# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

**(MARK ONE)**
**☒QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2020**

**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 001-38334**

# 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.)** |

**330 Townsend Street, Suite 234, San Francisco, CA 94107**
**(Address of principal executive offices) (Zip Code)**
**(408) 467-1900**
**(Registrant’s telephone number, including area code)**

(Former name or former address, if changed since last report.)

**Not Applicable**

**Securities Registered Pursuant to Section 12(b) of the Act:**

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|---|---|---|
| Common Stock, $0.001 par value | IMMR | NASDAQ Global Market |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ 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 | ☒ |
| 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 ☒

Number of shares of common stock outstanding at July 31, 2020 26,894,116.

Table of Contents

**IMMERSION CORPORATION**

**INDEX**

**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, 2020 | December 31, 2019 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 54,101 | $ 86,478 |
| Short-term investments | — | 3,019 |
| Accounts and other receivables | 1,789 | 3,385 |
| Prepaid expenses and other current assets | 8,791 | 14,078 |
| Total current assets | 64,681 | 106,960 |
| Property and equipment, net | 252 | 1,226 |
| Long-term deposits | 11,700 | 7,062 |
| Other assets | 8,987 | 9,600 |
| Total assets | $ 85,620 | $ 124,848 |
| LIABILITIES AND STOCKHOLDERS’ EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 474 | $ 809 |
| Accrued compensation | 1,803 | 2,844 |
| Other current liabilities | 2,446 | 3,478 |
| Deferred revenue | 4,617 | 4,692 |
| Total current liabilities | 9,340 | 11,823 |
| Long-term deferred revenue | 23,571 | 25,952 |
| Other long-term liabilities | 2,979 | 3,316 |
| Total liabilities | 35,890 | 41,091 |
| Contingencies (Note 10) | | |
| Stockholders’ equity: | | |
| Common stock and additional paid-in capital — $0.001 par value; 100,000,000 shares authorized; 39,007,576 and 38,624,784 shares issued, respectively; 26,864,143 and 31,414,328 shares outstanding, respectively | 255,446 | 253,289 |
| Accumulated other comprehensive income | 122 | 124 |
| Accumulated deficit | (124,105) | (118,565) |
| Treasury stock at cost: 12,143,433 and 7,210,456 shares, respectively | (81,733) | (51,091) |
| Total stockholders’ equity | 49,730 | 83,757 |
| Total liabilities and stockholders’ equity | $ 85,620 | $ 124,848 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues: | | | | |
| Royalty and license | $ 5,593 | $ 8,668 | $ 11,775 | $ 13,715 |
| Development, services, and other | 75 | 75 | 150 | 150 |
| Total revenues | 5,668 | 8,743 | 11,925 | 13,865 |
| Costs and expenses: | | | | |
| Cost of revenues | 62 | 40 | 106 | 55 |
| Sales and marketing | 1,255 | 1,579 | 2,971 | 3,188 |
| Research and development | 1,323 | 1,831 | 3,012 | 4,133 |
| General and administrative | 4,087 | 14,448 | 11,443 | 27,143 |
| Total costs and expenses | 6,727 | 17,898 | 17,532 | 34,519 |
| Operating loss | (1,059) | (9,155) | (5,607) | (20,654) |
| Interest and other income | 388 | 532 | 160 | 1,130 |
| Loss before benefit from (provision for) income taxes | (671) | (8,623) | (5,447) | (19,524) |
| Benefit from (provision for) income taxes | (41) | 3 | (93) | (112) |
| Net loss | $ (712) | $ (8,620) | $ (5,540) | $ (19,636) |
| Basic net loss per share | $ (0.03) | $ (0.27) | $ (0.19) | $ (0.63) |
| Shares used in calculating basic net loss per share | 27,634 | 31,578 | 29,320 | 31,335 |
| Diluted net loss per share | $ (0.03) | $ (0.27) | $ (0.19) | $ (0.63) |
| Shares used in calculating diluted net loss per share | 27,634 | 31,578 | 29,320 | 31,335 |
| | | | | |
| Other comprehensive income (loss) | | | | |
| Change in unrealized gains (loss) on short-term investments | — | 16 | (2) | 22 |
| Total other comprehensive income (loss) | — | 16 | (2) | 22 |
| Total comprehensive loss | $ (712) | $ (8,604) | $ (5,542) | $ (19,614) |

See accompanying Notes to Condensed Consolidated Financial Statements.

**IMMERSION CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**(In thousands, except number of shares)**
**(Unaudited)**

| | Three Months Ended June 30, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock and Additional Paid-In Capital | | Accumulated Other Comprehensive Income | Accumulated Deficit | Treasury Stock | | Total Stockholders' Equity |
| | Shares | Amount | | | Shares | Amount | |
| Balances at March 31, 2020 | 38,824,681 | $ 254,081 | $ 122 | $ (123,393) | 9,223,222 | $ (63,066) | $ 67,744 |
| Net loss | | | | (712) | | | (712) |
| Stock repurchases | | | | | 2,920,211 | (18,667) | (18,667) |
| Release of restricted stock units and awards | 182,895 | | | | | | — |
| Stock-based compensation | | 1,365 | | | | | 1,365 |
| Balances at June 30, 2020 | 39,007,576 | $ 255,446 | $ 122 | $ (124,105) | 12,143,433 | $ (81,733) | $ 49,730 |

| | Three Months Ended June 30, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock and Additional Paid-In Capital | | Accumulated Other Comprehensive Income | Accumulated Deficit | Treasury Stock | | Total Stockholders' Equity |
| | Shares | Amount | | | Shares | Amount | |
| Balances at March 31, 2019 | 38,375,744 | $ 248,698 | $ 122 | $ (109,537) | 6,823,147 | $ (48,350) | $ 90,933 |
| Net loss | | | | (8,620) | | | (8,620) |
| Unrealized gain on available-for-sale securities, net of taxes | | | 16 | | | | 16 |
| Exercise of stock options, net of shares withheld for employee taxes | 50,027 | 300 | | | | | 300 |
| Release of restricted stock units and awards | 62,556 | | | | | | — |
| Stock-based compensation | | 1,081 | | | | | 1,081 |
| Balances at June 30, 2019 | 38,488,327 | $ 250,079 | $ 138 | $ (118,157) | 6,823,147 | $ (48,350) | $ 83,710 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**IMMERSION CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**(In thousands, except number of shares)**
**(Unaudited)**

| | Six Months Ended June 30, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock and Additional Paid-In Capital | | Accumulated Other Comprehensive Income | Accumulated Deficit | Treasury Stock | | Total Stockholders' Equity |
| | Shares | Amount | | | Shares | Amount | |
| Balances at December 31, 2019 | 38,624,784 | $ 253,289 | $ 124 | $ (118,565) | 7,210,456 | $ (51,091) | $ 83,757 |
| Net loss | | | | (5,540) | | | (5,540) |
| Unrealized loss on available-for-sale securities, net of taxes | | | (2) | | | | (2) |
| Stock repurchases | | | | | 4,932,977 | (30,642) | (30,642) |
| Issuance of stock for ESPP purchase | 10,162 | 63 | | | | | 63 |
| Release of restricted stock units and awards | 372,630 | | | | | | — |
| Stock-based compensation | | 2,094 | | | | | 2,094 |
| Balances at June 30, 2020 | 39,007,576 | $ 255,446 | $ 122 | $ (124,105) | 12,143,433 | $ (81,733) | $ 49,730 |

| | Six Months Ended June 30, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock and Additional Paid-In Capital | | Accumulated Other Comprehensive Income | Accumulated Deficit | Treasury Stock | | Total Stockholders' Equity |
| | Shares | Amount | | | Shares | Amount | |
| Balances at December 31, 2018 | 37,652,498 | $ 246,415 | $ 116 | $ (98,521) | 6,823,147 | $ (48,350) | $ 99,660 |
| Net loss | | | | (19,636) | | | (19,636) |
| Unrealized gain on available-for-sale securities, net of taxes | | | 22 | | | | 22 |
| Issuance of stock for ESPP purchase | 13,479 | 109 | | | | | 109 |
| Exercise of stock options, net of shares withheld for employee taxes | 61,798 | 371 | | | | — | 371 |
| Release of restricted stock units and awards | 760,552 | | | | | | — |
| Stock-based compensation | | 3,184 | | | | | 3,184 |
| Balances at June 30, 2019 | 38,488,327 | $ 250,079 | $ 138 | $ (118,157) | 6,823,147 | $ (48,350) | $ 83,710 |

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2020 | 2019 |
| Cash flows provided by (used in) operating activities: | | |
| Net loss | $ (5,540) | $ (19,636) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,446 | 854 |
| Stock-based compensation | 2,094 | 3,184 |
| Other | 255 | 60 |
| Changes in operating assets and liabilities: | | |
| Accounts and other receivables | 1,596 | (3,916) |
| Prepaid expenses and other current assets | 5,306 | 1,539 |
| Long-term deposit | (4,889) | (6,783) |
| Other assets | 748 | (4,841) |
| Accounts payable | (338) | 3,762 |
| Accrued compensation | (1,041) | (2,003) |
| Other current liabilities | (1,288) | 1,742 |
| Deferred revenue | (2,456) | (2,108) |
| Other long-term liabilities | (661) | 4,231 |
| Net cash used in operating activities | (4,768) | (23,915) |
| Cash flows provided by (used in) investing activities: | | |
| Purchases of short-term investments | — | (8,930) |
| Proceeds from maturities of short-term investments | 3,000 | 14,000 |
| Purchases of property and equipment | (30) | (9) |
| Net cash provided by investing activities | 2,970 | 5,061 |
| Cash flows provided by (used in) financing activities: | | |
| Cash paid for purchases of treasury shares | (30,642) | — |
| Proceeds from issuance of common stock under employee stock purchase plan | 63 | 109 |
| Proceeds from stock options exercises | — | 371 |
| Net cash provided by (used in) financing activities | (30,579) | 480 |
| Net decrease in cash and cash equivalents | (32,377) | (18,374) |
| Cash and cash equivalents: | | |
| Beginning of period | 86,478 | 110,988 |
| End of period | $ 54,101 | $ 92,614 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for income taxes | $ 20 | $ 25 |
| Supplemental disclosure of non-cash operating, investing, and financing activities: | | |
| Release of restricted stock units and awards under company stock plan | $ 2,554 | $ 7,065 |
| Leased assets obtained in exchange for new operating lease liabilities | $ 577 | $ — |

See accompanying Notes to Condensed Consolidated Financial Statements.

**IMMERSION CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**June 30, 2020**
**(Unaudited)**

## 1. SIGNIFICANT ACCOUNTING POLICIES

***Description of Business***

Immersion Corporation (the "Company", "Immersion", "we" or "us") was incorporated in 1993 in California and reincorporated in Delaware in 1999. We focus 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. We have adopted a business model under which it provides advanced tactile software, related tools, technical assistance designed to help integrate our patented technology into our customers' products or enhance the functionality of our patented technology to certain customers, and offers licenses to our patented technology to other customers.

***Impact of COVID-19***

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which continues to spread throughout the U.S. and the world and has resulted in authorities implementing numerous measures to combat the spread of the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns. The COVID-19 outbreak and related public health measures, including orders to shelter-in-place, travel restrictions and mandated business closures, have adversely affected workforces, organizations, consumers, economies, and financial markets globally, leading to an economic downturn and increased market volatility.

Our compliance with these containment measures has impacted our day-to-day operations and could disrupt our business and operations, as well as that of our customers and suppliers for an extended period of time. To support the health and well-being of our employees, customers and communities, we implemented work-from-home and restricted travel policies in the first quarter of 2020, which are expected to remain in place until the end of September 2020. In addition, many of our customers are working remotely, which may delay the timing of some orders due to their and our compliance with frequently changing government-mandated or recommended shelter-in-place orders in jurisdictions in which we, our customers and our suppliers operate.

We reported lower estimated royalties revenue in the second quarter of 2020 following the anticipated volume reductions due to delay in shipments as well as decline in general business environment due to the impact of COVID-19.

In response to certain anticipated impacts from the COVID-19 pandemic, we have also implemented a series of cost reduction initiatives to further preserve financial flexibility. These actions include: reductions of the base salaries and cash compensation of company executives and board members; cancellation and reduction in current year's executive and employee bonus plans; renegotiated professional services fees from third-party services providers; relocation of certain positions to lower-cost regions; temporarily suspended company matching of our employee retirement savings plan and taking advantage of the broad-based employer relief provided by the governments.

In April 2020, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") for Canadian employers whose businesses were affected by the COVID-19 pandemic. The CEWS provides a subsidy of up to 75% of eligible employees' employment insurable remuneration, subject to certain criteria. We applied for the CEWS to the extent we met the requirements to receive the subsidy. During the three months ended June 30, 2020, we recorded $0.2 million in government subsidies as a reduction to operating expenses in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

***Principles of Consolidation and Basis of Presentation***

The accompanying 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 ("U.S. GAAP") for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these condensed consolidated financial statements 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 U.S. GAAP and should be read in conjunction with our audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2019. 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, 2020 are not necessarily indicative of the results to be expected for the full year.

***Use of Estimates***

The preparation of condensed consolidated financial statements and related disclosures requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include valuation of income taxes including uncertain tax provisions, and revenue recognition. Actual results may differ materially from those estimates which were made based on the best information known to management at that time. The business and economic uncertainty resulting from the COVID-19 pandemic has made such estimates and assumptions more difficult to calculate. Accordingly, actual results and outcomes may differ from those estimates.

***Segment Information***

We develop, license, and support a wide range of software and IP that more fully engage users' senses of touch when operating digital devices. We focus on the following target application areas: mobile devices, wearables, consumer, mobile entertainment and other content; console gaming; automotive; medical; and commercial. We manage these application areas in one operating and reporting segment with only one set of management, development, and administrative personnel.

Our chief operating decision maker ("CODM") is the Chief Executive Officer. The CODM approves budgets and allocates resources to and assesses the performance of our business using information about our revenue and operating loss. There is only one segment that is reported to management.

***Recently Adopted Accounting Pronouncements***

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). This guidance requires financial assets measured at amortized cost to be presented at the net amount expected to be collected based on historical events, current conditions and forecast information. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2019 and early adoption is permitted. We adopted ASU 2016-13 as of January 1, 2020. The adoption of this new accounting standard did not have a material impact on our condensed consolidated financial statements.

***Recent Accounting Guidance Not Yet Adopted***

In December 2019, the FASB issued Accounting Standard Update No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (ASU 2019-12), which enhances and simplifies various aspects of the income tax accounting guidance, including requirements such as tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. The amendment is effective for public companies with fiscal years beginning after December 15, 2020; early adoption is permitted. We are evaluating the impact of this amendment on our condensed consolidated financial statements.

## 2. REVENUE RECOGNITION

***Revenue Recognition Accounting Policy***

Our revenue is primarily derived from fixed fee license agreements and per-unit royalty agreements, along with less significant revenue earned from development, services and other revenue.

*Fixed fee license revenue*

We recognize revenue from a fixed fee license agreement when we have satisfied our performance obligations, which typically occurs upon the transfer of rights to our technology upon the execution of the license agreement. However, in certain contracts, we grant a license to our existing patent portfolio at the inception of the license agreement as well as rights to the portfolio as it evolves throughout the contract term. For such arrangements, we have concluded that there are two separate performance obligations:

- Performance Obligation A: to transfer rights to our patent portfolio as it exists when the contract is executed;

- Performance Obligation B: to transfer rights to our patent portfolio as it evolves over the term of the contract, including access to new patent applications that the licensee can benefit from over the term of the contract.

