IMMERSION CORP
Form 10-Q
August 04, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(MARK ONE)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 000-27969
IMMERSION CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	94-3180138
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

50 Rio Robles, San Jose, California 95134
(Address of principal executive offices)(Zip Code)
(408) 467-1900
(Registrant’s telephone number, including area code)
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý 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 definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ý
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 ý
Number of shares of common stock outstanding at July 28, 2017: 29,262,181.

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PART I
FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

IMMERSION CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$33,152	$56,865
Short-term investments	28,863	32,907
Accounts and other receivables (net of allowances for doubtful accounts of $6, and $0, respectively)	3,335	1,382
Prepaid expenses and other current assets	989	2,876
Total current assets	66,339	94,030
Property and equipment, net	3,638	4,016
Deferred income tax assets	437	359
Prepaid income taxes	—	4,997
Intangibles and other assets, net	363	365
Total assets	$70,777	$103,767
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$10,237	$5,951
Accrued compensation	2,355	4,753
Other current liabilities	3,886	4,409
Deferred revenue	5,004	5,909
Total current liabilities	21,482	21,022
Long-term deferred revenue	24,369	26,393
Other long-term liabilities	963	1,012
Total liabilities	46,814	48,427
Contingencies (Note 12)		
Stockholders' equity:		
Common stock and additional paid-in capital — $0.001 par value; 100,000,000 shares authorized; 35,891,850 and 35,555,562 shares issued, respectively; 29,253,847 and 28,917,559 shares outstanding, respectively	224,451	221,098
Accumulated other comprehensive income	91	115
Accumulated deficit	(154,035)	(119,329)
Treasury stock at cost: 6,638,003 shares	(46,544)	(46,544)
Total stockholders' equity	23,963	55,340
Total liabilities and stockholders' equity	$70,777	$103,767

See accompanying Notes to Condensed Consolidated Financial Statements.

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IMMERSION CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Royalty and license	$6,785	$7,615	$15,791	$21,063
Development, services, and other	245	249	463	424
Total revenues	7,030	7,864	16,254	21,487
Costs and expenses:				
Cost of revenues	54	61	97	87
Sales and marketing	3,461	3,397	6,766	7,200
Research and development	2,826	2,966	6,022	7,278
General and administrative	15,600	11,001	31,132	21,091
Total costs and expenses	21,941	17,425	44,017	35,656
Operating loss	(14,911)	(9,561)	(27,763)	(14,169)
Interest and other income	165	33	304	245
Loss from continuing operations before benefit (provision) for income taxes	(14,746)	(9,528)	(27,459)	(13,924)
Benefit (provision) for income taxes	(99)	3,323	(251)	5,024
Loss from continuing operations	(14,845)	(6,205)	(27,710)	(8,900)
Income from discontinued operations, net of tax	—	649	—	649
Net loss	$(14,845)	$(5,556)	$(27,710)	$(8,251)
Basic and diluted net loss per share:				
Continuing operations	(0.51)	(0.22)	(0.95)	(0.31)
Discontinued operations	—	0.02	—	0.02
Total	$(0.51)	$(0.20)	$(0.95)	$(0.29)
Shares used in calculating basic and diluted net loss per share	29,193	28,834	29,109	28,663
Other comprehensive income (loss), net of tax				
Change in unrealized gains (losses) on short-term investments	(2)	23	(24)	55
Total other comprehensive income (loss)	(2)	23	(24)	55
Total comprehensive loss	$(14,847)	$(5,533)	$(27,734)	$(8,196)

See accompanying Notes to Condensed Consolidated Financial Statements.

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IMMERSION CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows used in operating activities:		
Net loss	$(27,710)	$(8,251)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	469	448
Amortization of intangibles	—	5
Stock-based compensation	2,735	3,589
Deferred income taxes	(77)	(6,472)
Allowance for doubtful accounts	6	2
Income from discontinued operations	—	(649)
Changes in operating assets and liabilities:		
Accounts and other receivables	(1,959)	(460)
Prepaid income taxes	—	1,998
Prepaid expenses and other current assets	(112)	(150)
Intangibles and other assets	(99)	(103)
Accounts payable	4,286	1,935
Accrued compensation and other current liabilities	(2,902)	(1,056)
Deferred revenue	(2,929)	(2,107)
Other long-term liabilities	(50)	(217)
Net cash used in operating activities	(28,342)	(11,488)
Cash flows provided by investing activities:		
Purchases of short-term investments	(15,879)	(19,886)
Proceeds from maturities of short-term investments	20,000	24,000
Purchases of property and equipment	(110)	(110)
Proceeds for discontinued operations	—	1,000
Net cash provided by investing activities	4,011	5,004
Cash flows provided by financing activities:		
Issuance of common stock under employee stock purchase plan	175	128
Exercise of stock options	443	1,677
Net cash provided by financing activities	618	1,805
Net decrease in cash and cash equivalents	(23,713)	(4,679)
Cash and cash equivalents:		
Beginning of period	56,865	25,013
End of period	$33,152	$20,334
Supplemental disclosure of cash flow information		
Cash paid (received) for taxes	$111	$(473)
Supplemental disclosure of noncash operating, investing, and financing activities		
Amounts accrued for property and equipment	$3	$8
Release of Restricted Stock Units and Awards under company stock plan	$2,451	$1,945

See accompanying Notes to Condensed Consolidated Financial Statements.

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IMMERSION CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Immersion Corporation (the “Company”) was incorporated in 1993 in California and reincorporated in Delaware in 1999. The Company focuses on the creation, design, development, and licensing of innovative haptic technologies that allow people to use their sense of touch more fully as they engage with products and experience the digital world around them. The Company has adopted a “hybrid” business model, under which it provides advanced tactile software, related tools, and technical assistance to certain customers; and offers licenses to the Company's patented intellectual property (“IP”) to other customers.

Principles of Consolidation and Basis of Presentation

The condensed consolidated financial statements include the accounts of Immersion Corporation and its wholly-owned subsidiaries: Immersion Canada Corporation; Immersion International, LLC; Immersion Medical, Inc.; Immersion Japan K.K.; Immersion Ltd.; Immersion Software Ireland Ltd.; Haptify, Inc.; Immersion (Shanghai) Science & Technology Company, Ltd.; and Immersion Technology International Ltd. All intercompany accounts, transactions, and balances have been eliminated in consolidation.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all information and footnotes necessary for a complete presentation of the financial position, results of operations, and cash flows, in conformity with GAAP. These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements included in the Company’s Annual Report on Form 10-K, for the fiscal year ended December 31, 2016. In the opinion of management, all adjustments consisting of only normal and recurring items necessary for the fair presentation of the financial position and results of operations for the interim periods presented have been included.

The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year.

Segment Information

The Company develops, licenses, and supports a wide range of software and IP that more fully engage users’ sense of touch as they engage with products and experience the digital world around them. The Company currently focuses on the following target application areas: mobility, automotive, gaming, medical and mobile advertising. The Company’s chief operating decision maker (“CODM”) is the Chief Executive Officer. The CODM allocates resources to and assesses the performance of the Company using information about its financial results as one operating and reporting segment.

Revenue Recognition

The Company recognizes revenues in accordance with applicable accounting standards, including ASC 605-10-S99, “Revenue Recognition” (“ASC 605-10-S99”); ASC 605-25, “Multiple Element Arrangements” (“ASC 605-25”), and ASC 985-605, “Software-Revenue Recognition” (“ASC 985-605”). The Company derives its revenues from two principal sources: royalty and license fees, and development contract and service fees. As described below, management judgments, assumptions, and estimates must be made and used in connection with the revenue recognized in any accounting period. Material differences may result in the amount and timing of revenue for any period based on the judgments and estimates made by management. Specifically, in connection with each transaction, the Company must evaluate whether: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable, and (iv) collectability is probable. The Company applies these criteria as discussed below.

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- Persuasive evidence of an arrangement exists. For a license arrangement, the Company requires a written contract, signed by both the customer and the Company.
- Delivery has occurred. The Company delivers software electronically. Delivery occurs when the Company provides the customer access codes or “keys” that allow the customer to take immediate possession of the software.
- The fee is fixed or determinable. The Company’s arrangement fee is based on the use of standard payment terms, which are those that are generally offered to the majority of customers. For transactions involving extended payment terms, the Company deems these fees not to be fixed or determinable for revenue recognition purposes and revenue is deferred until the fees become due and payable.
- Collectability is probable. To recognize revenue, the Company must judge collectability of fees, which is done on a customer-by-customer basis pursuant to the Company’s credit review policy. The Company typically sells to customers with whom there is a history of successful collection. For new customers, the Company evaluates the customer’s financial condition and ability to pay. If it is determined that collectability is not probable based upon the credit review process or the customer’s payment history, revenue is recognized when payment is received.

Royalty and license revenue — The Company licenses its patents and software to customers in a variety of industries such as mobility, gaming, automotive, and medical devices. Revenues that are derived from the sale of a licensee's products that incorporate the Company’s IP are classified as royalty revenues. The terms of the royalty agreements generally require licensees to give notification of royalties due to the Company within 30 – 45 days of the end of the quarter during which their related sales occur. As the Company is unable to reliably estimate the licensees’ sales in any given quarter to determine the royalties due to it, the Company recognizes royalty revenues based on royalties reported by licensees and when all revenue recognition criteria are met. Certain royalties could be subject to change and may result in out of period adjustments depending on the specific terms of the arrangement. The Company also enters into fixed license fee arrangements. The Company recognizes fixed license fee revenue when earned under the terms of the agreements, which generally results in recognition on a straight-line basis over the expected term of the license.

Development, services, and other revenue — Development, services, and other revenue are composed of engineering services (engineering services and/or development contracts), and in limited cases, post contract customer support (“PCS”). Engineering services revenues are recognized under the proportional performance accounting method based on the completion of the work to be performed or completed performance method. A provision for losses on contracts is made, if necessary, in the period in which the loss becomes probable and can be reasonably estimated. Revisions in estimates are reflected in the period in which the conditions become known. To date, such losses have not been significant. Revenue from PCS is typically recognized over the period of the ongoing obligation, which is generally consistent with the contractual term.

Multiple element arrangements — The Company enters into multiple element arrangements in which customers purchase time-based non-exclusive licenses that cannot be resold to others, which include a combination of software and/or IP licenses, engineering services, and in limited cases PCS. For arrangements that are software based with an engineering services component, the services are generally not essential to the functionality of the software, and customers may purchase engineering services from the Company to facilitate the adoption of the Company’s technology, but they may choose to use their own resources or appoint other engineering service organizations to perform these services. For arrangements that are in substance subscription arrangements, the entire arrangement fee is recognized ratably over the contract term, subject to any limitations related to extended payment terms. For arrangements involving upfront fees for services and royalties earned by the Company based on units sold or sales volumes of the respective licensed products, and the services are performed ratably over the arrangement or are front-end loaded, the upfront fees are recognized ratably over the contract term, and royalties based on units sold or sales volume are recognized when they become fixed and determinable. As the Company is unable to reliably estimate the licensees’ sales in any given quarter to determine the royalties due to it, the Company recognizes per unit or sales volume driven royalty revenues based on royalties reported by licensees and when all revenue recognition criteria are met.

Recent Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-09 "Stock Compensation: Scope of Modification Accounting". The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2017. The Company will adopt the standard in the first quarter of fiscal 2018, but does not expect the adoption of ASU 2016-19 will have a material impact on its condensed consolidated financial statements.

In December 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-19 "Technical Corrections and Improvements". The amendments in this update affect a wide variety of topics in the

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Accounting Standards Codification. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods in the annual period beginning after December 15, 2018. The Company will adopt the standard in the first quarter of fiscal 2018, but does not expect the adoption of ASU 2016-19 will have a material impact on its condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 “Leases: Topic 842” (“ASU 2016-02”), which supersedes the existing guidance for lease accounting in Topic 840, Leases. The FASB issued the ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 requires lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting remains largely unchanged. This ASU is effective for periods beginning after December 15, 2018, with early adoption permitted. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently in the process of evaluating the impact of this standard on its condensed consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09 “Revenue from Contracts with Customers: Topic 606” (“ASU 2014-09”) which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Further, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. In August 2015, the FASB issued ASU 2015-14 “Revenue from Contracts with Customers: Deferral of the Effective Date”, which deferred the effective date of ASU 2014-09 for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. In March 2016, the FASB issued ASU 2016-08 "Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations" ("ASU 2016-08") which provides updates to revenue recognition guidance relating to considerations for reporting revenue gross versus net. In April 2016, the FASB issued ASU 2016-10 "Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing" ("ASU 2016-10"), which provides updates to revenue recognition guidance relating to performance obligations and accounting for licensing revenue. In May 2016, the FASB issued ASU 2016-12 "Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients" ("ASU 2016-12") which provides updates to revenue recognition guidance relating to scope and practical expedients for revenue recognition. In December 2016, the FASB issued ASU 2016-20 "Technical Corrections and Improvements to Topic 606" ("ASU 2016-20") which further provides updates to certain aspects of the revenue recognition guidance. Accordingly, ASU 2014-09, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20 amends certain aspects of the new revenue standard in ASU 2014-09. The amendments may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). The Company currently anticipates adopting the standard using the modified retrospective method rather than full retrospective method. The Company has not elected for early adoption of the new standard and will adopt it as of January 1, 2018.

The Company has made progress toward completing its evaluation of the potential changes and impact this ASU and related amendments and interpretations will have on its financial reporting and disclosures. The Company is continuing its evaluation of the impact of the standard on its revenue streams and associated contracts and to validate the results. The Company also expects to complete the evaluation of the impact of the accounting and disclosure changes on its business processes, controls and systems throughout 2017, design any changes to such business processes, controls and systems, and implement the changes before the end of 2017.

The Company's revenue is primarily comprised of per-unit royalty revenue and fixed fee license revenue. Based on its current analysis, the Company expects a shift in the method and timing by which it recognizes per-unit royalty revenue. In accordance with current GAAP, the Company records this revenue when royalty reports are received from its customers (typically one quarter in arrears); however, under the new standard, the Company will be required to estimate the amount of this revenue in the quarter when the sales occur. As a result, there will be variances between the estimated per-unit royalty revenue and that based on the actual sales reported by its customers. The Company is still evaluating the impact of this ASU and related amendments and interpretations will have on its fixed fee license revenue and future agreements.

2. FAIR VALUE MEASUREMENTS

Cash Equivalents and Short-term Investments

The financial instruments of the Company measured at fair value on a recurring basis are cash equivalents and short-term investments.

The Company's fixed income available-for-sale securities consist of high quality, investment grade securities. The Company values these securities based on pricing from pricing vendors, who may use quoted prices in active markets for

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identical assets (Level 1) or inputs other than quoted prices that are observable either directly or indirectly (Level 2) in determining fair value.

The types of instruments valued based on quoted market prices in active markets include money market accounts. Such instruments are generally classified within Level 1 of the fair value hierarchy.

The types of instruments valued based on quoted prices in markets that are less active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency are generally classified within Level 2 of the fair value hierarchy and include U.S. treasury securities.

