

CLEARONE INC  
Form PRE 14A  
October 23, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**SCHEDULE 14A**

**(Rule 14a-101)**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement.
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).**
- Definitive Proxy Statement.
- Definitive Additional Materials.
- Soliciting Material Pursuant to §240.14a-12.

**ClearOne, Inc.**

**(Name of Registrant as Specified in its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than Registrant)**

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- x No fee required.
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**CLEARONE, INC.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**DECEMBER 3, 2013**

The Annual Meeting of Shareholders of ClearOne, Inc., a Utah corporation, will be held at 9:00 a.m., local time, on December 3, 2013, at our corporate offices, 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116.

The following describes the purpose of the Annual Meeting:

1. To elect four members of our Board of Directors;
2. To ratify the appointment of our independent public accountants;
3. To approve the compensation of our named executive officers;
4. To approve the frequency of advisory vote on compensation of our named executive officers;
5. To vote on a proposal not to restore voting rights to certain control shares; and
6. To transact such other business as may properly come before the meeting or any adjournment thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this notice.

Only shareholders of record at the close of business on October 15, 2013 are entitled to notice of and to vote at the meeting.

All shareholders are cordially invited to attend the meeting and vote in person. However, to ensure your representation at the meeting, you are urged to vote as promptly as possible, whether via the Internet, by telephone, or, by marking, signing, dating, and returning the enclosed proxy in the postage-prepaid envelope enclosed for that purpose. Any shareholder attending the meeting may vote in person even if such shareholder has previously submitted a proxy. If you need to obtain directions on how to attend the Annual Meeting and vote in person, please contact our corporate offices at (801) 975-7200.

**Important Notice Regarding the Availability of Proxy Materials for the 2013 Annual Meeting of Shareholders to be held on December 3, 2013.** Because we have elected to utilize the full set delivery option, we are delivering to all shareholders paper copies of all of our proxy materials, including a proxy card, as well as providing access to our proxy materials on a publicly accessible website. Our Proxy Statement and Annual Report for the fiscal year ended December 31, 2012 are available on our corporate website and may be accessed at [www.clearone.com](http://www.clearone.com) under Investor Relations .

Sincerely,

Narsi Narayanan

*Corporate Secretary*

Salt Lake City, Utah

November 4, 2013

**CLEARONE, INC.**

**5225 Wiley Post Way, Suite 500**

**Salt Lake City, Utah 84116**

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS**

**DECEMBER 3, 2013**

This Proxy Statement is solicited by and on behalf of the Board of Directors of ClearOne, Inc., a Utah corporation (hereinafter referred to as the Company, ClearOne, we, us or our ) for use at the Annual Meeting of Shareholders (Annual Meeting ), to be held on December 3, 2013 at our corporate offices located at 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116, at 9:00 a.m. local time, or at any continuations thereof.

These proxy solicitation materials will be distributed on or about November 4, 2013 to all shareholders entitled to vote at the meeting.

**QUESTIONS AND ANSWERS REGARDING THE ANNUAL MEETING**

**What is the purpose of this Proxy Statement and accompanying Proxy?**

A proxy statement is a document that the regulations of the Securities and Exchange Commission ( SEC ) require us to give you when we ask you to sign a proxy designating individuals to vote on your behalf. A proxy is your legal designation of another person to vote the stock you own and are entitled to vote. That other person is called a proxy. If you designate someone as your proxy in a written document, that document is also called a proxy or a proxy card. We have designated two of our officers as proxies for the Annual Meeting. These officers are Zeynep ( Zee ) Hakimoglu and Narasimhan ( Narsi ) Narayanan.

The Board of Directors is soliciting your proxy to give all shareholders of record the opportunity to vote on matters that will be presented at the Annual Meeting. This Proxy Statement provides you with information on these matters to assist you in voting your shares.

**What is the purpose of the Annual Meeting?**

The purpose of the Annual Meeting is to: (i) elect four directors; (ii) ratify the appointment of McGladrey LLP as our independent public accountants for the year ending December 31, 2013; (iii) approve, by non-binding advisory vote, the compensation of our named executive officers; (iv) approve, by non-binding advisory vote, the frequency of advisory vote on compensation of our named executive officers; (v) vote on a proposal not to restore voting rights to certain control shares; and (vi) to transact any such other business that properly comes before the Annual Meeting (each a Proposal, and collectively, the Proposals ). Although the Board of Directors does not anticipate that any other issues will come before the Annual Meeting, your completed and executed proxy gives the official proxies the right to vote your shares that you are entitled to vote in their discretion on any other matter properly brought before the Annual Meeting.

**What is the record date for voting at the Annual Meeting?**

The record date for purposes of determining the number of outstanding shares of our common stock eligible to vote at the Annual Meeting, and for determining the shareholders entitled to vote at the Annual Meeting, is the close of business on October 15, 2013 (the Record Date ). As of the Record Date, 8,989,153 shares of common stock were issued and outstanding. No other series of stock is outstanding. Holders of the shares of common stock have no preemptive rights. The transfer agent for the common stock is Broadridge.

