CLEARONE INC
Form 10-Q
November 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2017

or

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period _______ to _______

Commission file number: **001-33660**

CLEARONE, INC.

(Exact name of registrant as specified in its charter)

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

(Address of principal executive offices) (Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 [X]
Non-Accelerated Filer [ ] (Do not check if a smaller reporting company)	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 Exchange Act). Yes [ ] No [X]

The number of shares of ClearOne common stock outstanding as of November 3, 2017 was 8,414,153.

CLEARONE, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CLEARONE, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,013	$ 12,100
Marketable securities	3,953	5,030
Receivables, net of allowance for doubtful accounts of $304 and $187, as of September 30, 2017 and December 31, 2016 respectively	8,061	7,461
Inventories	19,695	11,377
Distributor channel inventories	1,394	1,530
Prepaid expenses and other assets	2,207	2,642
Total current assets	38,323	40,140
Long-term marketable securities	16,480	21,365
Long-term inventories, net	2,446	1,664
Property and equipment, net	1,587	1,513
Intangibles, net	5,283	5,677
Goodwill	—	12,724
Deferred income taxes	9,875	4,654
Other assets	378	387
Total assets	$ 74,372	$ 88,124
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,811	$ 3,545
Accrued liabilities	1,852	1,894
Deferred product revenue	3,870	3,882
Total current liabilities	11,533	9,321
Deferred rent	39	103
Other long-term liabilities	1,216	1,251
Total liabilities	12,788	10,675
Shareholders' equity:		
	8	9

Common stock, par value $0.001, 50,000,000 shares authorized, 8,433,182 and 8,812,644 shares issued and outstanding as of September 30, 2017 and December 31, 2016 respectively		
Additional paid-in capital	47,300	46,669
Accumulated other comprehensive loss	(49)	(205)
Retained earnings	14,325	30,976
Total shareholders’ equity	61,584	77,449
Total liabilities and shareholders’ equity	$ 74,372	$ 88,124

See accompanying notes

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands, except per share amounts)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Revenue	$10,560	$12,908	$32,549	$37,907
Cost of goods sold	4,051	5,240	13,293	14,110
Gross profit	6,509	7,668	19,256	23,797
Operating expenses:				
Sales and marketing	3,006	2,389	8,393	7,695
Research and product development	2,268	2,116	6,947	6,481
General and administrative	1,281	1,739	5,597	4,904
Impairment of an intangible asset	736	—	736	—
Impairment of goodwill	12,724	—	12,724	—
Total operating expenses	20,015	6,244	34,397	19,080
Operating income (loss)	(13,506)	1,424	(15,141)	4,717
Other income, net	78	100	264	194
Income (loss) before income taxes	(13,428)	1,524	(14,877)	4,911
Provision for (benefit from) income taxes	(4,152)	315	(4,313)	1,379
Net income (loss)	$(9,276)	$1,209	$(10,564)	$3,532
Basic earnings (loss) per common share	$(1.09)	$0.14	$(1.22)	$0.39
Diluted earnings (loss) per common share	$(1.09)	$0.13	$(1.22)	$0.37
Basic weighted average shares outstanding	8,520,041	8,921,480	8,641,173	9,076,305
Diluted weighted average shares outstanding	8,520,041	9,164,165	8,641,173	9,452,616
Comprehensive income:				
Net income (loss)	$(9,276)	$1,209	$(10,564)	$3,532
Other comprehensive income:				
Change in unrealized gains (losses) on available-for-sale securities, net of tax	10	(39)	68	179
Change in foreign currency translation adjustment	23	7	88	19
Comprehensive income (loss)	$(9,243)	$1,177	$(10,408)	$3,730

See accompanying notes

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands, except per share amounts)

