19,838	$ —	$ 19,838
Municipal bonds	—	6,318	—	6,318
Total	$ —	$ 26,156	$ —	$ 26,156

10. Income Taxes

The Company's forecasted effective tax rate at September 30, 2015 is 36.3%, a 4.3% increase from the 32.0% effective tax rate recorded at December 31, 2014. The forecasted effective tax rate of 36.3% excludes jurisdictions for which no benefit from forecasted current year losses is anticipated. Including losses from such jurisdictions results in a forecasted effective tax rate of 36.6%. Our forecasted effective tax rate could fluctuate significantly on a quarterly basis and could change, to the extent that earnings in countries with tax rates that differ from that of the U.S. differ, from amounts anticipated at September 30, 2015.

After discrete tax benefit of $171, the effective tax rate for the quarter ended September 30, 2015 is 36.5%. The discrete tax benefit is primarily attributable to changes in unrecognized tax benefits related to the expiration of statute of limitation time periods.

11. Subsequent Events

On October 8, 2015, the Company received notice from its registered public accounting firm, McGladrey LLP (McGladrey), that McGladrey resigned effective October 8, 2015. A full description the disclosures surrounding the resignation can be found in the related Form 8-K filed on October 14, 2015.

On October 13, 2015, the Company engaged Tanner LLC (Tanner) to serve as its new independent registered public accounting firm for (a) the audit for the fiscal year ending December 31, 2015; (b) interim reviews for the periods ending September 30, 2015, March 31, 2016, June 30, 2016 and September 30, 2016; and (c) for the (i) re-audit and report of Independent Registered Public Accounting Firm relating to the Company's consolidated financial statements for the year ended December 31, 2014; and (ii) the re-review of the Company's financial statements for the interim periods ended March 31, 2015 and June 30, 2015. A full description the disclosures surrounding the appointment can be found in the related Form 8-K filed on October 14, 2015.

On November 12, 2015, the Company announced a quarterly cash dividend of $0.05 per share to be paid on December 21, 2015 to shareholders of record as of December 4, 2015.

On November 24, 2015, the Company received a letter from NASDAQ Stock Market stating that the Company no longer complies with NASDAQ Listing Rule 5250(c)(1) as a result of its former auditor McGladrey LLP’s resignation and withdrawal of its audit report on the Company’s financial statements for the year ended December 31, 2014 solely as a result of its determination that it was not independent of the Company for such period and subsequent interim periods and the Company’s delay in filing its Form 10-Q for the period ended September 30, 2015. A full description of the disclosures surrounding the receipt of the letter can be found in the related Form 8-K filed on December 1, 2015.

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

This report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements in this report, other than statements of historical fact, are forward-looking statements for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this report are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any forward-looking statement. In some cases, forward-looking statements can be identified by the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “intends,” “believes,” “estimates,” “potential,” or “continue,” or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that any such expectations or any forward-looking statement will prove to be correct. Our actual results will vary, and may vary materially, from those projected or assumed in the forward-looking statements. Future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including, without limitation, product recalls and product liability claims; infringement of our technology or assertion that our technology infringes the rights of other parties; termination of supplier relationships, or failure of suppliers to perform; inability to successfully manage growth; delays in obtaining regulatory approvals or the failure to maintain such approvals; concentration of our revenue among a few customers, products or procedures; development of new products and technology that could render our products obsolete; market acceptance of new products; introduction of products in a timely fashion; price and product competition, availability of labor and materials, cost increases, and fluctuations in and obsolescence of inventory; volatility of the market price of our common stock; foreign currency fluctuations; changes in key personnel; work stoppage or transportation risks; integration of business acquisitions; and other factors referred to in our press releases and reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2014. All subsequent forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Additional factors that may have a direct bearing on our operating results are discussed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014.

