

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

**IMMERSION CORP**

CIK: **1058811** | IRS No.: **943180138** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
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**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, 2018

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-27969

**IMMERSION CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of common stock outstanding at May 4, 2018: 30,367,214.

IMMERSION CORPORATION

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**PART I**  
**FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

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

	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 119,128	\$ 24,622
Short-term investments	19,842	21,916
Accounts and other receivables	2,667	806
Prepaid expenses and other current assets	5,616	736
Total current assets	147,253	48,080
Property and equipment, net	2,903	3,150
Deferred income tax assets	371	401
Other assets	4,808	344
Total assets	\$ 155,335	\$ 51,975
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,256	\$ 6,647
Accrued compensation	2,552	4,133
Other current liabilities	3,296	3,896
Deferred revenue	4,920	4,424
Total current liabilities	15,024	19,100
Long-term deferred revenue	33,665	22,303
Other long-term liabilities	1,374	915
Total liabilities	50,063	42,318
Contingencies (Note 12)		
Stockholders' equity:		
Common stock and additional paid-in capital — \$0.001 par value; 100,000,000 shares authorized; 37,043,975 and 35,950,518 shares issued, respectively; 30,357,285 and 29,263,828 shares outstanding, respectively	235,438	228,046
Accumulated other comprehensive income	104	99
Accumulated deficit	(83,398)	(171,616)
Treasury stock at cost: 6,686,690 shares	(46,872)	(46,872)
Total stockholders' equity	105,272	9,657
Total liabilities and stockholders' equity	\$ 155,335	\$ 51,975

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,	
	2018	2017
Revenues:		
Royalty and license	\$ 85,335	\$ 9,006
Development, services, and other	81	218
Total revenues	85,416	9,224
Costs and expenses:		
Cost of revenues	35	43
Sales and marketing	1,220	3,305
Research and development	2,820	3,196
General and administrative	11,236	15,532
Total costs and expenses	15,311	22,076
Operating income (loss)	70,105	(12,852)
Interest and other income	231	139
Income (loss) before provision for income taxes	70,336	(12,713)
Provision for income taxes	(453)	(152)
Net income (loss)	\$ 69,883	\$ (12,865)
Basic net income (loss) per share	\$ 2.35	\$ (0.44)
Shares used in calculating basic net income (loss) per share	29,700	29,024
Diluted net income (loss) per share	\$ 2.29	\$ (0.44)
Shares used in calculating diluted net income (loss) per share	30,566	29,024
Other comprehensive income (loss), net of tax		
Change in unrealized gains (losses) on short-term investments	5	(22)
Total other comprehensive income (loss)	5	(22)
Total comprehensive income (loss)	\$ 69,888	\$ (12,887)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$ 69,883	\$ (12,865)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	227	232
Stock-based compensation	1,222	1,557
Deferred income taxes	67	—
Loss on disposal of equipment	26	—
Changes in operating assets and liabilities:		
Accounts and other receivables	(1,861)	(527)
Prepaid expenses and other current assets	116	150
Other assets	(4,524)	(55)
Accounts payable	(2,391)	1,000
Accrued compensation and other current liabilities	(2,181)	(1,741)
Deferred revenue	25,197	(2,046)
Other long-term liabilities	422	(22)
Net cash provided by (used in) operating activities	<u>86,203</u>	<u>(14,317)</u>
Cash flows provided by (used in) investing activities:		
Purchases of short-term investments	(8,861)	(9,931)
Proceeds from maturities of short-term investments	11,000	10,000
Purchases of property and equipment	(6)	(83)
Net cash provided by (used in) investing activities	<u>2,133</u>	<u>(14)</u>
Cash flows provided by financing activities:		
Issuance of common stock under employee stock purchase plan	98	175
Exercise of stock options	6,072	401
Net cash provided by financing activities	<u>6,170</u>	<u>576</u>
Net increase (decrease) in cash and cash equivalents	94,506	(13,755)
Cash and cash equivalents:		
Beginning of period	24,622	56,865
End of period	<u>\$ 119,128</u>	<u>\$ 43,110</u>
Supplemental disclosure of cash flow information		
Cash paid for taxes	<u>\$ 90</u>	<u>\$ 39</u>
Supplemental disclosure of noncash operating, investing, and financing activities		
Amounts accrued for property and equipment	<u>\$ —</u>	<u>\$ 11</u>
Release of Restricted Stock Units and Awards under company stock plan	<u>\$ 1,860</u>	<u>\$ 1,768</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

**IMMERSION CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2018**  
**(Unaudited)**

**1. SIGNIFICANT ACCOUNTING POLICIES**

*Description of Business*

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

*Principles of Consolidation and Basis of Presentation*

The 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. The accompanying 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, 2017. 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, 2018 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*

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) 2014-09 “Revenue from Contracts with Customers (Topic 606)” (“Accounting Standard Codification 606”, “ASC 606”), which superseded most prior revenue recognition guidance under ASC Topic 605, “Revenue Recognition” (“ASC 605”) including industry-specific guidance. The underlying principle of ASC 606 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers at an amount that the entity expects to be entitled in exchange for those goods or services. The new standard provides a five-step analysis of transactions to determine when and how revenue is recognized, and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption if the modified retrospective transition method is elected. The new standard also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The Company adopted the new revenue standard 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. Therefore, comparative prior periods have not been adjusted and continue to be presented under ASC 605. Refer to Note 2 to the condensed consolidated financial statements for the Company's revised revenue recognition accounting policy and a summary of the impact of adoption of ASC 606.

*Recent Accounting Pronouncements*

*Adopted*

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In March 2018, the FASB issued ASU2018-05 "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)", which updates Securities and Exchange Commission ("SEC") guidance released in December 2017 when the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. Additional information regarding the adoption of this ASU and its material impact on the Company's condensed consolidated financial statements is contained in Note 10 to the condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09 "Stock Compensation: Scope of Modification Accounting". The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2017. The Company adopted the standard effective January 1, 2018. The adoption of this ASU did not have a material impact on its condensed consolidated financial statements.

In December 2016, the FASB issued ASU 2016-19 "Technical Corrections and Improvements". The amendments in this update affect a wide variety of topics in the Accounting Standards Codification. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods in the annual period beginning after December 15, 2018. The Company adopted the standard effective January 1, 2018. The adoption of this ASU did not have a material impact on its condensed consolidated financial statements.

### *Not yet adopted*

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". 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 is currently assessing when it will adopt this ASU and its potential impact on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 "Leases: Topic 842" ("ASU 2016-02"), which supersedes the existing guidance for lease accounting in Topic 840, Leases. The FASB issued the ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 requires lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting remains largely unchanged. This ASU is effective for periods beginning after December 15, 2018, with early adoption permitted. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently in the process of evaluating the impact of this standard on its condensed consolidated financial statements, but has not elected to early adopt the standard and would plan to implement the standard on January 1, 2019.

## **2. REVENUE RECOGNITION**

### ***Revised Revenue Recognition Accounting Policy***

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective transition method. The new revenue standard has been applied to all contracts that were not completed as of the date of adoption. To the extent that modifications occurred prior to the adoption of ASC 606, the Company has reflected the aggregate impact of any modification when evaluating the impact of the adoption.

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. The adoption of ASC 606 affected the Company's revenue recognition model for both fixed fee license revenue and per-unit royalty revenue presented on "royalty and license revenue" on the Company's condensed consolidated statements of operations and comprehensive income (loss).

