

**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 March 31, 2019

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
(State or other jurisdiction of
incorporation or organization)

94-3180138
(I.R.S. Employer
Identification No.)

50 Rio Robles, San Jose, California 95134
(Address of principal executive offices) (Zip Code)
(408) 467-1900
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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

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

Number of shares of common stock outstanding at May 1, 2019: 31,553,719.

IMMERSION CORPORATION

INDEX

	<u>Page</u>
<u>PART I</u>	
<u>FINANCIAL INFORMATION</u>	
Item 1.	Financial Statements
	Unaudited Condensed Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018 3
	Unaudited Condensed Consolidated Statements of Operation and Comprehensive Income (loss) for the Three Months Ended March 31, 2019 and 2018 4
	Unaudited Condensed Consolidated Statement of Stockholders' Equity for Three Months Ended March 31, 2019 and 2018 5
	Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2019 and 2018 6
	Unaudited Notes to Condensed Consolidated Financial Statements 7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations 20
Item 3.	Quantitative and Qualitative Disclosures about Market Risk 26
Item 4.	Controls and Procedures 27
<u>PART II</u>	
<u>OTHER INFORMATION</u>	
Item 1.	Legal Proceedings 28
Item 1A.	Risk Factors 33
Item 6.	Exhibits 44
	SIGNATURES 46

**PART I
FINANCIAL INFORMATION**

ITEM 1. FINANCIAL STATEMENTS

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 102,654	\$ 110,988
Short-term investments	14,959	13,930
Accounts and other receivables	1,505	1,051
Prepaid expenses and other current assets	8,774	9,856
Total current assets	127,892	135,825
Property and equipment, net	2,144	2,343
Other assets, net	18,445	7,827
Total assets	<u>\$ 148,481</u>	<u>\$ 145,995</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 12,375	\$ 3,612
Accrued compensation	1,360	3,948
Other current liabilities	6,314	3,194
Deferred revenue	4,816	4,591
Total current liabilities	24,865	15,345
Long-term deferred revenue	29,074	30,203
Other long-term liabilities	3,609	787
Total liabilities	57,548	46,335
Contingencies (Note 12)		
Stockholders' equity:		
Common stock and additional paid-in capital — \$0.001 par value; 100,000,000 shares authorized; 38,375,744 and 37,652,498 shares issued, respectively; 31,552,597 and 30,829,351 shares outstanding, respectively	248,698	246,415
Accumulated other comprehensive income	122	116
Accumulated deficit	(109,537)	(98,521)
Treasury stock at cost: 6,823,147 and 6,823,147 shares, respectively	(48,350)	(48,350)
Total stockholders' equity	90,933	99,660
Total liabilities and stockholders' equity	<u>\$ 148,481</u>	<u>\$ 145,995</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2019	2018
Revenues:		
Royalty and license	\$ 5,047	\$ 85,335
Development, services, and other	75	81
Total revenues	<u>5,122</u>	<u>85,416</u>
Costs and expenses:		
Cost of revenues	15	35
Sales and marketing	1,609	1,220
Research and development	2,302	2,820
General and administrative	12,695	11,236
Total costs and expenses	<u>16,621</u>	<u>15,311</u>
Operating income (loss)	(11,499)	70,105
Interest and other income	598	231
Income (loss) before provision for income taxes	(10,901)	70,336
Provision for income taxes	(115)	(453)
Net income (loss)	<u>\$ (11,016)</u>	<u>\$ 69,883</u>
Basic net income (loss) per share	<u>\$ (0.35)</u>	<u>\$ 2.35</u>
Shares used in calculating basic net income (loss) per share	<u>31,089</u>	<u>29,700</u>
Diluted net income (loss) per share	<u>\$ (0.35)</u>	<u>\$ 2.29</u>
Shares used in calculating diluted net income (loss) per share	<u>31,089</u>	<u>30,566</u>
Other Comprehensive Income		
Change in unrealized gains on short-term investments	6	5
Total Other Comprehensive Income	6	5
Total Comprehensive Income (loss)	<u>\$ (11,010)</u>	<u>\$ 69,888</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balances at December 31, 2017	35,950,518	\$ 228,046	\$ 99	\$ (171,616)	6,685,690	\$ (46,872)	\$ 9,657
Net income				69,883			69,883
Unrealized gain on available-for-sale securities, net of taxes			5				5
Issuance of stock for ESPP purchase	13,834	98					98
Exercise of stock options, net of shares withheld for employee taxes	922,842	6,072					6,072
Release of restricted stock units and awards, including related stock compensation	156,781						—
Stock based compensation		1,222					1,222
Effect of change in accounting policy ⁽¹⁾				18,335			18,335
Balances at March 31, 2018	<u>37,043,975</u>	<u>\$ 235,438</u>	<u>\$ 104</u>	<u>\$ (83,398)</u>	<u>6,685,690</u>	<u>\$ (46,872)</u>	<u>\$ 105,272</u>

(1) Effect of adoption of ASC 606 effective January 1, 2018. See *Note 2. Revenue Recognition* for additional information.

	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	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				(11,016)			(11,016)
Unrealized gain on available-for-sale securities, net of taxes			6				6
Issuance of stock for ESPP purchase	13,479	109					109
Exercise of stock options, net of shares withheld for employee taxes	11,771	71					71
Release of restricted stock units and awards, including related stock compensation	697,996						—
Stock based compensation		2,103					2,103
Balances at March 31, 2019	<u>38,375,744</u>	<u>\$ 248,698</u>	<u>\$ 122</u>	<u>\$ (109,537)</u>	<u>6,823,147</u>	<u>\$ (48,350)</u>	<u>\$ 90,933</u>

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

	Three Months Ended March 31,	
	2019	2018
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$ (11,016)	\$ 69,883
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	205	227
Stock-based compensation	2,103	1,222
Deferred income taxes	117	67
Other non cash items	—	26
Changes in operating assets and liabilities:		
Accounts and other receivables	(454)	(1,861)
Prepaid expenses and other current assets	1,028	116
Other assets	(11,419)	(4,524)
Accounts payable	8,763	(2,391)
Accrued compensation	(2,588)	(1,581)
Other current liabilities	2,092	(600)
Deferred revenue	(904)	25,197
Other long-term liabilities	4,495	422
Net cash provided by (used in) operating activities	<u>(7,578)</u>	<u>86,203</u>
Cash flows provided by (used in) investing activities:		
Purchases of short-term investments	(8,930)	(8,861)
Proceeds from maturities of short-term investments	8,000	11,000
Purchases of property and equipment	(6)	(6)
Net cash provided by (used in) investing activities	<u>(936)</u>	<u>2,133</u>
Cash flows provided by financing activities:		
Proceeds from issuance of common stock under employee stock purchase plan	109	98
Proceeds from stock options exercises	71	6,072
Net cash provided by financing activities	<u>180</u>	<u>6,170</u>
Net increase (decrease) in cash and cash equivalents	<u>(8,334)</u>	<u>94,506</u>
Cash and cash equivalents:		
Beginning of period	110,988	24,622
End of period	<u>\$ 102,654</u>	<u>\$ 119,128</u>
Supplemental disclosure of cash flow information:		
Cash paid for taxes	<u>\$ 23</u>	<u>\$ 90</u>
Supplemental disclosure of noncash operating, investing, and financing activities:		
Release of restricted stock units and awards under company stock plan	<u>\$ 6,680</u>	<u>\$ 1,860</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

IMMERSION CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

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 ("GAAP") for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all information and footnotes necessary for a complete presentation of the financial position, results of operations, and cash flows, in conformity with GAAP. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K, for the fiscal year ended December 31, 2018. 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 months ended March 31, 2019 are not necessarily indicative of the results to be expected for the full year.

Segment Information

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

Revenue Recognition

The Company adopted the Accounting Standards Update ("ASU") 2014-09 "Revenue from Contracts with Customers (Topic 606)" ("Accounting Standard Codification 606", "ASC 606"), effective January 1, 2018 using the modified retrospective transition method where the cumulative effect of the initial application is recognized as an adjustment to the opening balance of the accumulated deficit at January 1, 2018, the date of adoption. Refer to Note 2 to the condensed consolidated financial statements for the Company's revenue recognition accounting policy.

Leases

The Company leases all of its office spaces, and all leases are operating leases accounted for as right-of-use ("ROU") assets and lease liability obligations in the Company's condensed consolidated balance sheets under Other assets, and Other current liabilities and Other Liabilities, respectively. ROU assets represent the Company's right to use an underlying asset for the lease term, and lease liability obligations represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at lease commencement date based on the present value of lease payments over the lease term. The Company has lease agreements that combine lease and non-lease components, and the Company elects to account for such components as a single lease component. As the Company's leases typically do not provide an implicit rate, the Company estimates its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. ROU asset also includes any lease payments made and excludes lease incentives and direct costs. Lease expense is recognized on a straight-line basis over the lease term. The Company elects to not

[Table of Contents](#)

present leases with an initial term of 12 months or less on its condensed consolidated balance sheet. See Note 11 for further information on ASC 842 adoption.