**What is the quorum requirement for the Annual Meeting?**

A quorum must be present at the meeting in order for the shareholders to take official action. Under Utah law and our Articles of Incorporation and Bylaws, a quorum will exist if a majority of the total number of shares entitled to vote are present, in person or by proxy. Abstentions and broker non-votes, which are described below, will be counted as represented for the purpose of determining the presence or absence of a quorum.

**What is a broker non-vote and how is it counted?**

Under applicable rules, brokers are permitted to vote their customers' stock held in street name on routine matters when the brokers have not received voting instructions from their customers. However, brokers are not allowed to vote their customers' stock held in street name on non-routine matters unless they have received voting instructions from their customers. In such cases, the uninstructed shares for which the broker is unable to vote are called broker non-votes.

The broker can register your shares as present at the Annual Meeting for purposes of attendance and obtaining a quorum, but will not be able to vote on those matters for which specific authorization is required. Similar to abstentions, broker non-votes are not considered votes cast. Broker non-votes will have no effect on the voting of Proposals One through Four that are on the agenda to be presented at the meeting and will not be counted as a vote against Proposal Five.

**What routine matters will be voted on at the Annual Meeting?**

The ratification of the independent public accountants is the only routine matter on which brokers may vote in their discretion on behalf of customers who have not provided voting instructions.

**What non-routine matters will be voted on at the Annual Meeting?**

The election of directors, the advisory vote on the compensation of named executive officers, the advisory vote on the frequency of advisory vote on the compensation of named executive officers, and the proposal not to restore voting rights to control shares are non-routine matters on which brokers are not allowed to vote unless they have received voting instructions from their customers. Your broker will not be allowed to vote your shares on any of these non-routine matters without your specific instructions. Accordingly, it is particularly important that beneficial owners instruct their brokers on how they wish to vote their shares.

**How many votes are needed to approve each Proposal?**

On all matters other than Proposal Five and except as provided by Utah law as set forth herein, each holder of common stock will be entitled to one vote for each share of common stock held on the Record Date. Shareholders holding interested shares as defined by Utah law are not eligible to vote on Proposal Five, but all shareholders otherwise entitled to vote will have one vote for each share of common stock held on the Record Date on Proposal Five. See Proposal Five - Proposal Not To Restore Voting Rights to Certain Control Shares. Assuming that a quorum is present, the votes needed to approve each Proposal are set forth below.

*Proposals One Through Four*

In the election of directors, shareholders will not be allowed to cumulate their votes. The election of directors will be determined by plurality vote.



The Proposal to ratify the appointment of McGladrey LLP to serve as our independent public accountants for the year ending December 31, 2013 and the Proposal for approval of the compensation of our named executive officers require that the votes cast in favor of the Proposal must exceed the votes cast against the Proposal.

The option that receives the highest number of votes cast by shareholders for the frequency of advisory vote on compensation of our named executive officers will be considered to be the shareholders' preferred frequency for such advisory vote.

Abstentions and broker non-votes will not affect the outcome of the election of directors, the Proposal to ratify the appointment of our independent public accountants, the Proposals for approval of the compensation of our named executive officers or the frequency of advisory vote on compensation of our named executive officers.

*Proposal Five*

A vote for Proposal Five will count in favor of not restoring voting rights to the control shares.

The Proposal not to restore voting rights to certain control shares requires the number of votes cast for , along with the number of abstentions and broker non-votes, to total at least a majority of all the votes entitled to be cast, which, solely for purposes of such Proposal Five, excludes any interested shares.

*Other Matters*

Any other matter properly presented for approval by the shareholders at the Annual Meeting will generally be approved if the number of votes cast in favor of such matter exceeds the number of votes cast in opposition. With respect to any such matter, abstentions and broker non-votes are not likely to affect the outcome of a vote on such matter. We are currently not aware of any other matters to be presented at the Annual Meeting.

**What are the Board of Directors' recommendations on the Proposals?**

The Board of Directors recommends that shareholders cast their votes on the Proposals as follows:

FOR all director nominees listed in this Proxy Statement,

FOR the ratification of the appointment of our independent public accountants,

FOR, by non-binding advisory vote, the approval of the compensation of our named executive officers,

FOR, by non-binding advisory vote, the option of once every three years as the preferred frequency of advisory vote on compensation of our named executive officers, and

FOR the Proposal not to restore voting rights to certain control shares.

**What is the effect of an advisory vote?**

Because your votes with respect to approval of our named executive officer compensation and the frequency of future advisory votes on the approval of our named executive officer compensation are advisory, they will not be binding upon the Board. However, our Compensation Committee and the Board will take the outcomes of the votes into account when considering future executive compensation arrangements of our named executive officers and when determining the frequency of future advisory votes on the approval of named executive officer compensation.