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Cash flows from operating activities:		
Net income (loss)	$(10,564)	$3,532
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	1,172	1,408
Impairment of goodwill and intangible assets	13,460	—
Amortization of deferred rent	(53)	(57)
Stock-based compensation expense	514	494
Provision for (recovery of) doubtful accounts, net	106	(6)
Write-down of inventory to net realizable value	—	458
Loss on disposal of assets	1	54
Tax benefit from exercise of stock options	—	(721)
Deferred income taxes	(5,221)	107
Changes in operating assets and liabilities:		
Receivables	(649)	234
Inventories	(8,964)	1,353
Prepaid expenses and other assets	(226)	(147)
Accounts payable	2,257	770
Accrued liabilities	(67)	(134)
Income taxes payable	699	429
Deferred product revenue	(23)	(284)
Other long-term liabilities	(61)	(51)
Net cash provided by (used in) operating activities	(7,619)	7,439
Cash flows from investing activities:		
Purchase of property and equipment	(537)	(544)
Purchase of intangibles	(203)	—
Proceeds from maturities and sales of marketable securities	9,946	5,371
Purchase of marketable securities	(3,915)	(6,608)
Capitalized patent defense costs	(845)	—
Net cash provided by (used in) investing activities	4,446	(1,781)
Cash flows from financing activities:		
Net proceeds from equity-based compensation programs	117	736
Tax benefit from equity-based compensation programs	—	721
Repurchase and cancellation of stock options	(285)	(1,752)
Dividend payments	(1,650)	(1,373)
Repurchase and cancellation of stock	(4,151)	(5,139)
Net cash used in financing activities	(5,969)	(6,807)

Effect of exchange rate changes on cash and cash equivalents	55	10
Net decrease in cash and cash equivalents	(9,087)	(1,139)
Cash and cash equivalents at the beginning of the period	12,100	13,412
Cash and cash equivalents at the end of the period	$3,013	$12,273

See accompanying notes

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands, except per share amounts)

The following is a summary of supplemental cash flow activities:

	Nine months ended September 30,	
	2017	**2016**
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 6	$ 893

See accompanying notes

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited - Dollars in thousands, except per share amounts)

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

Business Description:

ClearOne, Inc., together with its subsidiaries (collectively, “ClearOne” or the “Company”), is a global 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 unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and are not audited. Certain information and footnote disclosures that are usually included in financial statements prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) have been either condensed or omitted in accordance with SEC rules and regulations. The accompanying condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial position as of September 30, 2017 and December 31, 2016, the results of operations for the three and nine months ended September 30, 2017 and 2016, and the cash flows for the nine months ended September 30, 2017 and 2016. The results of operations for the three months and nine months ended September 30, 2017 and 2016 are not necessarily indicative of the results for a full-year period. These interim unaudited 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, 2016 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, 2016. There have been no changes to these policies during the nine months ended September 30, 2017 that are of significance or potential significance to the Company except for the treatment of patent defense costs described below.

Patent Defense Costs - The Company relies on patents and proprietary technology and seeks patent protection for products and production methods. The Company capitalizes external legal costs incurred in the defense of its patents when it believes that a future economic benefit will result from the defense and a successful outcome of the legal action is probable. These costs are amortized over the remaining estimated useful life of the patent, which is 15 to 17 years. The Company's assessment of future economic benefit and/or the successful outcome of legal action related to patent defense involves considerable management judgment and a different outcome could result in material write-offs of the carrying value of these assets.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited - Dollars in thousands, except per share amounts)

Recent Accounting Pronouncements:

In May 2014, the FASB released Accounting Standards Update (ASU) No. 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. We plan to adopt the standard when it becomes effective for us beginning January 1, 2018. We currently anticipate adopting the standard using the modified retrospective method with a cumulative catch up adjustment and providing additional disclosures comparing results to previous rules. We continue to evaluate the impact of the new standard on our consolidated financial statements but anticipate this standard will have a material impact on our consolidated financial statements.

In February 2016, the FASB released ASU No. 2016-02, Leases (Topic 842) to bring transparency to lessee balance sheets. The ASU will require organizations that lease assets (lessees) to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The standard will apply to both types of leases-capital (or finance) leases and operating leases. Previously, GAAP has required only capital leases to be recognized on lessee balance sheets. The standard is effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2018. Early application will be permitted for all organizations. 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.

In March 2016, the FASB released ASU No. 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 was effective for the Company on January 1, 2017. As a result of the adoption of ASU 2016-09, excess tax benefits or deficiencies related to stock-based compensation are now reflected in the Consolidated Statements of Operations as a component of the provision for income taxes, whereas they previously were recognized in additional paid-in capital. In addition, our Consolidated Statements of Cash Flows will now present, on a prospective basis, excess tax benefits as an operating activity. Finally, we have elected to account for forfeitures as they occur, rather than estimate expected forfeitures.