If a fixed fee license agreement contains only Performance Obligation A, we recognize most or all of the revenue from the agreement at the inception of the contract. For fixed fee license agreements that contain both Performance Obligation A and B, we allocate the transaction price based on the standalone price for each of the two performance obligations. We use a number of factors primarily related to the attributes of our patent portfolio to estimate standalone prices related to Performance Obligation A and B. Once the transaction price is allocated, the portion of the transaction price allocable to Performance Obligation A is recognized in the period the license agreement is signed and the customer can benefit from rights provided in the contract. The portion allocable to Performance Obligation B is recognized on a straight-line basis over the contract term. For such contracts, a contract liability account is established and included within *Deferred revenue* on the Condensed Consolidated Balance Sheets. As the rights and obligations in a contract are interdependent, contract assets and contract liabilities that arise in the same contract are presented on a net basis.

Some of our license agreements contain fixed fees related to past infringements. Such fixed fees are recognized as revenue or recorded as a deduction to our operating expense in the period the license agreement is signed.

Payments for fixed fee license contracts typically are due in full within 30 - 45 days from execution of the contract. From time to time, we enter into a fixed fee license contract with payments due in a number of installments payable throughout the contract term. In such cases, we will determine if a significant financing component exists and if it does, we will recognize revenue and corresponding interest expense or income, as appropriate.

*Per-unit Royalty revenue*

We record per-unit royalty revenue in the same period in which the licensee's underlying sales occur. As we generally do not receive the per-unit licensee royalty reports for sales during a given quarter within the time frame that allows us to adequately review the reports and include the actual amounts in our quarterly results for such quarter, we accrue the related revenue based on estimates of our licensees' underlying sales, subject to certain constraints on our ability to estimate such amounts. We develop such estimates based on a combination of available data including, but not limited to, approved customer forecasts, a lookback at historical royalty reporting for each of our customers, and industry information available for the licensed products.

As a result of accruing per-unit royalty revenue for the quarter based on such estimates, we make adjustments in the following quarter to true-up revenue to the actual amounts reported by our licensees. During the three months ended June 30, 2020, we recorded a $20,000 adjustment to decrease per-unit royalty revenue. This adjustment represents the difference between the actual per-unit royalty revenue for the three months ended March 31, 2020 as reported by our licensees during the three months ended June 30, 2020 and the estimated per-unit royalty revenue for the three months ended March 31, 2020 that we reported during the quarter.

Certain of our per-unit royalty agreements contains a minimum royalty provision which sets forth minimum amounts to be received by us during the contract term. Under Accounting Standard Codification 606, *Revenue from Contracts with Customers*, ("ASC 606"), minimum royalties are considered a fixed transaction price to which we have an unconditional right once all other performance obligations, if any, are satisfied. We recognize all minimum royalties as revenue at the inception of the license agreement, or in the period in which all remaining revenue recognition criteria have been met. We account for the unbilled minimum royalties as contract assets on our Condensed Consolidated Balance Sheets, and the balance of such contract assets will be reduced by the actual royalties to be reported by the licensee during the contract term until fully utilized, after which point any excess per-unit royalties reported are recognized as revenue. As the rights and obligations in a contract are interdependent, contract assets and contract liabilities that arise in the same contract are presented on a net basis.

Payments of per-unit royalties typically are due within 30 to 60 days from the end of the quarter in which the underlying sales took place.

*Development, services, and other revenue*

As the performance obligation related to our development, service and other revenue is satisfied over a period of time, we recognize such revenue evenly over the period of performance obligation, which is generally consistent with the contractual term.

***Disaggregated Revenue***

The following table presents the disaggregation of our revenue for the three and six months ended June 30, 2020 and 2019 (in thousands).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Fixed fee license revenue | $ 1,292 | $ 4,254 | $ 2,578 | $ 5,994 |
| Per-Unit royalty revenue | 4,301 | 4,414 | 9,197 | 7,721 |
| Total royalty and license revenue | 5,593 | 8,668 | 11,775 | 13,715 |
| Development, services, and other revenue | 75 | 75 | 150 | 150 |
| Total revenue | $ 5,668 | $ 8,743 | $ 11,925 | $ 13,865 |

As of June 30, 2020, we had contract assets of $7.8 million included within *Prepaid expenses and other current assets*, and $6.0 million included within *Other assets* on the Condensed Consolidated Balance Sheets. As of December 31, 2019, we had contract assets of $13.1 million included within *Prepaid expenses and other current assets*, and $6.9 million included within *Other assets*, on the Condensed Consolidated Balance Sheets.

Contract assets decreased by $6.2 million from December 31, 2019 to June 30, 2020, primarily due to actual royalties billed during the six months ended June 30, 2020 that reduced the minimum royalties recorded in contract assets.

***Contract Revenue***

Based on contracts signed and payments received as of June 30, 2020, we expect to recognize $28.1 million in revenue related to Performance Obligation B under our fixed fee license agreements, which is satisfied over time, including $13.8 million over one to three years and $14.3 million over more than three years. Revenue related to Performance Obligation B was $30.6 million as of December 31, 2019.

## 3. FAIR VALUE MEASUREMENTS

***Cash, Cash Equivalents and Short-term Investments***

Our financial instruments measured at fair value on a recurring basis are cash equivalents and short-term investments.

Our fixed income available-for-sale securities consist of high quality, investment grade securities. We value these securities based on pricing from pricing vendors, who may use quoted prices in active markets for identical assets (Level 1) or inputs other than quoted prices that are observable either directly or indirectly (Level 2) in determining fair value.

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

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.

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. As of June 30, 2020 and December 31, 2019, we did not hold any Level 3 instruments.

Financial instruments measured at fair value on a recurring basis as of June 30, 2020 and December 31, 2019 are classified based on the valuation technique in the table below (in thousands):

| | June 30, 2020 | | | |
|---|---|---|---|---|
| | 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 |
| **Assets:** | | | | |
| Money market accounts | $ 45,605 | $ — | $ — | $ 45,605 |
| Total assets at fair value (1) | $ 45,605 | $ — | $ — | $ 45,605 |

(1) The above table excludes $8.5 million of cash held in banks.

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | 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 |
| **Assets:** | | | | |
| Money market accounts | $ 63,351 | $ — | $ — | $ 63,351 |
| U.S. Treasury securities | — | 3,019 | — | 3,019 |
| Total assets at fair value (2) | $ 63,351 | $ 3,019 | $ — | $ 66,370 |

(2) The above table excludes $23.1 million of cash held in banks.

The contractual maturities of our available-for-sale securities on June 30, 2020 and December 31, 2019 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, 2020 and the year ended December 31, 2019.

Money market accounts are classified as cash equivalents and U.S. Treasury securities (classified as available-for-sale securities), with maturity dates less than one year, are within short-term investments on our Condensed Consolidated Balance Sheets.

***Short-term Investments***

Short-term investments as of December 31, 2019 consisted of the following (in thousands):

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | **Amortized Cost** | **Gross Unrealized Holding Gains** | **Gross Unrealized Holding Losses** | **Fair Value** |
| U.S. Treasury securities | $ 3,018 | $ 1 | $ — | $ 3,019 |
| Total | $ 3,018 | $ 1 | $ — | $ 3,019 |

We had no short-term investments as of June 30, 2020.

**4. BALANCE SHEETS DETAILS**

***Cash and Cash Equivalents***

Our cash and cash equivalent balances were as follows (in thousands):

| | **June 30, 2020** | **December 31, 2019** |
|---|---|---|
| Cash | $ 8,496 | $ 23,127 |
| Money market funds | 45,605 | 63,351 |
| Cash and cash equivalents | $ 54,101 | $ 86,478 |

***Accounts and Other Receivable***

Accounts and other receivables consisted of the following (in thousands):

| | **June 30, 2020** | **December 31, 2019** |
|---|---|---|
| Trade accounts receivable | $ 1,237 | $ 2,972 |
| Other receivables | 552 | 413 |
| Accounts and other receivables | $ 1,789 | $ 3,385 |

Allowance for credit losses as of June 30, 2020 and December 31, 2019 were not material.

***Prepaid Expenses and Other Current Assets***

Prepaid expenses and other current assets consisted of the following (in thousands):

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Prepaid expenses | 811 | 933 |
| Contract assets - current | 7,787 | 13,128 |
| Other current assets | 193 | 17 |
| Prepaid expenses and other current assets | 8,791 | 14,078 |

***Other Assets***

Other assets consisted of the following (in thousands):

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Contract assets - long-term | $ 5,991 | $ 6,928 |
| Right-of-use ("ROU") assets | 2,337 | 2,202 |
| Deferred tax assets | 470 | 470 |
| Other assets | 189 | — |
| Total other assets | $ 8,987 | $ 9,600 |

***Other Current Liabilities***

Other current liabilities are as follows (in thousands):

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Accrued legal | $ 206 | $ 1,077 |
| Lease liabilities - current | 1,406 | 1,150 |
| Other current liabilities | 834 | 1,251 |
| Total other current liabilities | $ 2,446 | $ 3,478 |

**5. STOCK-BASED COMPENSATION**

*Stock Options and Awards*

Our equity incentive program is a long-term retention program that is intended to attract, retain, and provide incentives for employees, consultants, officers, and directors and to align stockholder and employee interests. We may grant time-based options, market condition-based options, stock appreciation rights, restricted stock ("RSAs"), restricted stock units (“RSUs”), performance shares, performance units, and other stock-based equity 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. Stock options generally vest over four years and expire seven years from the grant date. Market condition-based options are subject to a market condition whereby the closing price of our common stock must exceed a certain level for a number of trading days within a specified time frame or the options will be canceled before the expiration of the options. RSAs generally vest over one year. RSUs generally vest over three years. Awards granted other than a stock option or stock appreciation right shall reduce the common stock shares available for grant by 1.75 shares for every share issued.

A summary of our equity incentive program is as follows (in thousands):

| | June 30, 2020 |
|---|---|
| Common stock shares available for grant | 2,776 |
| Stock options outstanding | 1,370 |
| RSAs outstanding | 130 |
| RSUs outstanding | 1,124 |

*Time-Based Stock Options*

The following summarizes activities for the time-based stock options for the six months ended June 30, 2020 (in thousands except for weighted average exercise price per share and weighted average remaining contractual life data):

| | Number of Shares Underlying Stock Options | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2019 | 967 | $ 8.55 | 5.63 | $ 16 |
| Granted | 456 | $ 7.58 | | |
| Canceled or expired | (53) | $ 9.73 | | |
| Outstanding as of June 30, 2020 | 1,370 | $ 8.18 | 5.84 | $ — |
| Vested and expected to vest at June 30, 2020 | 1,178 | $ 8.23 | 5.78 | $ — |
| Exercisable at June 30, 2020 | 344 | $ 8.89 | 4.76 | $ — |

Aggregate intrinsic value is the difference between the closing price on the last trading day in June 30, 2020 and the exercise price, multiplied by the number of in-the-money stock options.

*Restricted Stock Units*

The following summarizes RSU activities for the six months ended June 30, 2020 (in thousands except for weighted average grant date fair value and weighted average remaining contractual life data):

| | Number of Restricted Stock Units | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2019 | 945 | $ 8.81 | 1.25 | $ 7,020 |
| Granted | 507 | $ 5.93 | | |
| Released | (301) | $ 9.00 | | |
| Forfeited | (27) | $ 8.18 | | |
| Outstanding at June 30, 2020 | 1,124 | $ 7.47 | 1.40 | $ 7,004 |

*Restricted Stock Awards*

The following summarizes RSA activities for the six months ended June 30, 2020 (in thousands except for weighted average grant date fair value and weighted average remaining recognition period):

| | Number of Restricted Stock Awards | Weighted Average Grant Date Fair Value | Weighted Average Remaining Recognition Period (Years) |
|---|---|---|---|
| Outstanding at December 31, 2019 | 91 | $ 7.45 | 0.45 |
| Granted | 142 | $ 6.43 | |
| Released | (71) | $ 7.18 | |
| Forfeited | (32) | $ 7.27 | |
| Outstanding at June 30, 2020 | 130 | $ 6.53 | 0.95 |

*Employee Stock Purchase Plan*

Under our 1999 Employee Stock Purchase Plan ("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 our 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 months offering period or purchase stock having a value greater than $25,000 in any calendar year as measured at the beginning of the offering period. A total of 1.0 million shares of common stock has been reserved for issuance under the ESPP. During the six months ended June 30, 2020, 10,162 shares were purchased under the ESPP. As of June 30, 2020, 243,275 shares were available for future purchase under the ESPP.

*Stock-based Compensation Expense*

The following table summarizes stock-based compensation expenses recognized for the three and six months ended June 30, 2020 and 2019 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Stock options | $ 298 | $ 122 | $ 553 | $ 316 |
| RSUs and RSAs | 1,056 | 938 | 1,518 | 2,826 |
| Employee stock purchase plan | 11 | 21 | 23 | 42 |
| Total | $ 1,365 | $ 1,081 | $ 2,094 | $ 3,184 |
| | | | | |
| Sales and marketing | $ 343 | $ 173 | $ 388 | $ 493 |
| Research and development | 251 | 190 | 420 | 820 |
| General and administrative | 771 | 718 | 1,286 | 1,871 |
| Total | $ 1,365 | $ 1,081 | $ 2,094 | $ 3,184 |

We use the Black-Scholes-Merton option pricing model for our time-based options, single-option approach to determine the fair value of standard stock options. All share-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

The determination of the fair value of share-based awards on the date of grant using an option pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include actual and projected employee stock option exercise behaviors that impact the expected term, our expected stock price volatility over the term of the awards, risk-free interest rate, and expected dividend.

The assumptions used to value options granted under our equity incentive program are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 (1) | 2019 | 2020 | 2019 |
| Expected life (in years) | N/A | 4.4 | 4.2 | 4.5 |
| Volatility | N/A | 53% | 52% | 53% |
| Interest rate | N/A | 1.8% | 1.0% | 2.3% |
| Dividend yield | N/A | —% | —% | —% |

(1) There were no stock option grants in the three month ended June 30, 2020.

As of June 30, 2020, there were $9.0 million of unrecognized compensation costs, adjusted for estimated forfeitures, related to non-vested stock options, RSAs and RSUs. This unrecognized compensation cost will be recognized over an estimated weighted-average period of approximately 2.31 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

## 6. STOCKHOLDERS' EQUITY

***Stock Repurchase Program***

On November 1, 2007, our Board of Directors (the "Board") authorized the repurchase of up to $50.0 million of our common stock (the "Stock Repurchase Program"). In addition, on October 22, 2014, the Board authorized another $30.0 million under the Stock Repurchase Program. We may repurchase our 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 us to repurchase a specific number of shares, and may be modified, suspended, or discontinued at any time.

During the three months ended June 30, 2020, we repurchased 2.9 million shares for $18.7 million at an average cost of $6.39 per share. During the six months ended June 30, 2020. we repurchased approximately 4.9 million for $30.6 million at an average cost of $6.21 per share. As of June 30, 2020, we have no amount available for repurchase under the Stock Repurchase Program. There were no stock repurchases during the three and six months ended June 30, 2019.