Recently Adopted Accounting Pronouncements

In July 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-09 "Codification Improvement" ("ASU 2018-09"). This ASU amends a wide variety of Topics in the Codification issued by FASB with technical corrections, clarifications, and other minor improvements, and should eliminate the need for periodic agenda requests for narrow and incremental items. Many of the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018 for public entities. The Company adopted this ASU as of January 1, 2019. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07 "Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting" ("ASU 2018-07"). This ASU expands the scope of Topic 718 to include share-based payment transaction for acquiring goods and services from nonemployees and supersedes subtopic 505-50. For public entities, the guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years, and early adoption is permitted but no earlier than adoption of Topic 606. The Company adopted this ASU as of January 1, 2019. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02 "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"). The amendments in this ASU allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. The guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years, and early adoption is permitted. The Company adopted this ASU as of January 1, 2019. The amount of stranded tax effects that was reclassified from accumulated other comprehensive loss to retained earnings was not material to the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 Leases: Topic 842 ("ASU 2016-02") in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under prior GAAP. Subsequently, the FASB issued numerous amendments to the initial guidance including ASU 2017-13, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01 (collectively, "ASC 842"). ASC 842 requires that a lessee should recognize a liability to make lease payments ("lease liabilities") and a ROU asset representing its right to use the underlying asset for the lease term on the balance sheet. ASC 842 also requires additional disclosures related to key information about leasing arrangements, including but not limited to, amounts, timing, and uncertainty of cash flows arising from leases.

The Company adopted ASC 842 on January 1, 2019 (the "Adoption Date"), using the alternative modified transition method, which requires a cumulative-effect adjustment, if any, to the opening balance of retained earnings to be recognized on the Adoption Date with prior periods not restated. The Company elected certain practical expedients including 1) not to reassess prior conclusions related to the identification, classification and accounting for initial direct costs for leases, 2) not to use hindsight to determine lease terms, 3) to not separate non-lease components within our lease portfolio, and 4) not to present leases with an initial term of 12 months or less on its condensed consolidated balance sheets. The adoption of ASC 842 resulted in the recognition of ROU assets of \$4.0 million, and lease liabilities for operating leases of \$4.9 million. There was no cumulative effect adjustment recognized on the beginning retained earnings as a result of the adoption. The comparative period presented in this Form 10-Q reflect the former lease accounting guidance. See Note 11 to the condensed consolidated financial statements for further information regarding the impact of the adoption of ASC 842 on the Company's condensed consolidated financial statements.

2. REVENUE RECOGNITION

Revenue Recognition Accounting Policy

The Company's 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

The Company is required to recognize revenue from a fixed fee license agreement when it has satisfied its performance obligations, which typically occurs upon the transfer of rights to the Company's technology upon the execution of the license agreement. However, in certain contracts, the Company grants a license to its 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, the Company has concluded that it has two separate performance obligations:

[Table of Contents](#)

- Performance Obligation A: to transfer rights to the Company's patent portfolio as it exists when the contract is executed;
- Performance Obligation B: to transfer rights to the Company's 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, the Company will 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, the Company will allocate the transaction price based on the standalone price for each of the two performance obligations. The Company uses a number of factors primarily related to the attributes of its 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 will be recognized in the quarter the license agreement is signed and the customer can benefit from rights provided in the contract, and the portion allocable to Performance Obligation B will be recognized on a straight-line basis over the contract term. For such contracts, a contract liability account will be established and included within "deferred revenue" on the condensed consolidated balance sheet. 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 the Company's license agreements contain fixed fees related to past infringements. Such fixed fees are recognized as revenue or recorded as a deduction to the Company's operating expense in the quarter 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, the Company enters into a fixed fee license contract with payments due in a number of installments payable throughout the contract term. In such cases, the Company will determine if a significant financing component exists and if it does, the Company will recognize more or less revenue and corresponding interest expense or income, as appropriate.

Per-unit Royalty revenue

ASC 606 requires an entity to record per-unit royalty revenue in the same period in which the licensee's underlying sales occur. As the Company generally does not receive the per-unit licensee royalty reports for sales during a given quarter within the time frame that allows the Company to adequately review the reports and include the actual amounts in its quarterly results for such quarter, the Company accrues the related revenue based on estimates of its licensees' underlying sales, subject to certain constraints on its ability to estimate such amounts. The Company develops 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 its 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, adjustments will be required in the following quarter to true up revenue to the actual amounts reported by its licensees. The Company recorded adjustments to increase revenue by \$149,000 during the three months ended March 31, 2019, which adjustments represent the difference between per-unit royalty based on actual sales occurred in the fourth quarter of 2018 reported by the Company's licensees in the first quarter of 2019, and the estimate of per-unit royalty for the fourth quarter of 2018 that was reported as revenue during the fourth quarter of 2018. The Company had no true-ups for the three months ended March 31, 2018.

Certain of the Company's per-unit royalty agreements contains a minimum royalty provision which sets forth minimum amounts to be received by the Company during the contract term. Under ASC 606, minimum royalties are considered a fixed transaction price to which the Company will have an unconditional right once all other performance obligations, if any, are satisfied. The Company recognizes 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. The Company accounts for the unbilled minimum royalties as contract assets on a contract basis on its 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 will be 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 calendar quarter in which the underlying sales took place.

Development, services, and other revenue

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

[Table of Contents](#)**Disaggregated Revenue**

The following table presents the disaggregation of the Company's revenue for the three months ended March 31, 2019 and 2018 under ASC 606.

	Three Months Ended March 31,	
	2019	2018
Fixed fee license revenue	\$ 1,740	\$ 75,756
Per-Unit royalty revenue	3,307	9,579
Total royalty and license revenue	5,047	85,335
Development, services, and other revenue	75	81
Total revenues	\$ 5,122	\$ 85,416

As of March 31, 2019, the Company had contract assets of \$8.0 million included within prepaid expenses and other current assets, and \$7.2 million included within other non-current assets, net, on the condensed consolidated balance sheets. The balance of these contract assets decreased by \$1.0 million during the three months ended March 31, 2019 primarily due to actual royalties billed during the three months ended March 31, 2019 that reduced the minimum royalties recognized in contract assets. The balance of the contract assets as of March 31, 2019 also included the Company's estimate of per-unit royalty related to the underlying sales that occurred in the first quarter of 2019.

Contracted Revenue

Based on contracts signed and payments received as of March 31, 2019, the Company expects to recognize \$33.3 million revenue related to Performance Obligation B under the Company's fixed fee license agreements, which is satisfied over time, including \$13.5 million over one to three years and \$19.8 million over more than three years. Revenue related to Performance Obligation B was \$34.5 million as of December 31, 2018. The \$1.1 million decrease represents fixed fee license revenue recognized during the three months ended March 31, 2019.

3. FAIR VALUE MEASUREMENTS*Cash Equivalents and Short-term Investments*

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

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

Instruments 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 March 31, 2019 and December 31, 2018, the Company did not hold any Level 3 instruments.

[Table of Contents](#)

Financial instruments measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018 are classified based on the valuation technique in the table below (in thousands):

	March 31, 2019			Total
	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)	
Assets:				
Money market accounts	\$ 70,848	—	—	\$ 70,848
U.S. Treasury securities	—	14,959	\$ —	14,959
Total assets at fair value ⁽¹⁾	\$ 70,848	\$ 14,959	\$ —	\$ 85,807

(1) The above table excludes \$31.8 million of cash held in banks.

	December 31, 2018			Total
	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)	
Assets:				
Money market accounts	\$ 81,425	—	—	\$ 81,425
U.S. Treasury securities	—	13,930	\$ —	13,930
Total assets at fair value ⁽²⁾	\$ 81,425	\$ 13,930	\$ —	\$ 95,355

(2) The above table excludes \$29.6 million of cash held in banks.

The contractual maturities of the Company's available-for-sale securities on March 31, 2019 and December 31, 2018 were all due within one year. There were no transfers of instruments between Level 1 and 2 during the three months ended March 31, 2019 and the year ended December 31, 2018.

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 the Company's condensed consolidated balance sheets.

Short-term Investments

Short-term investments as of March 31, 2019 and December 31, 2018 consists of the following (in thousands):

	March 31, 2019			Fair Value
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
U.S. Treasury securities	\$ 14,960	\$ —	\$ (1)	\$ 14,959
Total	\$ 14,960	\$ —	\$ (1)	\$ 14,959

	December 31, 2018			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. Treasury securities	\$ 13,936	\$ —	\$ (6)	\$ 13,930
Total	<u>\$ 13,936</u>	<u>\$ —</u>	<u>\$ (6)</u>	<u>\$ 13,930</u>

4. ACCOUNTS AND OTHER RECEIVABLES

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

	March 31, 2019	December 31, 2018
Trade accounts receivable	\$ 967	\$ 645
Other receivables	538	406
Accounts and other receivables	<u>\$ 1,505</u>	<u>\$ 1,051</u>

There was no estimated allowance for doubtful accounts as of March 31, 2019 and December 31, 2018.

5. OTHER ASSETS

Other assets consisted of the following (in thousands):

	March 31, 2019	December 31, 2018
Contract assets - long-term	\$ 7,154	\$ 7,231
Lease assets	3,828	—
Deferred tax assets	295	295
Other assets	7,168	301
Total other assets	<u>\$ 18,445</u>	<u>\$ 7,827</u>

The Company adopted ASC 842 on January 1, 2019 and recognized lease assets on its condensed consolidated balance sheets. See Note 1 and Note 11 to the condensed consolidated financial statements for more detail on ASC 842 adoption.