**What is the difference between a shareholder of record and a street name holder?**

These terms describe how your shares are held. If your shares are registered directly in your name with Broadridge, our transfer agent, you are a shareholder of record. If your shares are held in the name of a brokerage, bank, trust or other nominee as a custodian, you are a street name holder.

### **How do I vote?**

If your shares of common stock are held in street name by a broker, bank, trust or other nominee, you will receive information from your nominee as to how to instruct them to vote your shares of common stock for each of the Proposals discussed in this proxy statement.

If you are a shareholder of record and hold common stock in your own name, you may give instructions on how to vote your shares of common stock by following the instructions on the proxy card on how to vote over the Internet, by phone, or by mail by completing, signing, dating and returning the proxy card.

By completing and submitting the proxy (whether over the internet, by telephone, or by signing, dating and mailing the accompanying proxy card), the shareholder authorizes Zeynep Hakimoglu, Chairman and Chief Executive Officer, and Narsi Narayanan, Corporate Secretary, as designated on the face of the proxy, to vote all shares for the shareholder. All proxies that are properly completed and submitted will be voted as the shareholder directs. If no direction is given, executed proxies will be voted FOR the election of each of the nominees set forth in this proxy statement, FOR the ratification of the appointment of our independent public accountants, FOR the approval of compensation of our named executive officers, FOR the option of once every three years as the preferred frequency of advisory vote on compensation of named executive officers and FOR the proposal not to restore voting rights to certain control shares. Votes will be tabulated by Broadridge.

### **How do I revoke my proxy?**

You may revoke your proxy before the vote is taken at the Annual Meeting by:

completing, signing and submitting a new proxy with a later date;

attending the Annual Meeting and voting in person; or

filing a signed, written notice of revocation with the Corporate Secretary of the Company.

Your attendance at the Annual Meeting will not automatically revoke your proxy.

You may obtain an additional proxy card by writing to ClearOne, Inc., 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116, Attention: Corporate Secretary. If the Common Stock you own is held on your behalf by a broker, bank, trust or other nominee, you must contact the nominee to receive instructions as to how you can revoke your proxy.

### **Where can I find the voting results of the Annual Meeting?**

We will announce the preliminary voting results at the Annual Meeting and disclose the final voting results in a current report on Form 8-K filed with the SEC within four (4) business days of the date of the Annual Meeting unless only preliminary voting results are available at that time. To the extent necessary, we will file an amended report on Form 8-K to disclose the final voting results within four (4) business days after the final voting results are known. You may access or obtain a copy of these and our other reports filed with the SEC free of charge on our web site at <http://www.clearone.com>. Also, such Form 8-K, any amendments thereto and other reports we file with the SEC are available to you over the Internet at the SEC's web site at <http://www.sec.gov>.

**How can I view the shareholder list?**

A complete list of shareholders of record will be available for viewing during ordinary business hours for a period of ten (10) days before the Annual Meeting at our offices located at 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116.

**Who pays for the proxy solicitation related to the Annual Meeting?**

We will bear the costs of the solicitation. The solicitation of proxies by the Board of Directors will be conducted primarily by mail and through the Internet. To assist us in our solicitation, we have retained the services of Okapi Partners LLC, a professional proxy solicitation firm. Additionally, our officers, directors and employees may solicit proxies personally or by telephone, email or other forms of electronic or facsimile communication. These officers, directors and employees will not receive any extra compensation for these services. We may reimburse brokers, custodians, nominees and fiduciaries for reasonable expenses incurred by them in forwarding proxy material to beneficial owners of our common stock as of the record date.

**How can I obtain a copy of the Annual Report on Form 10-K?**

Our 2012 Annual Report on Form 10-K, as amended, has been made available to shareholders with or preceding this proxy statement. The 2012 Annual Report contains financial and other information about our company, but is not incorporated into this Proxy Statement and is not to be considered a part of these proxy soliciting materials or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act ). The information contained in the Audit and Compliance Committee Report shall not be deemed filed with the Securities and Exchange Commission or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Exchange Act.

*We will provide, without charge, a printed copy of our 2012 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, to each shareholder of record as of the record date that requests a copy in writing. Any such requests should be directed to our Corporate Secretary at our corporate offices set forth in this Proxy Statement.*

**QUESTIONS AND ANSWERS REGARDING PROPOSAL FIVE**

**Why are we including Proposal Five - Proposal Not to Restore Voting Rights to Certain Control Shares in this Proxy Statement?**

Utah law requires us to put Proposal Five to the Company's disinterested shareholders for a vote. Under Utah law, a person who acquires control shares of an issuing public corporation, such as us, may not vote such shares unless such voting rights are restored by at least a majority of all votes entitled to be cast by the disinterested shareholders. For these purposes, control shares are shares acquired by a person that, when added to all other shares owned by such person or in respect of which that person may exercise or direct the exercise of voting power, would otherwise entitle that person to exercise or direct the exercise of the voting power of the issuing public corporation in the election of directors within any of the following ranges: (i) one-fifth or more but less than one-third; (ii) one-third or more but less than a majority; or (iii) a majority or more.