## 7. INCOME TAXES

Income tax provisions consisted of the following (in thousands, except for effective tax rate percentage):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Loss before benefit from (provision for) income taxes | $ (671) | $ (8,623) | $ (5,447) | $ (19,524) |
| Benefit from (provision for) income taxes | $ (41) | $ 3 | $ (93) | $ (112) |
| Effective tax rate | 6.1% | — % | 1.7% | 0.6% |

The provision for income tax for the three and six months ended June 30, 2020 resulted primarily from estimated foreign taxes included in the calculation of the effective tax rate. The benefit from income taxes for the three months ended June 30, 2019 and provision for income taxes for the six months ended June 30, 2019 resulted primarily from estimated foreign taxes included in the calculation of the effective tax rate. For the three and six months ended June 30, 2019, we used a year-to-date approach to calculate the effective tax rate. We continue to carry a full valuation allowance on its federal deferred tax assets. As a result, no benefit for losses generated from our U.S. territory was included in the calculation of the year-to-date effective tax rate.

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 (the "Ninth Circuit"). On July 24, 2018, the Ninth Circuit reversed the 2015 decision of the U.S. Tax Court that had found certain Treasury regulations related to stock-based compensation to be invalid. On August 7, 2018, the Ninth Circuit withdrew its July 24, 2018 opinion to allow a reconstituted panel to confer on the decision. This reconstituted panel reconsidered the validity of the cost sharing regulations at issue. The regulations at issue require related entities to share the cost of employee stock compensation in order for their cost-sharing arrangements to be classified as "qualified cost-sharing arrangements" and to avoid potential IRS adjustment. On June 7, 2019, the reconstituted panel of the Ninth Circuit upheld the 2018 decision of the Ninth Circuit, concluding stock-based compensation must be included in intercompany cost sharing agreements for the agreements to be classified as "qualified cost-sharing arrangements". On July 22, 2019, Altera filed a petition for an en banc rehearing with the Ninth Circuit which was denied. On June 22, 2020, the Supreme Court refused to hear the Altera case, leaving intact the Ninth Circuit ruling. We had concluded that it was not more-likely-than-not that Altera would prevail with an appeal to the Supreme Court and had made corresponding provisions in previous periods. Accordingly, there was no impact to our condensed consolidated financial statements for the three months ended June 30, 2020 arising from the Supreme Court's refusal to hear the Altera case.

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was passed into law. Among other changes, the Tax Act reduced the US federal corporate income tax rate from 35% to 21%, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and created new taxes on certain foreign sourced earnings. In addition, the Act introduced the Base Erosion and Anti-Abuse Tax (the “BEAT”), which creates a new tax on certain related-party payments. We concluded that it has not met the threshold requirements of the BEAT. On July 9, 2020, the Internal Revenue Service issued final regulations regarding deductions for global intangible low-taxed income (“GILTI”) and foreign-derived intangible income (“FDII”). On July 9, 2020, the Treasury Department released final regulations (TD 9901) under IRC Section 250, which allows an annual deduction to a domestic corporation for its foreign-derived intangible income (FDII) and global intangible low-taxed income (GILTI) inclusion. The final guidance is not expected to have a material impact on our consolidated financial statements. Although the measurement period has closed, further technical guidance related to the Tax Act, including final regulations on a broad range of other topics, is expected to be issued. In accordance with ASC 740, we will recognize any effects of the guidance in the period that such guidance is issued.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was passed into law. The CARES Act includes several significant business tax provisions including modification to the taxable income limitation for utilization of net operating losses (“NOLs”) incurred in 2018, 2019 and 2020 and the ability to carry back NOLs from those years for a period of up to five years, an increase to the limitation on deductibility of certain business interest expense, bonus depreciation for purchases of qualified improvement property and special deductions on certain corporate charitable contributions. We analyzed the provisions of the CARES Act and determined there was no effect on our provision for the current period.

As of June 30, 2020, we had unrecognized tax benefits under ASC 740 *Income Taxes* of approximately $4.8 million and applicable interest of $29,000. The total amount of unrecognized tax benefits that would affect our effective tax rate, if recognized, is $97,000. Our 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, 2020, we had net deferred income tax assets of $0.5 million and deferred income tax liabilities of $0.5 million. Because we have net operating loss and credit carryforwards, there are open statutes of limitations in which federal, state, and foreign taxing authorities may examine our tax returns for all years from 2000 through the current period.

We maintain a valuation allowance of $28.0 million against certain of our 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 we determine the deferred tax assets are realizable based on our assessment of relevant factors, an adjustment to the valuation allowance may increase income in the period such determination is made.

**8. NET INCOME (LOSS) PER SHARE**

Basic net income (loss) per share is computed using the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is computed using the weighted average number of shares of common stock, adjusted for any dilutive effect of potential common stock. Potential common stock, computed using the treasury stock method, includes stock options, RSUs, RSAs and ESPP.

The following is a reconciliation of the numerators and denominators used in computing basic and diluted net income (loss) per share (in thousands, except per share amounts):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Numerator: | | | | |
| Net loss | $ (712) | $ (8,620) | $ (5,540) | $ (19,636) |
| Denominator: | | | | |
| Weighted-average common stock outstanding, basic | 27,634 | 31,578 | 29,320 | 31,335 |
| Dilutive effect of potential common shares: | | | | |
| Stock options, RSUs, RSA and ESPP | — | — | — | — |
| Total shares, diluted | 27,634 | 31,578 | 29,320 | 31,335 |
| Basic net loss per share | $ (0.03) | $ (0.27) | $ (0.19) | $ (0.63) |
| Diluted net loss per share | $ (0.03) | $ (0.27) | $ (0.19) | $ (0.63) |

As of June 30, 2020, approximately 1.4 million stock options and 1.3 million RSUs and RSAs were excluded from computation of diluted net loss per share because their effect would have been anti-dilutive.

As of June 30, 2019, approximately 2.0 million stock options and 0.8 million RSUs and RSAs were excluded from computation of diluted net loss per share because their effect would have been anti-dilutive.

**9. LEASES**

We lease all of our office space pursuant to operating lease and sublease arrangements, which expire at various dates through February 29, 2024. We recognize lease expense on a straight-line basis over the lease term. Leases with an initial term of 12 months or less are not recorded on the Condensed Consolidated Balance Sheets. We combine lease and non-lease components for new and reassessed leases. We apply discount rates to operating leases using a portfolio approach.

On January 31, 2020, we entered into an agreement to lease approximately 5,000 square feet of office space in San Francisco, California. This facility is used for administrative and headquarter functions. The lease commenced in the first quarter of 2020 and expires in 2022. During the three months ended March 31, 2020, we recorded a lease liability of $0.6 million, which represents the present value of the lease payments using an estimated incremental borrowing rate of 3.50%. We also recognized lease right-of-use assets ("ROU") of $0.6 million which represents our right to use an underlying asset for the lease term. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term.

Below is a summary of our ROU assets and lease liabilities as of June 30, 2020 and December 31, 2019, respectively (in thousands):

| | Balance Sheets Classification | June 30, 2020 | December 31, 2019 |
|---|---|---|---|
| Assets | | | |
| Right-of-use assets | Other assets | $ 2,337 | $ 2,202 |
| Liabilities | | | |
| Operating lease liabilities - current | Other current liabilities | 1,406 | 1,150 |
| Operating lease liabilities - long-term | Other long-term liabilities | 2,324 | 2,664 |
| Total lease liabilities | | $ 3,730 | $ 3,814 |

During 2019, we began to shift general and administrative, research and development and executive functions and employees from our San Jose, California facility (“SJ Facility”) to our San Francisco, California and Montreal, Canada offices. In the fourth quarter of 2019, we announced our decision to exit the SJ Facility by March 31, 2020. We accelerated the amortization of our SJ Facility leasehold improvements over their remaining estimated life. As of March 31, 2020, the SJ Facility leasehold improvements were fully amortized.

On March 12, 2020, we entered into a sublease agreement with Neato Robotics, Inc. ("Neato") for the San Jose California Facility ("SJ Facility"). This sublease commenced in June 2020 and ends on April 30, 2023 which is the lease termination date of the original SJ Facility lease.

In accordance with provisions of ASC 842 Leases ("ASC 842"), we treated the sublease as a separate lease as we were not relieved of the primary obligation under the original lease. We continue to account for the original SJ Facility, as a lessee, in the same manner as prior to the commencement date of the sublease. We accounted for the sublease as a lessor of the lease. We classified the sublease as an operating lease as it did not meet the criteria of a Sale-Type or Direct Financing lease.

At the commencement date of the sublease, we recognized initial direct costs of $0.3 million. These deferred costs will be amortized over the terms of the sublease payments. As of June 30, 2020, $0.1 million was reported in *Prepaid expenses and other current assets* and $0.2 million was reported in *Other assets* on our Condensed Consolidated Balance Sheets.

We recognize operating lease expense and lease payments from the sublease, on a straight-line basis, in our Condensed Consolidated Statements of Operations and Comprehensive Loss over the lease terms. During the three and six months ended June 30, 2020, and 2019, our net operating lease expenses are as follows (in thousands):

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Operating lease cost | $ 301 | $ 265 | $ 573 | $ 555 |
| Sublease income | (70) | — | (70) | — |
| Total lease cost | $ 231 | $ 265 | $ 503 | $ 555 |

The table below provides supplemental information related to operating leases for the six months ended June 30, 2020 (in thousands except for lease term):

| | |
|---|---|
| Cash paid within operating cash flow | $ 349 |
| Weighted average lease terms (in years) | 2.71 |
| Weighted average discount rate | 3.50% |

Minimum future lease payment obligations for our operating leases as of June 30, 2020 are as follows (in thousands):

| | |
|---|---|
| For the Years Ending December 31, | |
| Remainder of 2020 | $ 751 |
| 2021 | 1,494 |
| 2022 | 1,191 |
| 2023 | 450 |
| 2024 | 23 |
| Total | $ 3,909 |

Future lease payments as of June 30, 2020 from our sublease agreement are as follows (in thousands):

| For the Years Ending December 31, | | |
|---|---|---|
| Remainder of 2020 | $ | 514 |
| 2021 | | 1,046 |
| 2022 | | 1,077 |
| 2023 | | 351 |
| Total | $ | 2,988 |

**10. CONTINGENCIES**

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

In the normal course of business, we provide 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 we are unable to estimate the maximum potential impact of these guarantees on our future results of operations.

On April 28, 2017, Immersion and Immersion Software Ireland Limited (collectively, "Immersion") received a letter from Samsung Electronics Co. ("Samsung") requesting that we reimburse Samsung with respect to withholding tax and penalties imposed on Samsung by the Korean tax authorities following an investigation where the tax authority determined that Samsung failed to withhold taxes on Samsung's royalty payments to Immersion Software Ireland from 2012 to 2016. On July 12, 2017, on behalf of Samsung, Immersion filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes and penalties. On October 18, 2018, the Korea Tax Tribunal held a hearing and on November 19, 2018, the Korea Tax Tribunal issued its ruling in which it decided not to accept our arguments with respect to the Korean tax authorities' assessment of withholding tax and penalties imposed on Samsung. On behalf of Samsung, we filed an appeal with the Korea Administrative Court on February 15, 2019. The first hearing occurred on June 27, 2019. A second hearing occurred on August 29, 2019. A third hearing occurred on October 31, 2019. A fourth hearing occurred on December 19, 2019. A fifth hearing occurred on April 2, 2020. A sixth hearing occurred on May 14, 2020. A seventh hearing occurred on June 4, 2020. On July 16, 2020, the Korea Administrative Court issued its ruling in which it ruled that the withholding taxes and penalties which were imposed by the Korean tax authorities on Samsung should be canceled with some litigation costs to be borne by the Korean tax authorities. On August 3, 2020, the Korean tax authorities filed a petition of appeal with the Korea High Court indicating the Korean tax authorities' intent to appeal the decision of the Korea Administrative Court.

On September 29, 2017, Samsung filed an arbitration demand with the International Chamber of Commerce against Immersion demanding that we reimburse Samsung for the imposed tax and penalties that Samsung paid to the Korean tax authorities. On March 27, 2019, we received the final award. The award ordered Immersion to pay Samsung KRW 7,841,324,165 ($6.9 million) which Immersion paid on April 22, 2019, and recorded in *Long-term deposits* on our Condensed Consolidated Balance Sheets. The award also denied Samsung's claim for interest from and after May 2, 2017, and ordered Immersion to pay Samsung's cost of the arbitration in the amount of approximately $871,454.

We believe that there are valid defenses to all of the claims from the Korean tax authorities. We intend to vigorously defend against the claims from the Korean tax authorities. We expect to be reimbursed by Samsung to the extent we ultimately prevail in the appeal in the Korea courts. On March 31, 2019, $6.9 million was recorded as a deposit included in *Long-term deposits* on our Condensed Consolidated Balance Sheets. In the event that we do not ultimately prevail in our appeal in the Korean courts, the deposit included in *Long-term deposits* would be recorded as additional income tax expense on our Condensed Consolidated Statement of Operations and Comprehensive Loss, in the period in which we do not ultimately prevail.

On October 16, 2017, we received a letter from LG Electronics Inc. ("LGE") requesting that we reimburse LGE with respect to withholding tax imposed on LGE by the Korean tax authorities following an investigation where the tax authority determined that LGE failed to withhold on LGE's royalty payments to Immersion Software Ireland from 2012 to 2014.

Pursuant to an agreement reached with LGE, on April 8, 2020, we provided a provisional deposit to LGE in the amount of KRW 5,916,845,454 (approximately $5.0 million) representing the amount of such withholding tax that was imposed on LGE, which provisional deposit would be returned to us to the extent we ultimately prevail in the appeal in the Korea courts. In the second quarter of 2020, we recorded this deposit in *Long-term deposits* on our Condensed Consolidated Balance Sheets. In the event that we do not ultimately prevail in our appeal in the Korean courts, the deposit included in *Long-term deposits* would be recorded as additional income tax expense on our Condensed Consolidated Statement of Operations and Comprehensive Loss, in the period in which we do not ultimately prevail.

On November 3, 2017, on behalf of LGE, we filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes. The Korea Tax Tribunal hearing took place on March 5, 2019. On March 19, 2019, the Korea Tax Tribunal issued its ruling in which it decided not to accept Immersion's arguments with respect to the Korean tax authorities' assessment of withholding tax and penalties imposed on LGE. On behalf of LGE, we filed an appeal with the Korea Administrative Court on June 10, 2019. The first hearing occurred on October 15, 2019. A second hearing occurred on December 19, 2019. A third hearing occurred on February 13, 2020. A fourth hearing occurred on June 9, 2020. A fifth hearing occurred on July 16, 2020. We anticipate a decision to be rendered on or about October 8, 2020.

We believe that there are valid defenses to the claims raised by the Korean tax authorities and that LGE's claims are without merit. We intend to vigorously defend ourselves against these claims. In the event that we do not ultimately prevail in our appeal in the Korean courts, any payments to LGE with respect to withholding tax imposed on LGE by the Korean tax authorities as described in the previous paragraph would be recorded as additional income tax expense on the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss), in the period in which we do not ultimately prevail.

## 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,” “can,” “will,” “places,” “estimates,” and other similar expressions. However, these words are not the only way we identify forward-looking statements. Examples of forward-looking statements include any expectations, projections, or other characterizations of future events, or circumstances, and include statements regarding: the impact of COVID-19 on our business, including as to revenue, and potential cost reduction measures, and the impact of COVID-19 on our customers, suppliers, and on the economy in general; our strategy and our ability to execute our business plan; our competition and the market in which we operate; our customers and suppliers; our revenue and the recognition and components thereof; our costs and expenses; including capital expenditures; seasonality and demand; our investment in research and technology development; changes to general and administrative expenses; our foreign operations and the reinvestment of our earnings related thereto; our investment in and protection of our IP; our employees; capital expenditures and the sufficiency of our capital resources; unrecognized tax benefit and tax liabilities; the impact of changes in interest rates and foreign exchange rates, as well as our plans with respect to foreign currency hedging in general; changes in laws and regulations; including with respect to taxes; our plans related to and the impact of current and future litigation or activism; our sublease and the timing and income related thereto; and our stock repurchase program.

Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Actual results could differ materially from those projected in the forward-looking statements, therefore we caution you not to place undue reliance on these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following: the effects of the COVID-19 global pandemic on us and our business, and on the business of our suppliers and customers; unanticipated changes in the markets in which we operate; the effects of the current macroeconomic climate (especially in light of the ongoing adverse effects of the COVID-19 global pandemic); delay in or failure to achieve adoption of or commercial demand for our products or third party products incorporating our technologies; the inability of Immersion to renew existing licensing arrangements, or enter into new licensing arrangements for our patents and other technologies on favorable terms; the loss of a major customer; the ability of Immersion to protect and enforce our intellectual property rights; unanticipated difficulties and challenges in developing or acquiring successful innovations and our ability to patent those innovations; stockholder activism; changes in patent law; confusion as to our licensing model or agreement terms; the ability of Immersion to return to consistent profitability in the future; the inability of Immersion to retain or recruit necessary personnel; the commencement, by others or by us, of legal or administrative action; risks related to our international operations and other factors.

Any forward-looking statements made by us in this report speak only as of the date of this report, and we do not intend 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 to engage with products and experience the digital world around them. We are one of the leading experts in haptics, and our focus on innovation allows us to deliver world-class intellectual property (“IP”) and technology that enables the creation of products that delight end users. Our technologies are designed to facilitate the creation of high-quality haptic experiences, enable their widespread distribution, and ensure that their playback is optimized. Our primary business is currently in the mobility, gaming, and automotive markets, but we believe our technology is broadly applicable and see opportunities in evolving new markets, including entertainment, social content, virtual and augmented reality, sexual wellness and wearables, as well as residential, commercial, and industrial Internet of Things (“IoT”). In recent years, we have seen a trend towards broad market adoption of haptic technology, and estimate our technology is now in more than 3 billion devices worldwide. As other companies follow our leadership in recognizing how important tactile feedback can be in people's digital lives, we expect the opportunity to license our IP and technologies will continue to expand.

We have adopted a business model under which we provide advanced tactile software, related tools and technical assistance designed to integrate our patented technology into our customers’ products or enhance the functionality of our patented technology, and offer licenses to our patented technology to our customers. Our licenses enable 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 2,300 issued or pending patents worldwide as of June 30, 2020. Our patents cover a wide range of digital technologies and ways in which touch-related technology can be incorporated into and between hardware products and components, systems software, application software, and digital content. We believe that our IP is relevant to many of the most important and cutting-edge ways in which haptic technology is and can be deployed, including in connection with mobile interfaces and user interactions, in association with pressure and other sensing technologies, as part of video and interactive content offerings, as related to virtual and augmented reality experiences, and in connection with advanced actuation technologies and techniques.

We were incorporated in 1993 in California and reincorporated in Delaware in 1999.

*Impact of COVID-19*

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which continues to spread throughout the U.S. and the world and has resulted in authorities implementing numerous measures to combat the spread of the virus. including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns. The COVID-19 outbreak and related public health measures, including orders to shelter-in-place, travel restrictions and mandated business closures, have adversely affected workforces, organizations, consumers, economies, and financial markets globally, leading to an economic downturn and increased market volatility.

Our compliance with these containment measures has impacted our day-to-day operations and could disrupt our business and operations, as well as that of our customers and suppliers for an extended period of time. To support the health and well-being of our employees, customers and communities, we implemented work-from-home and restricted travel policies in the first quarter of 2020, which are expected to remain in place until the end of September 2020. In addition, many of our customers are working remotely, which may delay the timing of some orders due to their and our compliance with frequently changing government-mandated or recommended shelter-in-place orders in jurisdictions in which we, our customers and our suppliers operate.

We reported lower estimated royalties revenue in the second quarter of 2020 following the anticipated volume reductions due to delay in shipments as well as decline in general business environment due to the impact of COVID-19.

In response to certain anticipated impacts from the COVID-19 pandemic, we have also implemented a series of cost reduction initiatives to further preserve financial flexibility. These actions include: reductions of the base salaries and cash compensation of company executives and board members; cancellation and reduction in current year's executive and employee bonus plans; renegotiated professional services fees from third party services providers; relocation of certain positions to lower-cost regions; temporarily suspended company matching of our employee retirement savings plan and taking advantage of the broad-based employer relief provided by the governments.

In April 2020, the Government of Canada announced the Canada Emergency Wage Subsidy (“CEWS”) for Canadian employers whose businesses were affected by the COVID-19 pandemic. The CEWS provides a subsidy of up to 75% of eligible employees’ employment insurable remuneration, subject to certain criteria. We applied for the CEWS to the extent we met the requirements to receive the subsidy. During the three months ended June 30, 2020, we recorded $0.2 million in government subsidies as a reduction to operating expenses in the Condensed Consolidated Statement of Operations.

As the COVID-19 pandemic evolves, we will continue to actively monitor developments and business conditions that may cause us to take further actions that alter business operations as may be required by applicable authorities or that we determine are in the best interests of our employees, customers, suppliers and stockholders. Although the effects of the pandemic may not be fully reflected in our financial results until future periods, the COVID-19 pandemic and our resulting economic effects could have significant adverse effects on our customers’ ability to produce, distribute and sell products incorporating our touch-enabling technologies, which may result in a reduction in the royalties we receive and could cause adverse effects on our business, results of operations, financial condition and cash flows.

## CRITICAL ACCOUNTING POLICES 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 U.S. 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, short-term investments, leases, income taxes and contingencies. We base our estimates and assumptions on historical experience and on various 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.

Due to the COVID-19 pandemic, there has been uncertainty and disruption in the global economy and financial markets. We are not aware of any specific event or circumstance that would require updates to our estimates or judgments or require us to revise the carrying value of our assets or liabilities as of August 6, 2020, the date of issuance of this Quarterly Report on Form 10-Q. These estimates may change as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions.

Please refer to *Management's Discussion and Analysis of Financial Condition and Results of Operations* contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on March 6, 2020, for a complete discussion of our other critical accounting policies and estimates.

RESULTS OF OPERATIONS

**OVERVIEW**

Total revenue for the three months ended June 30, 2020 was $5.7 million, a decrease of $3.1 million, or 35%, compared to $8.7 million for the three months ended June 30, 2019 primarily driven by a $3.0 million or 70%, decrease in fixed fee license revenue.

Total revenue for the six months ended June 30, 2020 was $11.9 million, a decrease of $1.9 million, or 14%, compared to $13.9 million for the six months ended June 30, 2019 primarily driven by a $3.4 million or 57%, decrease in fixed fee license revenue partially offset by a $1.5 million, or 19%, increase in per-unit royalty revenue.

Net loss for the three months ended June 30, 2020 was $0.7 million, a decrease of $7.9 million, or 92%, as compared to a net loss of $8.6 million for the three months ended June 30, 2019. The decrease in net loss was mainly attributable to a $3.1 million decrease in total revenue and a $11.2 million decrease in total cost and operating expenses. The decrease in cost and expenses was primarily due to lower legal and settlement costs attributable to reduced activities following litigation settlements in 2019, decreased compensation, benefits and other employee related costs and lower consulting and professional services fees driven by lower recruitment fees. The decrease in compensation, benefits and other employee related costs was largely attributable to lower base salaries following the completed transition of research and development and finance functions from San Jose, California to Montreal,Canada and lower variable compensation primarily due to the impact of the cost reduction initiative we implemented in the first half of 2020 in response to the COVID-19 pandemic.

Net loss for the six months ended June 30, 2020 was $5.5 million, a decrease of $14.1 million, or 72%, as compared to a net loss of $19.6 million for the six months ended June 30, 2019 mainly attributable to a $1.9 million decrease in total revenue, a $17.0 million decreased in total cost and operating expenses and a $1.0 million decrease in interest and other income (expense). The decrease in cost and expenses was primarily due to lower legal and settlement costs attributable to reduced activities following litigation settlements, lower compensation costs and a decrease in professional services largely attributable to the cost reduction initiative we implemented in the first half of 2020. These decreases were partially offset by increased depreciation expense resulting from the shortening in estimated useful life of our San Jose, California Facility ("SJ Facility") to March 31, 2020 following our decision to exit this facility as well as a decrease in stock-based compensation expense. The decrease in consulting and professional services was driven by decreases in recruitment fees and outside services in the six months ended June 30, 2020 compared to the same period in 2019.

The following table sets forth our Condensed Consolidated Statements of Operations data as a percentage of total revenue:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues: | | | | |
| Fixed fee license revenue | 23 % | 49 % | 22 % | 43 % |
| Per-unit royalty revenue | 76 | 50 | 77 | 56 |
| Total royalty and license revenue | 99 | 99 | 99 | 99 |
| Development, services, and other revenue | 1 | 1 | 1 | 1 |
| Total revenues | 100 | 100 | 100 | 100 |
| Costs and expenses: | | | | |
| Cost of revenues | 1 | — | 1 | — |
| Sales and marketing | 22 | 18 | 25 | 23 |
| Research and development | 23 | 21 | 25 | 30 |
| General and administrative | 73 | 166 | 96 | 196 |
| Total costs and expenses | 119 | 205 | 147 | 249 |
| Operating loss | (19) | (105) | (47) | (149) |
| Interest and other income | 7 | 6 | 1 | 8 |
| Loss before provision for income taxes | (12) | (99) | (46) | (141) |
| Provision for income taxes | (1) | — | (1) | (1) |
| Net loss | (13)% | (99)% | (47)% | (142)% |

**REVENUES**

Our revenue is primarily derived from fixed fee license agreements and per-unit royalty agreements, along with less significant revenue earned from development, services and other revenue. Royalty and license revenue are composed of per unit royalties earned based on usage or net sales by licensees and fixed payment license fees charged for our IP and software.

**Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019**

A revenue summary for the three months ended June 30, 2020 and 2019 are as follows (in thousands, except for percentages):

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2020 | 2019 | $ Change | % Change |
| Revenues: | | | | |
| Fixed fee license revenue | $ 1,292 | $ 4,254 | $ (2,962) | (70)% |
| Per-unit royalty revenue | 4,301 | 4,414 | (113) | (3)% |
| Total royalty and license revenue | 5,593 | 8,668 | (3,075) | (35)% |
| Development, services, and other revenue | 75 | 75 | — | —% |
| Total revenues | $ 5,668 | $ 8,743 | $ (3,075) | (35)% |

*Royalty and license revenue* — Total royalty and license revenue for the three months ended June 30, 2020 decreased $3.1 million, or 35%, from $8.7 million for the three months ended June 30, 2019 to $5.6 million for the three months ended June 30, 2020.

Per-unit royalty revenue decreased by $0.1 million, or 3%, in the three months ended June 30, 2020 compared to the three months ended June 30, 2019, primarily caused by a $0.6 million decrease in royalties from our automotive royalties and a $0.5

million decrease in our gaming royalties, partially offset by a $0.9 million increase in royalties obtained from our mobility licensees ("mobility royalty"). The decrease in automotive royalty was primarily due to lower volume due to shipment delays resulting from the impact of COVID-19. The decrease in gaming royalty revenue was caused by lower shipment volume due to COVID-19 related economic downturn and the impact of nonrenewal of an expired contract. The increase in mobility royalty revenue was due mainly to per-unit royalty revenue agreements entered into during the second and third quarters of 2019.

Fixed fee license revenue decreased $3.0 million, or 70%, in the three months ended June 30, 2020 compared to the three months ended June 30, 2019 primarily due to a $2.0 million decrease in gaming license revenue and a $1.0 million decrease in mobility license revenue.

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. Our fixed fee license revenue could fluctuate depending upon the timing of execution of new fixed license fee arrangements under Accounting Standard Codification 606, *Revenue from Contracts with Customers*, (“ASC 606”).

*Development, services and other revenue* — Development, services, and other revenue was $75,000 for each of the three months ended June 30, 2020 and 2019.

Geographically, revenues generated in Asia, North America, and Europe for the three months ended June 30, 2020 represented 78%, 16%, and 6%, respectively, of our total revenue as compared to 58%, 37%, and 5%, respectively, for the three months ended June 30, 2019.

**Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019**

A revenue summary for the six months ended June 30, 2020 and 2019 are as follows (in thousands, except for percentages):

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2020 | 2019 | $ Change | % Change |
| Revenues: | | | | |
| Fixed fee license revenue | $ 2,578 | $ 5,994 | $ (3,416) | (57)% |
| Per-unit royalty revenue | 9,197 | 7,721 | 1,476 | 19 % |
| Total royalty and license revenue | 11,775 | 13,715 | (1,940) | (14)% |
| Development, services, and other revenue | 150 | 150 | — | —% |
| Total revenues | $ 11,925 | $ 13,865 | $ (1,940) | (14)% |

*Royalty and license revenue* — Total royalty and license revenue for the six months ended June 30, 2020 decreased $1.9 million, or 14%, from $13.7 million for the six months ended June 30, 2019 to $11.8 million for the six months ended June 30, 2019.

Per-unit royalty revenue increased by $1.5 million, or 19%, in the six months ended June 30, 2020 compared to the six months ended June 30, 2019, primarily caused by a $3.6 million increase in royalties from our mobility licensees partially offset by a $1.1 million decrease in royalties obtained from our gaming licensees and a $1.1 million decrease in royalty revenue from our automotive licensees. The increase in mobility royalties was due mainly to per-unit royalty agreements entered into during the second and third quarters of 2019. The decrease in gaming revenue was primarily due to the impact of nonrenewal of an expired contract as well as lower shipments due to the impact of COVID-19 related economic downturn. The decrease in automotive royalty revenue was primarily due to lower shipment volume largely attributable to the impact of COVID-19.

Fixed fee license revenue decreased $3.4 million, or 57%, in the six months ended June 30, 2020 compared to the six months ended June 30, 2019 primarily due to a $2.0 million decrease in gaming license revenue, a $1.0 million decrease in mobility license revenue and a $0.5 million decrease in automotive license revenue.

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. Our fixed fee license revenue could fluctuate depending upon the timing of execution of new fixed license fee arrangements under ASC 606.

*Development, services and other revenue* — Development, services, and other revenue was $0.2 million for each of the six months ended June 30, 2020 and 2019.

Geographically, revenues generated in Asia, North America, and Europe for the six months ended June 30, 2020 represented 79%, 16%, and 5%, respectively, of our total revenue as compared to 54%, 38%, and 8%, respectively, for the three months ended June 30, 2019.

**OPERATING EXPENSES**

The following tables set forth a summary of our operating expenses for the three and six months ended June 30, 2020 and 2019 (in thousands):

| | Three Months Ended June 30 | | | |
|---|---|---|---|---|
| | **2020** | **2019** | **Change** | **% Change** |
| Sales and marketing | $ 1,255 | $ 1,579 | $ (324) | (21)% |
| % of total revenue | 22% | 18% | | |
| Research and development | $ 1,323 | $ 1,831 | $ (508) | (28)% |
| % of total revenue | 23% | 21% | | |
| General and administrative | $ 4,087 | $ 14,448 | $ (10,361) | (72)% |
| % of total revenue | 72% | 165% | | |

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | **2020** | **2019** | **Change** | **% Change** |
| Sales and marketing | 2,971 | 3,188 | (217) | (7)% |
| % of total revenue | 25% | 23% | | |
| Research and development | 3,012 | 4,133 | (1,121) | (27)% |
| % of total revenue | 25% | 30% | | |
| General and administrative | 11,443 | 27,143 | (15,700) | (58)% |
| % of total revenue | 96% | 196% | | |

*Sales and Marketing* — Our sales and marketing expenses are primarily comprised of employee compensation and benefits, sales commissions, advertising, trade shows, collateral marketing materials, market development funds, travel, and allocation of facilities costs.