BUSINESS OVERVIEW

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

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

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

Our business goals are to:

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

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

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

Our revenues were $15.9 million and $15.7 million during the three months ended September 30, 2015 and 2014, respectively. The increase in revenues was due to the increase in professional revenue consisting of microphones and especially due to the benefit of a licensing agreement. Our gross profit increased by $548 thousand during the three months ended September 30, 2015 compared to the three months ended September 30, 2014. Net income increased by $823 thousand during the three months ended September 30, 2015 compared to the three months ended September 30, 2014. Net income for the three months ended September 30, 2015 increased primarily due to increased gross profit without any increase in operating expenses. Gross profit increased due to favorable product mix and the benefit of the licensing agreement.

Our revenues were $43.5 million and $42.6 million during the nine months ended September 30, 2015 and 2014, respectively. The increase in revenues was due to increased professional revenue consisting of microphones and especially due to the benefit of a licensing agreement and also due to increased revenue from video products. Our gross profit increased by $2.2 million during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. Net income increased by $2.2 million during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. Net income for the nine months ended September 30, 2015 increased primarily due to increased gross profit combined with a reduction in operating expenses. Gross profit increased due to favorable product mix and the benefit of the licensing agreement.

The prospects of growth and its magnitude in both revenues and profits in the near future would depend on the strength of the global economy, the penetration level of our new products, including products added through acquisitions and the continued impact of the strength of dollar on our revenues from international markets. We continue to closely monitor the economic situation in Australia, China and Europe as well as the spending pattern of our big customers in the United States.

A detailed discussion of our results of operations follows below.

ANALYSIS OF RESULTS OF OPERATIONS

Results of Operations for the three and nine months ended September 30, 2015 and 2014

The following table sets forth certain items from our unaudited condensed consolidated statements of operations (dollars in thousands) for the three and nine months ended September 30, 2015 and 2014, respectively, together with the percentage of total revenue which each such item represents:

	Three months ended September 30,				Nine months ended September 30,			
	2015	% of Revenue	2014	% of Revenue	2015	% of Revenue	2014	% of Revenue
Revenue	$ 15,913	100%	$ 15,739	100%	$ 43,513	100%	$ 42,558	100%
Cost of goods sold	5,725	36%	6,099	39%	15,873	36%	17,152	40%
Gross profit	10,188	64%	9,640	61%	27,640	64%	25,406	60%
Sales and marketing	2,752	17%	2,791	18%	8,126	19%	8,504	20%
Research and product development	2,132	13%	2,314	15%	6,128	14%	6,886	16%
General and administrative	1,796	11%	1,571	10%	5,686	13%	5,251	12%
Operating income	3,508	22%	2,964	19%	7,700	18%	4,765	11%
Other income (expense), net	54	0%	70	0%	244	1%	215	1%
Income before income taxes	3,562	22%	3,034	19%	7,944	18%	4,980	12%
Provision for income taxes	1,145	7%	1,440	9%	2,740	6%	2,018	5%
Net income	$ 2,417	15%	$ 1,594	10%	$ 5,204	12%	$ 2,962	7%

Revenue

Revenue for the three months ended September 30, 2015 was approximately $15.9 million, an increase of approximately 1% over the three months ended September 30, 2014. The increase in revenue was primarily to increased professional revenue consisting of microphones and especially due to the benefit of a licensing agreement that dated back to the beginning of the year partially offset by decline in revenues from other products. The increase in revenues for Middle East and Northern Europe was partially offset by declines in revenue from other regions.

Revenue for the nine months ended September 30, 2015 was approximately $43.5 million, an increase of approximately 2% over the nine months ended September 30, 2014. The increase in revenue was due to increased professional revenue consisting of microphones and especially due to the benefit of a licensing agreement that dated back to the beginning of the year and also due to increased revenue from video products. This increased revenue for partially offset by decline in revenue from unified communications products. During the nine months ended September 30, 2015, revenue increased across all broad regional categories except Australia and Latin America.

The net change in deferred revenue during the nine months ended September 30, 2015 from December 31, 2014 and the nine months ended September 30, 2014 from December 31, 2013 was a net decrease in deferred revenue of $208 thousand and a net increase in deferred revenue of $0.8 million, respectively. See "Critical Accounting Policies and Estimates" under "Revenue and Associated Allowance for Revenue Adjustments and Doubtful Accounts" below for a detailed discussion of deferred revenue.