Mr. Edward Dallin Bagley, our largest shareholder and only shareholder that owns more than one-fifth of our issued and outstanding common stock, currently owns approximately 30.6% of our outstanding shares of common stock. The purpose of Proposal Five is to vote on whether or not disinterested shareholders approve the restoration of voting rights to the control shares owned by Edward Dallin Bagley which represent one-fifth or more but less than one-third of the voting power of our common stock in the election of its directors. For purposes of Proposal Five, certain control shares are only Mr. Bagley's shares exceeding 20% or more of the shares of the Company's outstanding shares held by him. Regardless of the outcome of the Proposal Five, Mr. Bagley will still be free to vote his shares up to the 20% threshold.

**How do I know if I am a disinterested shareholder entitled to vote on Proposal Five?**

Shareholders who *do not* fall within one of the following categories of persons are entitled to vote on Proposal Five:

Mr. Edward Dallin Bagley, as the owner of the control shares at issue or any member of a group with respect to the control shares;

Any of our officers; or

Any employee of ours who also serves as a director.

**How does the Board recommend that shareholders vote on the restoration of voting rights to the control shares owned by Mr. Edward Dallin Bagley?**

After careful consideration of the best interests of the Company and all of its shareholders, including a thorough review with our legal and other advisors of Utah law with respect to the control shares held by Mr. Bagley, and consultation with the appropriate executive officers, the Board has determined to recommend for the proposal not to restore voting rights to the control shares held by Mr. Bagley. (Note: a vote against Proposal Five will count in favor of restoring voting rights to the control shares held by Mr. Bagley). The factors considered by the Board in reaching this determination are described below in Proposal Five under the section titled Recommendation by the Board of Directors.

**Since the Board has determined to recommend for the proposal not to restore voting rights to the control shares owned by Mr. Bagley, why are we soliciting proxies from shareholders?**

Utah law reserves the decision of whether or not to restore voting rights to the control shares owned by Mr. Bagley to our disinterested shareholders. Our Board has determined to recommend for the proposal not to restore voting rights to the control shares owned by Mr. Bagley, and the Board desires to provide shareholders with the factors reviewed by the Board in providing their recommendation. The Board also believes that it is important that shareholders be assured that the voting process for the Annual Meeting will be handled fairly and properly and in accordance with prevailing laws and regulations. The proxies designated on the proxy card will vote, as directed by you, as designated on the completed, signed and returned proxy card that is not subsequently revoked.

**What happens if the Proposal not to restore voting rights to certain shares is approved?**

If Proposal Five is approved, Mr. Bagley will not be able to vote his shares exceeding 20% or more of the Company's outstanding shares, but he will still be able to vote his shares amounting to up to 20% of the Company's outstanding stock.

**What if the Proposal not to restore voting rights to certain control shares is not approved?**

If the proposal not to restore voting rights to the control shares owned by Mr. Bagley is not approved, Mr. Bagley will be allowed to vote all common stock held by him, which is currently 30.6% of our outstanding common stock. Mr. Bagley is currently the only shareholder who owns control shares under Utah law, and this vote will not apply to any control shares that may be obtained by other shareholders in the future or control shares that may be obtained by Mr. Bagley in the future that are more than one-third of our outstanding common stock; upon any such acquisition, our shareholders would be entitled to a new, separate vote to restore voting rights to any such additional control share acquisition.

**What if I want to vote to restore voting power to the control shares held by Mr. Bagley?**

In order for voting rights to be *restored* to the control shares, the number of votes cast against Proposal Five must be at least a majority of all the votes entitled to be cast. Abstentions and broker non-votes are not considered votes cast and will not be counted as a votes against Proposal Five.





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**PROPOSAL ONE**

**ELECTION OF DIRECTORS**

Our Articles of Incorporation and bylaws provide that our Board of Directors shall consist of not less than three (3) nor more than nine (9) members as determined by the Board of Directors or our shareholders from time to time. The Board of Directors fixed the number of directors at four (4) in December 2012. The term of each of our directors expires at the 2013 Annual Meeting. We have nominated all four (4) existing directors for election at the meeting to serve until the next Annual Meeting of Shareholders or until their respective successors are duly elected and qualified. In the event any nominee is unable to serve, the proxies will be voted for a substitute nominee, if any, to be designated by our Board of Directors. The Board of Directors has no reason to believe any nominee will be unable or will decline to serve as a director.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR ELECTION OF THE DIRECTOR NOMINEES NAMED HEREIN.**

**Nominees for Director**

The following table sets forth certain information regarding our directors and nominees for directors.

