

CLEARONE INC
Form 10-K/A
April 29, 2019

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K/A

(Amendment No. 1)

(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, 2018

**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:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Indicate by check mark whether the registrant has submitted electronically 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 and post such files). Yes No

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

Table of Contents

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 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 \$16.8 million at June 30, 2018, (the Company’s most recently completed second fiscal quarter), based on the \$3.85 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 April 29, 2019 was 16,630,597.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this "Form 10-K/A") to the Annual Report on Form 10-K of ClearOne, Inc., a Delaware corporation (referred to as "ClearOne", "we", "us", "our" or the "Company") for the fiscal year ended December 31, 2018, originally filed with the Securities and Exchange Commission ("SEC") on April 15, 2019 (the "Original 10-K") is being filed solely for the purpose of including the information required by Part III of Form 10-K. The Company no longer anticipates filing its definitive proxy statement within 120 days of its fiscal year ended December 31, 2018. Therefore, such information will not be incorporated by reference to the Company's definitive proxy statement for the 2019 Annual Meeting of Shareholders. Thus, Part III, Items 10-14, of the Company's Original 10-K are hereby amended and restated in their entirety.

As required by Rule 12b-15, in connection with this Form 10-K/A, the Company's Chief Executive Officer and Chief Financial Officer have executed new Rule 13a-14(a) certifications. Accordingly, Part IV, Item 15 has been amended to reflect the filing of such certifications herewith.

Except as described above, this Form 10-K/A does not modify or update disclosure in, or exhibits to, the Original 10-K. Furthermore, this Form 10-K/A does not change any previously reported financial results, nor does it reflect events occurring after the date of the Original 10-K. Information not affected by this Form 10-K/A remains unchanged and reflects the disclosures made at the time the Original 10-K was filed.

Table of Contents

TABLE OF CONTENTS

PART III

| | |
|--|---|
| Item 10. <u>Directors, Executive Officers and Corporate Governance</u> | 1 |
| Item 11. <u>Executive Compensation</u> | 3 |
| Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 6 |
| Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u> | 7 |
| Item 14. <u>Principal Accounting Fees and Services</u> | 8 |

PART IV

| | |
|---|---|
| Item 15. <u>Exhibits, Financial Statement Schedules</u> | 9 |
|---|---|

Table of Contents**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 | 65 | Chairman, Chief Executive Officer, and President ⁽⁴⁾ | See Note 4 |
| Larry R. Hendricks | 76 | Director ⁽¹⁾⁽²⁾⁽³⁾ | 2003 |
| Eric L. Robinson | 52 | Director ⁽¹⁾⁽²⁾⁽³⁾ | 2015 |
| Bruce Whaley | 68 | Director ⁽¹⁾ | 2019 |
| Narsi Narayanan | 48 | Senior Vice President of Finance and Corporate Secretary | 2009 |

(1) Member of the Audit and Compliance Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating Committee

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

Zee Hakimoglu is our President, Chief Executive Officer and Chairman. She joined our company in December 2003 as Vice President of Product Line Management 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 Oplink Communications, a publicly traded developer of fiber optic subsystems and components, from December 2001 to December 2002; and, President of OZ Optics USA, 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. In light of Ms. Hakimoglu's rich experience in the high-tech industry and her unique and extensive understanding of ClearOne's business, our Board has concluded that Ms. Hakimoglu should continue to serve as a director.

Larry R. Hendricks has served as a director of our company since June 2003. Mr. Hendricks is a Certified Public Accountant who retired in December 2002 after serving as Vice President of Finance and General Manager of Daily Foods, Inc., a national meat processing company. During his 30-year career in accounting, he served as a self-employed CPA and worked for the international accounting firm Peat Marwick & Mitchell. Mr. Hendricks has served on the boards of eight other organizations, including Tunex International, Habitat for Humanity, Daily Foods, Skin Care International, and the National Advisory Board of the Huntsman College of Business at Utah State University. He earned a Bachelor's Degree in Accounting from Utah State University and a Master of Business Administration Degree from the University of Utah. In light of Mr. Hendricks' background in finance and accounting and his deep understanding of our business due to his long service on our Board, the Board has concluded Mr. Hendricks should continue to serve as a director.