The types of instruments valued based on unobservable inputs which reflect the reporting entity's own assumptions or data that market participants would use in valuing an instrument are generally classified within Level 3 of the fair value hierarchy. The Company had no Level 3 instruments as of June 30, 2017 and December 31, 2016.

Financial instruments measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 are classified based on the valuation technique in the table below:

	June 30, 2017			
	Fair value measurements using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In thousands)			
Assets:				
U.S. Treasury securities	$—	$ 28,863	$ —	$28,863
Money market accounts	16,096	—	—	16,096
Total assets at fair value	$16,096	$ 28,863	$ —	$44,959

The above table excludes $17.1 million of cash held in banks.

	December 31, 2016			
	Fair value measurements using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In thousands)			
Assets:				
U.S. Treasury securities	$—	$ 32,907	$ —	$32,907
Money market accounts	32,031	—	—	32,031
Total assets at fair value	$32,031	$ 32,907	$ —	$64,938

The above table excludes $24.8 million of cash held in banks.

U.S. Treasury securities are classified as short-term investments, and money market accounts are classified as cash equivalents on the Company's condensed consolidated balance sheets.

Short-term Investments

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	June 30, 2017			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	$28,894	$ —	$ (31)	$28,863
Total	$28,894	$ —	$ (31)	$28,863

	December 31, 2016			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	$32,914	$ —	$ (7)	$32,907
Total	$32,914	$ —	$ (7)	$32,907

The contractual maturities of the short-term investments (classified as available-for-sale securities) on June 30, 2017 and December 31, 2016 were all due within one year. There were no transfers of instruments between Level 1 and 2 during the three and six months ended June 30, 2017 and the year ended December 31, 2016.

3. ACCOUNTS AND OTHER RECEIVABLES

	June 30, 2017	December 31, 2016
	(In thousands)	
Trade accounts receivable	$2,931	$ 1,084
Receivables from vendors and other	404	298
Accounts and other receivables	$3,335	$ 1,382

4. PROPERTY AND EQUIPMENT

	June 30, 2017	December 31, 2016
	(In thousands)	
Computer equipment and purchased software	$3,539	$ 3,489
Machinery and equipment	866	882
Furniture and fixtures	1,295	1,290
Leasehold improvements	3,969	3,917
Total	9,669	9,578
Less accumulated depreciation	(6,031)	(5,562)
Property and equipment, net	$3,638	$ 4,016

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5. INTANGIBLES AND OTHER ASSETS

	June 30, 2017	December 31, 2016
	(In thousands)	
Purchased patents and other purchased intangible assets	$4,605	$ 4,605
Less: Accumulated amortization of purchased patents and other purchased intangibles	(4,605)	(4,605)
Purchased patents and other purchased intangible assets, net	—	—
Other assets	363	365
Intangibles and other assets, net	$363	$ 365

The Company amortizes its intangible assets related to purchased patents over their estimated useful lives, generally 10 years from the purchase date. The Company recorded no amortization of purchased patents during the three and six months ended June 30, 2017 as the purchased patents were fully amortized in 2016. The Company recorded $2,000 and $5,000 in amortization of purchased patents during the three and six months ended June 30, 2016, respectively.

6. OTHER CURRENT LIABILITIES

	June 30, 2017	December 31, 2016
	(In thousands)	
Accrued legal	$2,378	$ 3,096
Accrued services	502	473
Income taxes payable	292	164
Other current liabilities	714	676
Total other current liabilities	$3,886	$ 4,409

7. STOCK-BASED COMPENSATION

Stock Options and Awards

The Company’s equity incentive program is a long-term retention program that is intended to attract, retain, and provide incentives for talented employees, consultants, officers, and directors and to align stockholder and employee interests. The Company may grant time based options, market condition based options, stock appreciation rights, restricted stock, restricted stock units (“RSUs”), performance shares, performance units, and other stock-based or cash-based awards to employees, officers, directors, and consultants. Under this program, stock options may be granted at prices not less than the fair market value on the date of grant for stock options. These options generally vest over four years and expire from seven to ten years from the date of grant. In addition to time based vesting, market condition based options are subject to a market condition: the closing price of the Company stock must exceed a certain level for a number of trading days within a specified timeframe or the options will be cancelled before the expiration of the options. On June 2, 2017, the Company's stockholders approved an increase to the number of shares reserved for issuance by 3,476,850 shares. Restricted stock generally vests over one year. RSUs generally vest over three years. Awards granted other than an option or stock appreciation right reduce the common stock shares available for grant under the program by 1.75 shares for each share issued.

	June 30, 2017
Common stock shares available for grant	2,907,654
Standard and market condition stock options outstanding	3,879,034
Restricted stock awards outstanding	44,538
RSU's outstanding	641,320

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan (“ESPP”). Under the ESPP, eligible employees may purchase common stock through payroll deductions at a purchase price of 85% of the lower of the fair market value of the Company’s common stock at the beginning of the offering period or the purchase date. Participants may not purchase more than 2,000 shares in a six-month offering period or purchase stock having a value greater than $25,000 in any calendar year as

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measured at the beginning of the offering period. A total of 1,000,000 shares of common stock has been reserved for issuance under the ESPP. As of June 30, 2017, 677,050 shares had been purchased since the inception of the ESPP in 1999. Under ASC 718-10, the ESPP is considered a compensatory plan and the Company is required to recognize compensation cost related to the fair value of the award purchased under the ESPP. Shares purchased under the ESPP for the six months ended June 30, 2017 are listed below. Shares purchased under the ESPP for the six months ended June 30, 2016 are 17,711. The intrinsic value listed below is calculated as the difference between the market value on the date of purchase and the purchase price of the shares.

	Six Months Ended June 30, 2017
Shares purchased under ESPP	27,667
Average price of shares purchased under ESPP	$6.34
Intrinsic value of shares purchased under ESPP	$109,000

Summary of Standard Stock Options

The following table sets forth the summary of activity with respect to standard stock options granted under the Company's stock option plans for the six months ended June 30, 2017:

	Six Months Ended June 30, 2017
Beginning outstanding balance	3,421,121
Granted	262,338
Exercised	(58,023)
Forfeited	(56,724)
Expired	(35,508)
Ending outstanding balance	3,533,204
Aggregate intrinsic value of options exercised	$134,000
Weighted average fair value of options granted	3.98

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the exercise price of the Company's common stock for the options that were in-the-money.

Information regarding these standard stock options outstanding at June 30, 2017 is summarized below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in millions)
June 30, 2017				
Options outstanding	3,533,204	$ 8.47	3.73	$ 4.8
Options vested and expected to vest using estimated forfeiture rates	3,358,207	8.45	3.62	4.7
Options exercisable	2,388,508	8.31	2.84	4.0

Summary of Market Condition Based Stock Options

The following table sets forth activity with respect to market condition based stock options granted under the Company's stock option plans for the six months ended June 30, 2017:

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	Six Months Ended June 30, 2017
Beginning outstanding balance	225,000
Granted	120,830
Exercised	—
Canceled	—
Ending outstanding balance	345,830
Aggregate intrinsic value of options exercised	$ —

Information regarding these market condition based stock options outstanding at June 30, 2017 is summarized below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in millions)
June 30, 2017				
Options outstanding	345,830	$ 8.48	5.67	$ —
Options vested and expected to vest using estimated forfeiture rates	318,584	8.47	5.62	—
Options exercisable	84,375	8.09	4.67	—

Summary of Restricted Stock Units

RSU activity for the six months ended June 30, 2017 was as follows:

	Six Months Ended June 30, 2017
Beginning outstanding balance	427,192
Awarded	431,015
Released	(173,058)
Forfeited	(43,829)
Ending outstanding balance	641,320
Weighted average grant date fair value of RSUs granted	$ 8.47
Total fair value of RSUs released	1,781,000

Information regarding RSUs outstanding at June 30, 2017 is summarized below:

	Number of Shares	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in millions)
June 30, 2017			
RSUs outstanding	641,320	1.62	$ 5.8
RSUs vested and expected to vest using estimated forfeiture rates	498,283	1.51	4.5

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Summary of Restricted Stock Awards

Restricted stock award activity for the six months ended June 30, 2017 was as follows:

	Six Months Ended June 30, 2017
Beginning outstanding balance	77,540
Awarded	44,538
Released	(77,540)
Forfeited	—
Ending outstanding balance	44,538
Weighted average grant date fair value of restricted stock awarded	$ 8.65
Total fair value of restricted stock awards released	671,000

Stock Plan Assumptions

The assumptions used to value option grants under the Company's stock plans were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Standard Stock Options				
Expected life (in years)	4.6	4.5	4.5	4.5
Volatility	53 %	55 %	53 %	55 %
Interest rate	1.7 %	1.1 %	1.7 %	1.2 %
Dividend yield	N/A	N/A	N/A	N/A

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Market Condition Based Stock Options				
Expected life (in years)	7.0	N/A	7.0	7.0
Volatility	55 %	N/A	55 %	59 %
Interest rate	2.0 %	N/A	2.0 %	1.6 %
Dividend yield	N/A	N/A	N/A	N/A

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Employee Stock Purchase Plan				
Expected life (in years)	N/A	N/A	0.5	0.5
Volatility	N/A	N/A	50 %	53 %
Interest rate	N/A	N/A	0.7 %	0.5 %
Dividend yield	N/A	N/A	N/A	N/A

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Compensation Costs

Total stock-based compensation recognized in the condensed consolidated statements of operations and comprehensive loss is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Statement of Operations Classifications				
Sales and marketing	$281	$332	$491	$560
Research and development	213	258	549	784
General and administrative	684	665	1,695	2,245
Total	$1,178	$1,255	$2,735	$3,589

As of June 30, 2017, there was $8.3 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock options, restricted stock awards and RSUs granted to the Company's employees and directors. This cost will be recognized over an estimated weighted-average period of approximately 2.45 years for standard options, 2.58 years for market condition based options, 2.60 years for RSUs, and 0.92 years for restricted stock awards. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

8. STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income are included in the table below.

	Six Months Ended June 30, 2017		
	Unrealized Gains and Losses on Short-term Investments	Foreign Currency Items	Total
	(In thousands)		
Beginning balance	$(7)	$ 122	$115
Other comprehensive income before reclassifications	(24)	—	(24)
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net current period other comprehensive income	(24)	—	(24)
Ending Balance	$(31)	$ 122	$91

Stock Repurchase Program

On November 1, 2007, the Company announced its Board of Directors (the "Board")' authorized the repurchase of up to $50.0 million of the Company's common stock ("Stock Repurchase Program"). In addition, on October 22, 2014, the Board authorized another $30.0 million under the share repurchase program. The Company may repurchase its common stock for cash in the open market in accordance with applicable securities laws. The timing and amount of any stock repurchase will depend on share price, corporate and regulatory requirements, economic and market conditions, and other factors. The stock repurchase authorization has no expiration date, does not require the Company to repurchase a specific number of shares, and may be modified, suspended, or discontinued at any time.

There were no stock repurchases during the three and six months ended June 30, 2017 and 2016. As of June 30, 2017, the Stock Repurchase Program remains available with approximately $33.7 million that may yet be purchased under the program.

9. DISCONTINUED OPERATIONS

During the year ended December 31, 2009, the Company sold its 3D product line including inventory, fixed assets, and intangibles and recorded gains on the sale of discontinued operations of $187,000 at the time of the sales. Total initially negotiated

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consideration for the sales was $2.7 million which comprised $320,000 in cash paid in the year ended December 31, 2009 and notes receivable of $2.4 million which were payable through the year ended December 31, 2013. Given the inherent uncertainty relative to the credit worthiness of the buyers, the Company concluded that they would recognize income from the notes receivable as proceeds received. The operations of the 3D product line were classified as discontinued operations in the period of the initial sales transactions. During the three and six months ended June 30, 2016, a final settlement payment of $1.0 million was received relative to these sales resulting in $649,000 of income from discontinued operations, net of tax of $351,000. There were no discontinued operations for the three and six months ended June 30, 2017.

10. INCOME TAXES

Income tax provisions consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Loss from continuing operations before benefit (provision) for income taxes	$(14,746)	$(9,528)	$(27,459)	$(13,924)
Benefit (provision) for income taxes	(99)	3,323	(251)	5,024
Effective tax rate	(0.7)%	34.9%	(0.9)%	36.1%

The provision for income tax for the three and six months ended June 30, 2017 resulted primarily from estimated foreign taxes and foreign withholding tax expense. The Company continues to carry a full valuation allowance on its federal deferred tax assets. As a result, no benefit for U.S. sourced losses was included in the calculation of the effective tax rate, the primary reason for the difference between the statutory tax rate and effective tax rate. The benefit for income tax for the three months ended June 30, 2016 resulted primarily from the Company's federal and foreign tax recognized at statutory rates, adjusted for the tax impact of nondeductible permanent items including stock-based compensation and foreign withholding taxes. The benefit for income tax for the three and six months ended June 30, 2016 also includes non-cash tax expense on intercompany profit that resulted from the sale of certain IP rights to one of the Company's foreign subsidiaries as part of the Company's reorganization of its international operations during the second half of 2015. Discrete items recognized for the six months ended June 30, 2016 include a tax refund related to the settlement with a taxing authority and the release of certain reserves and related accrued interest.

In October 2016, the FASB issued ASU 2016-16 "Income Taxes: Topic 740, Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16") which simplifies certain aspects of the income tax accounting for Intra-Entity Transfers of Assets. Under current GAAP, the tax effects of intra-entity asset transfers (intercompany sales) are deferred until the transferred asset is sold to a third party or otherwise recovered through use. This is an exception to the principle in ASC 740, Income Taxes, that generally requires comprehensive recognition of current and deferred income taxes. ASU 2016-16 allows a reporting entity to recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. The standard will be effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted only in the first interim period of 2017. The Company has elected to early adopt ASU 2016-16 at the beginning of the first quarter of 2017 for the benefit of simplifying its accounting for intra-entity asset transfers. As required by the FASB in adopting the new standard, the company applied the ASU on a modified retrospective basis which resulted in a cumulative-effect adjustment to the accumulated deficit as of January 1, 2017 for the recognition of the income tax consequences of intra-entity transfers that occurred prior to January 1, 2017. As such, previously issued balance sheets have not been retrospectively adjusted. The adoption resulted in the decrease of $7.0 million in the Company's short-term and long-term prepaid income taxes and a corresponding increase to the accumulated deficit on the Company's condensed consolidated balance sheet as of January 1, 2017.

On July 27, 2015, a U.S. Tax Court opinion (Altera Corporation et. al v. Commissioner) concerning the treatment of stock-based compensation expense in an intercompany cost sharing arrangement was issued. In its opinion, the U.S. Tax Court accepted Altera's position of excluding stock-based compensation from its intercompany cost sharing arrangement. On February 19, 2016, the IRS appealed the ruling to the U.S. Court of Appeals for the Ninth Circuit. Although the IRS has appealed the decision, based on the findings of the U.S. Tax Court, the Company has concluded that it is more likely than not that the decision will be upheld and accordingly has excluded stock-based compensation from intercompany charges during the period. The Company will continue to monitor ongoing developments and potential impacts to its condensed consolidated financial statements.