Costs of Goods Sold and Gross Profit

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

Our gross profit margin (GPM), which is gross profit as a percentage of revenue, was 64% and 61% for the three months ended September 30, 2015 and 2014, respectively. The 3% increase in GPM was primarily due to increased sales of higher margin products and decline in volumes of lower margin unified communications products. We were also benefited to a large extent from a licensing agreement. Our GPM was 64% and 60% for the nine months ended September 30, 2015 and 2014, respectively. The 4% increase in GPM was primarily due to increased sales of higher margin products decline in volumes of lower margin unified communications products and also due the benefit of a licensing agreement.

Operating Expenses

Operating expenses for the three months ended September 30, 2015 remained almost the same at $6.7 million when compared compared to three months ended September 30, 2014. Operating expenses for the nine months ended September 30, 2015 decreased by approximately $0.7 million to $19.9 million compared to $20.6 million for the nine months ended September 30, 2014.

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

S&M expenses of approximately $2.8 million for the three months ended September 30, 2015 stayed almost the same or decreased marginally when compared to S&M expenses for the three months ended September 30, 2014. S&M expenses of approximately $8.1 million for the nine months ended September 30, 2015 decreased $0.4 million, or 4%, when compared to S&M expenses of approximately $8.5 million for the nine months ended September 30, 2014. These expenses decreased primarily due to decreases in commission and bonus payments to employees and decrease in commission payments to independent agents.

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

R&D expenses of approximately $2.1 million for the three months ended September 30, 2015 decreased by $0.2 million, or 8%, when compared to R&D expenses of approximately $2.3 million for the three months ended September 30, 2014. R&D expenses decreased due to decreased employee-related costs, consulting expenses and project related cost. R&D expenses of approximately $6.1 million for the nine months ended September 30, 2015 decreased by $0.8 million, or 11%, when compared to R&D expenses of approximately $6.9 million for the nine months ended September 30, 2014. R&D expenses decreased due to decreased employee-related costs, consulting expenses and project related cost.

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

G&A expenses of approximately $1.8 million for the three months ended September 30, 2015 increased by $0.2 million, or 14%, when compared to G&A expenses of approximately $1.6 million for the three months ended September 30, 2014. G&A expenses increased due to increases in legal fees, audit and accounting fees and stock based compensation. These increaseses were partially offset by decreases in amortization costs. G&A expenses of approximately $5.7 million for the nine months ended September 30, 2015 increased by $0.4 million, or 8%, when compared to G&A expenses of approximately $5.3 million for the nine months ended September 30, 2014. G&A expenses increased due to increases in amortization of intangibles, legal fees, audit and accounting fees, bad debts reserve and stock based compensation. These increases were partially offset by decreases in acquisition related expenses.

Other income (expense), net

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

Provision for income taxes

During the three months ended September 30, 2015, we accrued income taxes at the forecasted effective tax rate of 36.3% as compared to the forecasted effective tax rate of 35.7% used during the three months ended September 30, 2014. The 0.6% increase in the forecasted effective tax rate was primarily due to changes in the amount of projected foreign income taxed at different rates. In addition, a discrete tax benefit of $171 thousand is primarily attributable to changes in unrecognized tax benefits related to the expiration of statute of limitation time periods.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2015, our cash and cash equivalents were approximately $12.5 million, an increase of approximately $5.1 million compared to cash and cash equivalents of approximately $7.4 million as of December 31, 2014.

Net cash provided by operating activities was $6.4 million during the nine months ended September 30, 2015, an increase in cash flow of approximately $0.6 million compared to $5.8 million of cash provided by operating activities during the nine months ended September 30, 2014. The increase in operating cash flow was primarily due to increase in net income and increase in non-cash adjustments largely offset by the timing of receipts and payments of working capital, which include accounts receivable, accounts payable, accrued expenses, inventories, and prepaid expenses and other assets.