As of March 31, 2019, the Company recorded a \$6.9 million prepayment included in Other assets along with related account payable on the Company's condensed consolidated balance sheets. The prepayment is in relation to a deposit arising from a pending litigation matter with Samsung. See Note 12 for further disclosure.

6. OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following (in thousands):

	March 31, 2019	December 31, 2018
Accrued legal	\$ 3,708	\$ 1,827
Lease liabilities - current	1,165	—
Income taxes payable	270	204
Other current liabilities	1,171	1,163
Total other current liabilities	<u>\$ 6,314</u>	<u>\$ 3,194</u>

7. STOCK-BASED COMPENSATION

Stock Options and Awards

The Company's equity incentive program is a long-term retention program that is intended to attract, retain, and provide incentives for talented employees, consultants, officers, and directors and to align stockholder and employee interests. The Company may grant time-based options, market condition-based options, stock appreciation rights, restricted stock ("RSA"), restricted stock units ("RSUs"), performance shares, performance units, and other stock-based or cash-based awards to employees, officers, directors, and consultants. Under this program, stock options may be granted at prices not less than the fair market value on the date of grant for stock options. These options generally vest over four years and expire from seven to ten years from the grant date. In addition to time-based vesting, market condition-based options are subject to a market condition where the closing price of the Company stock must exceed a certain level for a number of trading days within a specified timeframe or the options will be canceled before the expiration of the options. RSAs generally vests over one year. RSUs generally vest over 3 years. Awards granted other than an 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 the Company's equity incentive plan is as follows (in thousands):

	March 31, 2019
Common stock shares available for grant	917
Stock options outstanding	2,268
RSAs outstanding	63
RSUs outstanding	801

Time-Based Stock Options

The following summarizes activities for the time-based stock options for the three months ended March 31, 2019 (in thousands except for weighted average exercise 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 as of December 31, 2018	1,862	\$ 9.44	2.85	\$ 751
Granted	269	\$ 9.82		
Exercises	(12)	\$ 6.02		
Cancelled or expired	(122)	\$ 9.92		
Outstanding as of March 31, 2019	1,996	\$ 9.48	2.77	\$ 361
Vested and expected to vest at March 31, 2019	1,996	\$ 9.48	2.77	\$ 348
Exercisable at March 31, 2019	1,466	\$ 9.29	1.56	\$ 283

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

Market Condition-Based Stock Options

In 2014, the Company began to grant market condition-based stock options. These options will vest if the closing price of the Company stock exceeds a certain level for a number of trading days within a specified time frame or the options will be cancelled before the expiration of the options. As of March 31, 2019 and December 31, 2018, the Company had 272,081 market condition-based stock options outstanding. There were no activities during the three months ended March 31, 2019.

[Table of Contents](#)*Restricted Stock Units*

The following summarizes RSU activities for the three months ended March 31, 2019 (in thousands except for weighted average exercise per share and weighted average remaining contractual life data):

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Service (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2018	1,091	\$ 10.97	0.67	\$ 9,773
Granted	458	\$ 9.50		
Released	(698)	\$ 11.38		
Forfeited	(50)	\$ 9.89		
Outstanding at March 31, 2019	801	\$ 9.84	1.71	\$ 6,754

Summary of Restricted Stock Awards

The following summarizes RSA activities for the three months ended March 31, 2019 (in thousands except for weighted average exercise per share and weighted average remaining contractual life data):

	Number of Restricted Stock Awards	Weighted Average Grant Date Fair Value	Weighted Average Remaining Recognition Period (Years)
Outstanding as of December 31, 2018	55	\$ 13.02	0.46
Granted	8	\$ 9.94	
Released	—	\$ —	
Forfeited	—	\$ —	
Outstanding at March 31, 2019	63	\$ 12.63	0.23

Employee Stock Purchase Plan

Under the Company's 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 the Company's common stock at the beginning of the offering period or the purchase date. Participants may not purchase more than 2,000 shares in a six 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 1,000,000 shares of common stock has been reserved for issuance under the ESPP. During the three months ended March 31, 2019, 13,479 shares were purchased under the ESPP. As of March 31, 2019, 261,699 shares were available for future purchase under the ESPP.

[Table of Contents](#)*Stock-based Compensation Expense*

The following table summarizes stock-based compensation expenses recognized for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,	
	2019	2018
Stock options	\$ 194	\$ 318
RSUs and RSAs	1,888	879
Employee stock purchases	21	25
Total	<u>\$ 2,103</u>	<u>\$ 1,222</u>
Sales and marketing	\$ 320	\$ (67)
Research and development	630	256
General and administrative	1,153	1,033
Total	<u>\$ 2,103</u>	<u>\$ 1,222</u>

As of March 31, 2019, there was \$7.6 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock options, RSAs and RSUs. This cost will be recognized over an estimated weighted-average period of approximately 2.86 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

8. STOCKHOLDERS' EQUITY*Accumulated Other Comprehensive Income*

Changes in accumulated other comprehensive income for the three months ended March 31, 2019 are as follows (in thousands).

	Unrealized Gains & Losses on Available for sale	Foreign Currency Items	Total
Balance as December 31, 2018	\$ (6)	\$ 122	\$ 116
Amounts reclassified from accumulated other comprehensive income	6	—	6
Net current period other comprehensive income	6	—	6
Ending balance	<u>\$ —</u>	<u>\$ 122</u>	<u>\$ 122</u>

Stock Repurchase Program

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

There were no stock repurchases during the three months ended March 31, 2019 and 2018. As of March 31, 2019, the Stock Repurchase Program remains available with approximately 33.4 million that may yet be purchased under this program.

9. INCOME TAXES

Income tax provisions consisted of the following (in thousands):

	Three Months Ended March 31,	
	2019	2018
Income (loss) before provision for income taxes	\$ (10,901)	\$ 70,336
Provision for income taxes	\$ (115)	\$ (453)
Effective tax rate	(1.1)%	0.6%

The provision for income tax for the three months ended March 31, 2019 resulted primarily from estimated foreign taxes included in the calculation of the effective tax rate. The Company continues to carry a full valuation allowance on its federal deferred tax assets. As a result, no provision for income generated from the Company's U.S. territory was included in the calculation of the effective tax rate, which was the main reason for the difference between the statutory tax rate and effective tax rate. The provision for income tax for the three months ended March 31, 2018 resulted primarily from estimated foreign taxes included in the calculation of the 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. On July 24, 2018, the U.S. Court of Appeals for 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 U.S. Court of Appeals for the Ninth Circuit withdrew its July 24, 2018 opinion to allow a reconstituted panel to confer on the decision. This reconstituted panel will reconsider 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. Although the IRS has appealed the decision, based on the findings of the US Tax Court, the Company has concluded that it is more likely than not that the decision will be upheld and accordingly has excluded stock-based compensation from intercompany charges during the period. The Company will continue to monitor ongoing developments and potential impacts to its consolidated financial statements.

On December 22, 2017, the Tax Act was passed into law. Among other changes, the Tax Act reduces the US federal corporate income tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates 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. Some provisions of the Tax Act began to impact the Company in 2017, while other provisions impact the Company beginning in 2018.

The Company concluded that it has not met the threshold requirements of the BEAT. Although the measurement period has closed, further technical guidance related to the Tax Act, including final regulations on a broad range of topics, is expected to be issued. In accordance with ASC 740, Income Taxes ("ASC 740"), the Company will recognize any effects of the guidance in the period that such guidance is issued.

As of March 31, 2019, the Company had unrecognized tax benefits under ASC 740 Income Taxes of approximately \$4.6 million and applicable interest of \$19,000. The total amount of unrecognized tax benefits that would affect the Company's effective tax rate, if recognized, is \$97,000. The Company's policy is to account for interest and penalties related to uncertain tax positions as a component of income tax provision. We do not expect to have any significant changes to unrecognized tax benefits during the next twelve months.

As of March 31, 2019, the Company had net deferred income tax assets of \$295,000 consisting primarily of foreign net operating loss carryforwards, and deferred income tax liabilities of \$46,000. Because the Company had net operating loss and credit carryforwards, there are open statutes of limitations in which federal, state, and foreign taxing authorities may examine the Company's tax returns for all years from 1998 through the current period.

The Company maintains a valuation allowance of \$24.4 million against certain of its deferred tax assets, including all federal, state, and certain foreign deferred tax assets as a result of uncertainties regarding the realization of the asset balance due to historical losses, the variability of operating results, and uncertainty regarding near term projected results. In the event that the Company determines the deferred tax assets are realizable based on its assessment of relevant factors, an adjustment to the valuation allowance may increase income in the period such determination is made. The valuation allowance does not impact the Company's ability to utilize the underlying net operating loss carryforwards.

10. 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 March 31,	
	2019	2018
Numerator:		
Net income (loss)	\$ (11,016)	\$ 69,883
Denominator:		
Weighted-average common stock outstanding, basic	31,089	29,700
Dilutive effect of potential common shares:		
Stock options, RSUs, RSA and ESPP	—	866
Total shares, diluted	31,089	30,566
Basic net income (loss) per share	\$ (0.35)	\$ 2.35
Diluted net income (loss) per share	\$ (0.35)	\$ 2.29

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

For the three months ended March 31, 2018, standard stock options to purchase approximately 551,000 shares of common stock, with exercise prices greater than the average fair market value of the Company's stock of \$10.14 per share, were not included in the calculation because the effect would have been anti-dilutive.