In August 2016, the FASB released ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 is effective for the Company beginning January 1, 2018 and we are currently evaluating the impact that ASU

2016-15 will have on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. The new guidance provides clarity and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The accounting standard update will be effective for The Company beginning January 1, 2018 on a prospective basis, and early adoption is permitted. 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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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited - Dollars in thousands, except per share amounts)

2. Earnings (Loss) Per Share

Earnings (loss) per common share is computed based on the weighted-average number of common shares outstanding and, when appropriate, dilutive potential common stock outstanding during the period. Stock options are considered to be potential common stock. The computation of diluted earnings (loss) per share does not assume exercise or conversion of securities that would have an anti-dilutive effect.

Basic earnings (loss) per common share is the amount of net earnings (loss) for the period available to each weighted-average share of common stock outstanding during the reporting period. Diluted earnings (loss) per common share is the amount of earnings (loss) for the period available to each weighted-average share of common stock outstanding during the reporting period and to each share of potential common stock outstanding during the period, unless inclusion of potential common stock would have an anti-dilutive effect.

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2017	**2016**	**2017**	**2016**
Numerator:				
Net income (loss)	$(9,276)	$1,209	$(10,564)	$3,532
Denominator:				
Basic weighted average shares outstanding	8,520,041	8,921,480	8,641,173	9,076,305
Dilutive common stock equivalents using treasury stock method	—	242,686	—	376,312
Diluted weighted average shares outstanding	8,520,041	9,164,165	8,641,173	9,452,616
Basic earnings (loss) per common share	$(1.09)	$0.14	$(1.22)	$0.39
Diluted earnings (loss) per common share	$(1.09)	$0.13	$(1.22)	$0.37
Weighted average options outstanding	782,012	832,766	832,953	900,687
Anti-dilutive options not included in the computations	782,012	312,372	832,953	312,477

3. Marketable Securities

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

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for available-for-sale securities by major security type and class of securities at September 30, 2017 and December 31, 2016 were as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
September 30, 2017				
Available-for-sale securities:				
Corporate bonds and notes	$ 14,446	$ 65	$ (52)	$ 14,459
Municipal bonds	5,974	8	(8)	5,974
Total available-for-sale securities	$ 20,420	$ 73	$ (60)	$ 20,433

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited - Dollars in thousands, except per share amounts)

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
December 31, 2016				
Available-for-sale securities:				
Corporate bonds and notes	$ 20,028	$ 64	$ (122)	$ 19,970
Municipal bonds	6,463	6	(44)	6,425
Total available-for-sale securities	$ 26,491	$ 70	$ (166)	$ 26,395

Maturities of marketable securities classified as available-for-sale securities were as follows at September 30, 2017:

	Amortized cost	Estimated fair value
September 30, 2017		
Due within one year	$ 3,945	$ 3,953
Due after one year through five years	16,475	16,480
Total available-for-sale securities	$ 20,420	$ 20,433

Debt securities in an unrealized loss position as of September 30, 2017 were not deemed impaired at acquisition and subsequent declines in fair value are not deemed attributed to declines in credit quality. Management believes that it is more likely than not that the securities will receive a full recovery of par value, although there can be no assurance that such recovery will occur. The available-for-sale marketable securities with continuous gross unrealized loss position for less than 12 months and 12 months or greater and their related fair values were as follows:

	Less than 12 months		More than 12 months		Total	
(In thousands)	Estimated fair value	Gross unrealized holding losses	Estimated fair value	Gross unrealized holding losses	Estimated fair value	Gross unrealized holding losses
As of September 30, 2017						
Corporate bonds and notes	$4,288	$ (24)	$2,148	$ (27)	$6,436	$ (51)
Municipal bonds	3,157	(5)	566	(4)	3,723	(9)
Total	$7,445	$ (29)	$2,714	$ (31)	$10,159	$ (60)

4. Goodwill and Intangible Assets

Goodwill

There was a decrease in goodwill during the three and nine months ended September 30, 2017 from $12,724 as of December 31, 2016 to $0 as of September 30, 2017 due to the impairment of goodwill. During the three months ended September 30, 2017, there was a decrease in the Company’s market capitalization which was determined to be a triggering event for potential goodwill impairment. Accordingly, the Company performed a goodwill impairment analysis. The Company utilized the market capitalization to estimate the fair value. Our total stockholders’ equity exceeded the estimated fair value. The failure of step one of the goodwill impairment test triggered a step two impairment test. As a result of step two of the impairment test, the Company determined the implied fair value of goodwill and concluded that the carrying value of goodwill exceeded its implied fair value as of September 30, 2017. Accordingly, an impairment charge of $12,724, which represents a full impairment charge, was recognized in the three months ended September 30, 2017.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited - Dollars in thousands, except per share amounts)