Sales and marketing expenses decreased $0.3 million, or 21%, for the three months ended June 30, 2020 compared to the three months ended June 30, 2019 primarily due to a $0.2 million decrease in sales and marketing and travel costs and a $0.1 million decrease in outside services costs. These decreases were mainly attributable to reduced business activities as a result of the COVID-19 pandemic and the impact of the cost reduction initiatives implemented in the first half of 2020.

Sales and marketing expenses decreased $0.2 million, or 7%, for the six months ended June 30, 2020 compared to the six months ended June 30, 2019 primarily due to a $0.3 million decrease in compensation, benefits and other personnel related costs reduction initiatives and a $0.1 million decrease in consulting and outside services, partially offset by a $0.2 million increase in depreciation expense. The decrease in compensation, benefits and other personnel related costs was primarily due to a decrease in commissions and other variable compensation largely attributable to reduced business activities as a result of COVID-19 pandemic, the impact of cost reduction initiatives we implemented during the first half of 2020, and a decrease in stock-based compensation expense. The increase in depreciation expense was primarily attributable to higher depreciation expense in the first quarter of 2020 resulting from the shortening in estimated useful life of the leasehold improvements of the San Jose, California (" SJ Facility").

*Research and Development* — Our research and development expenses are comprised of employee compensation and benefits, outside services and consulting fees, tooling and supplies, and an allocation of facilities costs.

Research and development expenses decreased $0.5 million, or 28%, for the three months ended June 30, 2020 compared to three months ended June 30, 2019. This decrease was primarily due to a $0.2 million decrease in compensation, benefits and other personnel related costs, a $0.1 million decrease in travel costs and a $0.1 million decrease in facilities related costs. Research and development expenses decreased $1.1 million, or 27%, for the six months ended June 30, 2020 compared to six months ended June 30, 2019 primarily resulting from a $0.8 million decrease in compensation, benefits and other personnel related costs, including a $0.4 million decrease in stock-based compensation, $0.1 million decrease in consulting and outside services and a $0.1 million decrease in travel costs.

The decrease in compensation, benefits and other personnel related costs was primarily attributable to lower base salary largely attributable to the completed transition of our research and development function from San Jose, California to Montreal, Canada. In addition, we recorded a $0.2 million CEWS subsidy as a reduction to compensation expense in the second quarter of 2020. The decrease in variable compensation largely attributable to the cost reduction initiatives we implemented in the first half of 2020. The decrease in travel and consulting and professional services expenses were primarily due to reduced business activities during the three and six months ended June 30, 2020 compared to the same period in 2019 due to the impact of COVID-19 pandemic.

We believe that continued investment in research and development is critical to our future success, and we expect to continue making targeted investments in areas of research and technology development to support future growth in key markets.

*General and Administrative* — Our general and administrative expenses consist of employee compensation and benefits, legal and professional fees, external legal costs for patents, office supplies, travel, and allocation of facilities costs.

General and administrative expenses decreased $10.4 million, or 72%, for the three months ended June 30, 2020 compared to the three months ended June 30, 2019 due to a $8.4 million decrease in legal expenses, a $0.9 million decrease in consulting and professional services and a $0.7 million decrease in compensation, benefits and other personnel related costs. General and administrative expenses decreased $15.7 million, or 58%, for the six months ended June 30, 2020 compared to the six months ended June 30, 2019 due to a $14.4 million decrease in legal expenses, a $0.7 million decrease in consulting and professional services, a $0.6 million decrease in compensation, benefits and other personnel related costs and a $0.2 million decrease in foreign currency exchange loss. These decreases were partially offset by a $0.3 million increase in depreciation expense.

The decrease in legal expense was primarily attributable to reduced activities following litigation settlements in 2019, as well as a decrease in patent maintenance and prosecution costs. The decrease in compensation, benefits and other personnel related costs was primarily due to lower salaries, variable compensation and stock-based compensation, primarily driven by the transition of our general and administrative function from San Jose, California to Montreal, Canada and the impact of the COVID-19 related cost cutting initiative we implemented in the first half of 2020. The decrease in consulting and professional services was due to lower recruitment fees in the three and six months ended June 30, 2020 compared to the same periods in 2019. The increase in depreciation expense was primarily attributable to higher depreciation expense in the first quarter of 2020 resulting from the shortening in estimated useful life of the leasehold improvements of the SJ Facility.

We expect our general and administrative expenses to decrease in the future as we achieve targeted reductions in consulting and professional services, and other costs.

**INTEREST AND OTHER INCOME (LOSS)**

*Interest and Other Income (Loss)* — Interest and other income (loss) consists of interest income from cash equivalents and short-term investments, translation exchange rate gains (losses) and other income.

Interest and other income (loss) decreased $0.1 million during the three months ended June 30, 2020 compared to the same period in 2019 primarily driven by a $0.5 million decrease in investment earnings on cash equivalents and short-term investments partially offset by a $0.2 million increase in other income and a $0.1 million increase in foreign exchange translation gain. Interest and other income (loss) decreased $1.0 million during the six months ended June 30, 2020 compared to the same period in 2019 primarily driven by a $0.8 million decrease in investment earnings on cash equivalents and short-term investments, a $0.4 million increase in foreign exchange translation loss partially offset by a $0.2 million increase in other income.

The decrease in investment earnings was primarily due to lower total cash, cash equivalents and short-term investments during the three and six months ended June 30, 2020 as compared to the same periods in 2019. The increase in foreign exchange translation loss for the six months ended June 30, 2020 was a result of the depreciation of the South Korean Won and the Canadian dollar against the U.S. dollar in the first quarter of 2020 partially resulting from the increased market volatility driven by the global COVID-19 pandemic.

**BENEFIT FROM (PROVISION FOR) INCOME TAXES**

The following table sets forth a summary of our benefit from (provision for) income taxes for the three and six months ended June 30, 2020 and 2019 (in thousands except for percentages):

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2020 | 2019 | Change | % Change |
| Loss before provision for income taxes | $ (671) | $ (8,623) | | |
| Benefit from (provision for) income taxes | $ (41) | $ 3 | $ (44) | (1,467)% |
| Effective tax rate | 6.1% | 0 % | | |

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2020 | 2019 | Change | % Change |
| Loss before benefit from (provision for) income taxes | $ (5,447) | $ (19,524) | | |
| Provision for income taxes | $ (93) | $ (112) | $ 19 | (17)% |
| Effective tax rates | 1.7% | 0.6% | | |

The provision for income tax for the three and six months ended June 30, 2020 resulted primarily from estimated foreign taxes included in the calculation of the effective tax rate. The benefit for income tax for the three months ended June 30, 2019 and provision for income tax for the six months ended June 30, 2019 resulted primarily from estimated foreign taxes included in the calculation of the effective tax rate. For the three and six months ended June 30, 2019, we used a year-to-date approach to calculate the effective tax rate. We continue to carry a full valuation allowance on our federal deferred tax assets. As a result, no benefit for losses generated from our U.S. territory was included in the calculation of the year-to-date effective tax rate, which was the main reason for the difference between the statutory tax rate and actual effective tax rate. The year-over-year change in provision for income taxes resulted primarily from the change in mix of income from continuing operations across various tax jurisdictions.

On December 22, 2017, the Tax Act was passed into law. Among other changes, the Tax Act introduced the Base Erosion and Anti-Abuse Tax (the “BEAT”), which creates a new tax on certain related-party payments. We concluded that we have not met the threshold requirements of the BEAT. On July 9, 2020, the Internal Revenue Service issued final regulations regarding deductions for global intangible low-taxed income (“GILTI”) and foreign-derived intangible income (“FDII”). On July 9, 2020, the Treasury Department released final regulations (TD 9901) under IRC Section 250, which allows an annual deduction to a domestic corporation for its foreign-derived intangible income (FDII) and global intangible low-taxed income (GILTI) inclusion. The final guidance is not expected to have a material impact on our consolidated financial statements. Although the measurement period has closed, further technical guidance related to the Tax Act, including final regulations on a broad range of other topics, is expected to be issued. In accordance with ASC 740, we will recognize any effects of the guidance in the period that such guidance is issued.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was passed into law. The CARES Act includes several significant business tax provisions including modification to the taxable income limitation for utilization of net operating losses ("NOLs") incurred in 2018, 2019 and 2020 and the ability to carry back NOLs from those years for a period of up to five years, an increase to the limitation on deductibility of certain business interest expense, bonus depreciation for purchases of qualified improvement property and special deductions on certain corporate charitable contributions. We analyzed the provisions of the CARES Act and determined there was no effect on our provision for the three and six months ended June 30, 2020.

We continue to maintain a valuation allowance of $28.0 million against certain of our 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 we determine the deferred tax assets are realizable based on an assessment of relevant factors, an adjustment to the valuation allowance may increase income in the period such determination is made.

We also maintain liabilities for uncertain tax positions. As of June 30, 2020, we had unrecognized tax benefits under ASC 740 of approximately $4.8 million and applicable interest of $29,000. The total amount of unrecognized tax benefits that would affect our effective tax rate, if recognized, is $97,000.

## LIQUIDITY AND CAPITAL RESOURCES

Our cash, cash equivalents, and short-term investments consist primarily of money market funds and treasury bills. 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, 2020, our cash, cash equivalents, and short-term investments totaled $54.1 million, a decrease of $32.4 million from $86.5 million on December 31, 2019.

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2020 | 2019 | Change | % Change |
| Net cash used in operating activities | $ (4,768) | $ (23,915) | $ 19,147 | (80)% |
| Net cash provided by investing activities | $ 2,970 | $ 5,061 | $ (2,091) | (41)% |
| Net cash provided by (used in) financing activities | $ (30,579) | $ 480 | $ (31,059) | NM[1] |

(1) Not meaningful.

### *Operating Activities*

Cash used in operating activities primarily consists of net loss, adjusted for certain non-cash items including depreciation and amortization; stock-based compensation expense and the effect of changes in operating assets and liabilities.

Net cash used in operating activities was $4.8 million during the six months ended June 30, 2020, a $19.1 million decrease compared the same period in 2019. The decrease in net cash used in operating activities in the six months ended June 30, 2020 compared to the same period in 2019 was primarily attributable to a $14.1 million decrease in net loss and a $5.5 million change in net operating assets and liabilities.

### *Investing Activities*

Our investing activities primarily consist of purchases of and proceeds from maturities of short-term investments and purchases of computer equipment, furniture and leasehold improvements related to facilities expansion.

Net cash provided by investing activities during the six months ended June 30, 2020 was $3.0 million primarily consisting of proceeds from maturities of short-term investments.

Net cash used in investing activities during the six months ended June 30, 2019 was $5.1 million primarily consisting of $8.9 million in purchases of short-term investments partially offset by $14.0 million proceeds from maturities of short-term investments.

***Financing Activities***

Our financing activities primarily consist of cash proceeds from stock option exercises and stock purchases under our employee stock purchase plan and cash paid for repurchases of our common stock.

Net cash used in financing activities during the six months ended June 30, 2020 was $30.6 million, and primarily consisted of $30.6 million in cash paid for stock repurchases.

Net cash provided by financing activities during the six months ended June 30, 2019 was $0.5 million, and consisted of $0.5 million in cash proceeds from stock option exercises and stock purchases under our employee stock purchase plan.

Our total cash, cash equivalents, and short-term investments were $54.1 million as of June 30, 2020, of which approximately 12% ($6.3 million) 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 may continue to invest in, protect, and defend our extensive IP portfolio, which can result in the use of cash in the event of litigation.

During the first half of 2020, we repurchased approximately 4.9 million shares of our common stock for approximately $30.6 million at an average cost of $6.21 per share. As of June 30, 2020, there were no amounts available under our previously-approved share repurchase program.

We anticipate that capital expenditures for property and equipment for the year ending December 31, 2020 will be less than $1 million.

While the unprecedented public health and governmental efforts to contain the spread of COVID-19 have created significant uncertainty as to general economic and capital market conditions for the remainder of 2020 and beyond, as of August 6, 2020, the date of this Quarterly Report on Form 10-Q, we believe we have sufficient capital resources to meet our working capital needs for the next twelve months.

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 Risk Factors.

**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, 2019. Our principal commitments as of June 30, 2020 consisted of $3.9 million in obligations under operating leases.

On January 31, 2020, we entered into an agreement to lease approximately 5,000 square feet of office space in San Francisco, California. This facility will be used for administrative and headquarter functions. The lease commenced in the first quarter of 2020 and expires in 2022. As of June 30, 2020, the total lease obligation for this lease was $0.5 million.

On March 12, 2020, we entered into a sublease agreement with Neato Robotics, Inc. ("Neato") for the SJ Facility. This sublease commenced in June 2020. We expect to receive approximately $3.0 million in total rent payments under this sublease agreement.

There have been no other material changes in those obligations during the six months ended June 30, 2020.

As of June 30, 2020, we had unrecognized tax benefits under ASC 740 Income Taxes of approximately $4.8 million and applicable interest of $29,000. The total amount of unrecognized tax benefits that would affect our effective tax rate, if recognized, is $97,000.

**RECENT ACCOUNTING PRONOUNCEMENTS**

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

**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 of $45.6 million as of June 30, 2020, 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 not have material impact fair value of our cash equivalents and short-term investments as of June 30, 2020.

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 licenses to become relatively more expensive to customers in a particular country, leading to a reduction in sales or profitability in that country.

The balance sheets of our subsidiaries may have monetary assets and liabilities denominated in currencies other than the primary currency of such business. For example, we have a deposit denominated in South Korean Won held in a subsidiary where the primary currency is the Euro. Fluctuations in currency exchange rates will result in foreign currency translation gains and losses, which are included in *Interest and other income* in our Condensed Consolidated Statements of Operations and Comprehensive Loss.

In addition, the functional currency of our international subsidiaries is U. S. dollars, hence monetary assets and liabilities are remeasured on a periodic basis, any resulting gains or losses statements of the foreign subsidiaries and foreign currency translation gains and losses are included in *Interest and other income* in our Condensed Consolidated Statements of Operations.

We have no foreign exchange contracts, option contracts, or other foreign currency hedging arrangements, however we may enter into such arrangements in the future.

**ITEM 4. CONTROLS AND PROCEDURES**

Based on their evaluation as of June 30, 2020, 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 Interim 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, 2020 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.

## PART II
## OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

*Samsung Electronics Co. v. Immersion Corporation and Immersion Software Ireland Limited*

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 following an investigation where the tax authority determined that Samsung failed to withhold taxes on Samsung's royalty payments to Immersion Software Ireland from 2012 to 2016. On July 12, 2017, on behalf of Samsung, we filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes and penalties. On October 18, 2018, the Korea Tax Tribunal held a hearing and on November 19, 2018, the Korea Tax Tribunal issued its ruling in which it decided not to accept Immersion's arguments with respect to the Korean tax authorities' assessment of withholding tax and penalties imposed on Samsung. On behalf of Samsung, we filed an appeal with the Korea Administrative Court on February 15, 2019. The first hearing was scheduled for June 27, 2019. The first hearing occurred on June 27, 2019. A second hearing occurred on August 29, 2019. A third hearing occurred on October 31, 2019. A fourth hearing occurred on December 19, 2019. A fifth hearing occurred on April 2, 2020. A sixth hearing occurred on May 14, 2020. A seventh hearing occurred on June 4, 2020. On July 16, 2020, the Korea Administrative Court issued its ruling in which it ruled that the withholding taxes and penalties which were imposed by the Korean tax authorities on Samsung should be cancelled with some litigation costs to be borne by the Korean tax authorities. On August 3, 2020, the Korean tax authorities filed a petition of appeal with the Korea High Court indicating the Korean tax authorities' intent to appeal the decision of the Korea Administrative Court.