Name	Age	Position	Director Since
Zeynep Zee Hakimoglu	60	Chairman, Chief Executive Officer, and President	2006
Brad R. Baldwin	58	Director (1)(2)(3)	1988
Larry R. Hendricks	70	Director (1)(2)(3)	2003
Scott M. Huntsman	48	Director (1)(2)(3)	2003

(1) Member of the Audit and Compliance Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating Committee

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

**Brad R. Baldwin** has served as a director of our company since October 1988, and was appointed lead independent director in 2013. Mr. Baldwin is an attorney licensed to practice in Utah. Since April 2009, Mr. Baldwin has served as general counsel to the Wasatch Front Regional Multiple Listing Service ( WFRMLS ). The WFRMLS currently assists over 10,000 brokers, agents and appraisers with their MLS needs

and services. Mr. Baldwin is a Director and Vice-Chairman of First Utah Bank, a community bank based in Utah. From April 2001 to April 2009, he served as an attorney and investment real estate specialist with the commercial real estate business with Commerce CRG in Salt Lake City, Utah. From 1988 to 2000, he served as legal counsel and president of Bank One, Utah. He also practiced business, corporate and real estate law for ten years in Salt Lake City. He has a degree in finance from the University of Utah and a law degree from the University of Washington. He has served on the board of many community organizations, including the Salt Lake Area Chamber of Commerce, the Utah Bankers Association, and the Economic Development Corporation of Utah. In light of Mr. Baldwin's legal background and unique understanding of our business due to his long service on our Board, the Board has concluded that Mr. Baldwin should continue to serve as a director.

**Larry R. Hendricks** has served as a director of our company since June 2003. Mr. Hendricks is a Certified Public Accountant who retired in December 2002 after serving as Vice President of Finance and General Manager of Daily Foods, Inc., a national meat processing company. Mr. Hendricks has served on the National Advisory Board of Utah State University College of Business since 2006. 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, and Skin Care International. 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 after his service on our Board, the Board has concluded Mr. Hendricks should continue to serve as a director.

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

Security holders who would like to send communications to any director or the entire Board may do so by submitting such communications to ClearOne, Inc., 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116, Attention: Investor Relations or [investor\\_relations@clearone.com](mailto:investor_relations@clearone.com). The communications will then be forwarded to the appropriate director or the entire Board. The Board suggests, but does not require, that such submissions include the name and contact information of the security holder making the submission and a description of the matter that is the subject of the communication.

## CORPORATE GOVERNANCE

### Information Relating to Corporate Governance and the Board of Directors

Our Board of Directors has determined, after considering all the relevant facts and circumstances, that Messrs. Baldwin, Hendricks, and Huntsman are independent directors, as independence is defined by 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.

Our Board of Directors has adopted charters for the Audit and Compliance, Compensation and Nominating Committees describing the authority and responsibilities delegated to each committee by the Board. We post on our website at [www.clearone.com](http://www.clearone.com) the charters of our Audit and Compliance, Compensation and Nominating Committees, our Code of Ethics, and any amendments or waivers thereto and any other corporate governance materials contemplated by SEC or NASDAQ regulations. These documents are also available in print to any shareholder requesting a copy in writing from our Corporate Secretary at our corporate offices located at the address set forth in this Proxy Statement.

### Board Leadership Structure; Lead Independent Director

The Board has no formal policy on whether the role of the Chairman of the Board and Chief Executive Officer should be held by separate persons. We believe it is important to maintain flexibility to have either combined offices or a separate Chairman and Chief Executive Officer structure as circumstances dictate and to make that determination based on the strategic and operational position and direction of the company and the character of the membership of the Board. The Board believes our current management structure, with Zeynep Hakimoglu serving as Chairman and Chief Executive Officer, is the optimal structure for us at this time. Ms. Hakimoglu possesses detailed and in-depth knowledge of the operational issues, opportunities and challenges facing the Company and its business, and also has a keen understanding of and ability to grasp our strategic position and opportunities. Given Ms. Hakimoglu's particular skills and knowledge, as well as our size and stage of development, we believe Ms. Hakimoglu is best positioned to identify strategic priorities, develop agendas that the Board's time and attention should be focused on as the most critical matters, and to lead the discussion and execution of strategy.

The Chief Executive Officer and the independent directors have different perspectives and roles in strategy development. The Chief Executive Officer brings Company-specific experience and expertise, while the Company's independent directors bring experience, oversight, and expertise from outside the Company and its industry. The Board believes its independent directors provide effective oversight of management, and that the combined role of Chief Executive Officer and Chairman promotes the development and execution of strategy and facilitates the flow of information between management and the Board, which is essential to effective corporate governance. The Board believes the combined role of Chief Executive Officer and Chairman, together with a Board whose majority of directors are independent, provides the appropriate balance between independent oversight of management and the development of strategy.

Our independent directors have selected Mr. Brad Baldwin to serve as the Board of Directors' lead independent director. The lead independent director chairs all meetings of the non-employee and independent directors of the Board of Directors, including executive sessions. Interested parties who would like to contact Mr. Baldwin, or the non-employee or independent directors, on a confidential basis, may do so by mailing a written communication to Lead Independent Director, ClearOne, Inc., 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116.



