

CLEARONE INC
Form 10-Q
August 12, 2015

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period _____ to _____

Commission file number: 001-33660

CLEARONE, INC.

(Exact name of registrant as specified in its charter)

Utah

(State or other jurisdiction of incorporation or organization)

5225 Wiley Post Way, Suite 500, Salt Lake City, Utah

(Address of principal executive offices)

+1 (801) 975-7200

(Registrant's telephone number, including area code)

87-0398877

(I.R.S. employer identification number)

84116

(Zip 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 No

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

CLEARONE, INC.

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

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CLEARONE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value)

	June 30, 2015 Unaudited	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$10,873	\$7,440
Marketable securities	6,385	6,994
Receivables, net of allowance for doubtful accounts of \$52 and \$58, respectively	8,557	9,916
Inventories	14,340	12,766
Distributor channel inventories	1,629	1,698
Deferred income taxes	3,824	3,824
Prepaid expenses and other assets	2,545	2,143
Total current assets	48,153	44,781
Long-term marketable securities	18,756	19,162
Long-term inventories, net	680	876
Property and equipment, net	1,811	2,039
Intangibles, net	7,267	7,896
Goodwill	12,724	12,724
Deferred income taxes	1,278	1,265
Other assets	114	117
Total assets	\$90,783	\$88,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$3,033	\$3,057
Accrued liabilities	2,908	2,694
Deferred product revenue	4,744	5,004
Total current liabilities	10,685	10,755
Deferred rent	196	248
Other long-term liabilities	1,237	1,841
Total liabilities	12,118	12,844
Shareholders' equity:		
Common stock, par value \$0.001, 50,000,000 shares authorized, 9,128,053 and 9,097,827 shares issued and outstanding	9	9
Additional paid-in capital	45,513	44,939
Accumulated other comprehensive (loss)	(81) (8
Retained earnings	33,224	31,076
Total shareholders' equity	78,665	76,016
Total liabilities and shareholders' equity	\$90,783	\$88,860

See accompanying notes

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CLEARONE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Dollars in thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenue	\$14,013	\$14,111	\$27,600	\$26,819
Cost of goods sold	5,022	6,047	10,147	11,053
Gross profit	8,991	8,064	17,453	15,766
Operating expenses:				
Sales and marketing	2,753	2,976	5,375	5,713
Research and product development	2,054	2,330	3,996	4,571
General and administrative	1,891	1,712	3,890	3,680
Total operating expenses	6,698	7,018	13,261	13,964
Operating income	2,293	1,046	4,192	1,802
Other income, net	85	64	190	145
Income before income taxes	2,378	1,110	4,382	1,947
Provision for income taxes	863	228	1,595	578
Net income	\$1,515	\$882	\$2,787	\$1,369
Basic earnings per common share	\$0.17	\$0.10	\$0.31	\$0.15
Diluted earnings per common share	\$0.16	\$0.09	\$0.29	\$0.14
Basic weighted average shares outstanding	9,119,907	9,266,071	9,110,062	9,174,816
Diluted weighted average shares outstanding	9,603,682	9,677,726	9,560,914	9,618,172
Comprehensive income:				
Net income	\$1,515	\$882	\$2,787	\$1,369
Other comprehensive income:				
Change in unrealized gains (losses) on available-for-sale securities, net of tax	(77) 65	(23) 138
Change in foreign currency translation adjustment	129	—	(50) —
Comprehensive income	\$1,567	\$947	\$2,714	\$1,507

See accompanying notes

CLEARONE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

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

CLEARONE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

The following is a summary of supplemental cash flow activities:

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

See accompanying notes

CLEARONE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – Dollars in thousands)

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

Business Description:

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

Basis of Presentation:

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

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

Significant Accounting Policies:

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

Recent Accounting Pronouncements:

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

updated standard will have on the consolidated financial statements.

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CLEARONE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – Dollars in thousands)

2. Earnings Per Share

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net income	\$1,515	\$882	\$2,787	\$1,369
Denominator:				
Basic weighted average shares outstanding	9,119,907	9,266,071	9,110,062	9,174,816
Dilutive common stock equivalents using treasury stock method	483,775	411,655	450,852	443,356
Diluted weighted average shares outstanding	9,603,682	9,677,726	9,560,914	9,618,172