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. Mr. Robinson has been principally employed as General Counsel, Chief Financial Officer and director of MicroPower Global Limited, a development stage company in the semiconductor business since 2009. 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. In light of Mr. Robinson's legal and financial background, the Board has concluded that Mr. Robinson should continue to serve as a director.

Table of Contents

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 business administration. In light of Mr. Whaley's experience in finance and capital markets, the Board concluded it was appropriate that Mr. Whaley be appointed and continue to serve as a director.

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, 2018, 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.

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.

Table of Contents**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, 2018 and 2017.

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Salary | Option Awards⁽¹⁾ | Non-Equity Incentive Plan Compensation⁽²⁾ | All Other Compensation⁽³⁾ | Total |
|--|---------------|------------------------------------|---|---|--------------|
| Zeynep Hakimoglu - Chief Executive Officer and President | | | | | |
| Year ended December 31, 2018 | \$ 355,000 | \$ — | \$ — | \$ — | \$ 355,000 |
| Year ended December 31, 2017 | 353,077 | 132,700 | 39,118 | — | 524,895 |
| Narsi Narayanan - Senior Vice President of Finance | | | | | |
| Year ended December 31, 2018 | \$ 196,500 | \$ — | \$ — | \$ — | \$ 196,500 |
| Year ended December 31, 2017 | 196,019 | 66,350 | 16,544 | — | 278,913 |
| Michael Braithwaite - Senior Vice President - Network Streaming Business ⁽³⁾ | | | | | |
| Year ended December 31, 2018 | \$ 13,263 | \$ — | \$ — | \$ 52,356 | \$ 65,619 |
| Year ended December 31, 2017 | 181,404 | 16,588 | 5,000 | — | 202,992 |

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 stock option awards and the material terms of the stock option awards are disclosed in Note 9 - Share Based Payments in our Notes to Consolidated Financial Statements included in Part IV of the Form 10-K for the year ended December 31, 2017. No stock options were granted in 2018.

(2) Non-Equity Incentive Plan Compensation for Ms. Hakimoglu and Mr. Narayanan is based upon the achievement of pre-determined quarterly goals, namely, financial goals comprising of revenue, gross margin, operating income and meeting reporting deadlines, and non-quantitative performance goals. Mr. Braithwaite’s compensation plan is based upon attainment of revenue of a certain product group. Non-quantitative goals varied for each executive officer. Examples of non-quantitative goals include introduction of a new product, identification of a new distribution opportunity, implementing internal controls, and improving product quality. The Chief Executive Officer

recommends to the Compensation Committee the compensation for achievement or partial achievement of any such predetermined goal by the other two executive officers which is then determined by the Compensation Committee. Compensation under the non-equity incentive plan for Ms. Hakimoglu and Mr. Narayanan is calculated by assigning 70% weight to financial goals and 30% to non-quantitative goals. Neither Ms. Hakimoglu nor Mr. Narayanan met their goals for the year ended December 31, 2018, and consequently did not receive any incentive bonuses or discretionary bonuses for 2018. Ms. Hakimoglu's compensation for the year ended December 31, 2017 included a \$22,324 bonus for achieving certain of her financial goals, a \$10,294 bonus for achieving certain of her non-quantitative goals, and \$6,500 paid as discretionary bonus. Mr. Narayanan's compensation for the year ended December 31, 2017 included a \$12,887 bonus for achieving certain of his financial goals, and a \$3,657 bonus for achieving certain of his non-quantitative goals.

On January 4, 2018, the Company terminated Michael Braithwaite's employment. In connection with Mr. Braithwaite's separation from the Company, on January 9, 2018 Mr. Braithwaite entered into a Confidential Separation Agreement and General Release with the Company (the "Separation Agreement"). Under the terms of the (3) Separation Agreement, Mr. Braithwaite was paid cash severance of \$52,356 for a customary general release of claims.