For the three months ended March 31, 2019, the following outstanding securities were excluded from the computation of diluted net loss per share because their effect would have been anti-dilutive (in thousands):

	March 31, 2019
Stock options	2,268
RSUs	63
RSAs	801

11. LEASES

The Company leases all of its office spaces and has various operating leases that expire through 2024. On January 1, 2019 ("Adoption Date"), the Company adopted ASC 842, Leases, using the alternative modified transition method to apply the standard and measure leases existed at, or entered into after the Adoption Date. Upon adoption of ASC 842, the Company recognized operating lease liabilities of \$4.9 million, which represents the present value of the remaining lease payments of outstanding leases as of the Adoption Date using an estimated incremental borrowing rate of 3.25%, which is also the Company's weighted average interest rate as of March 31, 2019. The Company also recognized ROU assets of \$4.0 million which represent the Company's right to use an underlying asset for the lease term. In conjunction with the adoption of ASC 842, the Company elected the following practical expedients: (i) combining lease and non-lease components, (ii) leases with an initial term of 12 months or less are not recorded in the condensed consolidated balance sheets, and the associated lease

[Table of Contents](#)

payments are recognized in the condensed consolidated statements of operations on a straight-line basis over the lease term, and (iii) applying discount rates to operating leases using a portfolio approach.

There was no cumulative-effect adjustment recognized on the beginning retained earnings as a result of the adoption. The comparative periods presented in this Form 10-Q reflect the former lease accounting guidance.

Below is a summary of our ROU assets and lease liabilities as of the Adoption Date and March 31, 2019, respectively (in thousands):

	Balance Sheets Classification	March 31, 2019	January 1, 2019
Assets			
Operating lease assets	Other assets	\$ 3,828	\$ 4,048
Liabilities			
Operating lease liabilities - current	Other current liabilities	1,165	1,157
Operating lease liabilities - long-term	Other long-term liabilities	3,445	3,693
Total lease liabilities		<u>\$ 4,610</u>	<u>\$ 4,850</u>

The table below provides supplemental information related to operating leases during the three months ended as of March 31, 2019 (in thousands except for lease term):

Cash paid within operating cash flow	\$281
Weighted average lease terms (in years)	4.08

Operating lease ROU assets and liabilities commencing after the Adoption Date are recognized at commencement date based on the present value of lease payments over the lease term. Under ASC 842, all operating lease expenses are recognized on a straight-line basis over the lease term. During the three months ended March 31, 2019, the Company recognized operating lease expense of \$265,000 compared to \$319,000 for the three months ended March 31, 2018. As of December 31, 2018, the Company had \$764,000 in deferred rent which represented unamortized lease incentives on its outstanding leases and was recorded as a reduction to the ROU assets recognized at the Adoption Date.

Minimum future lease payments obligations as of March 31, 2019 are as follows (in thousands):

For the Years Ending December 31,	
2019	\$ 947
2020	1,209
2021	1,189
2022	1,166
2023	452
Thereafter	24
Total	<u>\$ 4,987</u>

12. CONTINGENCIES

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

In the normal course of business, the Company provides indemnification of varying scope to customers, most commonly to licensees in connection with licensing arrangements that include our IP, although these provisions can cover additional matters.

[Table of Contents](#)

Historically, costs related to these guarantees have not been significant, and the Company is unable to estimate the maximum potential impact of these guarantees on its future results of operations.

As discussed in Part II, Item 1 (Legal Proceedings), on April 28, 2017, the Company and Immersion Software Ireland Limited (collectively, “Immersion”) received a letter from Samsung Electronics Co. (“Samsung”) requesting that the Company 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, 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 the Company’s arguments with respect to the Korean tax authorities’ assessment of withholding tax and penalties imposed on Samsung. We filed an appeal with the Korea Administrative Court on February 15, 2019. The first hearing is scheduled for May 30, 2019.

On September 29, 2017, Samsung filed an arbitration demand with the International Chamber of Commerce against Immersion demanding that the Company reimburse Samsung for the imposed tax and penalties that Samsung paid to the Korean tax authorities. On March 27, 2019, the Company received the final award. The award ordered Immersion to pay Samsung KRW 7,841,324,165 (approximately \$6.9 million), which Immersion 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.

The Company believes that there are valid defenses to all of the claims from the Korean tax authorities. The Company intends to vigorously defend against the claims from the Korean tax authorities. As the Company believes that the likelihood of a material charge resulting from the appeal with the Korean Administrative Court is remote, the \$6.9 million was recorded as a deposit included in Other assets on the Company’s condensed consolidated balance sheet as of March 31, 2019. The Company expects to be reimbursed by Samsung to the extent the Company prevails in the appeal with the Korea Administrative Court.

On October 16, 2017, the Company received a letter from LG Electronics Inc. (“LGE”) requesting that the Company 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. On November 3, 2017, the Company 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. We intend to appeal such ruling with the Korea Tax Administrative Court. The Company believes that there are valid defenses to the claims raised by the Korean tax authorities and that LGE’s claims are without merit. The Company intends to vigorously defend itself against these claims and as a result, has concluded that the likelihood of a material charge resulting from the claim from LGE to be remote.

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

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

OVERVIEW

We are a premier licensing company focused on the creation, design, development, and licensing of innovative haptic technologies that allow people to use their sense of touch more fully as they engage with products and experience the digital world around them. We are 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, 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 help 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 3,600 issued or pending patents worldwide as of March 31, 2019. Our patents cover a wide range of digital technologies and include many of the ways in which touch-related technology can be incorporated into and between hardware products and components, systems software, application software, and digital content. 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.

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, leases, short-term investments, patents and intangible assets, income taxes, contingencies, and litigation. 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.

Our critical accounting policies and estimates are important to the portrayal of our financial condition and results of operations, and require us to make judgments and estimates about matters that are inherently uncertain. With the exception of our adoption of ASC 842 Leases, there have been no other material changes, during the three months ended March 31, 2019 to

[Table of Contents](#)

the items we disclosed in the section "Critical Accounting Policies and Estimates" included in Item 7 and the section "Significant Accounting Policies" (Note 1) included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2018.

RESULTS OF OPERATIONS FOR THREE MONTHS ENDED MARCH 31, 2019 AND 2018**Overview**

Total revenues for the three months ended March 31, 2019 was \$5.1 million, a decrease of \$80.3 million, or 94%, compared to \$85.4 million for the three months ended March 31, 2018. The decrease was primarily driven by the \$74.0 million decrease in fixed fee license revenue and the \$6.3 million decrease in per-unit royalty revenue.

Net loss for the three months ended March 31, 2019 was \$11.0 million as compared to a net income of \$69.9 million for the three months ended March 31, 2018. The \$80.9 million change was mainly related to the \$80.3 million decrease in total revenues and \$605,000 increase in costs and expenses.

REVENUES

The following table sets forth a summary of our revenues for the three months ended March 31, 2019 and 2018 (in thousands except for percentages):

	Three Months Ended March 31		Change	% Change
	2019	2018		
Revenues:				
Fixed fee license revenue	1,740	75,756	(74,016)	(98)%
Per-unit royalty revenue	3,307	9,579	(6,272)	(65)%
Total royalty and license revenue	5,047	85,335	(80,288)	(94)%
Development, services, and other	75	81	(6)	(7)%
Total revenues	5,122	85,416	(80,294)	(94)%

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Royalty and license revenue — Royalty and license revenue is comprised of per unit royalties earned based on usage or net sales by licensees and fixed payment license fees charged for our IP and software. Royalty and license revenue for the three months ended March 31, 2019 decreased by \$80.3 million, or 94%, compared to \$85.3 million for the three months ended March 31, 2018.

Per-unit royalty revenue decreased by \$6.3 million, or 65%, from \$9.6 million for the three months ended March 31, 2018 to \$3.3 million for the three months ended March 31, 2019. The decrease was primarily caused by a \$5.1 million decrease in automotive royalties due mainly to certain per-unit royalty agreements entered into during the first quarter of 2018 that contain minimum royalty provision for which we recognized the whole set of minimum royalties as revenue at the inception of such agreements. Per-unit royalty revenue from gaming and mobility licensees also decreased by 646,000 and 577,000, respectively, as a result of lower shipments experienced by our licensees in the two markets.

Fixed fee license revenue decreased \$74.0 million, or 98%, from \$75.8 million for the three months ended March 31, 2018 to \$1.7 million for three months ended March 31, 2019. The decrease was primarily related to certain material fixed fee license agreement entered into with our mobility customers during the first quarter of 2018.

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. We also anticipate that our royalty revenue will fluctuate relative to our customers unit shipments. We historically experienced seasonally higher royalty revenue from our gaming and mobility customers due to the reporting of holiday sales in the first calendar quarter compared to other calendar quarters. Due to the elimination of the one-quarter lag in reporting royalty income, we now expect to experience this seasonal impact in the fourth calendar quarter. We anticipate a continuous reduction in royalty and license revenue in the future from our medical customers as a percentage of our consolidated royalty and license revenue, as this line of business is a less significant portion of our market focus.

[Table of Contents](#)

Development, services and other revenue - Development, services, and other revenue for three months ended March 31, 2019 decreased by \$6,000, or 7%, compared to \$81,000 for the three months ended March 31, 2018.