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As of June 30, 2017, the Company had unrecognized tax benefits under ASC 740 "Income Taxes" of approximately $6.3 million and applicable interest of $6,000. The total amount of unrecognized tax benefits that would affect the Company's effective tax rate, if recognized, was $97,000. The Company's policy is to account for interest and penalties related to uncertain tax positions as a component of income tax provision. We do not expect to have any significant changes to unrecognized tax benefits during the next twelve months.

As of June 30, 2017, the Company had net deferred income tax assets of $437,000 consisting primarily of foreign net operating loss carryforwards, and deferred income tax liabilities of $34,000. Because the Company had net operating loss and credit carryforwards, there are open statutes of limitations in which federal, state, and foreign taxing authorities may examine the Company's tax returns for all years from 1998 through the current period.
The Company maintains a valuation allowance of $42.2 million against certain of its deferred tax assets, including all federal, state, and certain foreign deferred tax assets as a result of uncertainties regarding the realization of the asset balance due to historical losses, the variability of operating results, and uncertainty regarding near term projected results. In the event that the Company determines the deferred tax assets are realizable based on its assessment of relevant factors, an adjustment to the valuation allowance may increase income in the period such determination is made. The valuation allowance does not impact the Company's ability to utilize the underlying net operating loss carryforwards.
In March 2016, the FASB issued ASU 2016-09 "Compensation - Stock Compensation: Topic 718" ("ASU 2016-09") which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification in the statement of cash flows. The standard is effective for periods beginning after December 15, 2016, with early adoption permitted. The Company elected to adopt ASU 2016-09 on a prospective basis beginning in the first quarter of 2017. Upon adoption, the "without" basis NOL deferred tax asset was adjusted for historical excess benefits to match the "with" basis NOL deferred tax asset, offset by the full valuation allowance. Subsequent to the adoption, all stock option activities will be accounted for discretely in the quarter that occur. However, due to the full valuation allowance on our federal deferred tax assets, no excess benefits have been reported discretely. As permitted by the ASU, the Company will continue to use an estimated forfeiture rate in calculating stock based compensation expense.

11. NET LOSS PER SHARE

Basic and diluted net loss per share is computed using the weighted average number of common shares outstanding for the period, excluding unvested restricted stock and RSUs. The following is a reconciliation of the numerators and denominators used in computing basic and diluted net loss per share for both continuing and discontinued operations:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(in thousands, except per share amounts)			
Numerator:				
Loss from continuing operations	$(14,845)	$(6,205)	$(27,710)	$(8,900)
Income from discontinued operations, net of tax	—	649	—	649
Net loss	$(14,845)	$(5,556)	$(27,710)	$(8,251)
Denominator:				
Shares used in computation of basic and diluted net loss per share (weighted average common shares outstanding)	29,193	28,834	29,109	28,663
Basic and diluted net loss per share:				
Continuing operations	(0.51)	(0.22)	(0.95)	(0.31)
Discontinued operations	—	0.02	—	0.02

Total	$(0.51)	$(0.20)	$(0.95)	$(0.29)

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The Company includes the underlying market condition stock options in the calculation of diluted earnings per share if the performance condition has been satisfied as of the end of the reporting period and excludes such options if the performance condition has not been met.

As of June 30, 2017 and 2016, the Company had securities outstanding that could potentially dilute basic earnings per share in the future, but these were excluded from the computation of diluted net loss per share for the three and six months ended June 30, 2017 and 2016, since their effect would have been anti-dilutive. These outstanding securities consisted of the following:

	June 30,	
	2017	2016
Standard and market condition stock options outstanding	3,879,034	3,521,481
Restricted stock awards outstanding	44,538	77,540
RSUs outstanding	641,320	510,234
ESPP	22,604	27,670

12. CONTINGENCIES

From time to time, the Company receives claims from third parties asserting that the Company’s technologies, or those of its licensees, infringe on the other parties’ IP rights. Management believes that these claims are without merit. Additionally, periodically, the Company is involved in routine legal matters and contractual disputes incidental to its normal operations. In management’s opinion, the resolution of such matters will not have a material adverse effect on the Company’s condensed consolidated financial condition, results of operations, or liquidity.

In the normal course of business, the Company provides indemnification of varying scope to customers, most commonly to licensees in connection with licensing arrangements that include our IP, although these provisions can cover additional matters. Historically, costs related to these guarantees have not been significant, and the Company is unable to estimate the maximum potential impact of these guarantees on its future results of operations.

On April 28, 2017, the Company received a letter from Samsung requesting that the Company reimburse Samsung with respect to withholding tax and penalties imposed on Samsung by the Korean tax authorities. The Company has filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes and penalties. The Company does not believe it is probable that it has an obligation related to this matter and intends to vigorously defend this matter against Samsung.

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

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The forward-looking statements involve risks and uncertainties. Forward-looking statements are identified by words such as "anticipates," "believes," "expects," "intends," "may," "will," "places," and other si expressions. However, these words are not the only way we identify forward-looking statements. In addition, any statements, which refer to expectations, projections, or other characterizations of future events, or circumstances, are forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, including those set forth below in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors", those described elsewhere in this report, and those described in our other reports filed with the SEC. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report, and we undertake no obligation to update these forward-looking statements after the filing of this report. You are urged to review carefully and consider our various disclosures in this report and in our other reports publicly disclosed or filed with the SEC that attempt to advise you of the risks and factors that may affect our business.

OVERVIEW

We are a premier licensing company focused on the creation, design, development, and licensing of innovative haptic technologies that allow people to use their sense of touch more fully as they engage with products and experience the digital world around them. Our mission is to innovate touch technology that informs, humanizes, and excites while working with customers and partners to bring these tactile experiences to consumers. Our technologies are designed to facilitate the creation of high-quality haptic experiences, enable their widespread distribution, and ensure that their playback is optimized for end users. Our primary business is currently in the mobility, gaming, automotive and medical markets, but we believe our technology is broadly applicable and see opportunities in evolving new markets, including entertainment, social and advertising content, virtual and augmented reality, and wearables.

We have adopted a hybrid business model, under which we provide advanced tactile software, related tools, and technical assistance designed to help integrate our patented technology into our customers' products or enhance the functionality of our patented technology, and offer licenses of our patented technology to our customers. Our licenses allow our customers to deploy haptically-enabled devices, content and other offerings, which they typically sell under their own brand names. We and our wholly-owned subsidiaries hold more than 2,400 issued or pending patents worldwide, covering a wide range of digital technologies and including many of the ways in which touch-related technology can be incorporated into and between hardware products and components, systems software, application software, and digital content.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including those related to revenue recognition, stock-based compensation, income taxes, contingencies, and litigation. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions.

Our critical accounting policies and estimates are important to the portrayal of our financial condition and results of operations, and require us to make judgments and estimates about matters that are inherently uncertain. There have been no material changes during the six months ended June 30, 2017 to the items we disclosed as our critical accounting policies and estimates in our Management Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

Overview

Total revenue decreased by $834,000, or 11%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The decrease in total revenue was primarily related to decreases of $1.2 million from gaming licensees and $316,000 from medical licensees. These decreases were partially offset by increases of $522,000 from automotive licensees and $141,000 from our mobility licensees.

Total revenue decreased by $5.2 million, or 24%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The decrease in total revenue was primarily related to decreases of $3.8 million from medical licensees, $1.3 million from gaming licensees, and $729,000 from mobility licensees. This was partially offset by an increase of $703,000 from automotive licensees.

Net loss was $14.8 million for the three months ended June 30, 2017 compared to a net loss of $5.6 million for the three months ended June 30, 2016. The $9.3 million increase in net loss was primarily caused by an increase of operating expenses of $4.5 million mainly driven by higher legal expense from our continuing efforts to protect and preserve our IP including litigation against Apple and AT&T Mobility. The increased net loss also resulted from the $99,000 income tax provision for the second quarter of 2017 versus $3.3 million income tax benefit for the second quarter of 2016, and a decrease of $834,000 in total revenue.

Net loss was $27.7 million for the six months ended June 30, 2017 compared to a net loss of $8.3 million for the six months ended June 30, 2016. The $19.4 million increase in net loss was primarily caused by increased operating expenses of $8.4 million mainly driven by higher legal expenses from our continuing efforts to protect and preserve our IP including litigation against Apple and AT&T Mobility. The increased net loss also resulted from the $251,000 income tax provision for the six months ended June 30, 2017 versus $5.0 million income tax benefit for the six months ended June 30, 2016, a decrease of $5.2 million in total revenue, and a decrease of income from discontinued operations of $649,000 recognized in the first half of 2016 that did not recur in 2017.

REVENUES	June 30, 2017	June 30, 2016	Change	% Change
	(In thousands)			
Three months ended:				
Royalty and license	$6,785	$7,615	$(830)	(11)%
Development, services, and other	245	249	(4)	(2)%
Total Revenues	$7,030	$7,864	$(834)	(11)%
Six months ended:				
Royalty and license	$15,791	$21,063	$(5,272)	(25)%
Development, services, and other	463	424	39	9 %
Total Revenues	$16,254	$21,487	$(5,233)	(24)%

Total Revenues - Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Royalty and license revenue — Royalty and license revenue is composed of variable royalties earned based on usage by licensees and fixed payment license fees charged for our IP and software. Royalty and license revenue for the three months ended June 30, 2017 was $6.8 million, a decrease of $830,000, or 11%, compared to $7.6 million for the three months ended June 30, 2016.

Variable royalty revenue decreased by $639,000, or 11%, from $5.6 million for the three months ended June 30, 2016 to $5.0 million for the three months ended June 30, 2017. The decrease was primarily caused by decreased volume from our gaming customers.

Fixed payment license revenue decreased by $191,000, or 10%, from $2.0 million for the three months ended June 30, 2016 to $1.8 million for the three months ended June 30, 2017. The decrease was primarily a result of decreased license revenue from gaming and medical licensees, partially offset by increased license fees from automotive customers.

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Royalty and license revenue from mobility customers increased by 5%, primarily due to increased royalties from our mobility chip customers partially offset by decreased royalty revenue from mobility OEM customers due to reduced shipment volume. We anticipate that our mobility business will continue to be a primary revenue stream, but it will fluctuate as a result of the outcomes of various litigations we have instituted and may in the future institute to enforce our IP rights, the timing of introducing new products with our technology into the market, and the recognition by mobile OEMs of the relevance of our IP. See Part II, Item 1. Legal Proceedings.
Royalty and license revenue from gaming customers decreased by 40%, primarily reflecting the absence of royalties from Sony. These decreases were partially offset by increased license fees from new gaming customers. Revenue from gaming customers can fluctuate based upon the shift of consumer preferences, the timing of introductions of new gaming console systems, the timing of new products from third party peripheral makers that are our licensees, and the recognition by gaming customers of the relevance of our IP.
Royalty and license revenue from automotive customers increased by 51%, primarily attributable to increased license fees from new customers added in the second quarter of 2017.
Royalty and license revenue from medical customers decreased by 34%, primarily due to certain medical license contracts that expired in 2016.
We expect royalty and license revenue to continue to be a major component of our future revenue as our technology is included in products and we succeed in our efforts to monetize our IP. We typically experience seasonally higher royalty revenue from our gaming and mobility customers due to the reporting of holiday sales in the first calendar quarter compared to other calendar quarters. We anticipate that our gaming royalty and license revenue will continue to decline until we are successful in proving the relevance of our IP. We anticipate a continuous reduction in royalty and license revenue in the future from our medical customers as a percentage of our consolidated royalty and license revenue, as this line of business is a less significant portion of our overall business focus.
Geographically, revenues generated in North America, Europe, and Asia for the three months ended June 30, 2017 represented 23%, 13%, and 64%, respectively, of our total revenue as compared to 41%, 9%, and 50%, respectively, for the three months ended June 30, 2016. Revenue attributable to North America as a percentage of total revenue decreased largely due to reduced royalty and license revenue from gaming customers. Revenue attributable to Europe as a percentage of total revenue increased primarily due to increased royalty revenue from gaming customers. Revenue attributable to Asia as a percentage of total revenue increased primarily from increased license revenue from automotive and gaming, partially offset by decreased royalty revenue from mobility in Asia.
Total Revenues - Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016
Royalty and license revenue — Royalty and license revenue for the six months ended June 30, 2017 was $15.8 million, a decrease of $5.3 million, or 25%, compared to $21.1 million for the six months ended June 30, 2016.
Variable royalty revenue decreased by $2.7 million, or 19%, from $14.2 million for the six months ended June 30, 2016 to $11.5 million for the six months ended June 30, 2017. The decrease was primarily caused by decreased volume from our mobility OEM, gaming, and medical customers partially offset by increased volume from our mobility chip and automotive customers.
Fixed payment license revenue decreased by $2.6 million, or 38%, from $6.9 million for the six months ended June 30, 2016 to $4.3 million for the six months ended June 30, 2017. The decrease was primarily a result of a non-recurring medical license fee of $3.0 million recognized in the first quarter of 2016. This decrease was partially offset by increased license fees from our automotive, gaming and mobility OEM customers.
Royalty and license revenue from mobility customers decreased by 12%, primarily caused by decreased royalty revenue from mobility OEMs due to reduced shipment volume, partially offset by increased royalties from our mobility chip customers and increased license fees.
Royalty and license revenue from gaming customers decreased by 18%, primarily due to the absence of royalties from Sony, as well as reductions in shipments reported by our gaming licensees. These decreases in royalty revenue from gaming customers were partially offset by increased license revenue mainly a result of new gaming customers.

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Royalty and license revenue from medical customers decreased by 72%, primarily due to the aforementioned non-recurring license fee of $3.0 million from a medical customer recognized in 2016, combined with other decreased license fees and royalties from medical customers.

Royalty and license revenue from automotive customers increased by 37%, primarily attributable to increased license fees from new customers along with increased royalties as higher volume of royalty bearing automotive components was incorporated in the products sold by our licensees.

Geographically, revenues generated in North America, Europe, and Asia for the six months ended June 30, 2017 represented 33%, 14%, and 53%, respectively, of our total revenue as compared to 51%, 10%, and 39%, respectively, for the six months ended June 30, 2016. Revenue attributable to North America as a percentage of total revenue decreased largely due to the aforementioned non-recurring license fee of $3.0 million from a medical customer that we recognized in the first quarter of 2016 along with decreased royalty and license revenue from gaming, partially offset by increased royalty revenue from mobility in North America. Revenue attributable to Europe as a percentage of total revenue increased primarily due to increased royalty revenue from automotive. Revenue attributable to Asia as a percentage of total revenue increased primarily from increased license revenue from gaming and automotive, partially offset by decreased royalty revenue from mobility in Asia.