#### *Fixed fee license revenue*

In applying ASC 606, 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:

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

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- 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.

Under the Company's previous accounting practices under ASC 605, fixed license fees were generally recognized on a straight-line basis over the contract term. As a result of the adoption of ASC 606, 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 be required to allocate the transaction price based on the standalone price for each of the two performance obligations. The Company has developed a process, and established internal controls around such process, to estimate standalone prices related to Performance Obligation A and B using a number of factors primarily related to the attributes of its patent portfolio. 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 have been presented on a net basis.

Historically, certain of the Company's license agreements contained fixed fees related to past infringements for which the fixed fees were recognized as revenue or recorded as a deduction to its operating expense in the quarter the license agreement was signed. After the adoption of ASC 606, the Company will recognize revenue from such fixed fees related to past infringements in the same manner in the quarter the license agreement is signed.

In the event a significant financing component is determined to exist in any of our agreements, the Company will recognize more or less revenue and corresponding interest expense or income, as appropriate.

### *Per-unit Royalty revenue*

Under the Company's previous accounting practices under ASC 605, it recognized revenue from per-unit royalty agreements in the period in which the related royalty report was received from its licensees, generally one quarter in arrears from the period in which the underlying sales occurred (i.e. on a "quarter-lag"). 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. 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. For the three months ended March 31, 2018, the Company had no true-ups from the estimates made on January 1, 2018 which would require presentation herein.

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. Per the Company's previous accounting policy under ASC 605, such minimum royalties were recognized as revenue at the end of each reporting period (usually a calendar year) if the actual royalties reported by the customer for that reporting period were below the minimum threshold set forth in the contract. 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. Therefore, 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 will establish contract assets for the unbilled minimum royalties on a contract basis. Such contract asset balance will be reduced by the actual royalties 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 have been presented on a net basis.

### *Development, services, and other revenue*

With little change from its previous accounting practices related to development, service and other revenue, the Company will continue to recognize revenue from this stream when it has satisfied service obligations. Consistent with the Company's previous accounting practices under ASC 605, the performance obligation related to its development, service and other revenue is satisfied over a period of time, and such revenue is recognized evenly over the period of performance obligation, which is generally consistent with the contractual term.

## ***Adjustments upon Adoption of ASC 606***

The following table summarizes adjustments related to the Company's adoption of ASC 606.



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(in thousands)	Balance at December 31, 2017 as Reported under ASC 605	Adjustment for Fixed Fee License Revenue *	Elimination of Quarter-Lag Per-Unit Royalties	Total Adjustments upon Adoption of ASC 606	Balance at January 1, 2018 (ASC 606)
Prepaid expenses and other current assets	\$ 736		\$ 4,996	\$ 4,996	\$ 5,732
Deferred revenue - current	(4,424)	1,766		1,766	(2,658)
Long-term deferred revenue	(22,303)	11,573		11,573	(10,730)
Accumulated deficit	171,616	(13,339)	(4,996)	(18,335)	153,281

\* Adjustment for fixed fee license revenue includes both the recognition of Performance Obligation A upon the adoption of ASC 606, which had previously been deferred under ASC 605, and the change in the transaction price allocated to Performance Obligation B and consequently the revenue recognized as of January 1, 2018.

**Disaggregated Revenue**

The following table presents the disaggregation of the Company's revenue for the three months ended March 31, 2018 under ASC 606. Revenues for the three months ended March 31, 2017 are presented in accordance with ASC 605.

(in thousands)	Three Months Ended March 31,			
	2018	2017	Increase (Decrease)	
Fixed fee license revenue	75,756	2,510	73,246	2,918 %
Per-Unit royalty revenue	9,579	6,496	3,083	47 %
Total royalty and license revenue	85,335	9,006	76,329	848 %
Development, services, and other revenue	81	218	(137)	(63)%
Total revenues	85,416	9,224	76,192	826 %

For the three months ended March 31, 2018, the Company recognized \$487,000 as revenue that had been included in deferred revenue as of the beginning of the period. As of March 31, 2018, the Company had contract assets of \$4.8 million and \$4.5 million included within prepaid expenses and other current assets and other non-current assets on the condensed consolidated balance sheet, respectively. During the three months ended March 31, 2018, there was no impairment of the contract assets.

**Impact of Adoption of ASC 606**

In accordance with the requirements of ASC 606, the disclosure of the impact of adoption on the Company's condensed consolidated statements of operations and comprehensive income (loss) and balance sheet as of and for the three months ended March 31, 2018 is presented below. The Company believes that this additional information is vital during the transition year to allow readers of its financial statements to compare financial results from the preceding financial year given the use of the modified retrospective method of adoption. The adoption of ASC 606 did not affect the Company's reported total amounts of cash flows from operating, investing and financing activities as such separate tables for this separate financial statement have not been provided.

Amounts contained in the tables below are in thousands, except per share data.

	Three Months Ended March 31,			
	2018			2017
	As Reported (ASC 606)	Adjustments	ASC 605	As Reported (ASC 605)
<b>Revenues:</b>				
Fixed fee license revenue	\$ 75,756	\$ (72,341)	\$ 3,415	\$ 2,510
Per-unit royalty revenue	9,579	(4,351)	5,228	6,496
Total royalty and license revenue	85,335	(76,692)	8,643	9,006
Development, services, and other revenue	81	—	81	218
Total revenues	\$ 85,416	\$ (76,692)	\$ 8,724	\$ 9,224
Operating expenses	15,311	—	15,311	22,076
Operating income (loss)	70,105	(76,692)	(6,587)	(12,852)
Interest and other income	231	—	231	139
Income (loss) before provision for income taxes	70,336	(76,692)	(6,356)	(12,713)
Income tax provision	(453)	—	(453)	(152)
Net income (loss)	\$ 69,883	\$ (76,692)	\$ (6,809)	\$ (12,865)
Basic net income (loss) per share	\$ 2.35	\$ (2.58)	\$ (0.23)	\$ (0.44)
Diluted net income (loss) per share	\$ 2.29	\$ (2.51)	\$ (0.22)	\$ (0.44)

(in thousands)	March 31, 2018			December 31, 2017
	As Reported (ASC 606)	Adjustments	ASC 605	As Reported (ASC 605)
	Prepaid expenses and other current assets	5,616	(4,847)	769
Other non-current assets	4,808	(4,500)	308	344
Deferred revenue - current	(4,920)	(9,521)	(14,441)	(4,424)
Long-term deferred revenue	(33,665)	(76,160)	(109,825)	(22,303)
Accumulated Deficit	83,398	95,027	178,425	171,616

### Contracted Revenue

Based on contracts signed and payments received as of March 31, 2018, the Company expects to recognize \$38.6 million revenue related to Performance Obligation B under its fixed fee license agreements, which is satisfied over time, including \$14.3 million over one to three years, and \$24.3 million over more than three years, respectively.

### 3. FAIR VALUE MEASUREMENTS

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

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

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

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





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

The types of instruments valued based on unobservable inputs which reflect the reporting entity's own assumptions or data that market participants would use in valuing an instrument are generally classified within Level 3 of the fair value hierarchy. The Company had no Level 3 instruments as of March 31, 2018 and December 31, 2017.