On September 29, 2017, Samsung filed an arbitration demand with the International Chamber of Commerce against us demanding that we reimburse Samsung for the imposed tax and penalties that Samsung paid to the Korean tax authorities. Samsung is requesting that we pay Samsung the amount of KRW 7,841,324,165 (approximately $6.9 million) plus interest from and after May 2, 2017, plus the cost of the arbitration including legal fees. We deny liability and asked the International Chamber of Commerce to postpone the arbitration until the tax appeal is resolved. The arbitration panel conducted an initial status conference on February 7, 2018. The International Chamber of Commerce denied our motion to postpone the arbitration, and on March 2, 2018, issued a Procedural Order setting the hearing date for July 23, 2018. We filed our Statement of Defense and Counterclaim on April 16, 2018. A short discovery phase followed, and each side produced documents in May. Samsung filed its Reply to our Statement of Defense on June 11, 2018, and we filed our Reply on June 25, 2018. The evidentiary hearing took place in Hawaii July 23-24, 2018. The parties submitted supplemental legal authorities on August 8, 2018 and submitted cost submissions on October 15, 2018. On August 15, 2018, the Secretariat of the International Court of Arbitration of the International Chamber of Commerce extended the time for rendering the final award until October 31, 2018. On October 31, 2018, the Secretariat of the International Court of Arbitration of the International Chamber of Commerce again extended the time for rendering the final award until November 30, 2018. On November 8, 2018, the Secretariat of the International Court of Arbitration of the International Chamber of Commerce again extended the time for rendering the final award until December 31, 2018. On December 6, 2018, the Secretariat of the International Court of Arbitration of the International Chamber of Commerce again extended the time for rendering the final award until January 31, 2019. On January 8, 2019, the Secretariat of the International Court of Arbitration of the International Chamber of Commerce informed us that it had received on that day a draft award submitted by the arbitration tribunal and that it would scrutinize the draft at one of its next sessions. On January 31, 2019, the International Chamber of Commerce reported to the parties that it had approved the draft award submitted by the arbitral tribunal, and would notify the award to the parties once the arbitral tribunal has considered the Court's comments, finalized the award and signed it. Also on January 31, 2019, the Secretariat of the International Chamber of Commerce again extended the time for rendering the final award until February 28, 2019. On March 27, 2019, we received the final award. The award ordered Immersion to pay Samsung KRW 7,841,324,165 (approximately $6.9 million as of March 31, 2019), which we paid on April 22, 2019, denied Samsung's claim for interest from and after May 2, 2017; and ordered Immersion to pay Samsung's cost of the arbitration in the amount of approximately $871,454.

We believe that there are valid defenses to all of the claims from the Korean tax authorities. We intend to vigorously defend against the claims from the Korean tax authorities. We expect to be reimbursed by Samsung to the extent we ultimately prevail in the appeal in the Korean courts. At March 31, 2019, $6.9 million was recorded as a deposit included in *Long-term deposits* on our Condensed Consolidated Balance Sheets. In the event that we do not ultimately prevail in our appeal in the Korean courts, the deposit included in Long-term deposits would be recorded as additional income tax expense on our Consolidated Statement of Operations and Comprehensive Income (Loss), in the period in which we do not ultimately prevail.

*Immersion Corporation vs. Samsung (China) Investment Co., Ltd., Huizhou Samsung Electronics Co., Ltd and Fujian Province Min Xin Household Electrical Appliances Technology Service Co., Ltd. (Fuzhou Intellectual Property Court - Case: Min 01 Min Chu No. 342 (2018))*

On March 8, 2018, we filed a complaint against Samsung (China) Investment Co., Ltd. (“Samsung China”), Huizhou Samsung Electronics Co., Ltd. (“Samsung Huizhou”) (together with Samsung China, “Samsung”), and Fujian Province Min Xin Household Electrical Appliances Technology Service Co., Ltd. in the Fuzhou Intermediate Court in Fuzhou, China alleging that certain Samsung touchscreen phones, including the Galaxy S8, S8+, and Note8, infringe three Immersion Chinese patents. The three patents at issue, covering haptic feedback systems and methods in electronic devices, are Chinese Patent No. ZL02821854.X, entitled “Method and Apparatus for Providing Tactile Feedback Sensations”; Chinese Patent No. ZL201210005785.2, entitled “Method and Apparatus for Providing Tactile Feedback Sensations”; and Chinese Patent No. ZL201310253562.2, entitled “Method and Apparatus for Providing Tactile Feedback Sensations”. Immersion’s complaint seeks to stop defendants from using patented methods during manufacturing; to stop defendants from manufacturing, offering to sell, selling, or jointly selling infringing products; as well as the recovery of damages. The Fuzhou Intellectual Property Court accepted the case on March 8, 2018. Samsung China filed a jurisdictional objection on April 10, 2018 in which it asked the court to move the case to Beijing IP court. Samsung Huizhou filed a jurisdictional objection on April 10, 2018 in which it asked the court to move the case to Guangzhou IP court. On May 8, 2018, the court rejected both jurisdictional objections. Samsung Huizhou and Samsung China appealed and the pretrial conference originally scheduled for June 14-15, 2018 was postponed pending a ruling from the Fujian High Court. On September 20, 2018, the Fujian High Court rejected the jurisdictional objection appeals. Samsung China and Samsung Huizhou filed Petitions for Invalidation on April 16, 2018 with the Chinese Patent Office (“SIPO”) for all three patents. Samsung China and Samsung Huizhou supplemented their petitions in May, and we responded on June 1, 2018. A hearing on the petition for Chinese Patent No. ZL02821854.X occurred on July 18, 2018. Hearings on the petitions for Chinese Patent No. ZL201210005785.2 and Chinese Patent No. ZL201310253562.2 occurred on September 28, 2018. Trial was originally scheduled for November 12, and 14, 2018; the Fuzhou Intellectual Property Court granted Immersion's request to postpone trial but did not set revised dates. The Company and Samsung each submitted evidence for use at trial on or before October 26, 2018. The Patent Reexamination Board of SIPO issued invalidation decisions against Chinese Patent No. ZL02821854.X on November 21, 2018, against Chinese Patent No. ZL201310253562.2 on November 14, 2018, and against Chinese Patent No. ZL201210005785.2 on November 15, 2018, declaring all three Chinese patents invalid. We filed an application to withdraw our complaint from the Fuzhou Intermediate Court on December 10, 2018 and received the ruling that allows Immersion to withdraw the case from the Fuzhou Intermediate Court on December 29, 2018. We pre-registered the appeals against the invalidation decisions with the Beijing IP Court on February 14, 2019. On April 28, 2019, we filed the appeal against the invalidation decisions with the Beijing IP court. On June 6, 2019, SIPO responded to our filing of the appeal with its counterarguments to the arguments set forth in our appeal filing. No hearings have yet been scheduled.

*LGE Korean Withholding Tax Matter*

On October 16, 2017, we received a letter from LG Electronics Inc. (“LGE”) requesting that we reimburse LGE with respect to withholding tax imposed on LGE by the Korean tax authorities following an investigation where the tax authority determined that LGE failed to withhold on LGE’s royalty payments to Immersion Software Ireland from 2012 to 2014. Pursuant to an agreement reached with LGE, on April 8, 2020, we provided a provisional deposit to LGE in the amount of KRW 5,916,845,454 (approximately $5.0 million) representing the amount of such withholding tax that was imposed on LGE, which provisional deposit would be returned to us to the extent we ultimately prevail in the appeal in the Korea courts. In the second quarter of 2020, we recorded this deposit as *Long-term deposits* on our Condensed Consolidated Balance Sheets.

On November 3, 2017, on behalf of LGE, we filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes. The Korea Tax Tribunal hearing took place on March 5, 2019. On March 19, 2019, the Korea Tax Tribunal issued its ruling in which it decided not to accept our arguments with respect to the Korean tax authorities’ assessment of withholding tax and penalties imposed on LGE. On behalf of LGE, we filed an appeal with the Korea Administrative Court on June 10, 2019. The first hearing occurred on October 15, 2019. A second hearing occurred on December 19, 2019. A third hearing occurred on February 13, 2020. A fourth hearing occurred on June 9, 2020. A fifth hearing occurred on July 16, 2020. We anticipate a decision to be rendered on or about October 8, 2020.

We believe that there are valid defenses to the claims raised by the Korean tax authorities and that LGE’s claims are without merit. We intend to vigorously defend ourselves against these claims. In the event that we do not ultimately prevail in our appeal in the Korean courts, any payments to LGE with respect to withholding tax imposed on LGE by the Korean tax authorities as described in the previous paragraph would be recorded as additional income tax expense on our Consolidated Statement of Operations and Comprehensive Income (Loss), in the period in which we do not ultimately prevail.

We cannot predict the ultimate outcome of the above-mentioned actions, and we are unable to estimate any potential liability we may incur. Please also refer to our disclosures in Note 10. *Contingencies* of the Note 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**

***Our business, results of operations, financial condition, cash flows, and stock price can be adversely affected by catastrophic events, such as natural disasters, war, acts of terrorism, pandemics, epidemics, or other public health emergencies, such as the outbreak of COVID-19.***

Our business, results of operations, financial condition, cash flows and stock price can be adversely affected by catastrophic events, such as natural disasters, war, acts of terrorism, pandemics, epidemics, or other public health emergencies, such as the outbreak of COVID-19 which is spreading in many countries including the United States, Canada, and other countries in which we operate. The World Health Organization characterized COVID-19 as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The outbreak has resulted in governments around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines, "shelter in place" and "stay at home" orders, travel restrictions, business curtailments, school closures, and other measures, which has resulted in a significant number of layoffs or furloughs of employees, and/or other negative economic conditions in many of the countries in which we operate. While some governments around the world are easing restrictions designed to help control the spread of the virus, a resurgence of COVID-19 cases (including increased COVID-19 cases in recent months) may cause governments around the world to implement or reinstitute such restrictions.

The COVID-19 pandemic and its resulting economic and other effects could result in significant adverse effects on our customers' cash flow and their ability to manufacture, distribute and sell products incorporating our touch-enabling technologies. This in turn, may cause our customers to be less able to pay invoices for our royalties or may result in a reduction in the royalties we receive which may be based on the number of units sold or distributed by our customers, which reduction could cause adverse effects on our business, results of operations, financial condition, cash flows and stock price. In addition, any depression or recession resulting from the COVID-19 pandemic may adversely change consumer behavior and demand, including with respect to products sold by our customers, which may result in a significant reduction in our revenue, results of operations, and financial condition.

The spread of the COVID-19 virus has also caused us to modify our business practices (including implementing work-from-home policies and restricting travel by our employees) in ways that may be detrimental to our business (including working remotely and its attendant cybersecurity risks). We may take further actions as may be required by government authorities or that we determine are in the best interests of our employees and customers. These practices may have an adverse effect on our employees' productivity (especially with respect to our engineering and research and development efforts which may require hardware and software not available while working remotely) and morale and our ability to engage and support our current and prospective customers.

Our facilities could also 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 or around the San Francisco Bay Area in general, areas 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 are unable to renew our existing licensing arrangements for our patents and other technologies on favorable terms that are consistent with our business objectives, our royalty and license revenue and cash flow could be materially and adversely affected.***

Our revenue and cash flow are largely dependent on our ability to renew existing licensing arrangements. If we are unable to obtain renewed licenses on terms consistent with our business objectives or effectively maintain, expand, and support our relationships with our licensees, our licensing revenue and cash flow could decline. In addition, the process of negotiating license arrangements requires significant time, effort and expense. Due to the length of time required to negotiate a license arrangement, there may be delays in the receipt of the associated revenue, which could negatively impact our revenue and cash flow.

Specific challenges that we face related to negotiations with existing licensees include:

- difficulties caused by the effects of COVID-19 on our existing licensees' businesses;

- difficulties in persuading existing customers to renew a license to our patents or other technologies (including delays associated with existing customers questioning the scope, validity, or enforceability) without the expenditure of significant resources;

- difficulties in persuading existing customers that they need a license to our patents as individual patents expire or become limited in scope, declared unenforceable or invalidated;

- reluctance of existing customers to renew their license to our patents or other technologies because other companies are not licensed;

- difficulties in renewing gaming licenses if video game console makers choose not to license third parties to make peripherals for their new consoles, if video game console makers no longer require peripherals to play video games, if video game console makers no longer utilize technology in the peripherals that are covered by our patents or if the overall market for video game consoles deteriorates substantially;

- the competition we may face from third parties, including the internal design and development teams of existing licensees;

- 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;

- inability of current 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.

***If we are unable to enter into new licensing arrangements for our patents or other technologies (including reference designs, firmware/software or other products) on favorable terms that are consistent with our business objectives, our royalty and license revenue and cash flow could be materially adversely affected.***

Our revenue growth is largely dependent on our ability to enter into new licensing arrangements. If we are unable to obtain new licenses on terms consistent with our business objectives, our licensing revenue and cash flow could decline. In addition, the process of negotiating license arrangements requires significant time, effort and expense; due to the length of time required to negotiate a license arrangement, there may be delays in the receipt of the associated revenue, which could negatively impact our revenue and cash flow.

Specific challenges that we face related to negotiations with prospective licensees include:

- difficulties caused by the effects of COVID-19 on prospective licensees' businesses;

- difficulties in brand awareness among prospective customers, especially in markets in which we have not traditionally participated;

- difficulties in persuading prospective customers to take a license to our patents (including delays associated with prospective customers questioning the scope, validity or enforceability of our patents) without the expenditure of significant resources;

- reluctance of prospective customers to engage in discussions with us due to our history of litigation;

- difficulties in persuading prospective customers that they need a license to our patents as individual patents expire or become limited in scope, declared unenforceable or invalidated;

- reluctance of prospective customers to license our patents or other technologies because other companies are not licensed;

- the competition we may face from third parties, including the internal design teams of prospective customers;
- 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; and
- challenges in demonstrating the compelling value of our technologies and challenges associated with prospective customers' ability to easily implement our technologies.

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

A significant amount of our revenue is derived from a limited number of customers, and we expect that this will continue to be the case in the future. For example, for the three months ended June 30, 2020, Samsung accounted for a significant amount of our total revenues.

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 major customer decides that our patents no longer cover our products 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 patent rights and other IP rights, our ability to license our technologies and generate revenues could be impaired.***

Our patent licensing business generates revenues by licensing our portfolio of patents to customers interested in selling products that incorporate our technologies. We have faced in the past, and expect to face in the future, challenges from third parties of the validity, enforceability, or scope of certain patents in our portfolio, and we have encountered situations in which third parties attempt to circumvent our patents through design changes. It is also possible that:

- 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 some of our licensees do business; and
- any litigation we are or may be involved in may be unsuccessful or may result in one or more of our patents becoming limited in scope, declared unenforceable or invalidated.