OPERATING EXPENSES	June 30, 2017	2016	Change	% Change
	(Dollars in thousands)			
Three months ended:				
Sales and marketing	$3,461	$3,397	$64	2 %
% of total revenue	49 %	43 %	6 %	
Research and development	$2,826	$2,966	$(140)	(5)%
% of total revenue	40 %	38 %	2 %	
General and administrative	$15,600	$11,001	$4,599	42 %
% of total revenue	222 %	140 %	82 %	
Six months ended:				
Sales and marketing	$6,766	$7,200	$(434)	(6)%
% of total revenue	42 %	34 %	8 %	
Research and development	$6,022	$7,278	$(1,256)	(17)%
% of total revenue	37 %	34 %	3 %	
General and administrative	$31,132	$21,091	$10,041	48 %
% of total revenue	192 %	98 %	94 %	

Sales and Marketing — Our sales and marketing expenses are composed primarily of employee compensation and benefits, sales commissions, advertising, trade shows, collateral marketing materials, market development funds, travel, and an allocation of facilities costs. Sales and marketing expenses for the three months ended June 30, 2017 remained the same level as the three months ended June 30, 2016. Sales and marketing expenses decreased $434,000, or 6%, for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 primarily due to $397,000 lower compensation, benefits, and other related costs. We believe that continued investment in sales and marketing is critical to our future success, and we expect to continue making targeted investments to expand market acceptance for our touch technologies and focus on content and media business.

Research and Development — Our research and development expenses are composed primarily of employee compensation and benefits, consulting fees, tooling and supplies, and an allocation of facilities costs. The decrease in research and development expenses for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 was primarily due to $266,000 lower compensation, benefits, and other related costs, partially offset by $108,000 higher consulting services reflecting redirected development efforts. The decrease in research and development expenses for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 was primarily driven by $1.3 million lower compensation, benefits, and other related costs mainly due to rebalancing efforts during the first quarter in 2016 and headcount decrease in 2017. We believe that continued investment in research and development is critical to our future success, and we

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expect to continue making targeted investments in areas of research and technology development to support future growth including our content and media business.

General and Administrative — Our general and administrative expenses are composed primarily of employee compensation and benefits; legal and professional fees; external legal costs for patents; office supplies; travel; and an allocation of facilities costs. The increase in general and administrative expenses for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 was primarily due to $4.7 million higher legal expenses, partially offset by $168,000 lower compensation, benefits, and other related costs. The increased legal expenses were primarily due to $4.1 million higher litigation expense relating to ongoing proceedings including the current litigation against Apple and AT&T Mobility, $333,000 higher licensing-related legal expenses, and $231,000 higher patent-related legal, filing, and maintenance costs. The increase in general and administrative expenses for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 was primarily due to $10.3 million higher legal expenses, partially offset by $565,000 lower compensation, benefits, and other related costs. The increased legal expenses were primarily due to $10.5 million higher litigation expense relating to ongoing proceedings including the current litigation against Apple and AT&T Mobility, $515,000 higher patent-related legal, filing, and maintenance costs, and $237,000 higher general legal expenditures. These increased legal expenses were partially offset by $943,000 lower licensing-related legal expenses. Our general and administrative expenses will continue to be significant as we continue to file, maintain, license, and enforce our IP and contractual rights, including in the current litigation against Apple and AT&T Mobility, manage our business and strategic opportunities, and defend any lawsuits brought against us or that we initiate against others to enforce our IP or contractual rights.

BENEFIT (PROVISION) FOR TAXES	June 30, 2017	2016	Change	% Change
	(Dollars in thousands)			
Three months ended:				
Benefit (provision) for income taxes	$ (99)	$ 3,323	$ (3,422)	(103)%
Loss from continuing operations before benefit (provision) for income taxes	(14,746)	(9,528)		
Effective tax rate	(0.7)%	34.9 %		
Six months ended:				
Benefit (provision) for income taxes	$ (251)	$ 5,024	$ (5,275)	(105)%
Loss from continuing operations before benefit (provision) for income taxes	(27,459)	(13,924)		
Effective tax rate	(0.9)%	36.1 %		

Benefit (provision) for Income Taxes — The provision for income tax for the three and six months ended June 30, 2017 resulted primarily from estimated foreign taxes and foreign withholding tax expense. The benefit for income tax for the three and six months ended June 30, 2016 resulted primarily from our federal and foreign tax recognized at statutory rates, adjusted for the tax impact of nondeductible permanent items including stock-based compensation and foreign withholding taxes. The 2016 benefit also included non-cash tax expense on intercompany profit that resulted from the sale of certain IP rights to one of our foreign subsidiaries as part of our reorganization of our international operations during the second half of 2015. Discrete items recognized for 2016 also included a tax refund related to the settlement with a taxing authority and the release of certain reserves and related accrued interest.

The year-over-year change in benefit (provision) for income taxes resulted primarily from the change in the loss before income tax benefit (provision), the full valuation allowance on estimated federal and state taxes in the fourth quarter of 2016, the effect of the above described reorganization, including the adoption of ASU 2016-16, and the effect of discrete items described above.

In 2017, we expect a limited cash income tax impact due to the valuation allowance described above. Based upon activity during the six months ended June 30, 2017, we continue to maintain a valuation allowance of $32.9 million against U.S. federal deferred tax assets and a valuation allowance of $9.3 million against our state and certain other foreign deferred tax assets, as there was not sufficient evidence to support the release of such valuation allowances as of June 30, 2017. The establishment of a valuation allowance has no effect on our ability to use the deferred tax assets in the future to reduce cash tax payments when taxable income is reported. As required by U.S. GAAP, we will continue to assess the likelihood that the deferred tax assets

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will be realizable at each reporting period and the valuation allowance will be adjusted accordingly, which could materially affect our financial position and results of operations.

We also maintain liabilities for uncertain tax positions. As of June 30, 2017, we had unrecognized tax benefits under ASC 740 "Income Taxes" of approximately $6.3 million and applicable interest of $6,000. The total amount of unrecognized tax benefits that would affect our effective tax rate, if recognized, is $97,000.

DISCONTINUED OPERATIONS

Discontinued Operations - Income from discontinued operations, net of taxes, of $649,000 in the three and six months ended June 30, 2016 is related to a final payment received from the sales of the 3D product line that occurred in 2009. There was no income from discontinued operations in the first half of 2017.

LIQUIDITY AND CAPITAL RESOURCES

Our cash, cash equivalents, and short-term investments consist primarily of money market funds and treasury bills and government agency securities. All of our short-term investments are classified as available-for-sale. The securities are stated at market value, with unrealized gains and losses reported as a component of accumulated other comprehensive income within stockholders' equity.

On June 30, 2017, our cash, cash equivalents, and short-term investments totaled $62.0 million, a decrease of $27.8 million from $89.8 million on December 31, 2016.

Cash used in operating activities

Net cash used in operating activities was $28.3 million during the six months ended June 30, 2017 compared to $11.5 million cash used in operating activities during the six months ended June 30, 2016. The $16.8 million increase was primarily due to $19.5 million increase in net loss, $3.0 million increase in working capital, and $822,000 decrease in the year-over-year change in deferred revenue and customer advances. These changes were partially offset by $6.4 million decrease in the year-over-year change in deferred income taxes which reflects the full valuation allowance established in December 2016 against our deferred tax assets. Working capital is defined as current assets (excluding cash and cash equivalents) minus current liabilities. The $3.0 million increase in working capital was mainly due to an increase of $2.0 million in the year-over-year change in prepaid income tax as a result of the adoption of ASU2016-16 on January 1st, 2017, an increase of $1.5 million in the year-over-year change in accounts receivables, and a decrease of $1.8 million in the year-over-year change in accrued compensation and other current liabilities, partially offset by an increase of $2.4 million in the year-over-year change in accounts payable.

Cash provided by investing activities

Net cash provided by investing activities during the six months ended June 30, 2017 was $4.0 million, a decrease of $1.0 million compared to the $5.0 million cash provided by investing activities during the six months ended June 30, 2016. Net cash provided by investing activities during the current period consisted of maturities of short-term investments of $20.0 million, partially offset by purchases of short-term investments of $15.9 million and purchases of property, plant, and equipment of $110,000.

Cash provided by financing activities

Net cash provided by financing activities during the six months ended June 30, 2017 was $618,000, a decrease of $1.2 million compared to $1.8 million cash provided by financing activities during the six months ended June 30, 2016. Net cash provided by financing activities during the current period consisted of exercises of stock options of $443,000 and the issuance of common stock under our ESPP of $175,000.

We believe that our cash, cash equivalents, and short-term investments will be sufficient to meet our working capital needs for at least the next twelve months. Of our total cash, cash equivalents, and short-term investments of $62.0 million on June 30, 2017, 13% was held by our foreign subsidiaries and subject to repatriation tax effects. Our intent is to permanently reinvest all of our earnings from foreign operations, and current plans do not anticipate that we will need funds generated from foreign operations to fund our domestic operations. We will continue to invest in, protect, and defend our extensive IP portfolio, which is expected to result in the continued significant use of cash. At June 30, 2017, there was $33.7 million remaining under

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our previously-approved share repurchase program. We anticipate that capital expenditures for property and equipment for the year ended December 31, 2017 will be less than $1.0 million. Cash from operations could also be affected by various risks and uncertainties, including but not limited to the risks detailed in Part II, Item 1A titled “Risk Factors”. Additionally, if we acquire businesses, patents, or technology, our cash or capital requirements could increase substantially. In the event of such an acquisition, or should any unanticipated circumstances arise that significantly increase our capital requirements, we may elect to raise additional capital through debt or equity financing. Any of these events could result in substantial dilution to our stockholders. There is no assurance that such additional capital will be available on terms acceptable to us, if at all.

SUMMARY DISCLOSURES ABOUT CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

We presented our contractual obligations in our Annual Report on Form 10-K for the year ended December 31, 2016. Our principal commitments as of June 30, 2017 consisted of obligations under operating leases. There have been no material changes in those obligations during the six months ended June 30, 2017.

As of June 30, 2017, we had a liability for unrecognized tax benefits totaling $6.3 million including interest of $6,000, of which approximately $97,000 could be payable in cash.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 to the Condensed Consolidated Financial Statements for information regarding the effect of new accounting pronouncements on our financial statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in interest rates and foreign currency exchange rates. Changes in these factors may cause fluctuations in our earnings and cash flows. We evaluate and manage the exposure to these market risks as follows:

Cash Equivalents and Short-term Investments — We had cash equivalents and short-term investments of $45.0 million as of June 30, 2017, which are subject to interest rate fluctuations. An increase in interest rates could adversely affect the market value of our cash equivalents and short-term investments. A hypothetical 100 basis point increase in interest rates would result in a decrease of approximately $126,000 in the fair value of our cash equivalents and short-term investments as of June 30, 2017.

We limit our exposure to interest rate and credit risk by establishing and monitoring clear policies and guidelines for our cash equivalents and short-term investment portfolios. The primary objective of our policies is to preserve principal while at the same time maximizing yields, without significantly increasing risk. Our policy's guidelines also limit exposure to loss by limiting the sums we can invest in any individual security and restricting investments to securities that meet certain defined credit ratings. We do not use derivative financial instruments in our investment portfolio to manage interest rate risk.

Foreign Currency Exchange Rates — A substantial majority of our revenue, expense, and capital purchasing activities are transacted in U.S. dollars. However, we do incur certain operating costs for our foreign operations in other currencies but these operations are limited in scope and thus we are not materially exposed to foreign currency fluctuations. Additionally, we have some reliance on international revenues that are subject to the risks of fluctuations in currency exchange rates. Because a substantial majority of our international revenues, as well as expenses, are typically denominated in U.S. dollars, a strengthening of the U.S. dollar could cause our products to become relatively more expensive to customers in a particular country, leading to a reduction in sales or profitability in that country. We have no foreign exchange contracts, option contracts, or other foreign currency hedging arrangements and we do not expect to have such arrangements in the foreseeable future.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Based on their evaluation as of June 30, 2017, our management with the participation of our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective to ensure that the information required to be disclosed by us in this quarterly report on Form 10-Q was (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes to internal controls over financial reporting that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any within Immersion, have been detected.

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PART II

OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS
Immersion Corporation vs. Apple, Inc., AT&T Inc., and AT&T Mobility LLC
On February 11, 2016, we filed a complaint against Apple, Inc. ("Apple"), AT&T, Inc. ("AT&T"), and AT&T Mobility LLC ("AT&T Mobility") with the U.S. International Trade Commission (the "ITC") and a complaint against Apple, AT&T and AT&T Mobility in the U.S. District Court for the District of Delaware alleging that the Apple iPhone 6, iPhone 6 Plus, iPhone 6s, iPhone 6s Plus, Apple Watch, Apple Watch Sport and Apple Watch Edition infringe certain of our patents that cover haptic feedback systems and methods.
In the February 2016 ITC complaint, we are seeking an exclusion order preventing the importation, sale for importation, and sale after importation of infringing Apple devices into the United States by the defendants and appropriate cease and desist orders. In the U.S. District Court suit, we are alleging infringement of the same patents.
The complaints assert infringement by the Apple iPhone 6, Apple iPhone 6 Plus, Apple iPhone 6s, Apple iPhone 6s Plus, Apple Watch, Apple Watch Sport and Apple Watch Edition of the following two Immersion patents:
U.S. Patent No. 8,619,051(the '051 patent): "Haptic Feedback System with Stored Effects"
U.S. Patent No. 8,773,356 (the '356 patent): "Method and Apparatus for Providing Tactile Sensations"
The complaints also assert infringement by the iPhone 6s and iPhone 6s Plus of the following Immersion patent:
U.S. Patent No. 8,659,571(the '571 patent): "Interactivity Model for Shared Feedback on Mobile Devices"
On March 14, 2016, the ITC issued a Notice of Institution of Investigation stating that the ITC instituted an investigation to investigate our allegations of infringement with respect to the '051, '356, and '571 patents and determine whether violations of section 337 of the Tariff Act of 1930 have occurred. The investigation bears the designation Inv. No. 337-TA-990 ("990 Investigation"). On April 6, 2016, the Chief Administrative Law Judge ("ALJ") entered an order terminating Respondent AT&T from the investigation, based on the stipulation and joint motion of the parties to terminate AT&T in a manner that preserved our ability to obtain discovery and compliance with any relief the ITC may order. On April 4, 2016, Respondents Apple and AT&T Mobility served responses to the complaint denying the material allegations of the complaint and alleging affirmative defenses, including among others that the asserted patents are not infringed, invalid and unenforceable. Respondents also alleged that the '356 patent is unenforceable for alleged inequitable conduct before the United States Patent and Trademark Office. We will respond to the allegations of Respondents during the investigation on the procedural schedule set by the Chief ALJ. The proceedings in the ITC with respect to Apple and AT&T Mobility are ongoing, and the parties are in the process of conducting discovery.
On March 21, 2016, pursuant to 28 U.S.C. § 1659(a), the U.S. District Court entered an order staying the U.S. District Court case pending a final determination in the ITC investigation.
On May 5, 2016, we filed another complaint against Apple, AT&T and AT&T Mobility with the ITC and a complaint against Apple, AT&T and AT&T Mobility in the U.S. District Court for the District of Delaware alleging that the Apple iPhone 6s, iPhone 6s Plus, MacBook and MacBook Pro with Retina Display infringe certain of our patents, including patents covering pressure-related haptics.
In the May 2016 ITC complaint, we are seeking an exclusion order preventing the importation, sale for importation, and sale after importation of infringing Apple devices into the United States by the defendants and appropriate cease and desist orders. In the U.S. District Court suit, we are alleging infringement of the same patents.
The complaints assert against Apple, AT&T and AT&T Mobility claims of infringement by the Apple iPhone 6s and Apple iPhone 6s Plus of the following three Immersion patents:
U.S. Patent No. 8,749,507 (the '507 patent), "Systems and Methods for Adaptive Interpretation of Input from a Touch-Sensitive Input Device";
U.S. Patent No. 7,808,488 (the '488 patent), "Method and Apparatus for Providing Tactile Sensations"
U.S. Patent No. 8,581,710 (the '710 patent), "Systems and Methods for Haptic Confirmation of Commands"
The complaints also assert against Apple claims of infringement by the Apple MacBook and Apple MacBook Pro with Retina display of Immersion's U.S. Patent No. 7,336,260 (the '260 patent), "Method and Apparatus for Providing

Tactile Sensations."