Table of Contents**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, 2018.

| Name | Number of Securities Underlying Unexercised | Number of Securities | Option Exercise Price (\$) | Option Grant Date | Option Expiration Date |
|------------------|---|---|----------------------------|-------------------|------------------------|
| | Options Exercisable | Underlying Unexercised Options Unexercisable ⁽¹⁾ | | | |
| Zeynep Hakimoglu | 10,000 | — | 3.004 | 05-26-2010 | 05-26-2020 |
| | 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 |
| | 45,833 | 4,167 | 11.960 | 03-11-2016 | 03-11-2026 |
| | 6,666 | 3,334 | 11.000 | 12-14-2016 | 12-14-2026 |
| | 20,000 | 20,000 | 9.900 | 06-01-2017 | 06-01-2027 |
| Narsi Narayanan | 20,000 | — | 2.780 | 08-27-2009 | 08-27-2019 |
| | 10,000 | — | 3.004 | 05-26-2010 | 05-26-2020 |
| | 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 |
| | 22,916 | 2,084 | 11.960 | 03-11-2016 | 03-11-2026 |
| | 1,666 | 834 | 11.000 | 12-14-2016 | 12-14-2026 |
| 10,000 | 10,000 | 9.900 | 06-01-2017 | 06-01-2027 | |

(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.

GRANTS OF PLAN-BASED AWARDS

There were no grants of plan-based awards to named executive officers in 2018.

OPTION EXERCISES AND STOCK VESTED

There were no exercises of stock options by named executive officers during 2018. There were no equity awards that vested for the named executive officers during 2018.

4

Table of Contents**DIRECTOR COMPENSATION**

The following table summarizes the compensation paid by us to non-employee directors for the year ended December 31, 2018. Ms. Hakimoglu did not receive additional compensation for her service as a director.

| Name | Fees Earned or Paid in | Option Awards ⁽²⁾ | Other Compensation | Total |
|--------------------------------|---------------------------------|---------------------------------|-----------------------|-----------|
| | Cash ⁽¹⁾ | | | |
| Brad R. Baldwin ⁽³⁾ | \$ 31,000 | \$ — | \$ — | \$ 31,000 |
| Larry R. Hendricks | 34,258 | — | — | 34,258 |
| Eric L. Robinson | 37,200 | — | — | 37,200 |

(1) The base annual director's fee for the reporting year was \$30,000. In addition, independent directors were paid \$100 per month for each board committee served on, and an additional \$300 per month if the director was the chair of the Audit and Compliance Committee or Compensation Committee. The fee is not dependent on the number of meetings attended by any directors.

(2) Prior to 2018, non-employee directors received an annual grant of a stock option to purchase 10,000 shares of common stock as part of their compensation. The Board terminated the annual grant of stock options to non-employee directors in 2018, and consequently no stock options were awarded to non-employee directors in 2018.

(3) Brad Baldwin's tenure as a director of the Company ended on October 25, 2018.

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 2018. 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.

Table of Contents**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 April 26, 2019, except as otherwise stated, by (i) each director and nominee for director, (ii) the named executive officers, (iii) all of our named executive officers and directors as a group, and (iv) each person known to us to be the beneficial owner of more than 5% of our outstanding common stock.

| Name of Beneficial Owner ⁽¹⁾ | Shares Beneficially Owned | | Shares that could be acquired within 60 days ⁽²⁾ | Total ⁽²⁾ | Percent ⁽²⁾ |
|---|--------------------------------|--|---|----------------------|------------------------|
| | Currently Owned ⁽²⁾ | Currently Owned Percent ⁽²⁾ | | | |
| | (A) | (B) | (C) | (D) | (E) |
| <u>Directors and Executive Officers:</u> | | | | | |
| Zeynep Hakimoglu | 781,042 | 4.70 | % 195,000 | 976,042 | 5.72 % |
| Larry R. Hendricks | 8,548 | 0.05 | % 61,110 | 69,658 | 0.41 % |
| Eric L. Robinson | 65 | 0.00 | % 24,443 | 24,508 | 0.14 % |
| Narsi Narayanan | 9,928 | 0.06 | % 135,416 | 145,344 | 0.85 % |
| Total (Directors and Officers) | 799,583 | 4.81 | % 415,969 | 1,215,552 | 7.12 % |
| <u>5% Shareholders:</u> | | | | | |
| Edward D. Bagley ⁽³⁾ | 7,381,897 | 44.39 | % 24,443 | 7,406,340 | 43.39 % |
| E. Bryan Bagley ⁽⁴⁾ | 1,690,588 | 10.17 | % — | 1,690,588 | 9.90 % |