Net cash used in investing activities was approximately $1.0 million during the nine months ended September 30, 2015 compared to $13.5 million of cash used in investing activities during the nine months ended September 30, 2014. Net cash used in investing activities during the nine months ended September 30, 2015 included proceeds from maturities and sales of marketable investment securities in excess of purchases of marketable securities. Net cash used in investing activities for the nine months ended September 30, 2014 included payments relating to the acquisition of the business of Sabine for $8.1 million and payments relating to the acquisition of the Spontania product line of $5.1 million.

Net cash used in financing activities was approximately $316 thousand during the nine months ended September 30, 2015 compared to $593 thousand of cash used in investing activities during the nine months ended September 30, 2014. Financing activities during the nine months ended September 30, 2015 primarily consisted of dividend payments of $639 thousand and cash inflows of about $274 thousand from the exercise of stock options, while financing activities in the same period in 2014 consisted mostly of cash inflows of about $1.3 million from the exercise of stock options.

As of September 30, 2015, our working capital was $39.2 million as compared to $34.0 million as of December 31, 2014.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our results of operations and financial position are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We evaluate our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. We believe that the estimates we use are reasonable; however, actual results could differ from those estimates.

Our significant accounting policies are described in Note 1 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2014. We believe the policies described below identify our most critical accounting policies, which are the policies that are both important to the representation of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Revenue and Associated Allowances for Revenue Adjustments and Doubtful Accounts

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

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

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

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

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

	September 30, 2015 (in thousands)	December 31, 2014 (in thousands)
Deferred revenue	$ 4,796	$ 5,004
Deferred cost of goods sold	1,663	1,698
Deferred gross profit	$ 3,133	$ 3,306

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

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

Impairment of Goodwill and Intangible Assets

Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. We perform impairment tests of goodwill and intangible assets with indefinite useful lives on an annual basis in the fourth fiscal quarter, or sooner if a triggering event occurs suggesting possible impairment of the values of these assets. There were no impairments recorded in the nine months ended September 30, 2015 or in 2014 as no impairment indicators existed. However, due to uncertainty in the industrial, technological, and competitive environments in which we operate, we might be required to exit or dispose of the assets acquired through our acquisitions, which could result in an impairment of goodwill and intangible assets.

Impairment of Long-Lived Assets

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

Accounting for Income Taxes

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

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

Lower-of-Cost or Market Adjustments and Reserves for Excess and Obsolete Inventory

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

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

Share-Based Compensation

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

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

Recent Accounting Pronouncements:

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 4. CONTROLS AND PROCEDURES

An evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of September 30, 2015 was performed under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based on this evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures are effective as of September 30, 2015 to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported as specified in the SEC's rules and forms.

There was no change in our internal control over financial reporting during the quarter ended September 30, 2015 that materially affected, or that we believe is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

Not applicable.

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

Not applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

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

CLEARONE, INC.

SIGNATURES

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

		ClearOne, Inc., (Registrant)
January 13, 2016	By:	/s/ Zeynep Hakimoglu
		Zeynep Hakimoglu Chief Executive Officer *(Principal Executive Officer)*
January 13, 2016	By:	/s/ Narsi Narayanan
		Narsi Narayanan Senior Vice President of Finance *(Principal Financial and Accounting Officer)*

EXHIBIT 31.1

CERTIFICATION

I, Zeynep Hakimoglu, certify that:

1. I have reviewed this quarterly report of ClearOne, Inc. on Form 10-Q;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 13, 2016 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 quarterly report of ClearOne, Inc. on Form 10-Q;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 13, 2016 By: /s/ Narsi Narayanan

Narsi Narayanan
Senior Vice President of Finance
(Principal Financial and Accounting 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 Quarterly Report of ClearOne, Inc. on Form 10-Q for the quarter ended September 30, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ClearOne, Inc.

January 13, 2016	By:	/s/ Zeynep Hakimoglu
		Zeynep Hakimoglu Chief Executive Officer *(Principal Executive Officer)*

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

I, Narsi Narayanan, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ClearOne, Inc. on Form 10-Q for the quarter ended September 30, 2015, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ClearOne, Inc.

January 13, 2016	By:	/s/ Narsi Narayanan
		Narsi Narayanan Senior Vice President of Finance *(Principal Financial and Accounting Officer)*