On May 9, 2016, Immersion and AT&T entered into a stipulation to terminate AT&T as a Proposed Respondent, on the same terms to which the parties agreed to terminate AT&T from the 990 Investigation.

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On June 6, 2016, the ITC issued a Notice of Institution of Investigation stating that the ITC instituted an investigation to investigate our allegations of infringement with respect to the '507, '488, '710, and '260 patents and determine whether violations of section 337 of the Tariff Act of 1930 have occurred. The investigation bears the designation Inv. No. 337-TA-1004 ("1004 Investigation"). On June 9, 2016, the Chief ALJ entered an order consolidating the 990 and 1004 Investigations. On June 15, 2016, the Chief ALJ granted a joint motion by the parties to stay the 990 Investigation deadlines until a new procedural schedule is entered in the consolidated Investigation.
On June 16, 2016, pursuant to 28 U.S.C. § 1659(a), the U.S. District Court entered an order staying the U.S. District Court case pending a final determination in the ITC investigation.
On June 27, 2016, Respondents Apple and AT&T Mobility served responses to the complaint denying the material allegations of the complaint and alleging affirmative defenses, including among others that the asserted patents are not infringed, invalid and unenforceable. Respondents also alleged that the '710 patent is unenforceable for alleged inequitable conduct before the United States Patent Office. We responded to the allegations of Respondents during the investigation on the procedural schedule set by the Chief ALJ. On June 29, 2016, the Chief ALJ entered an order setting the Markman hearing in the consolidated case for October 18, 2016, and the evidentiary hearing for April 27-May 5, 2017. On July 12, 2016, the Chief ALJ entered the procedural schedule in the consolidated Investigation. The procedural schedule in the Investigation includes, among other things, deadlines for the parties to conduct three required settlement conferences. On July 26, 2016, representatives from the Company and Respondent AT&T conducted their first settlement conference. On July 28, 2016, representatives for the Company and Respondent Apple conducted their first settlement conference. The parties did not reach an agreement to settle the dispute underlying this Investigation.
In September 2016, Respondent Apple released additional products, including the iPhone 7 and 7 plus and the Apple Watch Series 2. The Company has served discovery responses and contentions identifying these newly released products as products at issue in the Investigation.
On October 18, 2016, the Chief ALJ conducted a Markman hearing with respect to the construction of terms of the Asserted Patents. The Chief ALJ indicated at the hearing that a ruling could be expected in approximately three months.
On December 15, 2016, Respondents filed a motion for summary determination that the asserted claims 1 and 2 of the ’260 patent are invalid under 35 U.S.C. § 101 for an alleged failure to recite patentable subject matter. On December 27, 2016, the Company filed its opposition to the motion. On December 27, 2016, the Commission Investigative Staff submitted a response to the motion stating that the Staff supports the motion. On April 6, 2017, the Chief ALJ issued an order denying the motion.
On January 18, 2017, the parties participated in a one-day mediation session. The parties did not reach an agreement to resolve the dispute at the mediation.
On February 1, 2017, Respondents Apple and AT&T filed three motions for summary determination on certain issues in the Investigation. In particular, the motions requested that Chief ALJ determine:
•that prosecution history estoppel precludes Immersion from asserting that the accused products and the technical domestic industry products satisfy certain limitations of the asserted patents under the doctrine of equivalents;
•that (1) Respondents do not infringe claims 7 and 17 of the ’356 patent and claims 7, 11 and 15 of the ’051 patent; and (2) the Apple Watch products do not infringe the ’356 patent and Apple’s iPhone 6, 6 Plus and SE products do not infringe the ’051 patent; and
•that claims 2-5, 10-12, and 15-17 of the ’507 patent are invalid under 35 U.S.C. § 112 for failing to comply with the written description requirement.
On February 2, 2017, Chief ALJ Bullock issued his Markman ruling, Order No. 27 Construing the Terms of the Asserted Claims. The Chief ALJ adopted Immersion’s proposed constructions for some disputed terms. On other terms, the Chief ALJ adopted constructions that Respondents or Staff had proposed, and on other terms the Chief ALJ fashioned his own construction.
On February 3, 2017, Immersion brought an unopposed motion for partial termination of the investigation with respect to certain contentions that were no longer being pursued. These include Immersion’s allegations of infringement as to (1) claims 7 and 17 of the ’356 patent, (2) claims 7, 11, and 15 of the ’051 patent, (3) the Apple

Watch products solely with respect to the ’356 patent, and (4) the Apple iPhone 6, 6 Plus, and SE products solely with respect to the ’051 patent. Immersion also stated in the motion its position that the request for termination as to the withdrawn allegations rendered Respondents motion for summary determination on these particular issues moot. On February 9, 2017 the Chief ALJ issued an order granting partial termination of the Investigation as to certain asserted claims of the ’356 patent and the ’051 patent as described above.

On February 10, 2017, Respondents filed a notice of withdrawal of their motion for summary determination as to the particular contentions under the ’356 patent and ’051 patent that had been withdrawn during the Investigation. On February 13, 2017,

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Immersion filed its oppositions to those motions for summary determination that remained pending. On February 14 and 16, 2017, the Chief ALJ issued orders denying each of Respondents’ motions for summary determination.

On March 21, 2017, Immersion brought an unopposed motion for partial termination of the investigation with respect to all claims of the ’571 patent and claims 7-10 of the ’710 patent. On March 23, 2017, the Chief ALJ issued an order granting partial termination as to the ’571 patent and certain claims of the ’710 patent as described above. On March 23, 2017, the Chief ALJ also issued a notice that the evidentiary hearing would begin on April 27, 2017 and conclude on May 4, 2017 (as opposed to May 5, 2017).

The evidentiary hearing with respect to the consolidated investigation by the United States International Trade Commission bearing the designation Inv. No. 337-TA-990/1004 commenced on April 27, 2017 and concluded on May 4, 2017. On May 31, 2017, the parties and the Office of Unfair Import Investigations ("OUII") Staff submitted their initial post-hearing briefs, and on June 7, 2017, the parties and OUII Staff submitted their post-hearing reply briefs. Before submitting these briefs, we provided a notice on May 11, 2017 that we would not be pursuing in our Post-Hearing Brief claims 3, 13, and 23 of the '356 patent.

The due date for the Chief ALJ’s initial determination was scheduled for August 11, 2017. On July 13, 2017, the Chief ALJ entered an order extending the due date for the Chief ALJ's initial determination from August 11, 2017 to November 13, 2017 and extending the target date for the completion of the investigation from December 11, 2017 to March 12, 2018.

On July 7, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '051 patent. The petition bears Case No. IPR2016-01371. The petition challenges the patentability of certain claims of the '051 patent in light of alleged prior art references. On October 13, 2016, we filed a patent owner’s preliminary response responding to the petition's challenges to patentability of claims of the '051 patent. On January 11, 2017, the Patent Trial and Appeal Board ("PTAB" or "Board") issued a decision denying the Petition and declining to institute the IPR on February 10, 2017, Apple submitted in the United States Patent and Trademark Office a second IPR petition challenging the patentability of certain claims of the ’051 patent in light of alleged prior art references. This Petition bears Case No. IPR2017-00887. We filed our Patent Owner's Preliminary Response in this IPR on May 30, 2017. The PTAB's decision on whether to institute this IPR is due within ninety days of the filing of this preliminary response.

On July 7, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '571 patent. The petition bears Case No. IPR2016-01372. The petition challenges the patentability of certain claims of the '571 patent in light of alleged prior art references. On October 13, 2016, we filed a patent owner’s preliminary response responding to the petition's challenges to patentability of claims of the '571 patent. On January 11, 2017, the PTAB issued its decision instituting the IPR on certain grounds raised in the Petition. The Board’s decision also declined to institute the IPR as to certain claims of the ’571 patent. The Board has set a schedule of certain due dates in the IPR. On May 31, 2017, we submitted our Patent Owner’s Response to the IPR. On or about February 12, 2017, Apple submitted in the United States Patent and Trademark Office a second IPR petition challenging the patentability of certain claims of the ’571 patent in light of alleged prior art references. This Petition bears Case No. IPR2017-00896. We filed our Patent Owner's Preliminary Response in this IPR on May 22, 2017. The PTAB's decision on whether to institute this IPR is due within ninety days of the filing of this preliminary response.

On July 8, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '356 patent. The petition bears Case No. IPR2016-01381. The petition challenges the patentability of certain claims of the '356 patent in light of alleged prior art references. On October 12, 2016, we filed a patent owner’s preliminary response responding to the petition's challenges to patentability of claims of the '356 patent. On January 11, 2017, the PTAB issued its decision instituting the IPR on certain grounds raised in the Petition. The Board has set a schedule of certain due dates in the IPR. On May 31, 2017, we submitted our Patent Owner's Response to the IPR. On or about February 12, 2017, Apple submitted in the United States Patent and Trademark Office a second IPR petition challenging the patentability of certain claims of the ’356 patent in light of alleged prior art references. This IPR bears Case No. 2017-00897. We filed our Patent Owner's Preliminary Response in this IPR on May 22, 2017. The PTAB's decision on whether to institute this IPR is due within ninety days of the filing of this preliminary response.

On August 12, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '710 patent. The petition bears Case No. IPR2016-01603. The petition challenges the patentability of certain claims of the '710 patent in light of alleged prior art references. On November 28, 2016, we filed a patent owner’s preliminary response responding to the petition’s challenges to patentability of claims of the ’710 patent. On February 23, 2017, the PTAB issued its decision instituting the IPR on certain grounds raised in the petition. The Board has set a schedule of certain due dates in the IPR. On June 28, 2017, we submitted our Patent Owner's Response in the IPR. On or about May 4, 2017, Apple submitted in the United States Patent and Trademark Office a second IPR petition challenging the patentability of certain claims of the ‘710 patent in light of alleged prior art references. This IPR bears Case No. 2017-01368. Our Patent Owner's Preliminary Response is presently due not later than August 24, 2017. The PTAB's decision on whether to institute this IPR is due within ninety days of the filing of this preliminary response.

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On September 12, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '507 patent. The petition bears Case No. IPR2016-01777. The petition challenges the patentability of certain claims of the '507 patent in light of alleged prior art references. On December 27, 2016, we filed a patent owner's preliminary response responding to the petition's challenges to patentability of claims of the '507 patent. On March 23, 2017, the Board issued its decision denying the Petition and declining to institute the IPR. On April 21, 2017, Apple submitted in the United States Patent and Trademark Office a second IPR petition challenging the patentability of certain claims of the '507 patent in light of alleged prior art references. This IPR bears Case No. 2017-01310. Our Patent Owner's Preliminary Response is presently due not later than August 9, 2017. The PTAB's decision on whether to institute this IPR is due within ninety days of the filing of this preliminary response.

On September 23, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '260 patent. The petition bears Case No. IPR2016-01884. The petition challenges the patentability of certain claims of the '260 patent in light of alleged prior art references. On January 4, 2017, we filed a patent owner's preliminary response responding to the petition's challenges to patentability of claims of the '260 patent. In response to a request of the Petitioner, the Board also authorized the parties to file Reply and Sur-Reply briefs on certain issues. Petitioner filed a Reply Brief on January 31, 2017. We filed our Patent Owner's Sur-Reply brief on February 14, 2017. On April 3, 2017, the Board issued a decision instituting the IPR on certain grounds raised in the petition. The Board has set a schedule of certain due dates in the IPR. On July 3, 2017, we submitted our Patent Owner's Response in the IPR. On or about May 4, 2017, Apple submitted in the United States Patent and Trademark Office a second IPR petition challenging the patentability of certain claims of the '260 patent in light of alleged prior art references. This IPR bears Case No. 2017-01369. Our Patent Owner's Preliminary Response is presently due not later than August 24, 2017. The PTAB's decision on whether to institute this IPR is due within ninety days of the filing of this preliminary response.

On September 29, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '488 patent. The petition bears Case No. IPR2016-01907. The petition challenges the patentability of certain claims of the '488 patent in light of alleged prior art references. On January 5, 2017, we filed a patent owner's preliminary response responding to the petition's challenges to patentability of claims of the '488 patent. In response to a request of the Petitioner, the Board authorized the parties to file Reply and Sur-Reply briefs. Petitioner filed a Reply Brief on January 31, 2017. We filed our patent owner's Sur-Reply brief on February 14, 2017. On April 3, 2017, the Board issued a decision instituting the IPR on certain grounds raised in the petition. The Board has set a schedule of certain due dates in the IPR, On July 3, 2017, we submitted its Patent Owner's Response in the IPR. On or about May 4, 2017, Apple submitted in the United States Patent and Trademark Office a second IPR petition challenging the patentability of certain claims of the '488 patent in light of alleged prior art references. This IPR bears Case No. 2017-01371. Our Patent Owner's Preliminary Response is presently due not later than August 24, 2017. The PTAB's decision on whether to institute this IPR is due within ninety days of the filing of this preliminary response.

Although we believe we have strong claims, the outcome of litigation and the IPRs is inherently uncertain. Furthermore, Apple and AT&T Mobility have significant resources and therefore, this litigation could be protracted.

Sony Computer Entertainment America, Inc.

On October 2, 2014, we filed an arbitration demand with JAMS against Sony Computer Entertainment America, LLC and Sony Computer Entertainment, Inc. (collectively, "Sony"). The issue to be resolved was whether Sony's DS4 Wireless Controller sold in Japan is covered by one of our Japanese patents and thus is a royalty-bearing product under a 2007 license agreement between us and Sony. On January 20, 2016, the arbitrator ruled in our favor, finding that Sony's DS4 Wireless Controllers manufactured, sold or distributed in Japan after April 8, 2014 were and are 'royalty bearing' products as defined by Paragraph 5.4 of the 2007 license agreement.

On February 19, 2016, we petitioned for confirmation of the award in the U.S. District Court for the Northern District of California. On March 18, 2016, Sony opposed the petition to confirm the award and moved to vacate the award. On April 26, 2016, the District Court issued an order granting our petition to confirm the arbitral award and denying Sony's motion to vacate the award. On May 26, 2016, Sony filed a Notice of Appeal to the U.S. Court of Appeals for the Ninth Circuit. On January 31, 2017 Sony told us that it would dismiss the appeal. The Court of Appeals dismissed the appeal on February 22 pursuant to the parties' stipulation.