Financial instruments measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017 are classified based on the valuation technique in the table below:

(in thousands)	March 31, 2018			
	Fair value measurements using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
U.S. Treasury securities	\$ —	\$ 19,842	\$ —	\$ 19,842
Money market accounts	56,273	—	—	56,273
Total assets at fair value	<u>\$ 56,273</u>	<u>\$ 19,842</u>	<u>\$ —</u>	<u>\$ 76,115</u>

The above table excludes \$62.9 million of cash held in banks.

(in thousands)	December 31, 2017			
	Fair value measurements using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
U.S. Treasury securities	\$ —	\$ 21,916	\$ —	\$ 21,916
Money market accounts	1,117	—	—	1,117
Total assets at fair value	<u>\$ 1,117</u>	<u>\$ 21,916</u>	<u>\$ —</u>	<u>\$ 23,033</u>

The above table excludes \$23.5 million of cash held in banks.

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

*Short-term Investments*

(in thousands)	March 31, 2018			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. Treasury securities	\$ 19,860	\$ —	\$ (18)	\$ 19,842
Total	<u>\$ 19,860</u>	<u>\$ —</u>	<u>\$ (18)</u>	<u>\$ 19,842</u>



(in thousands)	December 31, 2017			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. Treasury securities	\$ 21,939	\$ —	\$ (23)	\$ 21,916
Total	\$ 21,939	\$ —	\$ (23)	\$ 21,916

The contractual maturities of the short-term investments (classified as available-for-sale securities) on March 31, 2018 and December 31, 2017 were all due within one year. There were no transfers of instruments between Level 1 and 2 during the three months ended March 31, 2018 and the year ended December 31, 2017.

#### 4. ACCOUNTS AND OTHER RECEIVABLES

(in thousands)	March 31, 2018	December 31, 2017
Trade accounts receivable	\$ 2,279	\$ 458
Other receivables	388	348
Accounts and other receivables	\$ 2,667	\$ 806

There was no estimated allowance for doubtful accounts as of March 31, 2018 and December 31, 2017.

#### 5. PROPERTY AND EQUIPMENT

(in thousands)	March 31, 2018	December 31, 2017
Computer equipment and purchased software	\$ 3,212	\$ 3,206
Machinery and equipment	834	834
Furniture and fixtures	1,146	1,274
Leasehold improvements	3,920	3,920
Total	9,112	9,234
Less accumulated depreciation	(6,209)	(6,084)
Property and equipment, net	\$ 2,903	\$ 3,150

#### 6. OTHER CURRENT LIABILITIES

(in thousands)	March 31, 2018	December 31, 2017
Accrued legal	\$ 2,182	\$ 2,202
Income taxes payable	118	219
Other current liabilities	996	1,475
Total other current liabilities	\$ 3,296	\$ 3,896

#### 7. RESTRUCTURING COSTS

In the fourth quarter of 2017, the Company executed a series of restructuring actions designed to sharpen the Company's strategic focus and establish a more cost-efficient operating structure. The restructuring activities primarily focused on a reduction of the Company's global workforce in conjunction with steps taken to:

- Significantly reduce the Company's presence in China and focus its efforts on Mobile OEM licensing in that region;

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- Cease its Mobile Advertising activities; and
- Narrow its focus in the Gaming and VR/AR markets on development efforts to bolster its IP licensing model in these markets

The restructuring plan is expected to increase internal efficiencies through the consolidation of certain sites of operation and has resulted in the elimination of approximately 56 positions, or 41%, of the worldwide employee base.

For the year ended December 31, 2017, the Company recorded restructuring expenses of \$1.6 million. There were no additional restructuring activities during the three months ended March 31, 2018. The following table summarizes certain minor adjustments to the 2017 restructuring costs that were reflected in the consolidated statements of operations for the three months ended March 31, 2018. There were no restructuring costs for the three months ended March 31, 2017.

	<b>Three Months Ended March 31, 2018</b>			
<b>(in thousands)</b>	<b>Employee Separation Costs</b>	<b>Asset-Related Charges</b>	<b>Other</b>	<b>Total</b>
Restructuring	\$ (44)	\$ —	\$ —	\$ (44)

Employee separation costs are associated with worldwide headcount reductions. Asset-related charges consist primarily of accelerated depreciation costs related to the closure of one of the Company's offices in China. Accelerated depreciation costs represent the difference between the depreciation expense as determined using the useful life of the assets prior to the restructuring activities and the revised useful life resulting from the restructuring activities. Other expenses consist primarily of lease termination expenses related to the closure of one of the Company's offices in China.

Substantially all accrued amounts related to the 2017 restructuring activities were paid during the first quarter of 2018. The following table presents a reconciliation of the restructuring reserve recorded within accrued liabilities on the Company's condensed consolidated balance sheet as of March 31, 2018:

	<b>Three Months Ended March 31, 2018</b>			
<b>(in thousands)</b>	<b>Employee Separation Costs</b>	<b>Asset-Related Charges</b>	<b>Other</b>	<b>Total</b>
Balance as of December 31, 2017	\$ 1,522	\$ —	\$ 57	\$ 1,579
Charges	—	—	—	—
Adjustments	(44)	—	—	(44)
Non-cash activity	—	—	(26)	(26)
Cash Payments	(1,468)	—	—	(1,468)
Balance as of March 31, 2018	10	—	31	41

## 8. STOCK-BASED COMPENSATION

### *Stock Options and Awards*

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



	<b>March 31, 2018</b>
Common stock shares available for grant	1,653,597
Standard and market condition stock options outstanding	2,726,207
Restricted stock awards outstanding	44,538
RSU's outstanding	1,210,086

*Employee Stock Purchase Plan*

The Company has an Employee Stock Purchase Plan (“ESPP”). Under the ESPP, eligible employees may purchase common stock through payroll deductions at a purchase price of 85% of the lower of the fair market value of the Company’s common stock at the beginning of the offering period or the purchase date. Participants may not purchase more than 2,000 shares in a six-month offering period or purchase stock having a value greater than \$25,000 in any calendar year as measured at the beginning of the offering period. A total of 1,000,000 shares of common stock has been reserved for issuance under the ESPP. As of March 31, 2018, 711,967 shares had been purchased since the inception of the ESPP in 1999. Under ASC 718-10, the ESPP is considered a compensatory plan and the Company is required to recognize compensation cost related to the fair value of the award purchased under the ESPP. Shares purchased under the ESPP for the three months ended March 31, 2018 are listed below. Shares purchased under the ESPP for the three months ended March 31, 2017 are 27,667. The intrinsic value listed below is calculated as the difference between the market value on the date of purchase and the purchase price of the shares.

	<b>Three Months Ended March 31, 2018</b>
Shares purchased under ESPP	13,834
Average price of shares purchased under ESPP	\$ 7.11
Intrinsic value of shares purchased under ESPP	\$ 45,000

*Summary of Standard Stock Options*

The following table sets forth the summary of activity with respect to standard stock options granted under the Company’s stock option plans for the three months ended March 31, 2018:

	<b>Three Months Ended March 31, 2018</b>
Beginning outstanding balance	3,277,991
Granted	167,500
Exercised	(922,842)
Forfeited	(25,103)
Expired	(43,420)
Ending outstanding balance	2,454,126
Aggregate intrinsic value of options exercised	\$ 4,726,000
Weighted average fair value of options granted	\$ 5.48

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

Information regarding these standard stock options outstanding at March 31, 2018 is summarized below:

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	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in millions)
<b>March 31, 2018</b>				
Options outstanding	2,454,126	\$ 8.69	3.42	\$ 8.0
Options vested and expected to vest using estimated forfeiture rates	2,334,242	8.66	3.28	7.7
Options exercisable	1,730,105	\$ 8.56	2.33	\$ 5.9

*Summary of Market Condition Based Stock Options*

The Company continued to have an outstanding balance of 272,081 market condition based stock options as of both December 31, 2017 and March 31, 2018. No activity noted in the period presented.