Except as otherwise indicated, each person named in the table has sole voting and investment power, subject to the Utah Control Shares Acquisition Statute, with respect to all common stock beneficially owned, subject to applicable community property law. Except as otherwise indicated, each person may be reached at our corporate offices c/o ClearOne, Inc., 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116.

(1) The percentages shown in Column (B) are calculated based on 16,630,597 shares of common stock outstanding on April 26, 2019. The numbers shown in Column (D) and percentages shown in Column (E) include the shares of common stock actually owned as of April 26, 2019 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 April 26, 2019 upon the exercise of the stock options shown in Column (C) are deemed to be outstanding for the purpose of computing

the percentage of the shares of common stock owned by the persons or groups listed above.

(3) Mr. Edward D. Bagley may be deemed to own an additional 2,252,634 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 7,406,340 shares (including the shares that may be acquired pursuant to the exercise of stock options) and shared voting and dispositive power over the 355,257 shares held by Mr. Edward D. Bagley's spouse. This information is based upon the Schedule 13D/A and Form 4, as filed by Mr. Bagley with the SEC in December 2018. 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. Edward D. Bagley do not include any shares held by E. Bryan Bagley.

(4) This information is based upon the Form 4 filed with the SEC as of December 6, 2018. 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.

Table of Contents

Equity Compensation Plans

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

We recognize that transactions between us and any of our directors, 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 in our website at <http://investors.clearone.com/governance.cfm>.

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 a term of three years. Pursuant to the terms of the Consulting Agreement Mr. Bagley was paid a fee of \$5,000 per month and was 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 2016, he was paid \$60,000 as consulting fees and was awarded 10,000 stock options at an exercise price of \$11.26. He also received ClearOne stock awarded under a dividend equivalents plan offered to all ClearOne stock optionees including directors and officers. Under this plan, dividend equivalents were calculated at \$0.10, \$0.035, \$0.035, \$0.035 and \$0.05, for each stock option outstanding in the quarters of 2014-Q4, 2015-Q1, 2015-Q2, 2015-Q3, and 2015-Q4, respectively and equivalent value of ClearOne stock awarded. The value of ClearOne stock received by Mr. Bagley in 2016 was \$779. During 2017, he was paid \$60,000 as consulting fees and was awarded 10,000 stock options at an exercise price of \$9.90. During 2018, he was paid

\$60,000 as consulting fees but was not awarded any stock options. The Consulting Agreement was renewed in 2018 for a further period of three years.

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.

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

Table of Contents**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

During 2018 and 2017, we retained our principal accountants, Tanner LLC, to provide services in the following categories and amounts:

| | 2018 | 2017 |
|---------------------------|-------------|-------------|
| Audit Fees ⁽¹⁾ | \$320,719 | \$327,432 |
| Audit-related Fees | 9,894 | — |
| Tax fees ⁽²⁾ | 40,795 | 45,100 |
| All other fees | — | — |
| Total | \$371,408 | \$372,532 |

(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 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 2018, 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.

Table of Contents

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Exhibits: The following exhibits are filed as part of this Amendment No. 1 to Annual Report on Form 10-K/A.

| Exhibit Number | Exhibit Description |
|-----------------------|---|
| 31.1 | <u>Section 302 Certification of Chief Executive Officer</u> |
| 31.2 | <u>Section 302 Certification of Chief Financial Officer</u> |

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to Annual Report on Form 10-K 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
April 29, 2019