On March 17, 2016, we filed an arbitration demand seeking a ruling that Sony game controllers sold in the United States are covered by U.S. Patent Nos. 6,686,901 (the ‘901 patent) and 7,969,288 (the ‘288 patent) and therefore are royalty-bearing products under our license agreement with Sony. Sony filed a response on April 12, 2016. The parties have agreed that the ‘288 patent will not be addressed in this arbitration proceeding, which will be limited to the ‘901 patent. The parties have agreed on a retired judge who will serve as the single arbitrator.

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The arbitrator originally scheduled a claim construction hearing for January 10, 2017. The hearing was rescheduled to December 21, 2016, after the parties identified their proposed claims to be construed. The hearing was completed on December 21, 2016, and the arbitrator issued a claim construction ruling on February 2, 2017. Fact discovery is proceeding. The arbitration hearing was completed on May 24, 2017, the arbitrator issued his decision in the case finding that Sony's DS4 Wireless Controller did not infringe the '901 patent.

Immersion Corporation v. FitBit and Runtong International Trade Co., Ltd. (Shanghai Intellectual Property Court)

On June 29, 2017, we filed a patent infringement lawsuit against Fitbit, Inc. (“Fitbit”) in the Shanghai Intellectual Property Court alleging that Fitbit has infringed three of our China patents. The three patents at issue are China Patent No. ZL200680041474.4, entitled “methods and systems for providing haptic messaging to handheld communication devices”; No. ZL200980127978.l, entitled “systems and methods for mapping message contents to virtual physical properties for sending vibrotactile messaging”; and No. ZL200980128008.3, entitled “systems and methods for transmitting haptic messages.” The Shanghai Intellectual Property Court accepted the case on July 7, 2017.

Immersion Corporation v. Fitbit, Inc., Case No. 4:17-cv-03886-DMR (N.D. Cal.)

On July 10, 2017, we filed a patent infringement lawsuit against Fitbit in the U.S. District Court for the Northern District of California alleging that Fitbit has infringed three of our U.S. Patents. The three patents at issue are U.S. Patent No. 8,351,299, which covers “Apparatus and Method for Providing Condition-Based Vibrotactile Feedback”; No. 8,059,105, entitled “Haptic Feedback for Touchpads and Other Touch Controls”; and No. 8,638,301, for “Systems and Methods for Transmitting Haptic Messages.” Generally, these U.S. patents cover “touch-feedback” - or haptic feedback - devices, systems and methods - and Fitbit's devices are infringing, such as the Fitbit Flex, Fitbit Flex 2, Fitbit Alta, Fitbit Alta HR, Fitbit Charge, Fitbit Charge 2, Fitbit Charge HR, Fitbit Blaze and Fitbit Surge. We also filed our Certification of Interested Entities on July 10, 2017. We served Fitbit with the Complaint, among other things, on July 11, 2017. On July 31, 2017, Fitbit filed a stipulation to extend the time to respond to the complaint to October 2, 2017. The Case No. is 4:17-cv-03886-DMR (Immersion Corporation v. Fitbit, Inc.).

Immersion Corporation vs. Samsung Electronics Co., Ltd. and Samsung Electronics America, Inc.
On August 3, 2017, we filed a complaint against Samsung Electronics Co., Ltd. and Samsung Electronics America, Inc. (collectively, “Samsung”) in the United States District Court for the Eastern District of Texas alleging that certain Samsung touchscreen phones, including those phones that Samsung had not commenced commercially producing, distributing and selling before January 1, 2016 (the “Accused Phones”), infringe certain of our patents that cover haptic feedback systems and methods. In the complaint, we are seeking to stop Samsung from further infringement as well as the recovery of damages. The complaints assert infringement by the Accused Phones of the following patents:
U.S. Patent No 6,429,846: "Haptic Feedback for Touchpads and Other Touch Controls"
U.S. Patent No 7,969,288: "Force Feedback System Including Multi-Tasking Graphical Host Environment and Interface Device"
U.S. Patent No 9,323,332: “Force Feedback System Including Multi-Tasking Graphical Host Environment”
U.S. Patent No 7,982,720: "Haptic Feedback for Touchpads and Other Touch Controls"
U.S. Patent No 8,031,181: "Haptic Feedback for Touchpads and Other Touch Controls"

Immersion Corporation vs. Motorola Mobility LLC and Motorola Mobility Holdings LLC
On August 3, 2017, we filed a complaint against Motorola Mobility LLC and Motorola Mobility Holdings LLC (collectively, “Motorola”) in the United States District Court for the District of Delaware alleging that certain Motorola touchscreen phones, including the Moto G4, Moto G4 Play, Moto G4 Plus, Moto G5, Moto G5 Plus, Moto Z, Moto Z Force and Moto Z Play (the “Accused Phones”), infringe certain of our patents that cover haptic feedback systems and methods. In the complaint, we are seeking to stop Motorola from further infringement as well as the recovery of damages. The complaints assert infringement by the Accused Phones of the following patents:

U.S. Patent No 6,429,846: "Haptic Feedback for Touchpads and Other Touch Controls"
U.S. Patent No 7,969,288: "Force Feedback System Including Multi-Tasking Graphical Host Environment and Interface Device"

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U.S. Patent No 9,323,332: “Force Feedback System Including Multi-Tasking Graphical Host Environment”
U.S. Patent No 7,982,720: "Haptic Feedback for Touchpads and Other Touch Controls"
U.S. Patent No 8,031,181: "Haptic Feedback for Touchpads and Other Touch Controls"

We cannot predict the ultimate outcome of the above-mentioned federal actions, and we are unable to estimate any potential liability we may incur. Please also refer to our disclosures in Contingencies, Note 12 to the Condensed Consolidated Financial Statements.

ITEM 1A. RISK FACTORS

As previously discussed, our actual results could differ materially from our forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to those discussed below. These and many other factors described in this report could adversely affect our operations, performance and financial condition.

Company Risks

If we are unable to enter into new and renewed licensing arrangements with our existing licensees and with additional third-parties for our touch-enabling technologies, our royalty and license revenue may not grow and could decline.

Our revenue growth is largely dependent on our ability to enter into new and renew existing licensing arrangements. Our failure to enter into new or renewed licensing arrangements will cause our operating results to suffer. We face numerous risks in obtaining new or renewed licenses on terms consistent with our business objectives and in maintaining, expanding, and supporting our relationships with our current licensees. These risks include:

- difficulties in persuading device manufacturers to take a license or renew a license to our intellectual property without the expenditure of significant resources;
- difficulties in persuading existing customers that they still need a license to the portfolio as individual patents expire or become limited in scope, declared unenforceable or invalidated;
- reluctance of device manufacturers to take a license or renew a license to our intellectual property because other larger device manufacturers are not licensed;
- difficulties in entering into or renewing gaming licenses if video game console makers choose not to license third parties to make peripherals for their new consoles, if video console makers no longer require peripherals to play video games, if video console makers no longer utilize technology in the peripherals that are covered by our patents or if the overall market for video consoles deteriorates substantially;
- reluctance of content developers or distributors, mobile device manufacturers, and service providers to sign license agreements without a critical mass of other such inter-dependent supporters of the mobile device industry also having a license, or without enough similar devices in the market that incorporate our technologies;
- the competition we may face from third parties and/or the internal design teams of existing and potential licensees;
- difficulties in achieving and maintaining consumer and market demand or acceptance for our products;
- difficulties in persuading third parties to work with us, to rely on us for critical technology, and to disclose to us proprietary product development and other strategies;
- difficulties in persuading existing licensees who compensate us for including our software in certain of their touch-enabled products to also license and compensate us for our patents that cover other touch-enabled products of theirs that do not include our software;
- challenges in demonstrating the compelling value of our technologies and challenges associated with customers’ ability to easily implement our technologies; and
- inability of current or prospective licensees to ship certain devices if they are involved in IP infringement claims by third parties that ultimately prevent them from shipping products or that impose substantial royalties on their products;

Our current or any future litigation, arbitration and administrative proceedings to enforce or defend our intellectual property rights and to defend our licensing practices is expensive, disruptive, and time consuming, and will continue

to be, until resolved, and regardless of whether we are ultimately successful, could adversely affect our business.
We have been in the past and are currently a party to various legal proceedings with companies that have significantly greater financial resources than us to enforce or defend our intellectual property rights and to defend our licensing practices. For example, in 2016, we initiated patent infringement litigation against Apple and AT&T Mobility for infringement of seven patents, and Apple

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filed for inter partes review on each of the seven patents with the U.S. Patent Office. On August 3, 2017, we also initiated patent infringement litigation against Samsung and Motorola claiming that they are infringing five of our US patents. Due to the inherent uncertainties of litigation and administrative proceedings, we cannot accurately predict how these proceedings will ultimately be resolved. We anticipate that currently pending or any future legal proceedings will continue to be costly, given the significant resources available to our current adverse parties, and that future legal proceedings will result in additional legal expenses, resulting in the decrease of cash available for other parts of our business, and there can be no assurance that we will be successful or be able to recover the costs we incur in connection with the legal proceedings. Although protecting our intellectual property is a fundamental part of our business, at times, our legal proceedings have diverted, and could continue to divert, the efforts and attention of some of our key management and personnel away from our licensing transactions and other aspects of our business. As a result, until such time as it is resolved or concluded, litigation, arbitration and administrative proceedings could cause our technology to be perceived as less valuable in the marketplace, which could reduce our sales and adversely affect our business. Further, any unfavorable outcome could adversely affect our business. For additional background on our litigation, please see Part II, Item 1, “Legal Proceedings”.

A limited number of customers account for a significant portion of our revenue, and the loss of major customers could harm our operating results.

Two customers accounted for 21% and 12% of our total revenues, respectively, for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016 where three customers accounted for 21%, 20% and 16% of our total revenues. In the quarter ended September 30, 2016, we entered into an additional amendment to our License Agreement with Samsung pursuant to which we agreed to permit Samsung to exercise its rights to continue to sell products that were licensed under the agreement as of December 31, 2015 for the life of such products in exchange for $19 million. We have not entered into a renewal agreement with Samsung for any products released after December 31, 2015, and on August 3, 2017, we filed a patent infringement suit against Samsung in the U.S. District Court in the Eastern District of Texas. See Part II, Item 1, Legal Proceedings. Because we have not renewed our agreement with Samsung, there is no assurance that Samsung will continue to generate similar revenue in any future period; and even if we were to renew our agreement with Samsung, our revenue could be adversely impacted by recalls or poorly performing mobile devices.

In addition, we cannot be certain that other customers that have accounted for significant revenue in past periods, individually or as a group, will continue to generate similar revenue in any future period.

If we fail to renew or lose a major customer or group of customers, or if a customer decides that our intellectual property is no longer relevant and stops paying us royalties, our revenue could decline if we are unable to replace the lost revenue with revenue from other sources. In addition, if potential customers or customers with expiring agreements view the loss of one of our major customers as an indicator of the value of our software and/or the strength of our intellectual property, they may choose not to take or renew a license which could adversely affect our operating results.

If we fail to protect and enforce our IP rights or if we fail to continuously develop or acquire successful innovations and obtain patents on these innovations, our ability to license our technologies and generate revenues would be impaired.

Our business depends on generating revenues by licensing our IP rights and by customers selling products that incorporate our technologies. We rely on our significant patent portfolio to protect our proprietary rights. If we are not able to protect and enforce those rights, our ability to obtain future licenses or maintain current licenses and royalty revenue could be impaired. In addition, if a court or patent office were to limit the scope, declare unenforceable, or invalidate any of our patents, current licensees may refuse to make royalty payments, or they may choose to challenge one or more of our patents. It is also possible that:

- our pending patent applications may not result in the issuance of patents;
- our patents may not be broad enough to protect our proprietary rights;
- effective patent protection may not be available in every country, particularly in Asia, where we or our licensees do business; and
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our pending litigation against Apple and AT&T Mobility, Samsung, and Motorola, may be unsuccessful or may result in one or more of the patents asserted becoming limited in scope, declared unenforceable or invalidated.

In addition, our patents will continue to expire according to their terms which may have an adverse effect on our business. For example, certain of our U.S. gaming patents expired in 2015, and as a result, Sony has ceased paying royalties for sales made in the U.S. Our failure to continuously develop or acquire successful innovations and obtain patents on those innovations could significantly harm our business, financial condition, results of operations, or cash flows. In addition, we also rely on licenses, confidentiality agreements, other contractual agreements, and copyright, trademark, and trade secret laws to establish and protect our proprietary rights. It is possible that:

- laws and contractual restrictions may not be sufficient to prevent misappropriation of our technologies or deter others from developing similar technologies; and
- policing unauthorized use of our patented technologies, trademarks, and other proprietary rights would be difficult, expensive, and time-consuming, within and particularly outside of the United States.

We have in the past initiated legal proceedings to protect our intellectual property and may need to continue to do so in the future, and we are currently in litigation against Apple and AT&T Mobility, Samsung, and Motorola, for patent infringement. We may need to continue to initiate legal proceedings in the future. Any legal or administrative proceeding initiated by us to protect or enforce our IP rights has, and may in the future result in substantial legal expenses and risk, could lead to counterclaims and adverse rulings affecting our patents, and may divert our management's time and attention away from our other business operations, which could significantly harm our business.

Potential patent and litigation reform legislation, potential USPTO and international patent rule changes, potential legislation affecting mechanisms for patent enforcement and available remedies, and potential changes to the intellectual property rights ("IPR") policies of worldwide standards bodies, as well as rulings in legal proceedings may affect our investments in research and development and our strategies for patent prosecution, licensing and enforcement and could have a material adverse effect on our licensing business as well as our business as a whole.

Potential changes to certain U.S. and international patent laws, rules and regulations may occur in the future, some or all of which may affect our research and development investments, patent prosecution costs, the scope of future patent coverage we secure, remedies that we may be entitled to in patent litigation, and attorneys' fees or other remedies that could be sought against us, and may require us to reevaluate and modify our research and development activities and patent prosecution, licensing and enforcement strategies.

Similarly, legislation designed to reduce the jurisdiction and remedial authority of the USITC has periodically been introduced in Congress. Any potential changes in the law, the IPR policies of standards bodies or other developments that reduce the number of forums available or the type of relief available in such forums (such as injunctive relief), restrict permissible licensing practices (such as our ability to license on a worldwide portfolio basis) or that otherwise cause us to seek alternative forums (such as arbitration or state court), would make it more difficult for us to enforce our patents, whether in adversarial proceedings or in negotiations. Because we have historically depended on the availability of certain forms of legal process to enforce our patents and obtain fair and adequate compensation for our investments in research and development and the unauthorized use of our intellectual property, developments that undermine our ability to do so could have a negative impact on future licensing efforts.

Rulings in our legal proceedings as well as those of third parties may affect our strategies for patent prosecution, licensing and enforcement. For example, in recent years, the United States International Trade Commission (the "USITC") and U.S. courts, including the U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit, have taken some actions that have been viewed as unfavorable to patentees. Decisions that occur in U.S. or in international forums may change the law applicable to various patent law issues, such as, for example, patentability, validity, patent exhaustion, patent misuse, remedies, permissible licensing practices, claim construction, and damages, in ways that are detrimental to the abilities of patentees to enforce patents and obtain damages awards.