If we are not able to protect and enforce the validity, enforceability and scope of the patents in our portfolio, or if a court or patent office were to limit the scope, declare unenforceable, or invalidate any of our patents, our ability to obtain future licenses could be impaired, and current licensees may refuse to make royalty payments or may choose to challenge one or more of our patents.

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.

***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.***

We derive a significant portion of our revenues from licenses and royalties from our haptic patents. We devote significant engineering resources to develop new haptic patents to address the evolving haptic needs of our customers and potential customers. To remain competitive, we must introduce new haptic patents in a timely manner and the market must adopt such technology. Our initiatives to develop new and enhanced haptic innovations, to obtain patents on such innovations, and to commercialize these haptic innovations may not be successful or timely. Any new or enhanced haptic innovations may not be favorably received by our licensees, potential licensees, or consumers and we may not be able to monetize such haptic innovations. If our development efforts are not successful or are significantly delayed, companies may not incorporate our haptic innovations into their products and our revenues may not grow and could decline.

***Potential patent and litigation reform legislation, potential United States Patent and Trademark Office ("USPTO") and international patent rule changes, potential legislation affecting mechanisms for patent enforcement and available remedies, and potential changes to the intellectual property rights 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 United States International Trade Commission (the "USITC") has periodically been introduced in Congress. Any potential changes in the law, the IP rights 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), could 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 (i) enforce our patents and (ii) obtain fair and adequate compensation for our investments in research and development and for the unauthorized use of our intellectual property, developments in law and/or policy that undermine our ability to do so could have a negative impact on future licensing efforts and on revenue derived from such efforts.
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Rulings of courts and administrative bodies may affect our strategies for patent prosecution, licensing and enforcement. For example, in recent years, 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 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 with respect to, patentability, validity, patent exhaustion, patent misuse, remedies, permissible licensing practices, claim construction, and damages in ways that could be detrimental to our ability to enforce patents in our IP portfolio and to obtain damages awards.

We continue to monitor and evaluate our strategies for prosecution, licensing and enforcement with regard to these developments in law and policy; however, any resulting change in such strategies could have a material adverse effect on our business and financial condition.

***Our licenses with semiconductor and actuator manufacturers may cause confusion as to our licensing model and may prevent us from enforcing our patents based on the patent exhaustion doctrine, the implied license doctrine, or other legal doctrines.***

We also license our software and/or patents to semiconductor and actuator manufacturers who incorporate our technologies into their integrated circuits or actuators for use in certain electronic devices. While our relationships with these manufacturers increase our distribution channels by leveraging their sales channels, this could introduce confusion into our licensing model which has traditionally been focused on licensing the OEM. In addition, licensing to semiconductor and actuator manufacturers increases the risk of patent exhaustion and implied licenses such that incorrectly structured licenses could negatively impact our business and financial results.

***We had an accumulated deficit of $124 million as of June 30, 2020 and we may not return to consistent profitability in the future.***

As of June 30, 2020, we had an accumulated deficit of $124 million. We need to generate significant ongoing revenues to return to consistent profitability. We will continue to incur expenses as we:

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

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

***If we are not able to attract, recruit and retain qualified personnel, we may not be able to effectively develop and deploy our technologies.***

Our technologies are complex, and we rely upon our employees to identify new sales and business development opportunities, support and maintain positive relationships with our licensees, enhance existing technologies, and develop new technologies. Accordingly, we need to be able to attract, recruit, integrate, and retain sales, support, marketing, and research and development personnel, including individuals highly specialized in patent licensing and engineering in order to develop and deploy our technologies and to sustain revenue growth. Competition for talented candidates is intense, especially for individuals with patent licensing, engineering and haptics expertise, and we may not be successful in attracting, integrating, and continuing to motivate such qualified personnel. In this competitive recruiting environment, especially when hiring in Montreal, Canada and Silicon Valley, our compensation packages need to be attractive to the candidates we recruit. However, given the negative effects that COVID-19 may have on our business, as well as the protracted and uncertain nature of our royalty collection practices, it could be difficult to craft compensation plans that will attract and retain salespeople with the skills to secure complex licensing arrangements. In the greater San Francisco Bay Area and Montreal, Canada, candidates and employees view the stock component of compensation as an important factor in deciding both whether to accept an employment opportunity as well as whether to remain in a position at a company. Even if we are able to present robust compensation packages that enable us to attract and recruit new candidates for hire, we may not be able to retain our current executive officers and key employees if the structure of their compensation packages does not provide incentives for them to remain employed by us. For instance, our 2020 Executive Incentive Plan was cancelled and the base salaries of our executive officers were reduced by 10%. In addition, 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, which could impair our ability to retain their continued services.

***We have experienced turnover in our senior management and our employee base, which could result in operational and administrative inefficiencies and could hinder the execution of our growth strategy.***

We have recently experienced turnover in our senior management. For example, our Chief Executive Officer joined us in January 2019, our General Counsel joined us in June 2019, our Chief Financial Officer joined us in January 2020, and our Head of Human Resources joined us in April 2020. Lack of management continuity could harm our customer relationships, delay product development processes, adversely affect our ability to successfully execute our growth strategy, result in operational and administrative inefficiencies and added costs, and could impede our ability to recruit new talented individuals to senior management positions, which could adversely impact our results of operations, stock price and customer relationships. Our success largely depends on our ability to integrate any new senior management within our organization in order to achieve our operating objectives, and changes in other key positions may affect our financial performance and results of operations as new members of management become familiar with our business. General employee turnover also presents risks discussed in this paragraph.

***We may incur greater tax liability than we have provided for or have anticipated and may incur additional tax liability due to certain indemnification agreements with certain licensees, which could adversely affect our financial condition and operating results.***

In 2015, we completed a reorganization of our corporate organization in order to more closely align our corporate structure with the international nature of our business activities.

We began a second reorganization of our corporate organization in 2019 in order to address changing international tax laws and to re-align our corporate structure with the evolving nature of our international business activities. As a result of this second reorganization, we have maintained our overall effective tax rate through changes in how we develop and use our intellectual property and changes in the structure of our international sales operations, including by entering into intercompany arrangements. 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.

Our tax rate is dependent on our ability to operate our business in a manner consistent with the second 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 second reorganization and our future operating results and financial condition may be negatively impacted. 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 reorganization.

Additionally, from time to time, we enter into license agreements with our licensees pursuant to which we may agree to indemnify a customer for certain taxes imposed on the customer by an applicable tax authority and related expense. We have received requests from certain licensees requesting that we reimburse them for certain tax liabilities. For example, 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 Ireland Limited, a request that was arbitrated by a panel of the International Chamber of Commerce. On March 27, 2019, the panel issued a final award. The award ordered us to pay Samsung KRW 7,841,324,165 (approximately $6.9 million as of March 31, 2019), which we paid on April 22, 2019, denied Samsung's claim for interest from and after May 2, 2017; and ordered us to pay Samsung's cost of the arbitration in the amount of approximately $871,454. In the first quarter of 2019, $6.9 million was recorded as a deposit included in *Long-term deposits* on our Condensed Consolidated Balance Sheets. We are currently appealing in the Korean courts, on behalf of Samsung, the imposition of such withholding taxes and penalties. In the event that the we do not ultimately prevail in our appeal in the Korean courts, the deposit included in Long-term deposits would be recorded as additional income tax expense on our Consolidated Statement of Operations and Comprehensive Income (Loss), in the period in which we do not ultimately prevail. For additional background on this matter, please see Part II, *Item 1 Legal Proceedings.*

On October 16, 2017, we received a letter from LGE requesting that we reimburse LGE with respect to withholding tax imposed on LGE by the Korean tax authorities following an investigation where the tax authority determined that LGE failed to withhold on LGE's royalty payments to Immersion Software Ireland from 2012 to 2014. Pursuant to an agreement reached with LGE, on April 8, 2020, we provided a provisional deposit to LGE in the amount of KRW 5,916,845,454 (approximately $5.0 million) representing the amount of such withholding tax that was imposed on LGE, which provisional deposit would be returned to us to the extent we ultimately prevail in the appeal in the Korea courts. In the second quarter of 2020, we recorded this deposit as Long-term deposits on our Condensed Consolidated Balance Sheets.

On November 3, 2017, on behalf of LGE, we filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes. The Korea Tax Tribunal hearing took place on March 5, 2019. On March 19, 2019, the Korea Tax Tribunal issued its ruling in which it decided not to accept our arguments with respect to the Korean tax authorities' assessment of withholding tax and penalties imposed on LGE. On behalf of LGE, we filed an appeal with the Korea Administrative Court on June 10, 2019. The first hearing occurred on October 15, 2019. A second hearing occurred on December 19, 2019. A third hearing occurred on February 13, 2020. A fourth hearing occurred on June 9, 2020. A fifth hearing occurred on July 16, 2020. We anticipate a decision to be rendered on or about October 8, 2020.

In the event that we do not ultimately prevail in our appeal in the Korean courts, any payments to LGE with respect to withholding tax imposed on LGE by the Korean tax authorities as described in the previous paragraph would be recorded as additional income tax expense on our Consolidated Statement of Operations and Comprehensive Income (Loss), in the period in which we do not ultimately prevail.

In the event that it is determined that we are obligated to further indemnify Samsung and/or LGE for such withholding taxes imposed by the Korean tax authorities, receive further requests for reimbursement of tax liabilities from other licensees, we could incur significant expenses.

***We are or may become involved in litigation, arbitration and administrative proceedings to enforce or defend our intellectual property rights and to defend our licensing practices are 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.***

If we believe that a third party is required, but has declined, to license our intellectual property in order to manufacture, sell, offer for sale, import or use products, we have in the past and may in the future commence legal or administrative action against such third party. In some cases, we have and may become party to legal proceedings in which we are adverse to companies that have significantly greater financial resources than us. For example, we had previously initiated patent infringement litigation against Samsung and Motorola. We anticipate that currently pending and any future legal proceedings will continue to be costly, especially in cases where our adverse parties have access to relatively more significant resources. Since 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 (including outside counsel fees), as we incur additional legal costs, the cash available for other parts of our business may decrease. In addition, litigation could lead to counterclaims, adverse rulings affecting our patents, and could harm our relationship with our customers and potential customers, who may postpone licensing decisions pending the outcome of the litigation or dispute, or who may choose not to adopt our technologies. 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.*

***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.***

In order to generate revenues from our patent and other technology licensing business, we regularly enter into agreements pursuant to which our licensees are granted certain rights to our patents and other technology. These rights vary in scope and nature depending on the customer: for example, we may grant a licensee the right to use our technology in certain fields of use or with respect to limited market sectors or product categories, and we may or may not grant a licensee 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 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 inconsistent with the rights that we have granted to other licensees. Such conflicting 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 or that create a dispute as to which products are covered by the license and are thus subject to a royalty payment.

Many of our customers report royalties to us based on (i) the number of products in their shipments that incorporate our patented technology or other technology or (ii) our customers’ revenues and their interpretation and allocation of contracted royalty rates. When assessing payments due by customers under these types of arrangements, we rely upon the accuracy of our customers’ recordkeeping and reporting, and inaccuracies or payment disputes regarding amounts our customers owe under their licensing agreements may negatively impact our results of operations. The royalties that are originally reported by a customer could differ materially from those determined by either a customer-self-reported correction or from an audit we have performed on a customer’s books and records. Differing interpretations of royalty calculations may also cause disagreements 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 and 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 that incorporate our patented technology or other technology, or legal and/or regulatory environments, will evolve in an unexpected manner that could affect the scope of our rights to royalties under such agreement or another one of our licensing agreements or our ability to enforce and defend the technology covered by such agreement or another one of our licensing agreements. 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.

***Our international operations subject us to additional risks and costs.***

We currently have sales personnel in Japan and Korea who engage customers and prospective customers in those regions. International revenues accounted for approximately 84% of our total revenues in the first six months of 2020. 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;
- 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 and changing tax laws and regulations;
- political and economic instability;
- the possibility of an outbreak of hostilities or unrest in markets where major customers are located, including Korea;
- potential economic disruption based on the United Kingdom’s recent withdrawal from the European Union, commonly referred to as Brexit; and
- the possibility of volatility in financial markets as certain market participants transition away from the London Inter-bank Offered Rate (LIBOR).

In addition, since we derive a significant portion of our revenues from licenses and royalties from our haptic patents in foreign countries, our ability to maintain and grow our revenue in foreign countries, such as China, will depend in part on our ability to obtain additional patent rights in these countries and our ability to effectively enforce such patents and contractual rights in these countries, which is uncertain. Our technology licenses with customers in foreign countries subject us to an increased risk of theft of our technology. It may be more difficult for us to protect our IP in foreign countries, and as a result foreign counterparties may be more likely to steal our know-how, reverse engineer our software, or infringe our patents.

***Our failure to comply with complex US and foreign laws and regulations could have a material adverse effect on our operations.***

We are subject to the U.S. Foreign Corrupt Practices Act of 1977, as amended (the “FCPA”) and other anticorruption, anti-bribery and anti-money laundering laws in the jurisdictions in which we do business, both domestic and abroad. These laws generally prohibit us and our employees from improperly influencing government officials in order to obtain or retain business, direct business to any person or gain any improper advantage. The FCPA and other applicable anti-bribery and anti-corruption laws also may hold us liable for acts of corruption and bribery committed by our third-party business partners, representatives and agents. While we have policies and procedure to address compliance with such laws, we cannot assure you that our employees and agents will not take actions in violation of our policies or applicable law, for which we may be ultimately held responsible and our exposure for violating these laws increases as our international presence expands and as we increase sales and operations in foreign jurisdictions. Any violation of such laws could result in whistleblower complaints, adverse media coverage, investigations, imposition of significant legal fees, and other consequences which may have an adverse effect on our reputation, business, results of operations and financial condition.

Our international operations could also increase our exposure to foreign and 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 internationally. 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 U.S. Foreign Corrupt Practices Act and local laws prohibiting corrupt payments by our employees, vendors, or agents.

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.

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

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 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 video game 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, patents, or other IP in connection with gaming on such mobile or other platforms. Although we have a significant software and patent position with respect to virtual reality (or VR) peripherals and systems, the market may not become large enough to generate material revenues. Finally, as some of our litigated patents related to video game peripherals have expired, our gaming royalty revenues will likely decline until we are successful in proving the relevance of our patents for this market.

***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 that Microsoft produces or sells. 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 VR and augmented reality (or AR). 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 from whom, unlike with respect to Microsoft, we are able to collect royalty payments. In the event that Microsoft increases its share of these markets relative to companies from whom we are not precluded from collecting royalty payments, 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.

Further, our revenues in the automotive market depend in large part on the number of haptic touch interfaces that are incorporated into vehicles. The COVID-19 pandemic and its resulting economic and other effects has caused and may in the future cause significant adverse effects on our customers' ability to manufacture, distribute and sell products incorporating our touch-enabling technologies. While we believe that the automotive market provides opportunities for growth for us, especially if haptic touch interfaces are adopted in more mid-tier and entry-tier vehicles, we are unable to accurately predict the full impact that COVID-19 will have on the number of vehicles sold by our customers that incorporate haptic touch interfaces. However, if such opportunities fail to materialize and/or if less haptic touch interfaces are sold in the future, it may have a material and adverse effect on our business, financial position, results of operations or cash flows.