Geographically, revenues generated in Asia, North America, and Europe for the three months ended March 31, 2019 represented 48%, 38%, and 14%, respectively, of our total revenue as compared to 3%, 89%, and 8%, respectively, for the three months ended March 31, 2018. The increase in revenue attributable to Asia as a percentage of total revenue was primarily driven by increased revenues from mobility, automotive and gaming customers in Asia. The decrease in revenue attributable to North America as a percentage of total revenue was primarily caused by lower revenues from mobility customers, partially offset by revenue from our automotive and gaming customers in the region. The decrease in revenue attributable to Europe as a percentage of total revenue was mainly caused by decreased revenues from automotive and medical customers in the region.

OPERATING EXPENSES

The following table sets forth a summary of our operating expense for the three months ended March 31, 2019 and 2018 (in thousands except for percentages):

	Three Months Ended March 31,		Change	% Change
	2019	2018		
Sales and marketing	\$ 1,609	\$ 1,220	389	32 %
% of total revenue	32%	1%		
Research and development	\$ 2,302	\$ 2,820	(518)	(18)%
% of total revenue	45%	3%		
General and administrative	\$ 12,695	\$ 11,236	1,459	13 %
% of total revenue	248%	13%		

Sales and Marketing — Our sales and marketing expenses primarily comprised of employee compensation and benefits, sales commissions, advertising, trade shows, collateral marketing materials, market development funds, travel, and an allocation of facilities costs. Sales and marketing expenses increased \$0.4 million, or 32%, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, primarily attributable to increased compensation, benefits, and other personnel related costs as a result of higher stock-based compensation expense during the three months ended March 31, 2019 compared to the same period in 2018.

Research and Development — Our research and development expenses are comprised primarily of employee compensation and benefits, consulting fees, tooling and supplies, and an allocation of facilities costs. Research and development expenses decreased \$518,000, or 18%, for the three months ended March 31, 2019 compared to three months ended March 31, 2018 primarily due to a \$303,000 decrease in compensation, benefits and other personnel related costs and a \$119,000 decrease in facilities related costs. The decrease in compensation, benefits and other personnel related costs was primarily resulted from reduced headcount reflecting redirected development efforts partially offset by an increase in stock-based compensation. 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 are comprised primarily of employee compensation and benefits; legal and professional fees; external legal costs for patents; office supplies; travel; and an allocation of facilities costs. General and administrative expenses increased \$1.5 million, or 13%, for three months ended March 31, 2019 compared to the three months ended March 31, 2018 primarily caused by a \$1.2 million increase in legal expenses as we continue to invest in, protect, and defend our extensive IP portfolio, a \$528,000 increase in consulting and professional services fees, partially offset by a \$428,000 decrease in employee compensation and benefits, consulting fees.

INTEREST AND OTHER INCOME

Interest and Other Income - Interest and other income consists primarily of interest income from cash and cash equivalents and short-term investments, interest on notes receivable, translation exchange rate gains and other income. Interest and other income increased \$367,000 during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 primarily driven by higher investment income earned.

PROVISION FOR INCOME TAXES

The following table sets forth a summary of our provision for income taxes for the three months ended March 31, 2019 and 2018 (in thousands except for percentages):

	Three Months Ended March 31,		Change	% Change
	2019	2018		
Income (loss) before provision for income taxes	\$ (10,901)	\$ 70,336		
Provision for income taxes	(115)	(453)	\$ 338	(75)%
Effective tax rate	(1.1)%	0.6%		

Provision for income tax for the three months ended March 31, 2019 resulted primarily from estimated foreign taxes included in the calculation of the effective tax rate. We continue to carry a full valuation allowance on our federal deferred tax assets. As a result, no provision for income generated from our U.S. territory was included in the calculation of the effective tax rate, which was the main reason for the difference between the statutory tax rate and effective tax rate. Provision for income tax for the three months ended March 31, 2018 resulted primarily from estimated foreign taxes included in the calculation of the effective tax rate.

The year-over-year change in provision for income taxes resulted primarily from the change in mix of income (loss) from continuing operations across various tax jurisdictions, including the United States.

On December 22, 2017, the Tax Act was passed into law. Among other changes, the Tax Act reduces the US federal corporate income tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates 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. Some provisions of the Tax Act began to impact us in 2017, while other provisions impact us beginning in 2018.

We concluded that we have not met the threshold requirements of the BEAT. Although the measurement period has closed, further technical guidance related to the Tax Act, including final regulations on a broad range of 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.

We continue to maintain a valuation allowance of \$24.4 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. The valuation allowance does not impact our ability to utilize the underlying net operating loss carryforwards.

We also maintain liabilities for uncertain tax positions. As of March 31, 2019, we had unrecognized tax benefits under ASC 740 of approximately \$4.6 million and applicable interest of \$19,000. 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 and government agency securities. All of our short-term investments are classified as available-for-sale. The securities are stated at market value, with unrealized gains and losses reported as a component of accumulated other comprehensive income within stockholders' equity.

[Table of Contents](#)

On March 31, 2019, our cash, cash equivalents, and short-term investments totaled \$117.6 million, a decrease of \$7.3 million from \$124.9 million on December 31, 2018.

	Three Months Ended March 31,	
	2019	2018
Net cash provided by (used in) operating activities	(7,578)	86,203
Net cash provided by (used in) investing activities	(936)	2,133
Net cash provided by financing activities	180	6,170

Cash provided by (used in) operating activities

Net cash used in operating activities was \$7.6 million during the three months ended March 31, 2018 compared to \$86.2 million cash provided by operating activities during the three months ended March 31, 2018. The \$93.8 million change was primarily due to \$80.9 million decrease from \$69.9 million net income for the first quarter in 2018 to \$11.0 million net loss for the first quarter in 2019, \$26.1 million decrease in the year-over-year change in deferred revenue, \$6.9 million increase in the year-over-year change in other assets and \$1.0 million decrease in the year-over-year change in accrued compensation. These decreases were partially offset by \$11.2 million increase in the year-over-year change in accounts payable due mainly to the timing of payments, \$4.1 million increase in the year-over-year change in other long-term liabilities, \$2.7 million increase in the year-over-year change in other current liabilities and \$1.4 million decrease in accounts and other receivables. The decreases in the year-over-year changes in deferred revenue and other assets primarily reflected the effect of the adoption of ASC 606 on January 1, 2018.

Cash provided by (used in) investing activities

Net cash used in investing activities during the three months ended March 31, 2019 was \$936,000 compared to \$2.1 million cash provided by investing activities during the three months ended March 31, 2018. Net cash used in investing activities during the current period consisted of purchases of short-term investments of \$8.9 million partially offset by maturities of short-term investments of \$8.0 million.

Cash provided by financing activities

Net cash provided by financing activities during the three months ended March 31, 2019 was \$0.2 million, a decrease of \$6.0 million compared to \$6.2 million cash provided by financing activities during the three months ended March 31, 2018. Net cash provided by financing activities during the three months ended March 31, 2019 consisted of \$0.2 million in proceeds stock options exercises and stock purchases under our employee stock purchase plan.

We believe that our cash, cash equivalents, and short-term investments will be sufficient to meet our working capital needs for at least the next twelve months. Of our total cash, cash equivalents, and short-term investments of \$117.6 million on March 31, 2019, of which 9% was held by our foreign subsidiaries and subject to repatriation tax effects. Our intent is to permanently reinvest all of our earnings from foreign operations, and current plans do not anticipate that we will need funds generated from foreign operations to fund our domestic operations. We will continue to invest in, protect, and defend our extensive IP portfolio, which is expected to result in the continued use of cash during period of active litigation. At March 31, 2019, there was \$33.4 million remaining under our previously-approved share repurchase program. We anticipate that capital expenditures for property and equipment for the year ended December 31, 2019 will be less than \$1 million. Cash from operations could also be affected by various risks and uncertainties, including but not limited to the risks detailed in Part II, Item 1A 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, 2018. Our principal commitments as of March 31, 2019 consisted of obligations under operating leases. There have been no material changes in those obligations during the three months ended March 31, 2019.

As of March 31, 2019, we had unrecognized tax benefits under ASC 740 Income Taxes of approximately \$4.6 million and applicable interest of \$19,000. 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 and Note 11 to the condensed consolidated financial statements for information regarding the effect of new accounting pronouncements on our financial statements, in particular the impact of ASC 842 adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Cash Equivalents and Short-term Investments — We had cash equivalents and short-term investments of \$117.6 million as of March 31, 2019, which are subject to interest rate fluctuations. An increase in interest rates could adversely affect the market value of our cash equivalents and short-term investments. A hypothetical 100 basis point increase in interest rates would result in a decrease of approximately \$72,000 in the fair value of our cash equivalents and short-term investments as of March 31, 2019.