Intangible Assets

Intangible assets as of September 30, 2017 and December 31, 2016 consisted of the following:

	Estimated useful lives	September 30, 2017	December 31, 2016
Tradename	5 to 7 years	$ 555	$ 555
Patents and technological know-how	10 years	7,058	6,010
Proprietary software	3 to 15 years	2,981	4,341
Other	3 to 5 years	324	324
Total intangible assets		10,918	11,230
Accumulated amortization		(5,635)	(5,553)
Total intangible assets, net		$ 5,283	$ 5,677

The amortization of intangible assets for the three and nine months ended September 30, 2017 and 2016 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Amortization of intangible assets	$ 231	$ 328	$ 699	$ 458

During the three and nine months ended September 30, 2017 we recorded a $0.7 million charge for impairment of an intangible asset consisting of customer relationships.

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

Years ending December 31,	
2017 (remainder)	$246
2018	829
2019	725
2020	546
2021	546
Thereafter	2,391
	$5,283

5. Inventories

Inventories, net of reserves, as of September 30, 2017 and December 31, 2016 consisted of the following:

	As of September 30, 2017	December 31, 2016
Current:		
Raw materials	$4,097	$2,291
Finished goods	15,598	9,086
	$19,695	$11,377
Long-term:		
Raw materials	$423	$599
Finished goods	2,023	1,065
	$2,446	$1,664

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited - Dollars in thousands, except per share amounts)

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

Current finished goods do not include distributor channel inventories in the amounts of approximately $1,394 and $1,530 as of September 30, 2017 and December 31, 2016, respectively. Distributor channel inventories represent inventories at distributors and other customers where revenue recognition criteria have not yet been achieved.

Net loss incurred on valuation of inventory at lower of cost or market value and write-off of obsolete inventory during the three months ended September 30, 2016 was $328. During the three months ended September 30, 2017 there was no write off on the valuation of inventory.

6. Share-based Compensation

Employee Stock Option Plans

The Company’s share-based incentive plans offering stock options primarily consists of two plans. Under both plans, one new share is issued for each stock option exercised. The plans are described below.

The Company’s 1998 Incentive Plan (the “1998 Plan”) was the Company’s primary plan through November 2007. Under this plan shares of common stock were made available for issuance to employees and directors. Through December 1999, 1,066,000 options were granted that would cliff vest after 9.8 years; however, such vesting was accelerated for 637,089 of these options upon meeting certain earnings per share goals through the fiscal year ended September 30, 2003. Subsequent to December 1999 and through March 2002, 1,248,250 options were granted that would cliff vest after 6.0 years; however, such vesting was accelerated for 300,494 of these options upon meeting certain earnings per share goals through the fiscal year ended September 30, 2005.

The Company’s 2007 Equity Incentive Plan (the “2007 Plan”) was restated and approved by the shareholders on December 12, 2015. Provisions of the restated 2007 Plan include the granting of up to 2,000,000 incentive and non-qualified stock options, stock appreciation rights, restricted stock and restricted stock units. Options may be granted to employees, officers, non-employee directors and other service providers and may be granted upon such terms as the Compensation Committee of the Board of Directors determines in their sole discretion.

Of the options granted subsequent to March 2002, all vesting schedules are based on 3 or 4-year vesting schedules, with either one-third or one-fourth vesting on the first anniversary and the remaining options vesting ratably over the remainder of the vesting term. Generally, directors and officers have 3-year vesting schedules and all other employees have 4-year vesting schedules. Additionally, in the event of a change in control or the occurrence of a corporate transaction, the Company’s Board of Directors has the authority to elect that all unvested options shall vest and become exercisable immediately prior to the event or closing of the transaction. All options outstanding as of September 30, 2017 had contractual lives of ten years.

Under the 1998 Plan, 2,500,000 shares were authorized for grant. As of September 30, 2017, there are no options outstanding under the 1998 Plan. The remaining 50,000 of these options were exercised on July 11, 2017.