## **Board Role in Risk Oversight**

The Board of Directors is responsible for overseeing the management of the business and affairs of the Company, but delegates day-to-day management of the Company to the Chief Executive Officer and our executive management team. The Board of Directors is generally responsible for risk oversight, and the Audit and Compliance Committee assists the Board in fulfilling its responsibilities for general oversight of risk assessment and risk management. In addition, the other Board committees are also tasked with specific risk oversight functions pursuant to the terms of the committee charters or applicable NASDAQ rules. The Board as a whole and the various standing committees, in performing their respective risk oversight functions, have access to our company's management team and external advisors, as necessary, and receive periodic presentations and reports from management, and incidental reports as matters arise with respect to strategic, operational, financial, legal or other risks and the plans management has to control such risks.

## **Committees of the Board of Directors**

**Audit and Compliance Committee.** The Audit and Compliance Committee meets to review and discuss our accounting practices and procedures with management and independent public accountants and to review our quarterly and annual financial statements. The Audit and Compliance Committee assists the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing, and reporting practices. The Audit and Compliance Committee's primary duties include reviewing the scope and adequacy of our internal accounting and financial controls; reviewing the independence of our independent registered public accounting firm; approving the scope of our independent registered public accounting firm's audit activities; approving the fees of our independent registered public accounting firm; approving any non-audit related services; reviewing the audit results; reviewing the objectivity and effectiveness of our internal audit function; and reviewing our financial reporting activities and the application of accounting standards and principles.

The members of the Audit and Compliance Committee are Scott M. Huntsman (Chairman), Brad R. Baldwin, and Larry R. Hendricks. Each member of the Audit and Compliance Committee, in addition to being independent under the standards of NASDAQ, is independent under the standards of the Securities and Exchange Commission's rules and regulations pertaining to listed company audit committees. The Board of Directors has determined that Scott M. Huntsman is an audit committee financial expert in accordance with applicable rules and regulations of the SEC.

**Compensation Committee.** The Compensation Committee is responsible for overseeing, reviewing, and approving our executive compensation and benefit programs and administers the Company's equity incentive plans for employees. Under its charter, the Compensation Committee may delegate authority to subcommittees of the Compensation Committee or to executive officers of the Company, particularly the President and CEO with respect to compensation determinations for persons who are not executive officers of the Company. The members of the Compensation Committee are Brad R. Baldwin (Chairman), Larry R. Hendricks and Scott M. Huntsman.

Our compensation objectives for executive officers are as follows:

to attract and retain highly qualified individuals capable of making significant contributions to the long-term success of our company;

to use incentive compensation to reinforce strategic performance objectives;

to align the interest of our executives with the interests of our shareholders such that the risks and rewards of strategic decisions are shared; and

to reflect the value of each officer's position in the marketplace and within our company.

*Policies and Practices Related to ClearOne's Compensation Program.* We strive to create an overall compensation package for each executive officer that satisfies the aforementioned objectives, recognizing that certain elements of compensation are better suited to reflect different compensation objectives. For example, as



base salaries are the only element of compensation that are fixed in amount in advance of the year in which the compensation will be earned, the Compensation Committee believes that it is most appropriate to determine base salaries with a focus on the market practices for similarly situated officers at comparable companies as adjusted to reflect the individual officer's performance during the preceding year. In contrast, cash bonuses and long-term incentives are better able to reflect our company's performance as measured by financial metrics and are well-suited to motivate officers to achieve specific performance goals that the Compensation Committee has determined are in the best interests of our company. Equity grants are also well-suited to drive long-term performance and align management's interests with those of shareholders. The Compensation Committee believes that as an officer's responsibility increases, so does his or her ability to influence the performance of our company and accordingly, the proportion of his or her compensation that consists of his or her salary and cash bonus should decrease while the proportion of equity incentives to total compensation should increase.

*Comparable Companies.* In making compensation decisions, including assessing the competitiveness of the total compensation structure for each named executive officer, the Compensation Committee considers compensation survey data from companies that the Compensation Committee has selected as comparable companies, namely comparable in terms of size and location. The Compensation Committee periodically reviews the companies that are included as comparable companies and makes revisions to the group as appropriate. The Compensation Committee reviews surveys and relevant articles on executive compensation practices and receives an annual report from Equilar, Inc. on CEO pay strategies and trends for publicly traded small cap companies. The Compensation Committee also reviews executive compensation information for several Utah based publicly-traded companies having revenues similar to those of the Company. The Compensation Committee has reviewed this compensation data to ensure the company's compensation of our executives is reasonable.

*Equity Grant Practices.* The Compensation Committee recognizes the importance of equity ownership in the alignment of shareholder and management interests. The exercise price of each stock option awarded to our executive officers under our incentive compensation programs is equal to the closing price of our common stock on the date of grant, which is the date when the Compensation Committee acts to approve equity awards for senior executives. Performance-based equity awards are also granted to our named executive officers at this time.