*Summary of Restricted Stock Units*

RSU activity for the three months ended March 31, 2018 was as follows:

	Three Months Ended March 31, 2018
Beginning outstanding balance	508,880
Awarded	912,793
Released	(156,781)
Forfeited	(54,806)
Ending outstanding balance	1,210,086
Weighted average fair value on grant date of RSUs	\$ 11.84
Total fair value of RSUs released	\$ 1,860,000

Information regarding RSUs outstanding at March 31, 2018 is summarized below:

	Number of Shares	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in millions)
<b>March 31, 2018</b>			
RSUs outstanding	1,210,086	1.35	\$ 14.5
RSUs vested and expected to vest using estimated forfeiture rates	938,701	1.25	\$ 11.2

*Summary of Restricted Stock Awards*

Restricted stock award activity for the three months ended March 31, 2018 was as follows:

	Three Months Ended March 31, 2018
Beginning outstanding balance	44,538
Awarded	—
Released	—
Forfeited	—



Ending outstanding balance		44,538
Weighted average grant date fair value of restricted stock awarded	\$	—
Total fair value of restricted stock awards released		—

*Stock Plan Assumptions*

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

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b><u>Standard Stock Options</u></b>		
Expected life (in years)	4.4	4.6
Volatility	54%	56%
Interest rate	2.5%	1.9%
Dividend yield	N/A	N/A

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b><u>Market Condition Based Stock Options</u></b>		
Expected life (in years)	7.0	7.0
Volatility	59%	59%
Interest rate	1.6%	1.6%
Dividend yield	N/A	N/A

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b><u>Employee Stock Purchase Plan</u></b>		
Expected life (in years)	0.5	0.5
Volatility	74%	50%
Interest rate	1.7%	0.7%
Dividend yield	N/A	N/A

*Compensation Costs*

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

<b>(in thousands)</b>	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b><u>Statement of Operations Classifications</u></b>		
Sales and marketing	\$ (67)	\$ 210
Research and development	256	336
General and administrative	1,033	1,011
Total	<u>\$ 1,222</u>	<u>\$ 1,557</u>

As of March 31, 2018, there was \$12.7 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock options, restricted stock awards and RSUs granted to the Company's employees and directors. This cost will be recognized over an estimated weighted-average period of approximately 2.56 years for standard options, 1.80 years for RSUs, and 0.17 years for restricted stock awards. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.



## 9. STOCKHOLDERS' EQUITY

### *Accumulated Other Comprehensive Income*

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

(in thousands)	Three Months Ended March 31, 2018		
	Unrealized Gains and Losses on Short-term Investments	Foreign Currency Items	Total
Beginning balance	\$ (23)	\$ 122	\$ 99
Other comprehensive income before reclassifications	5	—	5
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net current period other comprehensive income	5	—	5
Ending Balance	\$ (18)	\$ 122	\$ 104

### *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 repurchase during the three months ended March 31, 2018 and 2017. As of March 31, 2018, the Stock Repurchase Program remains available with approximately \$33.4 million that may yet be purchased under the program.

### *Stockholders Right Plan*

On December 26, 2017, the Board declared a dividend of one right (a "Right") for each of the Company's issued and outstanding shares of common stock, par value \$0.001 per share. The dividend was paid to the stockholders of record at the close of business on January 8, 2018 (the "Record Date"). Each Right entitles the holder to purchase from the Company one one-thousandth of a share of the Company's Series B Junior Participating Preferred Stock (the "Preferred Stock") at a price of \$30.00(the "Exercise Price"), subject to certain adjustments and contingently issuable.

There were no rights exercised during the three months ended March 31, 2018 and 2017.

## 10. INCOME TAXES

Income tax provisions consisted of the following:

(in thousands)	Three Months Ended March 31,	
	2018	2017
Income (loss) from continuing operations before provision for income taxes	\$ 70,336	\$ (12,713)
Provision for income taxes	\$ (453)	\$ (152)
Effective tax rate	0.6%	(1.2)%

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. The Company continues to carry a full valuation allowance on its federal deferred tax assets. As a result, no provision for U.S. sourced income was included in the calculation, the primary 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, 2017 resulted primarily from estimated foreign taxes and foreign withholding tax expense.

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On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the “Tax Act”) was passed into law. The 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 (“BEAT”), which creates a new tax on certain related party payments.

During December 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provided guidance on accounting for the federal tax rate change and other tax effects of the Tax Act. SAB 118 provided a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740, Income Taxes. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete, but the company is able to determine a reasonable estimate, it must record a provisional estimate in its financial statements. If a company cannot determine a provision estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with the Company's adoption of the Tax Act and consideration of SAB 118, the following updates have been made to the Company's income tax provision. In the fourth quarter of 2017, the Company recorded a \$12.9 million reduction to deferred tax assets and related valuation allowance in connection with the re-measurement of certain deferred tax assets and liabilities, resulting in no impact to its results of operations. The Company estimated that no current tax expense should be recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings, a provisional estimate at December 31, 2017. There have been no changes as of March 31, 2018. Additional work is necessary to complete a more detailed analysis of the Company’s deferred tax assets and liabilities and historical foreign earnings as well as potential correlative adjustments.

For the Global Intangible Low-Taxed Income (“GILTI”) provisions of the Tax Act, the Company has not yet completed its assessment or elected an accounting policy to either recognize deferred taxes for basis differences expected to reverse as GILTI or to record GILTI as period costs if and when incurred. At March 31, 2018, because the Company is still evaluating the GILTI provisions and the analysis of future taxable income that is subject to GILTI, the Company has included GILTI related to current-year operations only in its annual effective tax rate calculation and has not provided additional GILTI on deferred items. Additionally, the Company has determined that it has not met the threshold requirements of the BEAT.

The Company has made a reasonable estimate of the effects of the Act as of March 31, 2018 in accordance with guidance in SAB 118. The Company will continue to monitor the estimated impacts as additional guidance is released. Any adjustments recorded to the provisional amounts through fourth quarter 2018 may be included in net income as an adjustment to tax expense.

As of March 31, 2018, the Company had unrecognized tax benefits under ASC 740 “Income Taxes” of approximately \$4.3 million and applicable interest of \$12,000. The total amount of unrecognized tax benefits that would affect the Company’s effective tax rate, if recognized, is \$556,000. 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, 2018, the Company had net deferred income tax assets of \$371,000 consisting primarily of foreign net operating loss carryforwards, and deferred income tax liabilities of \$80,000. 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 \$37.6 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.

## **11. NET INCOME (LOSS) PER SHARE**

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

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(in thousands, except per share amounts)</b>	
<b>Numerator:</b>		
Net income (loss)	\$ 69,883	\$ (12,865)
<b>Denominator:</b>		
Shares used in computation of basic net income (loss) per share (weighted average common shares outstanding)	29,700	29,024
<b>Dilutive potential common shares:</b>		
Stock options, ESPP, restricted Stock and RSUs	866	—
Shares used in computation of diluted net income (loss) per share	30,566	29,024
Basic net income (loss) per share	\$ 2.35	\$ (0.44)
Diluted net income (loss) per share	\$ 2.29	\$ (0.44)

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.