We continue to monitor and evaluate our strategies for prosecution, licensing and enforcement with regard to these developments; however, any resulting change in such strategies may have an adverse impact on our business and financial condition.

If companies choose to implement haptics without our software or a license to our patents, we could have to expend significant resources to enforce or defend our intellectual property rights and to defend our licensing practices which may have a negative impact on our business.

To sell our software, we must win competitive selection processes, known as "design wins," before our software haptic technologies are included in our customers' products. These selection processes can be lengthy and can require us to incur significant design and development expenditures with no assurance that we will be selected. As a small company, we may not have the resources to reach every company who is introducing or planning to introduce haptics into the market. In addition, as a small company, we have limited engineering resources that may make it difficult to support every type of haptic implementation with our software offerings or to introduce new technologies in a timely manner. In the instances where a potential customer is not using our software but implements unlicensed haptic capability, we may need to seek to enforce our intellectual property. If the customer is unwilling to enter into a license agreement, we may elect to pursue litigation which would harm our relationship with the customer and could harm our relationships with other licensees or our ability to gain new customers, who may postpone licensing decisions pending

the outcome of the litigation or dispute, or who may, as a result of such litigation, choose not to adopt our technologies. In addition, these legal proceedings could be very expensive and could have a negative impact on our financial results.
We also license to semiconductor manufacturers who incorporate certain of our less fully-featured software into their integrated circuits for use in certain electronic devices. While our relationships with these semiconductor manufacturers increases our distribution channels by leveraging their sales channels, it is possible that customers may elect to implement haptics using less fully-featured software integrated circuit solutions rather than the higher-end solutions we offer directly, which may negatively impact our financial results. It is also possible that when a customer uses the integrated circuit, it is doing so in violation of our intellectual property rights and we may seek to enforce our IP.

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If we do not achieve increased tax benefits as a result of our recently implemented corporate restructuring, our financial condition and operating results could be adversely affected.

We completed a reorganization of our corporate organization in 2015. The purpose of this reorganization was to more closely align our corporate structure with the international nature of our business activities. This corporate restructuring activity is anticipated to allow us to reduce our overall effective tax rate through changes in how we develop and use our intellectual property and the structure of our international sales operations, including by entering into transfer-pricing arrangements that establish transfer prices for our intercompany transactions.

There can be no assurance that the taxing authorities of the jurisdictions in which we operate or to which we are otherwise deemed to have sufficient tax nexus will not challenge the restructuring or the tax position that we take. From time to time, we enter into license agreements with our licensees pursuant to which we agree to indemnify a customer for certain taxes imposed on the customer by an applicable tax authority and related expense. On April 28, 2017, we received a letter from Samsung requesting that we reimburse Samsung with respect to withholding tax and penalties imposed on Samsung by the Korean tax authorities as a result of its determination that withholding taxes should have been withheld from certain payments made from Samsung to Immersion Software Limited. In the event that it is determined that we are obligated to indemnify Samsung for such withholding taxes imposed by the Korean tax authorities, we would incur significant expenses in complying with indemnification on litigations. In addition, future changes to U.S. or non-U.S. tax laws, including legislation to reform U.S. or other countries' taxation of international business activities, could negatively impact the anticipated tax benefits of the restructuring.

Any benefits to our tax rate will also depend on our ability to operate our business in a manner consistent with the reorganization of our corporate organization and applicable tax provisions, as well as on our achieving our forecasted revenue growth rates. If the intended tax treatment is not accepted by the applicable taxing authorities, changes in tax law negatively impact the structure or we do not operate our business consistent with the intended reorganization and applicable tax provisions, we may fail to achieve the financial efficiencies that we anticipate as a result of the reorganization and our future operating results and financial condition may be negatively impacted.

Our international operations subject us to additional risks and costs.

We currently have sales personnel in Japan, Korea, and China. International revenues accounted for approximately 67% of our revenue for six months ended June 30, 2017. International operations are subject to a number of difficulties, risks, and special costs, including:

- compliance with multiple, conflicting and changing governmental laws and regulations;
- laws and business practices favoring local competitors;
- foreign exchange and currency risks;
- changing import and export restrictions, duties, tariffs, quotas and other barriers;
- difficulties staffing and managing foreign operations;
- difficulties and expense in establishing and enforcing IP rights;
- business risks, including fluctuations in demand for our technologies and products and the cost and effort to conduct international operations and travel abroad to promote international distribution and overall global economic conditions;
- multiple conflicting tax laws and regulations;
- political and economic instability; and
- the possibility of an outbreak of hostilities or unrest in markets where major customers are located, including Korea.

Our international operations could also increase our exposure to international laws and regulations, which are subject to change. If we cannot comply with foreign laws and regulations, which are often complex and subject to variation, differing or inconsistent government interpretation, and unexpected changes, we could incur unexpected costs and potential litigation. For example, the governments of foreign countries might attempt to regulate our products or levy sales or other taxes relating to our activities. In addition, foreign countries may impose tariffs, duties, price controls, or other restrictions on foreign currencies or trade barriers, any of which could make it more difficult for us to conduct our business. Our international operations could also increase our exposure to complex international tax rules and regulations. Changes in, or interpretations of, tax rules and regulations may adversely affect our income tax provision.

In addition, our operations outside the United States may be affected by changes in trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment, including the Foreign Corrupt Practices Act and local laws prohibiting corrupt payments by our employees, vendors, or agents.

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If we fail to successfully manage our new content and media initiative, our results of operations could be negatively impacted.

We seek to find new applications and markets for our technologies. We have invested and continue to invest significant resources in the development of technologies and software related to enhancing mobile content with haptics. For example, we have announced the introduction of haptics-enabled mobile game applications from well-known publishers and haptics-enabled advertisements and movie trailers. Market acceptance of these new technologies and software offerings will be dependent in part on our ability to show that mobile content enhanced with haptics generates greater levels of consumer engagement, improves customer acquisition and retention measures, increases monetization, improves long-term content recall and generates more positive levels of enjoyment and brand sentiment. While our early pilot and user studies are encouraging, such data is preliminary and may be inaccurate or may not be accepted by third parties. If we are unable to successfully develop these new offerings, our results of operations could be negatively impacted. In addition, if we fail to properly manage the licensing of rights in our OEM and content businesses, we may inadvertently impair our ability to monetize our technology in one of these businesses and our results of operations would be negatively impacted.

We had an accumulated deficit of $154 million as of June 30, 2017 and may not return to profitability in the future.

As of June 30, 2017, we had an accumulated deficit of $154 million. We need to generate significant ongoing revenue to return to consistent profitability. We will continue to incur expenses as we:

- incur costs related to litigation;
- increase our sales and marketing efforts;
- engage in research and develop our technologies; and
- protect and enforce our IP;

If our revenues grow more slowly than we anticipate or if our operating expenses exceed our expectations, we may not return to profitability.

The terms in our agreements may be construed by our licensees in a manner that is inconsistent with the rights that we have granted to other licensees, or in a manner that may require us to incur substantial costs to resolve conflicts over license terms.

We have entered into, and we expect to continue to enter into, agreements pursuant to which our licensees are granted rights to our technology and our IP. These rights may be granted in certain fields of use, or with respect to certain market sectors or product categories, and may include exclusive rights or sublicensing rights. We refer to the license terms and restrictions in our agreements, including, but not limited to, field of use definitions, market sector, and product category definitions, collectively as “License Provisions.”

Due to the continuing evolution of market sectors, product categories, and licensee business models, and to the compromises inherent in the drafting and negotiation of License Provisions, our licensees may interpret License Provisions in their agreements in a way that is different from our interpretation of such License Provisions, or in a way that is in conflict with the rights that we have granted to other licensees. Such interpretations by our licensees may lead to claims that we have granted rights to one licensee that are inconsistent with the rights that we have granted to another licensee. Many of our customers report royalties to us based on their shipments or their revenues and their interpretation and allocation of contracted royalty rates. It is possible that the originally reported royalties could differ materially from those determined by either a customer self-reported correction or from an audit we have performed. These interpretations may also cause disagreements arising during customer audits, may lead to claims or litigation, and may have an adverse effect on the results of our operations. Further, although our agreements generally give us the right to audit books and records of our licensees, audits can be expensive, time consuming, and may not be cost justified based on our understanding of our licensees’ businesses. Pursuant to our license compliance program, we audit certain licensees to review the accuracy of the information contained in their royalty reports in an effort to decrease the risk of our not receiving royalty revenues to which we are entitled, but we cannot give assurances that such audits will be effective.

In addition, after we enter into an agreement, it is possible that markets and/or products, or legal and/or regulatory environments, will evolve in an unexpected manner. As a result, in any agreement, we may have granted rights that will preclude or restrict our exploitation of new opportunities that arise after the execution of the agreement.

We may not be able to continue to derive significant revenues from makers of peripherals for popular video gaming platforms.

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A significant portion of our gaming royalty revenues comes from third-party peripheral makers who make licensed gaming products designed for use with popular video game console systems from Microsoft, Sony, and Nintendo. Video game console systems are closed, proprietary systems, and video game console system makers typically impose certain requirements or restrictions on third-party peripheral makers who wish to make peripherals that will be compatible with a particular video game console system. If third-party peripheral makers cannot or are not allowed to satisfy these requirements or restrictions, our gaming royalty revenues could be significantly reduced. Furthermore, should a significant video game console maker choose to omit touch-enabling capabilities from its console systems or somehow restrict or impede the ability of third parties to make touch-enabling peripherals, it could lead our gaming licensees to stop making products with touch-enabling capabilities, thereby significantly reducing our gaming royalty revenues. Also, if the gaming industry changes such that mobile or other platforms increase in popularity at the expense of traditional video game consoles, our gaming royalty revenues could be substantially reduced if we are unable to enter into replacement arrangements enabling us to license our software or IP in connection with gaming on such mobile or other platforms. Finally, as some of our litigated patents have expired related to video game peripherals, our gaming royalty revenues will likely decline until we are successful in proving the relevance of our IP.

Because we have a fixed payment license with Microsoft, our royalty revenue from licensing in the gaming market and other consumer markets has previously declined and may further do so if Microsoft increases its volume of sales of touch-enabled products at the expense of our other licensees.

Under the terms of our present agreement with Microsoft, Microsoft receives a royalty-free, perpetual, irrevocable license (including sublicense rights) to our worldwide portfolio of patents. This license permits Microsoft to make, use, and sell hardware, software, and services, excluding specified products, covered by our patents. We will not receive any further revenues or royalties from Microsoft under our current agreement with Microsoft, including with respect to Microsoft’s Xbox One gaming product or any other haptic related product. Microsoft has a significant share of the market for touch-enabled console gaming computer peripherals and is pursuing other consumer markets such as mobile devices, tablets, personal computers, and virtual and augmented reality. Microsoft has significantly greater financial, sales, and marketing resources, as well as greater name recognition and a larger customer base than some of our other licensees. In the event that Microsoft increases its share of these markets, our royalty revenue from other licensees in these market segments may decline.

Automobiles incorporating our touch-enabling technologies are subject to lengthy product development periods, making it difficult to predict when and whether we will receive royalties for these product types.

The product development process for automobiles is very lengthy, sometimes longer than four years. We may not earn royalty revenue on our automotive device technologies unless and until products featuring our technologies are shipped to customers, which may not occur until several years after we enter into an agreement with a manufacturer or a supplier to a manufacturer. Throughout the product development process, we face the risk that a manufacturer or supplier may delay the incorporation of, or choose not to incorporate, our technologies into its products, making it difficult for us to predict the royalties we may receive, if any. After the product launches, our royalties still depend on market acceptance of the vehicle, or the option packages if our technology is an option (for example, a navigation unit), which is likely to be determined by many factors beyond our control.

We have little or no control or influence on our licensees’ design, manufacturing, quality control, promotion, distribution, or pricing of their products incorporating our touch-enabling technologies, upon which we generate royalty revenue.

A key part of our business strategy is to license our software and IP to companies that manufacture and sell products incorporating our touch-enabling technologies. For the six months ended June 30, 2017 and 2016, 97% and 98%, of our total revenues were royalty and license revenues, respectively. We do not control or influence the design, manufacture, quality control, promotion, distribution, or pricing of products that are manufactured and sold by our licensees, nor can we control consolidation within an industry which could either reduce the number of licensable products available or reduce royalty rates for the combined licensees. In addition, we generally do not have commitments from our licensees that they will continue to use our technologies in current or future products. As a result, products incorporating our technologies may not be brought to market, achieve commercial acceptance, or otherwise generate meaningful royalty revenue for us. For us to generate royalty and license revenue, licensees that pay us per-unit royalties must manufacture and distribute products incorporating our touch-enabling technologies in a timely fashion and generate consumer demand through marketing and other promotional activities. If our licensees' products fail to achieve commercial success, or if their products are recalled because of quality control problems or if they do not ship products incorporating our touch-enabling technologies in a timely fashion or fail to achieve strong sales, our revenues will not grow and could decline.

Our business may suffer if third parties assert that we violate their IP rights.

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Third parties have previously claimed and may in the future claim that we or our customers are infringing upon their IP rights. Even if we believe that such claims are without merit or that we are not responsible for them under the indemnification or other terms of our customer license agreements, they can be time-consuming and costly to defend against and may divert management's attention and resources away from our business. Furthermore, third parties making such claims may be able to obtain injunctive or other equitable relief that could block our ability to further develop or commercialize some or all of our software technologies or services in the United States and abroad. Claims of IP infringement also might require us to enter into costly settlement or license agreements or pay costly damage awards. Even if we have an agreement that provides for a third party to indemnify us against such costs, the indemnifying party may be unable or unwilling to perform its contractual obligations.

We license some technologies from third parties. We must rely upon the owners of these technologies for information on the origin and ownership of the technologies. As a result, our exposure to infringement claims may increase. We generally obtain representations as to the origin and ownership of acquired or licensed technologies and indemnification to cover any breach of these representations. However, representations may not be accurate and indemnification may not provide adequate compensation for breach of the representations. If we cannot or do not license the infringed IP at all or on reasonable terms, or substitute similar technology from another source, our business, financial position, results of operations or cash flows could suffer.

Our business and operations could suffer in the event of security breaches.

Attempts by others to gain unauthorized access to our information technology systems are becoming more sophisticated. These attempts, which might be related to industrial or other espionage, include covertly introducing malware to our computers and networks and impersonating authorized users, among others. We might be unaware of an incident or its magnitude and effects. The theft, unauthorized use or publication of our intellectual property and/or confidential business information could harm our competitive position and reputation, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any future security breach results in inappropriate disclosure of our customers' confidential information, we may incur liability.