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. We have no foreign exchange contracts, option contracts, or other foreign currency hedging arrangements and we do not expect to have such arrangements in the foreseeable future.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Based on their evaluation as of March 31, 2019, our management with the participation of our Chief Executive Officer and Interim 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 March 31, 2019 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 Interim 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

Immersion Corporation vs. Samsung Electronics Co., Ltd. and Samsung Electronics America, Inc. (C.A. No. 17-cv-572)

On August 3, 2017, we filed a complaint against Samsung Electronics Co., Ltd. and Samsung Electronics America, Inc. (collectively, “Samsung”) in the U.S. District Court for the Eastern District of Texas alleging that certain Samsung touchscreen phones, including those phones that Samsung had not commenced commercially producing, distributing and selling before January 1, 2016 (the “Accused Phones”), infringe certain of our patents that cover haptic feedback systems and methods. In the complaint, we are seeking to stop Samsung from further infringement as well as the recovery of damages. The complaints assert infringement by the Accused Phones of the following patents:

U.S. Patent No 6,429,846 (the ‘846 patent): “Haptic Feedback for Touchpads and Other Touch Controls”

U.S. Patent No 7,969,288 (the ‘288 patent): “Force Feedback System Including Multi-Tasking Graphical Host Environment and Interface Device”

U.S. Patent No 9,323,332 (the ‘332 patent): “Force Feedback System Including Multi-Tasking Graphical Host Environment”

U.S. Patent No 7,982,720 (the ‘720 patent): “Haptic Feedback for Touchpads and Other Touch Controls”

U.S. Patent No 8,031,181 (the ‘181 patent): “Haptic Feedback for Touchpads and Other Touch Controls”

Samsung filed a response to the Complaint on October 24, 2017.

On December 15, 2017, the Court issued a Docket Control Order setting the claim construction hearing for August 15, 2018 and the first day of jury selection for February 4, 2019. On March 5, 2018, the Court issued an order resetting the first day of jury selection for February 19, 2019.

On March 8, 2018, we filed a complaint against Samsung in the U.S. District Court for the Eastern District of Texas alleging that the Accused Phones infringe U.S. Patent No 8,619,051, entitled “Haptic Feedback System with Stored Effects,” which covers haptic feedback systems and methods. In the complaint, we are seeking to stop Samsung from further infringement as well as the recovery of damages.

Samsung filed a response to the Complaint on April 20, 2018. On April 27, 2018, Samsung filed a motion to consolidate this case with the previously-filed case that we filed on August 3, 2017. On May 11, 2018, we filed an opposition to the motion to consolidate. On June 8, 2018, the Court granted Samsung’s motion to consolidate this case with the previously-filed case. On July 10, 2018, the Court entered a new scheduling order for the consolidated cases, setting the claim construction hearing for October 9, 2018, and the first day of jury selection for May 6, 2019. On July 24, 2018, we filed an amended complaint in the consolidated cases. On September 4, 2018, the Court moved the first day of jury selection to May 13, 2019. On October 15, 2018, the Court issued its Claim Construction Memorandum and Order. The first day of jury selection is scheduled for May 9, 2019. On or about February 19, 2019, the parties agreed to a mediation conference for March 21, 2019. The mediation conference was held, but the parties did not reach a settlement. The parties filed motions for summary judgment and to exclude certain expert testimony. The Court ruled on those motions during a pretrial conference held April 22 and 23, 2019. The first day of jury selection, previously scheduled for May 13, 2019, has been moved by the Court to May 9, 2019. On May 8, 2019, the parties filed a joint motion for continuance with the Court. On May 8, 2019, the Court granted the joint motion for continuance and issued an order continuing the case to May 20, 2019.

Samsung Petitions for Inter Partes Review (USPTO)

On August 6, 2018, Samsung filed in the USPTO two petitions for IPR of the ‘846 patent (Case Nos. IPR2018-01467 and IPR2018-01468). In each of the IPR petitions, Samsung asserts that certain claims of the ‘846 patent are invalid over alleged prior art patents and publications. Immersion filed Patent Owner’s Preliminary Responses in IPR2018-01467 and in IPR2018-01468 on November 21, 2018. On February 20, 2019, the USPTO entered Decisions Granting Institution in Case Nos. IPR2018-01467 and IPR2018-01468, both concerning the ‘846 patent. The USPTO also issued Scheduling Orders in both cases, scheduling the Patent Owner Responses for May 20, 2019, the hearing on both petitions for November 18, 2019, and the due date for the Final Written Decisions of February 20, 2020.

On August 6, 2018, Samsung filed in the USPTO two petitions for IPR of the ‘720 patent (Case Nos. IPR2018-01469 and IPR2018-01470). In each of the IPR petitions, Samsung asserts that certain claims of the ‘720 patent are invalid over alleged

[Table of Contents](#)

prior art patents and publications. Immersion filed Patent Owner's Preliminary Responses in both IPR2018-01469 and IPR2018-01470 on December 10, 2018. On March 7, 2019, the USPTO entered Decisions Granting Institution in Case Nos. IPR2018-01469 and IPR2018-01470, both concerning the '720 patent. The USPTO also issued Scheduling Orders in both cases, scheduling the Patent Owner Responses for June 7, 2019, the hearing on both petitions for December 6, 2019, and the due date for the Final Written Decisions of March 7, 2020.

On August 6, 2018, Samsung filed in the USPTO a petition for IPR of the '288 patent (Case No. IPR2018-01499). In the IPR petition, Samsung asserts that certain claims of the '288 patent are invalid over alleged prior art patents and publications. Immersion filed a Patent Owner's Preliminary Response on December 11, 2018. On March 6, 2019, the USPTO entered a Decision Granting Institution in Case No. IPR2018-01499 concerning the '288 patent. The USPTO also issued a Scheduling Order, scheduling the Patent Owner Response for June 7, 2019, the hearing for December 5, 2019, and the due date for the Final Written Decision of March 6, 2020.

On August 6, 2018, Samsung filed in the USPTO two petitions for IPR of the '181 patent (Case Nos. IPR2018-01500 and IPR2018-01501). In each of the IPR petitions, Samsung asserts that certain claims of the '181 patent are invalid over alleged prior art patents and publications. Immersion filed Patent Owner's Preliminary Responses in both IPR2018-01500 and IPR2018-01501 on January 5, 2019. On April 2, 2019, the USPTO entered Decisions Granting Institution in Case Nos. IPR2018-01500 and IPR2018-01501, both concerning the '181 patent. The USPTO also issued Scheduling Orders in both cases, scheduling the Patent Owner Responses for June 25, 2019, the hearing on both petitions for January 9, 2020, and the due date for the Final Written Decisions of April 2, 2020.

On August 6, 2018, Samsung filed in the USPTO a petition for IPR of the '332 patent (Case No. IPR2018-01502). In the IPR petition, Samsung asserts that certain claims of the '332 patent are invalid over alleged prior art patents and publications. Immersion filed a Patent Owner's Preliminary Response on January 5, 2019. On March 29, 2019, the USPTO entered a Decision Granting Institution in Case No. IPR2018-01502 concerning the '332 patent. The USPTO also issued a Scheduling Order, scheduling the Patent Owner Response for June 28, 2019, the hearing for January 9, 2020, and the due date for the Final Written Decision of March 29, 2020.

On March 12, 2019, Samsung filed in the USPTO a petition for IPR of the '051 patent (Case No. IPR2019-00704). In the IPR petition, Samsung asserts that the claims of the '051 patent are invalid over alleged prior art patents and publications. Immersion may file a Patent Owner's Preliminary Response on June 22, 2019; and the last day for the USPTO to decide whether to institute such IPR is September 22, 2019.

Immersion Corporation vs. Motorola Mobility LLC and Motorola Mobility Holdings LLC

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

U.S. Patent No 6,429,846: "Haptic Feedback for Touchpads and Other Touch Controls"

U.S. Patent No 7,969,288: "Force Feedback System Including Multi-Tasking Graphical Host Environment and Interface Device"

U.S. Patent No 9,323,332: "Force Feedback System Including Multi-Tasking Graphical Host Environment"

U.S. Patent No 7,982,720: "Haptic Feedback for Touchpads and Other Touch Controls"

U.S. Patent No 8,031,181: "Haptic Feedback for Touchpads and Other Touch Controls"

On September 25, 2017, Motorola filed its Answer to the Complaint.

On December 5, 2017, the Court issued a Scheduling Order setting the claim construction hearing for September 12, 2018, and the trial date for September 23, 2019. On November 18, 2018, the Court issued an oral order changing the trial date to October 7, 2019.

On February 5, 2018, the Court entered an order setting a mediation conference for August 7, 2018. The mediation conference was rescheduled to October 8, 2018 at the request of the parties. The mediation conference was conducted on October 8, 2018 as rescheduled, but did not result in a settlement. On October 25, 2018, the Court issued its Claim Construction Memorandum and Order.

[Table of Contents](#)

Opening expert reports were served on February 8, 2019. Rebuttal expert reports were served on March 11, 2019. Reply expert reports were served on April 1, 2019. Expert depositions concluded on April 24, 2019. The parties filed motions for summary judgment and to exclude expert testimony on April 25, 2019.

On April 9, 2019, Motorola filed a motion to stay the litigation pending resolution of the inter partes review proceedings (described below) instituted by the USPTO involving the patents asserted in the Motorola litigation. On April 23, 2019, the Company filed an opposition to that motion. Motorola filed its reply in support of its motion on April 30, 2019. The Court ordered a hearing on the motion to stay for May 15, 2019.

Motorola Petitions for Inter Partes Review (USPTO)

On March 20, 2019, Motorola filed in the USPTO two petitions for IPR of the '846 patent (Case Nos. IPR2019-00847 and IPR2019-00848). The Motorola petitions are based on Samsung's petitions in corresponding IPR proceedings (Case Nos. IPR2018-01467 and IPR2018-01468) on the '846 patent. With the petitions, Motorola moved to join its IPR proceedings with Samsung's corresponding IPR proceedings. Immersion filed an opposition to Motorola's joinder motions on April 20, 2019. Immersion may file Patent Owner's Preliminary Responses in IPR2019-00847 and IPR2019-00848 on June 28, 2019, and the last day for the USPTO to decide whether to institute Motorola's IPRs of the '846 patent is September 28, 2019.