As of March 31, 2017, the Company had securities outstanding that could potentially dilute basic earnings per share in the future, but these were excluded from the computation of diluted net loss per share for the three months ended March 31, 2017, since their effect would have been anti-dilutive. These outstanding securities consisted of the following:

	<b>March 31, 2017</b>
Standard and market condition stock options outstanding	3,616,995
Restricted stock awards outstanding	77,540
RSUs outstanding	403,935
ESPP	11,889

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

On April 28, 2017, Immersion Corporation and Immersion Software Ireland Limited (collectively, "Immersion") received a letter from Samsung Electronics Co. ("Samsung") requesting that Immersion 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 September 29, 2017, Samsung filed an arbitration demand with the International Chamber of Commerce against Immersion demanding that Immersion reimburse Samsung for the imposed tax and penalties that Samsung paid to the Korean tax authorities. Samsung is requesting that Immersion pay Samsung the amount of KRW7,841,324,165 (approximately \$6.3 million) plus interest from and after May 2, 2017, plus the cost of the arbitration including legal fees. The Company denies liability, and has 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 panel denied our motion and has proposed a procedural schedule with a hearing in July 2018. We filed our Statement of Defense and Counterclaim on April 16, 2018. Immersion believes that there are valid defenses to all of the claims from the Korean tax authorities and that Samsung's claims are without merit. Immersion intends to vigorously defend against these claims and as a result, Immersion has concluded that the likelihood of a material charge resulting from this claim is remote. In the event Samsung were to prevail in the arbitration in advance of the conclusion of the appeal with the Korea Tax Tribunal, Immersion could be required to make a payment to Samsung even though it would later be reimbursed should Immersion prevail in the appeal.

On October 16, 2017, Immersion received a letter from LG Electronics Inc. ("LGE") requesting that Immersion 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, Immersion filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes. Immersion 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. Our mission is to innovate touch technology that informs, humanizes, and excites while working with customers and partners to bring these tactile experiences to consumers. Our technologies are designed to facilitate the creation of high-quality haptic experiences, enable their widespread distribution, and ensure that their playback is optimized for end users. Our primary business is currently in the mobility, gaming, automotive and medical markets, but we believe our technology is broadly applicable and see opportunities in evolving new markets, including wearables and virtual and augmented reality.

We have adopted a hybrid business model, under which we provide advanced tactile software, related tools, and technical assistance designed to help integrate our patented technology into our customers' products or enhance the functionality of our patented technology, and offer licenses of our patented technology to our customers. Our licenses allow our customers to deploy haptically-enabled devices, content and other offerings, which they typically sell under their own brand names. We and our wholly-owned subsidiaries hold more than 2,900 issued or pending patents worldwide, covering a wide range of digital technologies and including many of the ways in which touch-related technology can be incorporated into and between hardware products and components, systems software, application software, and digital content.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Our critical accounting policies and estimates are important to the portrayal of our financial condition and results of operations, and require us to make judgments and estimates about matters that are inherently uncertain. With the exception of our adoption of ASC 606, there have been no material changes during the three months ended March 31, 2018 to 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 fiscal year ended December 31, 2017. Refer to Note 1 and Note 2 to the condensed consolidated financial statements for our revised policies related to revenue recognition and related estimates after our adoption of ASC 606.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

**Overview**

Total revenues increased by \$76.2 million, or 826%, for the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

Net income was \$69.9 million for the three months ended March 31, 2018 compared to a net loss of \$12.9 million for the three months ended March 31, 2017. The \$82.7 million change was primarily driven by an increase of \$76.2 million in total revenues and a decrease of \$6.8 million in operating expenses.

As discussed above, we adopted the new revenue standard, ASC 606, effective January 1, 2018. Consistent with the modified retrospective transaction method, our results of operations for periods prior to our adoption of ASC 606 remain unchanged. As a result, the \$76 million increase in total revenues compared to the same period a year ago primarily resulted from a change in accounting policy arising from the adoption of ASC 606. The impact of adoption included revenue of \$72.3 million primarily related to fixed fee license agreements and \$4.4 million primarily related to per-unit royalty agreements which would not have been reported as revenue under the previous standard.

**Total Revenues - Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017**

(in thousands)	Three Months Ended March 31,		Change	Change %	Components of Changes		
	2018	2017			Due to ASC 606 Adoption	Net of ASC 606 Adoption Effect	Total
Fixed fee license revenue	\$ 75,756	\$ 2,510	\$73,246	2,918 %	\$ 72,341	\$ 905	\$ 73,246
Per-unit royalty revenue	9,579	6,496	3,083	47 %	4,351	(1,268)	3,083
Total royalty and license revenue	85,335	9,006	76,329	848 %	76,692	(363)	76,329
Development, services, and other	81	218	(137)	(63)%	—	(137)	(137)
Total Revenues	\$ 85,416	\$ 9,224	\$76,192	826 %	\$ 76,692	\$ (500)	\$ 76,192

*Royalty and license revenue* — Royalty and license revenue is composed of per unit royalties earned based on usage or net sales by licensees and fixed payment license fees charged for our IP and software. Royalty and license revenue for the three months ended March 31, 2018 increased by \$76.3 million, or 848%, compared to \$9.0 million for the three months ended March 31, 2017. Royalty and license revenue for the three months ended March 31, 2018 would be slightly lower, if reported under ASC 605, than the reported royalty and license revenue for the three months ended March 31, 2017.

Per-unit royalty revenue increased by \$3.1 million, or 47%, from \$6.5 million for the three months ended March 31, 2017 to \$9.6 million for the three months ended March 31, 2018. Per-unit royalty revenue for the three months ended March 31, 2018 would be \$(1.3) million lower, if reported under ASC 605, than per-unit royalty revenue for the three months ended March 31, 2017.

Fixed fee license revenue increased by \$73.2 million, or 2,918%, from \$2.5 million for the three months ended March 31, 2017 to \$75.8 million for the three months ended March 31, 2018. The increase was primarily stemmed from new customer agreements executed during the first quarter in 2018 for which we recorded revenue in accordance with ASC 606.

We expect royalty and license revenue to continue to be a major component of our future revenue as our technology is included in products and we succeed in our efforts to monetize our IP. We expect our royalty and license revenue could fluctuate dramatically depending upon the timing of execution of new fixed license fee arrangements, due to the adoption of ASC 606. 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 first calendar quarter. We anticipate that our gaming royalty and license revenue will continue to decline until we are successful in proving the relevance of our IP. We anticipate a continuous reduction in royalty and license revenue in the future from our medical customers as a percentage of our consolidated royalty and license revenue, as this line of business is a less significant portion of our overall business focus. Refer to Note 1 and Note 2 to the condensed consolidated financial statements for our revised revenue recognition policies and the impact of the adoption of ASC 606.

Geographically, revenues generated in North America, Europe, and Asia for the three months ended March 31, 2018 represented 89%, 8%, and 3%, respectively, of our total revenue as compared to 41%, 14%, and 45%, respectively, for the three months ended

March 31, 2017. Revenue attributable to North America as a percentage of total revenue increased due primarily to increased revenue from mobility customers in the region. Revenue attributable to Europe as a percentage of total revenue

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decreased primarily due to lower revenue from gaming and medical customers, partially offset by increased revenue from automotive customers in the region. Revenue attributable to Asia as a percentage of total revenue decreased primarily due to declining revenue from mobility, gaming and automotive customers in the region.