The Compensation Committee establishes the criteria, and directs the implementation, of all compensation program elements for the executive officers. Generally, the base salary for each named executive officer is set at the beginning of each fiscal year by our Board of Directors after review of the recommendation of the Compensation Committee. The Compensation Committee considers the Chief Executive Officer's appraisal of other executive officers' general performance and looks especially to performance against predetermined goals before making its recommendation to the Board of Directors. In the past, the Compensation Committee has authorized the Chief Executive Officer to recruit executive officers and offer initial base salaries. The Chief Executive Officer recommends for the Compensation Committee's approval the stock option grants and compensation related to achievement of non-quantitative goals under non-equity based incentive plans for other executive officers. The Compensation Committee did not employ any compensation consultants during the year ended December 31, 2012.

**Nominating Committee.** The Nominating Committee is responsible for overseeing the nomination of our directors. The Nominating Committee selects, evaluates, and recommends to the full Board of Directors qualified candidates for election to the Board of Directors. The members of the Nominating Committee are Larry R. Hendricks (Chairman), Brad R. Baldwin, and Scott M. Huntsman.

The Board of Directors will consider recommendations by shareholders for director nominees if the names of those nominees and relevant biographical information are submitted in writing to our company's Corporate Secretary in the manner described for shareholder nominations below under the heading "Shareholder Proposals." The Nominating Committee identifies and evaluates nominees for our Board of Directors, including nominees recommended by shareholders, based on numerous factors it considers appropriate, some of which may



include strength of character, mature judgment, career specialization, relevant technical skills, diversity, and the extent to which the nominee would fill a present need on our Board of Directors. Although the Nominating Committee does not have a formal policy with regard to the consideration of diversity in identifying director nominees, the Nominating Committee strives to nominate directors with a variety of complementary skills so that, as a group, the Board of Directors will possess the appropriate talent, skills and expertise to oversee the Company's business. All director nominations, whether submitted by a shareholder, the Nominating Committee, or the Board of Directors, will be evaluated in the same manner. The current nominees for director were recommended by the Nominating Committee and nominated by the Board of Directors, including the independent members thereof.

### **Board and Committee Meetings**

Our Board of Directors held a total of 15 meetings in 2012. No director attended fewer than 75% of the aggregate of (i) the total number of meetings of the Board of Directors; and (ii) the total number of meetings held by all committees of the Board of Directors on which such director was a member. Although we currently have no formal policy with respect to the attendance of members of the Board of Directors at the Annual Meetings of Shareholders, we encourage each of our directors to attend each annual meeting of shareholders. To that end, and to the extent reasonably practicable, we regularly schedule a meeting of the Board of Directors on the same day as our annual meeting of shareholders. All members of our Board of Directors attended the 2012 Annual Meeting of Shareholders.

In 2012, the Audit and Compliance Committee held five meetings, the Compensation Committee held four meetings, and the Nominating Committee held one meeting.

### **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](http://www.clearone.com).

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act, as amended, requires our directors, executive officers and persons who own more than 10% of a registered class of our equity securities to file with the SEC initial reports of ownership on Form 3 and reports of changes of ownership of our equity securities on Forms 4 and 5. Officers, directors, and greater than 10% shareholders are required to furnish us with copies of all Section 16(a) reports they file. Based solely on a review of the reports and amendments to reports furnished to us for the year ended December 31, 2012, and written representations that no other reports were required, we believe that each person who, at any time during such fiscal year, was a director, officer, or beneficial owner of more than 10% of our common stock complied with all Section 16(a) filing requirements during such period, except for the following: Edward Dallin Bagley, a beneficial owner of more than 10% of our common stock, filed two Forms 4 late for one transaction each and another Form 4 late for two transactions; E. Bryan Bagley, a former director, filed one Form 4 late for two transactions; Brad Baldwin, a director, filed one Form 4 late for one transaction; Michael Braithwaite, an officer, filed one Form 4 late for three transactions and another Form 4 late for one transaction; Zee Hakimoglu, a director and an officer, filed two Forms 4 late for one transaction each; Larry Hendricks, a director, filed one Form 4 late for one transaction; and Narsi Narayanan, an officer, filed one Form 4 late for one transaction.

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**EXECUTIVE OFFICERS**

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

<b>Name</b>	<b>Age</b>	<b>Position</b>
Zee Hakimoglu	60	President, Chief Executive Officer, and Chairman of the Board of Directors
Narsi Narayanan	43	Vice President of Finance and Corporate Secretary
Michael J. Braithwaite	45	Senior Vice President of Technology

For the biography of Ms. Hakimoglu, see Nominees for Director.

**Narsi Narayanan** has served as our Vice President of Finance since July 2009 and has over 19 years of professional experience in the areas of accounting, finance and taxes. Prior to joining our company, he managed the SEC reporting, US GAAP accounting research, 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 various senior finance positions in India with large public companies. He is a Certified Public Accountant with graduate degrees in accounting (M. Acc.) and business (MBA-Finance).