As of September 30, 2017, there were 767,156 options outstanding under the 2007 Plan. As of September 30, 2017, the 2007 Plan had 471,500 authorized unissued options.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited - Dollars in thousands, except per share amounts)

A summary of the stock option activity under the Company’s plans for the nine months ended September 30, 2017 is as follows:

	Number of shares	Weighted average exercise price
Options outstanding at beginning of year	850,232	$ 8.06
Granted	105,000	9.90
Less:		
Exercised	(178,662)	5.90
Forfeited prior to vesting	(7,103)	10.88
Canceled or expired	(2,311)	9.68
Options outstanding at September 30, 2017	767,156	8.79
Options exercisable at end of September 30, 2017	502,940	$ 7.71

As of September 30, 2017, the total remaining unrecognized compensation cost related to non-vested stock options, net of forfeitures, was approximately $975, which will be recognized over a weighted average period of 1.99 years.

Stock Option Repurchase

From March 11, 2016 to March 17, 2016, the Company offered to repurchase eligible vested options to purchase shares under the 1998 Plan and the 2007 Plan from employees. The Company repurchased delivered options at a repurchase price equal to the difference between the closing market price on the date of the employee’s communication of accepting the repurchase offer and the exercise price of such employee’s delivered options, subject to applicable withholding taxes and charges. The Company repurchased 225,542 stock options from employees at an average purchase price of $7.77.

Employee Stock Purchase Plan

The Company issues shares to employees under the Company's 2014 Employee Stock Purchase Plan (the "ESPP"). The ESPP was approved by the Company's shareholders on December 12, 2014. As of September 30, 2017, 471,160 of the originally approved 500,000 shares were available for offerings under the ESPP. Offering periods under the ESPP commence on each January 1 and July 1, and continue for a duration of six months. The ESPP is available to all employees who do not own, or not are deemed to own, shares of stock making up an excess of 5% of the combined voting power of the Company and its subsidiaries. During each offering period, each eligible employee may purchase shares under the ESPP after authorizing payroll deductions. Under the ESPP, each employee may purchase up to the lesser of 2,500 shares or $25 of fair market value (based on the established purchase price) of the Company's stock for each offering period. Unless the employee has previously withdrawn from the offering, his or her accumulated payroll deductions will be used to purchase common stock on the last business day of the period at a price equal to 85% (or a 15% discount) of the fair market value of the common stock on the first or last day of the offering period, whichever is lower.

Share-based compensation expense related to ESPP has been recorded as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Cost of goods sold	$5	$7	$16	$18
Sales and marketing	10	15	31	42
Research and product development	25	40	80	106
General and administrative	122	113	341	328
	$162	$175	$468	$494

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited - Dollars in thousands, except per share amounts)

7. Shareholders' Equity

Stock Repurchase Program

On March 9, 2016, the Board of Directors of the Company authorized the repurchase of up to $10,000 of the Company's outstanding shares of common stock under a stock repurchase program. In connection with the repurchase authorization, the Company was authorized to complete the repurchase through open market transactions or through an accelerated share repurchase program, in each case to be executed at management's discretion based on business and market conditions, stock price, trading restrictions, acquisition activity and other factors. The repurchase program may be suspended or discontinued at any time without prior notice. The transactions effectuated to date occurred in open market purchases.

On March 1, 2017, the Board of Directors of the Company renewed and extended the repurchase program for up to an additional $10,000 of common stock over the next twelve months. In connection with the repurchase extension authorization, the Company was authorized to complete the repurchase through open market transactions or through an accelerated share repurchase program, in each case to be executed at management's discretion based on business and market conditions, stock price, trading restrictions, acquisition activity and other factors. The repurchase program may be suspended or discontinued at any time without prior notice. The transactions effectuated to date occurred in open market purchases.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in $ millions)
July 2017	11,794	$ 9.69	11,794	$ 7.6
August 2017	37,247	7.77	37,247	7.3
September 2017	90,529	7.62	90,529	6.6

Total	139,570	7.84	139,570

Cash Dividends

On August 7, 2017, the Company declared a cash dividend of $0.07 per share of ClearOne common stock paid September 7, 2017 to shareholders of record as of August 22, 2017.

Changes in Shareholders' Equity

The following table summarizes the change in shareholders' equity during the three and nine months ended September 30, 2017 and 2016, respectively:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Balance at the beginning of the period	$72,444	$79,783	$77,449	$82,569
Exercise of stock options, restricted stock and stock option cancelled	(113)	238	(225)	671
Stock repurchased	(1,094)	(1,024)	(4,151)	(5,139)
Options repurchased	—	—	—	(1,752)
Proceeds from stock purchase plan	15	21	55	65
Dividends	(599)	(449)		