**Operating Expenses**

(in thousands)	March 31,		Change	% Change
	2018	2017		
Sales and marketing	\$ 1,220	\$ 3,305	\$ (2,085)	(63)%
% of total revenue	1%	36%	(35)%	
Research and development	\$ 2,820	\$ 3,196	\$ (376)	(12)%
% of total revenue	3%	35%	(32)%	
General and administrative	\$ 11,236	\$ 15,532	\$ (4,296)	(28)%
% of total revenue	13%	168%	(155)%	

*Sales and Marketing* — Our sales and marketing expenses are composed primarily of employee compensation and benefits, sales commissions, advertising, trade shows, collateral marketing materials, market development funds, travel, and an allocation of facilities costs. Sales and marketing expenses decreased \$2.1 million, or 63%, for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017, including decreases of \$1.6 million in compensation, benefits, and other related costs due to decreased headcount following our restructuring actions in December 2017, \$260,000 in marketing and advertising costs, and \$203,000 in travel costs. We believe that continued investment in sales and marketing is critical to our future success, and we expect to continue making targeted investments to expand market acceptance for our touch technologies across the markets we serve.

*Research and Development* — Our research and development expenses are composed primarily of employee compensation and benefits, consulting fees, tooling and supplies, and an allocation of facilities costs. Research and development expenses decreased \$376,000, or 12%, for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 primarily caused by a \$227,000 decrease in compensation, benefits, and other related costs due to decreased headcount and a \$139,000 decrease in outside services reflecting redirected development efforts. 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 market.

*General and Administrative* — Our general and administrative expenses are composed primarily of employee compensation and benefits; legal and professional fees; external legal costs for patents; office supplies; travel; and an allocation of facilities costs. General and administrative expenses decreased \$4.3 million, or 28%, for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017. The decrease was primarily related to our decreased legal expenses for \$4.1 million during the first quarter of 2018, including a \$4.9 million decrease in litigation expense relating to ongoing proceedings including our recently settled and concluded litigation against Apple and AT&T Mobility, a \$474,000 decrease in licensing fee expenses, partially offset by a \$749,000 increase in patent related legal, filing, and maintenance costs, and a \$541,000 increase in general legal services. Our general and administrative expenses will continue to be significant in 2018 as we manage our business and strategic opportunities and continue to file, maintain, license, and enforce our IP and contractual rights, and defend any lawsuits brought against us or that we initiate against others to enforce our IP or contractual rights.

**Provision for taxes**

	March 31,		Change	% Change
	2018	2017		
(Dollars in thousands)				
<u>Three months ended:</u>				
Provision for income taxes	\$ (453)	\$ (152)	\$ (301)	198%
Income (loss) before provision for income taxes	70,336	(12,713)		
Effective tax rate	0.6%	(1.2)%		

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. We continue to carry a full valuation allowance on our federal deferred tax

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assets. As a result, no provision for U.S. sourced income was included in the calculation, the primary 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, 2017 resulted primarily from estimated foreign taxes and foreign withholding tax expense.

The year-over-year change in provision for income taxes resulted primarily from an increase in estimated foreign taxes due in part from the inclusion of accelerated income arising from the adoption of ASC 606.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the “Tax Act”) was passed into law. The Act includes many provisions; including reducing the US federal corporate income tax rate from 35% to 21%, requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creating new taxes on certain foreign sourced earnings. We have made a reasonable estimate of the effects of the Act as of March 31, 2018, in accordance with guidance in SAB 118. We will continue to monitor the estimated impacts as additional guidance is released. Any adjustments recorded to the provisional amounts through fourth quarter 2018 will be included in net income as an adjustment to tax expense.

We continue to maintain a valuation allowance of \$37.6 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, 2018, we had unrecognized tax benefits under ASC 740 “Income Taxes” of approximately \$4.3 million and applicable interest of \$12,000. The total amount of unrecognized tax benefits that would affect our effective tax rate, if recognized, is \$556,000.

## 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.

On March 31, 2018, our cash, cash equivalents, and short-term investments totaled \$139.0 million, an increase of \$92.5 million from \$46.5 million on December 31, 2017.

### *Cash provided by (used in) operating activities*

Net cash provided by operating activities was \$86.2 million during the three months ended March 31, 2018 compared to \$14.3 million cash used in operating activities during the three months ended March 31, 2017. The \$100.5 million change was primarily due to \$82.7 million increase from \$12.9 million net loss for the first quarter in 2017 to \$69.9 million net income for the first quarter in 2018, \$27.2 million increase in the year-over-year change in deferred revenue, partially offset by the increase of \$4.5 million in the year-over-year change in other assets. The increases in the year-over-year changes in deferred revenue and other assets were mainly driven by the effect of our adoption of ASC 606.

### *Cash provided by investing activities*

Net cash provided by investing activities during the three months ended March 31, 2018 was \$2.1 million, an increase of \$2.1 million compared to \$14,000 cash used in investing activities during the three months ended March 31, 2017. Net cash provided by investing activities during the current period consisted of maturities of short-term investments of \$11.0 million, partially offset by purchases of short-term investments of \$8.9 million and purchases of property, plant, and equipment of \$6,000.

### *Cash provided by financing activities*

Net cash provided by financing activities during the three months ended March 31, 2018 was \$6.2 million, an increase of \$5.6 million compared to \$576,000 cash provided by financing activities during the three months ended March 31, 2017. Net cash provided by financing activities during the current period consisted of exercises of stock options of \$6.1 million and the issuance of common stock under our ESPP of \$98,000.

We believe that our cash, cash equivalents, and short-term investments will be sufficient to meet our working capital needs for at least the next twelve months. Of our total cash, cash equivalents, and short-term investments of \$139.0 million on March 31, 2018, 5% 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, 2018, 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, 2018 will be less than \$1.0 million. Cash from operations could also be affected by various risks and uncertainties, including but not limited to the risks detailed in Part II, Item 1A titled “Risk Factors”. Additionally, if we acquire businesses, patents, or technology, our cash or capital requirements could increase substantially. In the event of such an acquisition, or should any unanticipated circumstances arise that significantly increase our capital requirements, we may elect to raise additional capital through debt or equity financing. Any of these events could result in substantial dilution to our stockholders. There is no assurance that such additional capital will be available on terms acceptable to us, if at all.

#### SUMMARY DISCLOSURES ABOUT CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

We presented our contractual obligations in our Annual Report on Form 10-K for the year ended December 31, 2017. Our principal commitments as of March 31, 2018 consisted of obligations under operating leases. There have been no material changes in those obligations during the three months ended March 31, 2018.

As of March 31, 2018, we had a liability for unrecognized tax benefits totaling \$4.3 million including interest of \$12,000, of which approximately \$556,000 could be payable in cash.

#### RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 and Note 2 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 606 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 \$76.1 million as of March 31, 2018, 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 \$85,000 in the fair value of our cash equivalents and short-term investments as of March 31, 2018.