On March 22, 2019, Motorola filed in the USPTO two petitions for IPR of the '720 patent (Case Nos. IPR2019-00868 and IPR2019-00869). The Motorola petitions are based on Samsung's petitions in corresponding IPR proceedings (Case Nos. IPR2018-01469 and IPR2018-01470) on the '720 patent. With the petitions, Motorola moved to join its IPR proceedings with Samsung's corresponding IPR proceedings. Immersion filed an opposition to Motorola's joinder motions on April 22, 2019. Immersion may file Patent Owner's Preliminary Responses in IPR2019-00868 and IPR2019-00869 on July 9, 2019 and June 28, 2019, respectively, and the last day for the USPTO to decide whether to institute Motorola's IPRs of the '720 patent is October 9, 2019 and September 28, 2019, respectively.

On March 22, 2019, Motorola filed in the USPTO a petition for IPR of the '288 patent (Case No. IPR2019-00870). The Motorola petition is based on Samsung's petition in corresponding IPR proceeding (Case No. IPR2018-01499) on the '288 patent. With the petition, Motorola moved to join its IPR proceeding with Samsung's corresponding IPR proceeding. Immersion filed an opposition to Motorola's joinder motion on April 22, 2019. Immersion may file Patent Owner's Preliminary Response in IPR2019-00870 on July 9, 2019, and the last day for the USPTO to decide whether to institute Motorola's IPR of the '288 patent is October 9, 2019.

On April 4, 2019, Motorola filed in the USPTO two petitions for IPR of the '181 patent (Case Nos. IPR2019-00920 and IPR2019-00921). The Motorola petitions are based on Samsung's petitions in corresponding IPR proceedings (Case Nos. IPR2018-01500 and IPR2018-01501) on the '181 patent. With the petitions, Motorola moved to join its IPR proceedings with Samsung's corresponding IPR proceedings. Immersion may file an opposition to Motorola's joinder motions on May 4, 2019. Immersion may also file Patent Owner's Preliminary Responses in IPR2019-00920 and IPR2019-00921 on July 18, 2019, and the last day for the USPTO to decide whether to institute Motorola's IPRs of the '181 patent is October 18, 2019.

On April 4, 2019, Motorola filed in the USPTO a petition for IPR of the '332 patent (Case No. IPR2019-00922). The Motorola petition is based on Samsung's petition in corresponding IPR proceeding (Case No. IPR2018-01502) on the '332 patent. With the petition, Motorola moved to join its IPR proceeding with Samsung's corresponding IPR proceeding. Immersion may file an opposition to Motorola's joinder motion on May 4, 2019. Immersion may also file Patent Owner's Preliminary Response in IPR2019-00922 on July 9, 2019, and the last day for the USPTO to decide whether to institute Motorola's IPRs of the '332 patent is October 9, 2019.

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, 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. We filed an appeal with the Korea Administrative Court on February 15, 2019. The first hearing is scheduled for May 30, 2019.

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), 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.

The Company believes that there are valid defenses to all of the claims from the Korean tax authorities. The Company intends to vigorously defend against the claims from the Korean tax authorities. The Company expects to be reimbursed by Samsung to the extent the Company prevails in the appeal with the Korea Administrative Court.

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. The Company filed an application to withdraw its 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.

The Company pre-registered the appeals against the invalidation decisions with the Beijing IP Court on February 14, 2019. On April 28, 2019, the Company filed the appeal against the invalidation decisions with the Beijing IP court.

Immersion Corporation vs. Samsung Electronics GmbH

On February 25, 2019, we filed a patent infringement lawsuit against Samsung Electronics GmbH in Mannheim District Court in Germany alleging that certain Samsung touchscreen phones infringe German Patent 602008058897.1 (EP Patent 2463752), a counterpart of U.S. Patent No. 8,619,051, “Haptic Feedback System with Stored Effects,” which patent is being asserted against Samsung Electronics America, Inc. and Samsung Electronics Co., Ltd. and was previously asserted against Apple, Inc. In the complaint, we are seeking injunctive relief, a claim for accounting, declaratory judgment on liability for damages and additional remedies such as destruction and costs.

By order dated March 11, 2019, the Mannheim District Court scheduled a hearing on the merits for December 3, 2019. With such order, the court also ordered Samsung Electronics GmbH to announce a counsel of record and to file an answer to the complaint within 8 weeks of receiving service of such order. Samsung requested a four week extension of the deadline to file their answer which was granted by the Court on April 30, 2019.

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 Contingencies, Note 12 to the condensed consolidated financial statements.

ITEM 1A. RISK FACTORS

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

Company Risks

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

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

- difficulties in persuading device manufacturers to take a license or renew a license to our intellectual property without the expenditure of significant resources;
- difficulties in persuading existing customers that they still need a license to the portfolio as individual patents expire or become limited in scope, declared unenforceable or invalidated;
- reluctance of device manufacturers to take a license or renew a license to our intellectual property because other larger device manufacturers are not licensed;
- difficulties in entering into or renewing gaming licenses if video game console makers choose not to license third parties to make peripherals for their new consoles, if video 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 teams of existing and potential licensees;
- difficulties in achieving and maintaining consumer and market demand or acceptance for our products;
- difficulties in persuading third parties to work with us, to rely on us for critical technology, and to disclose to us proprietary product development and other strategies;
- difficulties in persuading existing licensees who compensate us for including our software in certain of their touch-enabled products to also license and compensate us for our patents that cover other touch-enabled products of theirs that do not include our software;
- challenges in demonstrating the compelling value of our technologies and challenges associated with customers' ability to easily implement our technologies; and
- inability of current or prospective licensees to ship certain devices if they are involved in IP infringement claims by third parties that ultimately prevent them from shipping products or that impose substantial royalties on their products.

Further, with the adoption of the new revenue standard, Accounting Standard Codification ("ASC") 606, *Revenue from Contracts with Customers*, ("ASC 606"), effective January 1, 2018, we recognize a substantial portion of revenue from our fixed license fee contracts up front, with the remainder recognized over time, which relates to our future performance obligations to be transferred during the contract term. Previously, our fixed license fee revenue was typically recognized ratably over time in accordance with revenue recognition guidance under ASC 605, *Revenue Recognition* ("ASC 605"). This change in accounting policy provides less predictability in our revenue when compared to historical periods.

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

Two customers accounted for 20% and 13% of our total revenues for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018 where one customer accounted for more than 10% 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 customer decides that our intellectual property is no longer relevant and stops paying us royalties, our revenue could decline if we are unable to replace the lost revenue with revenue from other sources. In addition, if potential customers or customers with expiring agreements view the loss of one of our major customers as an indicator of the value of our software and/or the strength of our intellectual property, they may choose not to take or renew a license which could adversely affect our operating results.

Our current or any future 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.

We have been in the past and are currently a party to various legal proceedings with companies that have significantly greater financial resources than us to enforce or defend our intellectual property rights and to defend our licensing practices. For example, on August 3, 2017, we initiated patent infringement litigation against Samsung and Motorola claiming that they are infringing five of our U.S. patents. On March 8, 2018, we added an additional U.S. patent to the litigation against Samsung, and on February 25, 2019, we initiated patent infringement litigation against Samsung Electronics GmbH in Germany alleging that certain Samsung touchscreen phones infringe one of our German patents. Due to the inherent uncertainties of litigation and administrative proceedings, we cannot accurately predict how these proceedings will ultimately be resolved. We anticipate that currently pending or any future legal proceedings will continue to be costly, given the significant resources available to our current adverse parties, and that future legal proceedings will result in additional legal expenses, resulting in the decrease of cash available for other parts of our business, and there can be no assurance that we will be successful or be able to recover the costs we incur in connection with the legal proceedings. Although protecting our intellectual property is a fundamental part of our business, at times, our legal proceedings have diverted, and could continue to divert, the efforts and attention of some of our key management and personnel away from our licensing transactions and other aspects of our business. As a result, until such time as it is resolved or concluded, litigation, arbitration and administrative proceedings could cause our technology to be perceived as less valuable in the marketplace, which could reduce our sales and adversely affect our business. Further, any unfavorable outcome could adversely affect our business. For additional background on our litigation, please see Part I, Item 3, “Legal Proceedings.”

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

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

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

In addition, our patents will continue to expire according to their terms which may have an adverse effect on our business. Our failure to continuously develop or acquire successful innovations and obtain patents on those innovations could significantly harm our business, financial condition, results of operations or cash flows. In addition, we also rely on licenses, confidentiality agreements, other contractual agreements, and copyright, trademark, and trade secret laws to establish and protect our proprietary rights. It is possible that:

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

We have in the past initiated legal proceedings to protect our intellectual property and may need to continue to do so in the future, and we are currently in litigation against Samsung and Motorola for patent infringement. We may need to continue to initiate legal proceedings in the future. Any legal or administrative proceeding initiated by us to protect or enforce our IP rights has, and may in the future result in substantial legal expenses and risk, could lead to counterclaims and adverse rulings affecting our patents, and may divert our management’s time and attention away from our other business operations, which could significantly harm our business.