***Our inability to control or influence our licensees' design, manufacturing, quality control, promotion, distribution, or pricing of their products incorporating our touch-enabling technologies could result in diminished royalty revenue if our licensees' efforts fail to generate consumer demand.***

A key part of our business strategy is to license our software and patents (and other IP) to companies that manufacture and sell products incorporating our touch-enabling technologies. For the years ended December 31, 2019, 99% of our total revenues were royalty and license revenues, as compared to 97% and 98% for the years ended December 31, 2018 and 2017, 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 timely ship products incorporating our touch-enabling technologies or fail to achieve strong sales, our revenues could decline.

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

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, such claims 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 and in doing so, 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 if the owners misrepresent, intentionally or unintentionally, the scope or validity of their ownership. 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 any actual or perceived security breaches.***

Our business involves the storage and transmission of customers' proprietary and confidential information, including information that may be personal information, and other data. In addition, we collect, use and maintain our own confidential and proprietary business information, and maintain intellectual property internally on our systems. Computer malware, cyberattacks and other threats and methods used to gain unauthorized access to our information technology networks and systems have become more prevalent and sophisticated. These threats and attempts, which may be related to industrial or other espionage, could include covertly introducing malware such as viruses, worms and other malicious software programs to our computers and networks, impersonating authorized users, and fraudulently inducing 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, among other possible methods of security breach. These threats are constantly evolving, making it increasingly difficult to successfully defend against them or implement adequate protective measures.

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. There can be no assurance that any security measures that we or our third-party service providers have implemented will be effective against current or future security threats. Our security measures or those of our third-party service providers could fail, whether as a result of third-party action, employee error, malfeasance or otherwise, and could result in unauthorized access to or use of our systems or unauthorized, accidental, or unlawful access to, or disclosure, modification, misuse, loss or destruction of, our intellectual property and data and data of our customers.

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 integrity or security of such transmissions or processing.

We might be unaware of any actual or potential security breach or be delayed in detecting a security breach, or, even if we are able to identify a breach, we may be unaware of its magnitude and effects. Actual or perceived security breaches could result in unauthorized use of or access to our systems, system interruptions or shutdowns, unauthorized, accidental, or unlawful access to, or disclosure, modification, misuse, loss or destruction of, our or our customers' data or intellectual property, may lead to litigation, indemnity obligations, regulatory investigations and other proceedings, severe reputational damage adversely affecting customer or investor confidence and causing damage to our brand, indemnity obligations, disruption to our operations, damages for contract breach, and other liability, reduction in the value of our investment in research and development and other strategic initiatives, and adverse effects upon our revenues and operating results. Additionally, our service providers may suffer, or be perceived to suffer, data security breaches or other incidents that may compromise data stored or processed for us that may give rise to any of the foregoing.

More generally, any of the foregoing types of security breaches, or the perception that any of them have occurred, may lead to the expenditure of significant financial and other resources in efforts to investigate or correct a breach or incident and to address and eliminate vulnerabilities and to prevent future security breaches, as well as significant costs for remediation that may include liability for stolen intellectual property or other assets or information and repair of system damage that may have been caused, incentives offered to customers in an effort to maintain business relationships, and other liabilities. We have incurred and expect to incur significant expenses in an effort to prevent security breaches and other security incidents.

We cannot be certain that our insurance coverage will be adequate for data security liabilities actually incurred, will cover any indemnification claims against us relating to any incident, that insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, including our financial condition, operating results, and reputation.

***The rejection of our haptic technology by standards-setting organizations, or failure of the standards-setting organization to develop timely commercially viable standards may negatively impact our business.***

As part of our growth plan, we intend to participate in standards-setting organizations. The rejection of our haptic technology or failure of the standards-setting organizations to develop timely commercially viable standards may negatively impact our business and financial results.

***Entrance into the highly competitive and fragmented sexual wellness market may adversely impact our financial results.***

As part of our strategy, we are considering entering the sexual wellness market. If we enter this market, our competitors may have significant competitive advantages over us, including longer operating histories, larger and broader customer bases, more established relationships with a broader set of suppliers, and greater brand recognition. In addition, the sexual wellness market vertical is highly fragmented, which may lead to unexpected challenges and expenses in licensing our technology. These factors could cause our entrance into the sexual wellness market to negatively impact our financial results. In addition, the sexual wellness market vertical we intend to license into may subject us to obscenity or other legal claims by third parties for which our financial position and results of operations could be harmed.

***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.

Already, some of our proprietary technologies incorporate open source software that may be subject to open source licenses, which 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, there is currently uncertainty in the legal landscape around open source software, as few courts have interpreted open source licenses, and the manner in which these licenses may be legally interpreted and enforced is therefore not yet clear. 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 the adoption of our products by our customers or prospective customers or could expose us to additional liability.

In addition, we rely on multiple software programmers to design our proprietary products and technologies and we cannot be certain that open source software is not inadvertently 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. If such 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.

***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. These errors or defects may increase as our technologies are introduced into new devices, markets and applications, including the automotive market, or as new versions are released. Some errors in our technologies may only be discovered after a customer's product incorporating our technologies has been shipped to customers. Undiscovered vulnerabilities in our technologies or products could expose our customers to hackers or other unscrupulous third parties who develop and deploy viruses, worms and other malicious software programs that could attach to our products or technologies. 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.

***If we fail to adequately protect personal information or other information we process or maintain, our business, financial condition and operating results could be adversely affected.***

A wide variety of state, national, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer and other processing of personal data and other information. Evolving and changing definitions of personal data and personal information within the European Union ("EU"), the U.S., and elsewhere, especially relating to classification of IP addresses, machine identification, location data and other information, may limit or inhibit our ability to operate or expand our business, . For example, it may be more difficult for us to share data with commercial partners, conduct research, or market to customers. Heightened compliance requirements may lead to increased administrative expenses. . Data protection and privacy-related laws and regulations are evolving and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions.

For example, the EU General Data Protection Regulation ("GDPR"), which became fully effective on May 25, 2018, imposes more stringent data protection requirements than previously effective EU data protection law and provides for penalties for noncompliance of up to the greater of €20 million or four percent of worldwide annual revenues. The GDPR requires, among other things, that personal data only be transferred outside of the EU to certain jurisdictions, including the United States, if steps are taken to legitimize those data transfers. We rely on the EU-U.S. and Swiss-U.S. Privacy Shield programs, and the use of model contractual clauses approved by the EU Commission, to legitimize these transfers. Both the EU-U.S. Privacy Shield and these model contractual clauses have been subject to legal challenge, however, and it is unclear what effect these challenges will have and whether the means we presently use will continue as appropriate means for us to legitimize personal data transfers from the EU or Switzerland to the U.S.

Further, in June 2016, the United Kingdom voted to leave the European Union, commonly referred to as "Brexit," which could also lead to further legislative and regulatory changes. The United Kingdom ceased to be an EU Member State on January 31, 2020, but remains subject to EU law for a transition period ending on December 31, 2020. The UK Data Protection Act that substantially implements the GDPR became law in May 2018 and was further amended to more closely align to GDPR post-Brexit. It remains unclear, however, how United Kingdom data protection laws or regulations will develop in the medium to longer term and how data transfers to and from the United Kingdom will be regulated. In addition, some countries are considering or have enacted legislation requiring local storage and processing of data that could increase the cost and complexity of delivering our services or performing research related to our technology.

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In 2018, California enacted the California Consumer Privacy Act ("CCPA"), legislation that, among other things, requires covered companies to provide new disclosures to California consumers and affords such consumers new abilities to opt-out of certain sales of personal information. The CCPA has been amended on multiple occasions and is the subject of proposed regulations of the California Attorney General that were released on October 10, 2019. While the CCPA went into effect on

January 1, 2020, aspects of the legislation and its interpretation remain unclear at this time. We therefore cannot fully predict the impact of the CCPA on our business or operations, but it may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply.

Even the perception of privacy, data protection or information security concerns, whether or not valid, may harm our reputation, inhibit adoption of our products by current and future customers, or adversely impact our ability to hire and retain workforce talent. Our actual or perceived failure to adequately comply with applicable laws and regulations, or to protect personal data and other data we process or maintain, could result in regulatory investigations and enforcement actions against us, fines, penalties and other liabilities, imprisonment of company officials and public censure, claims for damages by customers and other affected individuals, required efforts to mitigate or otherwise respond to incidents, litigation, damage to our reputation and loss of goodwill (both in relation to existing customers and prospective customers), any of which could have a material adverse effect on our operations, financial performance and business.

***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.***

Pursuant to the Sarbanes-Oxley Act of 2002, we are required to maintain internal control over financial reporting and to assess and report on the effectiveness of our internal controls, including the disclosure of any material weaknesses that our management identifies in our internal control over financial reporting.

Our management concluded that our internal control over financial reporting was effective as of December 31, 2019. However, we have in the past had material weaknesses in our internal control over financial reporting, and there are inherent limitations on the effectiveness of internal controls. 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; 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.

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 delay or 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, 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.

**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 impact of COVID-19
- the establishment or loss of licensing relationships;
- the timing and recognition of payments under fixed and/or up-front fee license agreements, as well as other multi-element arrangements;
- seasonality in the demand for our technologies or products or our licensees’ products;
- 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.

***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; increased tariffs and international trade disputes; 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, which could lead to increased litigation costs and could adversely affect our operating results and our stock price.

***Any stock repurchase program could affect our stock price and add volatility.***

Any repurchases by us pursuant to a stock repurchase program could affect our stock price and add volatility. There can be no assurance that any repurchases will be made under any 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 any 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 any stock repurchase program at any time and any such discontinuation could cause the market price of our stock to decline.

***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 fluctuation in the price of our common stock.***

From time to time, financial and accounting standard setters such as the Financial Accounting Standards Board ("FASB") and the SEC change their guidance governing the form and content of registrants' external financial statements or update their previous interpretations with regard to the application of certain General Accepted Accounting Principles ("GAAP"). Such change in GAAP or their interpretation have historically and could in the future have a significant effect on our reported financial condition and/or results of operations. If a change is applicable to us, we would be required to apply the new or revised guidance, which may result in retrospective adjustments to our financial statements and/or could change the way we account for certain transaction compared to 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 could consequently affect our reported financial condition or results of operations.

For example, on January 1, 2018, we adopted Accounting Standard Codification 606, *Revenue from Contracts with Customers*, ("ASC 606"). The adoption has affected our revenue recognition model for both fixed fee license revenue and per-unit royalty revenue derived from our new and existing contracts with licensees. Under ASC 606, if a fixed fee license agreement contains both performance obligations to transfer rights to our patent portfolio as it exists when the contract is executed as well as rights to our patent portfolio as it evolves throughout the contract term, we are required to allocate the fixed fee between the two performance obligations which could result in the recognition of a substantial majority of the fixed fee as revenue upon the execution of the license agreement. Prior to the adoption, as a historical practice applied by many licensing companies, we recognized fixed license fees ratably over the contract term. In addition, our previous accounting practice was to recognize revenue from per-unit royalty agreements in the period in which the related royalty report was received from our licensees, generally one quarter in arrears from the period in which the underlying sales occurred (i.e. on a "quarter-lag"). Under ASC 606, we are required to record per-unit royalty revenue in the same period in which the licensee's underlying sales occur. As we generally do not receive the per-unit licensee royalty reports for sales during a given quarter within the time frame that allows us to adequately review the reports and include the actual amounts in our quarterly results for such quarter, we accrue the related revenue based on estimates of our licensees' underlying sales, subject to certain contractual terms on our ability to estimate such amounts. As a result of accruing per-unit royalty revenue for the quarter based on estimates, adjustments will be required in the following quarter to true up revenue to the actual amounts reported by our licensees. Such changes have significantly affected our reported financial condition and/or results of operations, 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 reporting practices and the resulting fluctuations in our reported revenue could cause a decline and/or fluctuation 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 laws, regulations and reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, 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. In addition, as laws, regulations and standards continue to change, often with varying degrees of specificity and clarity, we could face uncertainty regarding best practices and compliance with such evolving regimes, which could result in higher costs from increased attention paid to disclosure and governance practices and controls.

***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:

- only a majority of our board of directors or stockholders of not less than 10% of all of the shares entitled to cast votes at such meeting 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;

- subject to the rights of a holder of any series of preferred stock, 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.

**ITEM 6. EXHIBITS**

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

**EXHIBIT INDEX**

| Exhibit Number | Exhibit Description | Incorporated by Reference Form | File No. | Exhibit | Filing Date | Filed Herewith |
|---|---|---|---|---|---|---|
| 3.1 | Amended and Restated Bylaws of Immersion Corporation, as adopted on October 31, 2016 | 8-K | 000-27969 | 3.1 | November 4, 2016 | |
| 3.2 | Amended and Restated Certificate of Incorporation of Immersion Corporation | 8-K | 000-27969 | 3.1 | June 7, 2017 | |
| 3.3 | Certificate of Designation of the Powers, Preferences and Rights of Series A Redeemable Convertible Preferred Stock | 8-K | 000-27969 | 3.1 | July 29, 2003 | |
| 3.4 | Certificate of Designations of Series B Participating Preferred Stock of Immersion Corporation | 8-K | 000-27969 | 3.1 | December 27, 2017 | |
| 10.1** | Description of Compensation Reductions for Directors and Officers as disclosed in the Company's Form 8-K filed with the SEC on April 7, 2020 | 8-K | 001-38334 | N/A | April 7, 2020 | |
| 10.2** | Description of Cancellation of the Company's 2020 Executive Incentive Plan as disclosed in the Company's Form 8-K filed with the SEC on July 1, 2020 | 8-K | 001-38334 | N/A | July 1, 2020 | |
| 10.3 | Sublease, dated March 12, 2020, by and between Immersion Corporation, a Delaware corporation, and Neato Robotics, Inc. | 10-Q | 001-38334 | 10.3 | May 8, 2020 | |
| 10.4 | First Amendment to Sublease, dated May 1, 2020, by and between Immersion Corporation, a Delaware corporation, and Neato Robotics, Inc. | 10-Q | 001-38334 | 10.4 | May 8, 2020 | |
| 31.1 | Certification of Ramzi Haidamus, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 31.2 | Certification of Aaron Akerman, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 32.1* | Certification of Ramzi Haidamus, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 32.2* | Certification of Aaron Akerman, Interim 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, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act, as amended, or the Exchange Act, as amended.

** Management contract.

**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.

IMMERSION CORPORATION

Date: August 6, 2020

By: /s/ AARON AKERMAN

Aaron Akerman
Chief Financial Officer and
Principal Accounting Officer

**Exhibit 31.1**

**CERTIFICATIONS PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Ramzi Haidamus, certify that:

I have reviewed this quarterly report on Form 10-Q of Immersion Corporation;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2020

/s/ RAMZI HAIDAMUS

Ramzi Haidamus
*Chief Executive Officer*

**Exhibit 31.2**

**CERTIFICATIONS PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Aaron Akerman, certify that:

I have reviewed this quarterly report on Form 10-Q of Immersion Corporation;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 6, 2020

/s/ AARON AKERMAN

Aaron Akerman
Chief Financial Officer

**Exhibit 32.1**

## CERTIFICATION PURSUANT TO
## 18 U.S.C. SECTION 1350,
## AS ADOPTED PURSUANT TO
## SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Immersion Corporation (the "Company") on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ramzi Haidamus, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ RAMZI HAIDAMUS

Ramzi Haidamus
*Chief Executive Officer*

August 6, 2020

*A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.*

**Exhibit 32.2**

## CERTIFICATION PURSUANT TO
## 18 U.S.C. SECTION 1350,
## AS ADOPTED PURSUANT TO
## SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Immersion Corporation (the “Company”) on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Aaron Akerman, Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ AARON AKERMAN

Aaron Akerman
Chief Financial Officer

August 6, 2020

*A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.*