In addition, our business involves the storage and transmission of customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. These security measures may be breached as a result of third-party action, employee error, malfeasance or otherwise, during transfer of data, and result in someone obtaining unauthorized access to our data or our customers' data. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our data or our customers' data. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, our customers may authorize third party technology providers, to access their customer data. Because we do not control the transmissions between our customers and third-party technology providers, or the processing of such data by third-party technology providers, we cannot ensure the complete integrity or security of such transmissions or processing. Any security breach could result in a loss of confidence in the security of our service, damage our reputation, lead to legal liability and negatively impact our future sales.

If we are unable to develop open source compliant products, our ability to license our technologies and generate revenues would be impaired.

We have seen, and believe that we will continue to see, an increase in customers requesting that we develop products that will operate in an "open source" environment. Developing open source compliant products without imperiling the IP rights upon which our licensing business depends may prove difficult under certain circumstances, thereby placing us at a competitive disadvantage for new product designs. Some of our proprietary technologies incorporate open source software that may be subject to open source licenses. These open source licenses may require that source code subject to the license be released or made available to the public. Such open source licenses may mandate that software developed based on source code that is subject to the open source license, or combined in specific ways with such open source software, become subject to the open source license. We take steps to ensure that proprietary software we do not wish to disclose is not combined with, or does not incorporate, open source software in ways that would require such proprietary software to be subject to an open source license. However, few courts have interpreted open source licenses, and the manner in which these licenses may be interpreted and enforced is therefore subject to some uncertainty. We often take steps to disclose source code for which disclosure is required under an open source license, but it is possible that we have made or will make mistakes in doing so, which could negatively impact our brand or our adoption in the community, or could expose us to additional liability. In addition, we rely on multiple software programmers to design our proprietary products and technologies. Although we take steps to ensure that our programmers (both internal and outsourced) do not include open source software in products and technologies we intend to keep proprietary, we cannot be certain that open source software is not incorporated into products and technologies we intend to keep proprietary. In the event that portions of our proprietary technology are determined to be subject to an open source license, or are intentionally released under an open source license, we could be required to publicly release the relevant portions of our source code, which could reduce or eliminate our ability to commercialize our products and technologies. As a result, our revenues may not grow and could decline.

Our business depends in part on access to third-party platforms and technologies, and if the access is withdrawn, denied, or is not available on terms acceptable to us, or if the platforms or technologies change, our business and operating results could be adversely affected.

Many of our current and future software technologies are designed for use with third-party platforms and technologies. Our business relies on our access to these platforms and technologies of third parties, which can be withdrawn, denied or not be available on terms acceptable to us.

Our access to third-party platforms and technologies may require paying royalties or other amounts, which lowers our margins, or may otherwise be on terms that are not acceptable to us. In addition, the third-party platforms or technologies used to interact with our software technologies can be delayed in production or can change in ways that negatively impact the operation of our software.

If we are unable to access third-party platforms or technologies, or if our access is withdrawn, denied, or is not available on terms acceptable to us, or if the platforms or technologies are delayed or change, our business and operating results could be adversely affected.

The uncertain economic and political environment could reduce our revenues and could have an adverse effect on our financial condition and results of operations.

The current global economic conditions and political climate could materially hurt our business in a number of ways, including longer sales and renewal cycles, exchange rate volatility, delays in adoption of our products or technologies or those of our customers, increased risk of competition, higher taxes and tariffs on goods incorporating out technologies, higher overhead costs as a percentage of revenue, delays in signing or failing to sign customer agreements or signing customer agreements with reduced royalty rates. In addition, our customers, potential customers, and business partners would likely face similar challenges, which could materially and adversely affect the level of business they conduct with us or the sales volume of products that include our technology.

We might be unable to retain or recruit necessary personnel, which could slow the development and deployment of our technologies.

Our technologies are complex, and we rely upon the continued service of our existing personnel to support licensees, enhance existing technologies, and develop new technologies. Accordingly, our ability to develop and deploy our technologies and to sustain our revenue growth depends upon the continued service of our management and other key personnel, many of whom would be difficult to replace. Furthermore, we believe that there are a limited number of engineering and technical personnel that are experienced in haptics. Management and other key employees may voluntarily terminate their employment with us at any time without notice. The loss of management or key personnel could delay product development cycles or otherwise harm our business.

We believe that our future success will also depend largely on our ability to attract, integrate, and retain sales, support, marketing, and research and development personnel. Competition for such personnel is intense, and we may not be successful in attracting, integrating, and retaining such personnel. Given the protracted nature of, if, how, and when we collect royalties on new design contracts, it may be difficult to craft compensation plans that will attract and retain the level of salesmanship needed to secure these contracts. Additionally, our compensation packages need to be competitive in the Silicon Valley where the stock component of compensation is an important factor that candidates and employees consider. Some of our executive officers and key employees hold stock options with exercise prices that may be above the current market price of our common stock or that are largely vested. Each of these factors may impair our ability to retain the services of our executive officers and key employees.

Our technologies are complex and may contain undetected errors, which could harm our reputation and future sales.

Any failure to provide high quality and reliable technologies, whether caused by our own failure or failures of our suppliers or customers, could damage our reputation and reduce demand for our technologies. Our technologies have in the past contained, and may in the future contain, undetected errors or defects. Some errors in our technologies may only be discovered after a customer’s product incorporating our technologies has been shipped to customers. Any errors or defects discovered in our technologies after commercial release could result in product recalls, loss of revenue, loss of customers, and increased service and warranty costs, any of which could adversely affect our business.

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Catastrophic events, such as natural disasters, war, and acts of terrorism could disrupt the business of our customers, which could harm our business and results of operations.

The production processes and operations of our customers are susceptible to the occurrence of catastrophic events, such as natural disasters, war, and acts of terrorism, all of which are outside of our control. Any such events could cause a serious business disruption to our customers' ability to manufacture, distribute and sell products incorporating our touch-enabling technologies, which may adversely affect our business and results of operation.

If our facilities were to experience catastrophic loss, our operations would be seriously harmed.

Our facilities could be subject to a catastrophic loss such as fire, flood, earthquake, power outage, or terrorist activity. A substantial portion of our research and development activities, our corporate headquarters, and other critical business operations are located near major earthquake faults in San Jose, California, an area with a history of seismic events. An earthquake at or near our facilities could disrupt our operations and result in large expenses to repair and replace the facility. While we believe that we maintain insurance sufficient to cover most long-term potential losses at our facilities, our existing insurance may not be adequate for all possible losses including losses due to earthquakes.

If we fail to establish and maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired, which would adversely affect our consolidated operating results, our ability to operate our business and our stock price.

We have in the past had material weaknesses in our internal control over financial reporting. Ensuring that we have adequate internal financial and accounting controls and procedures in place to produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Any failure on our part to remedy identified material weaknesses, or any additional delays or errors in our financial reporting controls or procedures, could cause our financial reporting to be unreliable and could have a material adverse effect on our business, results of operations, or financial condition and could have a substantial adverse impact on the trading price of our common stock.

We do not expect that our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company will have been detected.

The nature of some of our products may also subject us to export control regulation by the U.S. Department of State and the Department of Commerce. Violations of these regulations can result in monetary penalties and denial of export privileges.

Our sales to customers or sales by our customers to their end customers in some areas outside the United States could be subject to government export regulations or restrictions that prohibit us or our licensees from selling to customers in some countries or that require us or our licensees to obtain licenses or approvals to export such products internationally. Delays or denial of the grant of any required license or approval, or changes to the regulations, could make it difficult or impossible to make sales to foreign customers in some countries and could adversely affect our revenue. In addition, we could be subject to fines and penalties for violation of these export regulations if we were found in violation. Such violation could result in penalties, including prohibiting us from exporting our products to one or more countries, and could materially and adversely affect our business.

Investment Risks

Our quarterly revenues and operating results are volatile, and if our future results are below the expectations of public market analysts or investors, the price of our common stock is likely to decline.

Our revenues and operating results are likely to vary significantly from quarter to quarter due to a number of factors, many of which are outside of our control and any of which could cause the price of our common stock to decline. These factors include:

- the establishment or loss of licensing relationships;
-

the timing and recognition of payments under fixed and/or up-front license agreements, as well as other multi-element arrangements;

- seasonality in the demand for our technologies or products or our licensees' products;

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- the timing of our expenses, including costs related to litigation, stock-based awards, acquisitions of technologies, or businesses;
- developments in and costs of pursuing or settling any pending litigation;
- the timing of introductions and market acceptance of new technologies and products and product enhancements by us, our licensees, our competitors, or their competitors;
- the timing of work performed under development agreements; and
- errors in our licensees' royalty reports, and corrections and true-ups to royalty payments and royalty rates from prior periods.

Changes in financial accounting standards or policies may affect our reported financial condition or results of operations and, in certain cases, could cause a decline and/or fluctuations in the price of our common stock.

From time to time, financial and accounting standard setters such as the FASB and the SEC change certain guidance governing the form and content of registrants' external financial statements, or update their previous interpretations with regard to the application of certain GAAP. Such change in GAAP or their interpretation can have a significant effect on our reported financial condition and/or results of operations. If applicable to Immersion, we would be required to apply a new or revised guidance, which may result in retrospective adjustments to our financial statements, and change the way we account for certain transaction than under the existing guidance. Changes in GAAP and reporting standards could substantially change our reporting practices in a number of areas, including revenue recognition and recording of assets and liabilities, and consequently affect our reported financial condition or results of operations.

For example, in May 2014, the FASB issued ASU 2014-09 that, once adopted by us on January 1, 2018, could significantly impact the timing we recognize revenue for new and existing contracts with licensees. Under the new standard, we may be required to recognize up to a substantial majority of license fees under a fixed-fee license agreement paid upfront upon entry into the agreement, as opposed to recognizing the license fees ratably over the term of the agreement, which has been the historical practice applied by many licensing companies, including Immersion. For Immersion, this could impact the revenue recognition of potentially all of our existing fixed-fee patent license agreements, including certain fixed-fee agreements that cover both our current technologies and future technologies that are added to our portfolio during the term of the license. In addition, our current practice, which is shared by many licensing companies, of reporting revenues from per-unit based royalty agreements one quarter in arrears, would no longer be accepted under the new revenue standard. Instead we will be expected to estimate unit-based royalty revenues each quarter in order to report such revenue in the period in which the underlying sales occurred, which will require adjustments to be recorded in the next reporting period to true up royalty revenue based on the actual amounts reported by our licensees. Such changes to our reporting practices could significantly affect our reported financial condition and/or results of operations, potentially causing the amount of revenue we recognize to vary dramatically from quarter to quarter, and even year to year, depending on the timing of entry into license agreements and whether such agreements have fixed-fee or per-unit royalty terms. In addition, these changes to our reporting practices and the resulting fluctuations in our reported revenue could cause a decline and/or fluctuations in the price of our common stock.

Our business is subject to changing regulations regarding corporate governance and other compliance areas that will increase both our costs and the risk of noncompliance.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, and the rules and regulations of The NASDAQ Stock Market and other regulations that may be enacted from time-to-time. The requirements of these and other rules and regulations have increased and we expect will continue to increase our legal, accounting and financial compliance costs, will make some activities more difficult, time-consuming and costly, and may also place undue strain on our personnel, systems and resources.

Our stock price may fluctuate regardless of our performance.

The stock market has experienced extreme volatility that often has been unrelated or disproportionate to the performance of particular companies. These market fluctuations may cause our stock price to decline regardless of our performance. The market price of our common stock has been, and in the future could be, significantly affected by factors such as: actual or anticipated fluctuations in operating results; announcements of technical innovations; announcements regarding litigation in which we are involved; the acquisition or loss of customers; changes by game console manufacturers to not include touch-enabling capabilities in their products; new products or new contracts; sales or the perception in the market of possible sales of large number of shares of our common stock by insiders or others; stock repurchase activity; changes in securities analysts' recommendations; personnel changes; changing circumstances regarding competitors or their customers; governmental regulatory action or inaction; developments with respect to patents or proprietary rights; inclusion in or exclusion from various stock indices; and general market conditions. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has been initiated against that company.

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We may elect to or need to raise additional capital in the future, which may result in substantial dilution to our stockholders.

We may elect to or need to raise additional capital in order to ensure a sufficient supply of cash for such events or future periods. Our plans to raise additional capital may include entering into new license agreements that require up-front license payments or debt or equity financing. We cannot be certain that additional financing will be available to us on favorable terms when required, or at all. Additional financing may require us to issue additional shares of our common or preferred stock such that our existing stockholders may experience substantial dilution.

Our stock repurchase program could affect our stock price and add volatility.

Any repurchases pursuant to our stock repurchase program could affect our stock price and add volatility. There can be no assurance that any repurchases will continue to be made under the program, nor is there any assurance that a sufficient number of shares of our common stock will be repurchased to satisfy the market's expectations. Furthermore, there can be no assurance that any repurchases conducted under the plan will be made at the best possible price. The existence of a stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, we are permitted to and could discontinue our stock repurchase program at any time and any such discontinuation could cause the market price of our stock to decline.

Provisions in our charter documents and Delaware law could prevent or delay a change in control, which could reduce the market price of our common stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our board of directors or management, including the following:

- our board of directors is classified into three classes of directors with staggered three-year terms which will be phased out over time through 2019;
- only our chairperson of the board of directors, a majority of our board of directors or 10% or greater stockholders are authorized to call a special meeting of stockholders;
- our stockholders can only take action at a meeting of stockholders and not by written consent;
- vacancies on our board of directors can be filled only by our board of directors and not by our stockholders;
- our restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

In addition, certain provisions of Delaware law may discourage, delay, or prevent someone from acquiring or merging with us. These provisions could limit the price that investors might be willing to pay in the future for shares.

We may engage in acquisitions that could dilute stockholders' interests, divert management attention, or cause integration problems.

As part of our business strategy, we have in the past and may in the future, acquire businesses or IP that we feel could complement our business, enhance our technical capabilities, or increase our IP portfolio. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating, and pursuing suitable acquisitions, whether or not they are consummated.

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If we consummate acquisitions through the issuance of our securities, our stockholders could suffer significant dilution. Acquisitions could also create risks for us, including:

- unanticipated costs associated with the acquisitions;
- use of substantial portions of our available cash to consummate the acquisitions;
- diversion of management's attention from other business concerns;
- difficulties in assimilation of acquired personnel or operations;
- failure to realize the anticipated benefits of acquired IP or other assets;
- charges associated with amortization of acquired assets or potential charges for write-down of assets or goodwill associated with unsuccessful acquisitions;
- potential IP infringement or other claims related to acquired businesses, assets, product lines, or technologies; and
- potential costs associated with failed acquisition efforts.

Any acquisitions, even if successfully completed, might not generate significant additional revenue or provide any benefit to our business.

ITEM 6. EXHIBITS

The exhibits listed in the accompanying "Exhibit Index" are filed or incorporated by reference as part of this Form 10-Q.

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SIGNATURES

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

Date: August 4, 2017

IMMERSION CORPORATION

By /s/ Nancy Erba
Nancy Erba
Chief Financial Officer and Principal Accounting Officer

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
31.1	Certification of Victor Viegas, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Nancy Erba, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Victor Viegas, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2*	Certification of Nancy Erba, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Report Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Label Linkbase Document					X
101.PRE	XBRL Presentation Linkbase Document					X

* This certification is deemed not filed for purposes of section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.