**Michael Braithwaite** joined us in November 2009 through the acquisition of NetStreams, Inc. where he was the co-founder and Chief Technology Officer since 2004. Mr. Braithwaite has led a distinguished twenty-plus-year career as a visionary, disruptive innovator, and proven leader in the professional audio and consumer electronics industries. He has authored more than twenty U.S. and International patents. Before NetStreams, Inc., Mr. Braithwaite was a product and market manager for Crestron Electronics where he worked on highly successful audio and video distribution products. He currently serves on the AVnu (AVB) marketing and technical committees.

## EXECUTIVE COMPENSATION

### Summary Compensation

The following table sets forth the compensation paid or earned by each named executive officer for the years ended December 31, 2012 and 2011.

### SUMMARY COMPENSATION TABLE

Name and Principal Position	Salary	Option Awards (1)	Non-Equity Incentive Plan Compensation (2)	All Other Compensation (3)	Total
<b>Zee Hakimoglu</b> - Chairman of the Board, Chief Executive Officer and President					
Year ended December 31, 2012	\$ 236,667	\$ 51,765	\$ 59,246	\$	\$ 347,678
Year ended December 31, 2011	230,000	29,436	93,953		353,389
<b>Narsi Narayanan</b> - Vice President of Finance and Corporate Secretary					
Year ended December 31, 2012	\$ 141,667	\$ 41,412	\$ 31,864	\$	\$ 214,943
Year ended December 31, 2011	135,000	29,436	52,090		216,526
<b>Michael Braithwaite</b> - Chief Strategy Officer					
Year ended December 31, 2012	\$ 160,000	\$ 41,412	\$ 21,864	\$ 6,547	\$ 229,823
Year ended December 31, 2011	155,000	29,436	59,539	2,200	246,175

- (1) The amounts in the Option Awards column reflect the aggregate grant date fair value of awards of stock options granted pursuant to our long-term incentive plans during the periods reported above, computed in accordance with FASB ASC Topic 718, Compensation - Stock Compensation. The assumptions made in the valuation of our option awards and the material terms of option awards are disclosed in Note 9 - Share Based Payments in our Notes to Consolidated Financial Statements contained in our Form 10-K.
- (2) Non-Equity Incentive Plan Compensation is based upon the achievement of pre-determined quarterly goals, namely, financial goals comprising of revenue, gross margin, operating income and meeting reporting deadlines, and non-quantitative performance goals. While all financial goals are similar for Ms. Hakimoglu and Mr. Narayanan, Mr. Braithwaite's financial goals consisted only of revenue, gross margin and operating income goals. Non-quantitative goals varied for each executive officer. Examples of non-quantitative goals include introduction of a new product, identification of a new distribution opportunity, implementing internal controls, and improving product quality. The Chief Executive Officer recommends to the Compensation Committee the compensation for achievement or partial achievement of any such predetermined goal. Compensation under the non-equity incentive plan is calculated by assigning 70% weight to financial goals (with each goal having equal share for each officer's goals) and 30% to non-quantitative goals. Of the amounts included above, Ms. Hakimoglu's compensation for the year ended December 31, 2012 included \$19,809 for achieving financial goals and \$39,437 for achieving non-quantitative goals, and for the year ended December 31, 2011 included \$64,628 for achieving financial goals and \$29,325 for achieving non-quantitative goals. Mr. Narayanan's compensation for the year ended December 31, 2012 included \$11,778 for achieving financial goals and \$20,086 for achieving non-quantitative goals, and for the year ended December 31, 2011 included \$37,934 for achieving

financial goals and \$14,156 for achieving non-quantitative goals. Mr. Braithwaite's compensation for the year ended December 31, 2012 included \$6,323 for achieving financial goals and \$15,541 for achieving non-quantitative goals, and for the year ended December 31, 2011 included \$43,554 for achieving financial goals and \$15,985 for achieving non-quantitative goals.

- (3) The amounts in the All Other Compensation column reflect the value of honorarium paid under a patenting process program for Mr. Braithwaite.

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**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, 2012.

<b>Name</b>	<b>Number of Securities Underlying Unexercised Options Exercisable</b>	<b>Number of Securities Underlying Unexercised Options (1)</b>	<b>Option Exercise Price</b>	<b>Option Grant Date</b>	<b>Option Expiration Date</b>
Zee Hakimoglu	50,000		\$ 6.40	03/24/04	03/24/14
	100,000		5.55	07/26/04	07/26/14
	150,000		3.65	09/18/06	09/18/16
	150,000		6.15	08/14/07	08/14/17
	50,000		4.03	11/14/08	11/14/18
	8,611	1,389	3.00	05/26/10	05/26/20
	4,444	5,556	5.48	08/05/11	08/05/21
		25,000	3.92	05/11/12	05/11/22
Narsi Narayanan	30,000		2.78	08/27/09	08/27/19
	8,611	1,389	3.00	05/26/10	05/26/20
	4,444	5,556	5.48	08/05/11	08/05/21
		20,000	3.92	05/11/12	05/11/22
Michael Braithwaite	29,800		2.65	11/30/09	11/30/19
	8,611	1,389	3.00	05/26/10	05/26/20
	4,444				