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

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

### ITEM 4. CONTROLS AND PROCEDURES

#### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Based on their evaluation as of March 31, 2018, our management with the participation of our Interim Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective to ensure that the information required to be disclosed by us in this quarterly report on Form 10-Q was (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and (ii) accumulated and communicated to our management, including our Interim Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Effective January 1, 2018, in connection with our adoption of ASC 606, we implemented changes to certain controls and related procedures designed to provide reasonable assurance that our condensed consolidated financial statements reflect the proper application of the guidance within ASC 606. Those changes in internal controls included the revision of our revenue recognition accounting policies in accordance with ASC 606 and the development of new controls to support in our estimation of per unit royalties and allocation of transaction price between performance obligations under fixed fee license contracts with respect to the adoption of ASC 606. There were no other changes to internal controls over financial reporting that occurred during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

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

**PART II**  
**OTHER INFORMATION**

## ITEM 1. LEGAL PROCEEDINGS

### *Immersion Corporation vs. Apple, Inc., AT&T Inc., and AT&T Mobility LLC*

On February 11, 2016, we filed a complaint against Apple, Inc. (“Apple”), AT&T, Inc. (“AT&T”), and AT&T Mobility LLC (“AT&T Mobility”) with the U.S. International Trade Commission (the “ITC”) and a complaint against Apple, AT&T and AT&T Mobility in the U.S. District Court for the District of Delaware alleging that the Apple iPhone 6, iPhone 6 Plus, iPhone 6s, iPhone 6s Plus, Apple Watch, Apple Watch Sport and Apple Watch Edition infringe certain of our patents that cover haptic feedback systems and methods.

In the February 2016 ITC complaint, we sought an exclusion order preventing the importation, sale for importation, and sale after importation of infringing Apple devices into the United States by the defendants and appropriate cease and desist orders. In the U.S. District Court suit, we alleged infringement of the same patents.

The complaints asserted infringement by the Apple iPhone 6, Apple iPhone 6 Plus, Apple iPhone 6s, Apple iPhone 6s Plus, Apple Watch, Apple Watch Sport and Apple Watch Edition of the following two Immersion patents:

U.S. Patent No. 8,619,051(the ’051 patent): “Haptic Feedback System with Stored Effects”

U.S. Patent No. 8,773,356 (the ’356 patent): “Method and Apparatus for Providing Tactile Sensations”

The complaints also asserted infringement by the iPhone 6s and iPhone 6s Plus of the following Immersion patent:

U.S. Patent No. 8,659,571(the ’571 patent): “Interactivity Model for Shared Feedback on Mobile Devices”

On March 14, 2016, the ITC issued a Notice of Institution of Investigation stating that the ITC instituted an investigation to investigate our allegations of infringement with respect to the ’051, ’356, and ’571 patents and determine whether violations of section 337 of the Tariff Act of 1930 have occurred. The investigation bears the designation Inv. No. 337-TA-990 (“990 Investigation”). On April 6, 2016, the Chief Administrative Law Judge (“ALJ”) entered an order terminating Respondent AT&T from the investigation, based on the stipulation and joint motion of the parties to terminate AT&T in a manner that preserved our ability to obtain discovery and compliance with any relief the ITC may order. On April 4, 2016, Respondents Apple and AT&T Mobility served responses to the complaint denying the material allegations of the complaint and alleging affirmative defenses, including among others that the asserted patents are not infringed, invalid and unenforceable. Respondents also alleged that the ’356 patent is unenforceable for alleged inequitable conduct before the United States Patent and Trademark Office. We responded to the allegations of Respondents during the investigation on the procedural schedule set by the Chief ALJ.

On March 21, 2016, pursuant to 28 U.S.C. § 1659(a), the U.S. District Court entered an order staying the U.S. District Court case pending a final determination in the ITC investigation.

On May 5, 2016, we filed another complaint against Apple, AT&T and AT&T Mobility with the ITC and a complaint against Apple, AT&T and AT&T Mobility in the U.S. District Court for the District of Delaware alleging that the Apple iPhone 6s, iPhone 6s Plus, MacBook and MacBook Pro with Retina Display infringed certain of our patents, including patents covering pressure-related haptics.

In the May 2016 ITC complaint, we sought an exclusion order preventing the importation, sale for importation, and sale after importation of infringing Apple devices into the United States by the defendants and appropriate cease and desist orders. In the U.S. District Court suit, we alleged infringement of the same patents.

The complaints asserted against Apple, AT&T and AT&T Mobility claims of infringement by the Apple iPhone 6s and Apple iPhone 6s Plus of the following three Immersion patents:

U.S. Patent No. 8,749,507 (the ’507 patent), “Systems and Methods for Adaptive Interpretation of Input from a Touch-Sensitive Input Device”;

U.S. Patent No. 7,808,488 (the ’488 patent), “Method and Apparatus for Providing Tactile Sensations”

U.S. Patent No. 8,581,710 (the ’710 patent), “Systems and Methods for Haptic Confirmation of Commands”

The complaints also asserted against Apple claims of infringement by the Apple MacBook and Apple MacBook Pro with Retina display of Immersion’s U.S. Patent No. 7,336,260 (the ’260 patent), “Method and Apparatus for Providing Tactile Sensations.”

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

On June 6, 2016, the ITC issued a Notice of Institution of Investigation stating that the ITC instituted an investigation to investigate our allegations of infringement with respect to the ’507, ’488, ’710, and ’260 patents and determine whether violations of section 337 of the Tariff Act of 1930 have occurred. The investigation was designated Inv. No. 337-TA-1004 (“1004



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Investigation”). On June 9, 2016, the Chief ALJ entered an order consolidating the 990 and 1004 Investigations. On June 15, 2016, the Chief ALJ granted a joint motion by the parties to stay the 990 Investigation deadlines until a new procedural schedule could be entered in the consolidated Investigation.

On June 16, 2016, pursuant to 28 U.S.C. § 1659(a), the U.S. District Court entered an order staying the U.S. District Court case pending a final determination in the ITC investigation.

On June 27, 2016, Respondents Apple and AT&T Mobility served responses to the complaint denying the material allegations of the complaint and alleging affirmative defenses, including among others that the asserted patents are not infringed, invalid and unenforceable. Respondents also alleged that the ’710 patent is unenforceable for alleged inequitable conduct before the United States Patent Office. We responded to the allegations of Respondents during the investigation on the procedural schedule set by the Chief ALJ. On June 29, 2016, the Chief ALJ entered an order setting the Markman hearing in the consolidated case for October 18, 2016, and the evidentiary hearing for April 27-May 5, 2017. On July 12, 2016, the Chief ALJ entered the procedural schedule in the consolidated Investigation.

The procedural schedule in the Investigation included, among other things, deadlines for the parties to conduct three required settlement conferences. On July 26, 2016, representatives for Immersion and Respondent AT&T conducted their first settlement conference. On July 28, 2016, representatives for Immersion and Respondent Apple conducted their first settlement conference. The parties did not reach an agreement to settle the dispute underlying the Investigation at that time.

In September 2016, Respondent Apple released additional products, including the iPhone 7 and 7 plus and the Apple Watch Series 2. We served discovery responses and contentions identifying these newly released products as products at issue in the Investigation.

On October 18, 2016, the Chief ALJ conducted a Markman hearing with respect to the construction of terms of the Asserted Patents. The Chief ALJ indicated at the hearing that a ruling could be expected in approximately three months.