Potential patent and litigation reform legislation, potential 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), would make it more difficult for us to enforce our patents, whether in adversarial proceedings or in negotiations. Because we have historically depended on the availability of certain forms of legal process to enforce our patents and obtain fair and adequate compensation for our investments in research and development and the unauthorized use of our intellectual property, developments that undermine our ability to do so could have a negative impact on future licensing efforts.

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

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

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

As a small company, we may not have the resources to reach every company who is introducing or planning to introduce haptics into the market. In addition, as a small company, we have limited engineering resources that may make it difficult to support every type of haptic implementation with our software offerings or to introduce new technologies in a timely manner. In the instances where a potential customer is not using our software but implements unlicensed haptic capability, we may need to seek to enforce our intellectual property. If the customer is unwilling to enter into a license agreement, we may elect to pursue litigation which would harm our relationship with the potential customer and could harm our relationships with other licensees or our ability to gain new customers, who may postpone licensing decisions pending the outcome of the litigation or dispute, or who may, as a result of such litigation, choose not to adopt our technologies. In addition, these legal proceedings could be very expensive and could have a negative impact on our financial results.

We also license our software and/or patents to semiconductor manufacturers who incorporate our technologies into their integrated circuits for use in certain electronic devices. While our relationships with these semiconductor 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 the event that the semiconductor manufacturers do not recognize the need to license our technologies or in the event we do not correctly structure our licensing programs to avoid patent exhaustion or implied licenses, we could negatively impact our business and financial results.

We had an accumulated deficit of \$109.5 million as of March 31, 2019 and may not return to consistent profitability in the future.

As of March 31, 2019 we had an accumulated deficit of \$109.5 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

[Table of Contents](#)

- 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.

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

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

We have experienced turnover in our senior management. Our Chief Executive Officer recently joined us in January 2019. This lack of management continuity and turnover amongst our employees, which we have experienced recently, could result in operational and administrative inefficiencies and added costs, which could adversely impact our results of operations, stock price and customer relationships, and could make recruiting for future management positions more difficult. We believe that our future success will also depend largely on our ability to attract, integrate, and retain sales, support, marketing, and research and development personnel. We must successfully integrate any new senior management and other new personnel within our organization in order to achieve our operating objectives, and changes in other key positions may temporarily affect our financial performance and results of operations as new employees become familiar with our business. Additionally, competition for such personnel is intense, and we may not be successful in attracting, integrating, and retaining such personnel. Given the protracted nature of, if, how, and when we collect royalties on new contracts, it may be difficult to craft compensation plans that will attract and retain the level of salesmanship needed to secure these contracts. Additionally, our compensation packages need to be competitive in the Silicon Valley where the stock component of compensation is an important factor that candidates and employees consider. Some of our executive officers and key employees hold stock options with exercise prices that may be above the current market price of our common stock or that are largely vested. Each of these factors may impair our ability to retain the services of our executive officers and key employees.

If we do not achieve increased tax benefits as a result of our 2015 corporate reorganization, our financial condition and operating results could be adversely affected.

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

There can be no assurance that the taxing authorities of the jurisdictions in which we operate or to which we are otherwise deemed to have sufficient tax nexus will not challenge the restructuring or the tax position that we take. From time to time, we enter into license agreements with our licensees pursuant to which we may agree to indemnify a customer for certain taxes imposed on the customer by an applicable tax authority and related expense. On April 28, 2017, we received a letter from Samsung requesting that we reimburse Samsung with respect to withholding tax and penalties imposed on Samsung by the Korean tax authorities as a result of its determination that withholding taxes should have been withheld from certain payments made from Samsung to Immersion Software Limited. 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 requested that we pay them 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 have asked the International Chamber of Commerce to postpone the arbitration until the tax appeal is resolved. The arbitration panel conducted a hearing on the matter and a draft award has been submitted by the arbitral tribunal to the International Court of Arbitration of the International Chamber of Commerce. The Secretariat of the International Chamber of Commerce has set the deadline for rendering the final award to February 28, 2019. On March 27, 2019, we received the final award. The award ordered us to pay Samsung KRW 7,841,324,165 (approximately \$6.9M), 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 addition, 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. On November 3, 2017, we filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes.

In the event that it is determined that we are obligated to indemnify Samsung and/or LGE for such withholding taxes imposed by the Korean tax authorities, we would incur significant expenses. 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.

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

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

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

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

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

Our international operations subject us to additional risks and costs.

We currently have sales personnel in Japan, Korea, and China. International revenues accounted for approximately 48% of our total revenues in the three months ended March 31, 2019. International operations are subject to a number of difficulties, risks, and special costs, including:

- compliance with multiple, conflicting and changing governmental laws and regulations;
- laws and business practices favoring local competitors;
- foreign exchange and currency risks;
- changing import and export restrictions, duties, tariffs, quotas and other barriers;
- difficulties staffing and managing foreign operations;
- difficulties and expense in establishing and enforcing IP rights internationally;
- 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;

[Table of Contents](#)

- political and economic instability; and
- the possibility of an outbreak of hostilities or unrest in markets where major customers are located, including Korea.

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

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 somehow restrict or impede the ability of third parties to make touch-enabling peripherals, it could lead our gaming licensees to stop making products with touch-enabling capabilities, thereby significantly reducing our gaming royalty revenues. Also, if the 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 or IP in connection with gaming on such mobile or other platforms. Although we have a significant software and IP position with respect to VR peripherals and systems, the market may not become large enough to generate material revenues. Finally, as some of our litigated patents have expired related to video game peripherals, our gaming royalty revenues will likely decline until we are successful in proving the relevance of our IP 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. 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 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. In the event that Microsoft increases its share of these markets, our royalty revenue from other licensees in these market segments may decline.

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

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

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

A key part of our business strategy is to license our software and IP to companies that manufacture and sell products incorporating our touch-enabling technologies. Substantially all of our total revenues were royalty and license revenues for the first quarter in 2018 and 2019. 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 will not grow and 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, they can be time-consuming and costly to defend against and may divert management's attention and resources away from our business. Furthermore, third parties making such claims may be able to obtain injunctive or other equitable relief that could block our ability to further develop or commercialize some or all of our software technologies or services in the United States and abroad. Claims of IP infringement also might require us to enter into costly settlement or license agreements or pay costly damage awards. Even if we have an agreement that provides for a third party to indemnify us against such costs, the indemnifying party may be unable or unwilling to perform its contractual obligations.

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

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

Attempts by others to gain unauthorized access to our information technology systems, computer malware and cyber attacks have become more prevalent and sophisticated. These threats and attempts, which might be related to industrial or other espionage, include covertly introducing malware such as viruses, worms and other malicious software programs to our computers and networks and impersonating authorized users, among others. These threats are constantly evolving, making it increasingly difficult to successfully defend against them or implement adequate protective measures. We might be unaware of an incident or its magnitude and effects. These attacks may create system disruptions or cause shutdowns, theft, unauthorized use or publication of our intellectual property and/or confidential business information, which could harm our competitive position and reputation, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any future security breach results in inappropriate disclosure of our customers' confidential information, we may incur liability.

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

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

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

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

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

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

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

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

The current global economic conditions and political climate could materially hurt our business in a number of ways, including longer sales and renewal cycles, exchange rate volatility, delays in adoption of our products or technologies or those of our customers, increased risk of competition, higher taxes and tariffs on goods incorporating our 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.

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

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

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

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

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

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

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

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

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

Investment Risks

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

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

These factors include:

- the establishment or loss of licensing relationships;
- the timing and recognition of payments under fixed and/or up-front 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.

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

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

For example, on January 1, 2018, we adopted the new revenue standard 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 the new standard, 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 its licensees. Such changes are expected to significantly affect our reported financial condition and/or results of operations, potentially causing the amount of revenue we recognize to vary dramatically from quarter to quarter, and even year to year, depending on the timing of entry into license agreements and whether such agreements have fixed-fee or per-unit royalty terms. In addition, these changes to our reporting practices and the resulting fluctuations in our reported revenue could cause a decline and/or fluctuations in the price of our common stock.

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

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

Our stock price may fluctuate regardless of our performance.

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

stock indices; 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.

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

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

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

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

- our board of directors is classified into three classes of directors with staggered three-year terms which will be phased out over time through 2020;
- only our chairperson of the board of directors, a majority of our board of directors or 10% or greater stockholders are authorized to call a special meeting of stockholders;
- our stockholders can only take action at a meeting of stockholders and not by written consent;
- vacancies on our board of directors can be filled only by our board of directors and not by our stockholders;
- our restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders; and
- we have implemented a stockholder rights plan.

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			Filed Herewith
		Form	File No.	Exhibit	
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 Anne Marie Peters, Interim 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 Anne Marie Peters, 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.

[Table of Contents](#)

SIGNATURES

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

Date: May 10, 2019

IMMERSION CORPORATION

By: /s/ ANNE MARIE PETERS

Anne Marie Peters

Interim Chief Financial Officer

**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: May 10, 2019

/s/ RAMZI HAIDAMUS

Ramzi Haidamus

Chief Executive Officer

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

I, Anne Marie Peters, 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: May 10, 2019

/s/ ANNE MARIE PETERS

Anne Marie Peters

Interim Chief Financial Officer

**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 March 31, 2019 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:

and (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));

(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

May 10, 2019

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.

**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 March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anne Marie Peters, Interim 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/ ANNE MARIE PETERS

Anne Marie Peters

Interim Chief Financial Officer

May 10, 2019

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.