On December 15, 2016, Respondents filed a motion for summary determination that the asserted claims 1 and 2 of the ’260 patent are invalid under 35 U.S.C. § 101 for an alleged failure to recite patentable subject matter. On December 27, 2016, we filed our opposition to the motion. On December 27, 2016, the Commission Investigative Staff submitted a response to the motion stating that the Staff supports the motion. On April 6, 2017, the Chief ALJ issued an order denying the motion.

On January 18, 2017, the parties participated in a one-day mediation session. The parties did not reach an agreement to resolve the dispute at the mediation.

On February 1, 2017, Respondents Apple and AT&T filed three motions for summary determination on certain issues in the Investigation. In particular, the motions requested that Chief ALJ determine:

- that prosecution history estoppel precludes Immersion from asserting that the accused products and the technical domestic industry products satisfy certain limitations of the asserted patents under the doctrine of equivalents;
- that (1) Respondents do not infringe claims 7 and 17 of the ’356 patent and claims 7, 11 and 15 of the ’051 patent; and (2) the Apple Watch products do not infringe the ’356 patent and Apple’s iPhone 6, 6 Plus and SE products do not infringe the ’051 patent; and
- that claims 2-5, 10-12, and 15-17 of the ’507 patent are invalid under 35 U.S.C. § 112 for failing to comply with the written description requirement.

On February 2, 2017, Chief ALJ Bullock issued his Markman ruling, Order No. 27 Construing the Terms of the Asserted Claims. The Chief ALJ adopted Immersion’s proposed constructions for some disputed terms. On other terms, the Chief ALJ adopted constructions that Respondents or Staff had proposed, and on other terms the Chief ALJ fashioned his own construction.

On February 3, 2017, Immersion brought an unopposed motion for partial termination of the investigation with respect to certain contentions that were no longer being pursued. These include Immersion’s allegations of infringement as to (1) claims 7 and 17 of the ’356 patent, (2) claims 7, 11, and 15 of the ’051 patent, (3) the Apple Watch products solely with respect to the ’356 patent, and (4) the Apple iPhone 6, 6 Plus, and SE products solely with respect to the ’051 patent. Immersion also stated in the motion its position that the request for termination as to the withdrawn allegations rendered Respondents motion for summary determination on these particular issues moot. On February 9, 2017 the Chief ALJ issued an order granting partial termination of the Investigation as to certain asserted claims of the ’356 patent and the ’051 patent as described above.

On February 10, 2017, Respondents filed a notice of withdrawal of their motion for summary determination as to the particular contentions under the ’356 patent and ’051 patent that had been withdrawn during the Investigation. On February 13, 2017, Immersion filed its oppositions to those motions for summary determination that remained pending. On February 14 and 16, 2017, the Chief ALJ issued orders denying each of Respondents’ motions for summary determination.

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

The evidentiary hearing with respect to the consolidated investigation by the United States International Trade Commission bearing the designation Inv. No. 337-TA-990/1004 commenced on April 27, 2017 and concluded on May 4, 2017. On May 31, 2017, the parties and the Office of Unfair Import Investigations ("OUII") Staff submitted their initial post-hearing briefs, and on June 7, 2017, the parties and OUII Staff submitted their post-hearing reply briefs. Before submitting these briefs, we provided a notice on May 11, 2017 that we would not be pursuing in our Post-Hearing Brief claims 3, 13, and 23 of the '356 patent. On October 20, 2017, Immersion brought an unopposed motion for partial termination of the investigation with respect to claims 3, 13, and 23 of the '356 patent. On October 23, 2017, the Chief ALJ issued an order granting partial termination as to claims 3, 13, and 23 of the '356 patent as described above.

The due date for the Chief ALJ's initial determination was scheduled for August 11, 2017. On July 13, 2017, the Chief ALJ entered an order extending the due date for the Chief ALJ's initial determination from August 11, 2017 to November 13, 2017 and extending the target date for the completion of the investigation from December 11, 2017 to March 12, 2018. On October 30, 2017, the Chief ALJ issued an order extending the final initial determination date to no later than the close of business on January 31, 2018 and the final determination date to no later than May 31, 2018.

On January 29, 2018, we announced that we reached a settlement with Apple resolving the Investigation. On January 30, 2018, the Chief ALJ issued an Order Extending Target Date By Two Months in which he extended the target date two months in order to allow the parties sufficient time to prepare and submit a joint motion to terminate the investigation. The Chief ALJ also issued an order staying and suspending all dates and deadlines. On February 8, 2018, the parties submitted to the ITC a Joint Motion to Terminate Based on Settlement. The parties also requested confidential treatment of the settlement agreement. On February 13, 2018, the OUII Staff filed a response expressing the Staff's support for the motion. On February 20, 2018, the Chief ALJ entered an order entitled "Initial Determination Granting Joint Motion to Terminate The Investigation Based On A Settlement Agreement." The Chief ALJ found good cause to terminate the investigation based on the settlement and granted the parties' motion to terminate the investigation. The Chief ALJ also granted the parties' motion to limit service of the confidential settlement agreement to only Apple and Immersion (and not to counsel for AT&T).

On March 15, 2018, the Commission issued a notice stating that the Commission has determined not to review the Chief ALJ's decision granting the motion to terminate the investigation based on settlement. As a result of this decision and the underlying settlement agreement, the ITC proceedings have concluded.

As noted above, on January 29, 2018, we announced that we reached a settlement with Apple resolving the above-described litigation. As part of the settlement, the parties agreed to submit joint stipulations in the District Court actions to dismiss those actions in their entirety with prejudice. On February 6, 2018, the Parties filed the Stipulations of Dismissal with the District Court. In addition to requesting the dismissal of the action with prejudice, the stipulations provide that each party shall bear its own fees and costs. On February 7, 2018, the District Court issued orders dismissing the above-described litigation pursuant to the stipulations of the parties.

On July 7, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '051 patent. The petition bears Case No. IPR2016-01371. The petition challenged the patentability of certain claims of the '051 patent in light of alleged prior art references. On October 13, 2016, we filed a Patent Owner's Preliminary Response responding to the petition's challenges to patentability of claims of the '051 patent. On January 11, 2017, the Patent Trial and Appeal Board ("PTAB" or "Board") issued a decision denying the Petition and declining to institute the IPR. On February 10, 2017, Apple submitted in the United States Patent and Trademark Office a second IPR petition challenging the patentability of certain claims of the '051 patent in light of alleged prior art references. This Petition bears Case No. IPR2017-00887. We filed our Patent Owner's Preliminary Response in this IPR on May 30, 2017. On August 25, 2017, the PTAB issued a decision denying Apple's petition and declining to institute the second IPR.

On July 7, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '571 patent. The petition bears Case No. IPR2016-01372. The petition challenged the patentability of certain claims of the '571 patent in light of alleged prior art references. On October 13, 2016, we filed a Patent Owner's Preliminary Response responding to the petition's challenges to patentability of claims of the '571 patent. On January 11, 2017, the PTAB issued its decision instituting the IPR on certain grounds raised in the Petition. The Board's decision also declined to institute the IPR as to certain claims of the '571 patent. The Board set a schedule of certain due dates in the IPR. On May 31, 2017, we submitted our Patent Owner's Response to the IPR. Apple filed its Reply to the Patent Owner's Response on August 4, 2017. On August 31, 2017, we submitted a Motion for Observation regarding the testimony of Apple's expert on cross-examination at deposition. Apple responded to these observations on September 5, 2017. On October 5, 2017, the PTAB conducted the Oral Hearing in this IPR. On January 10, 2018,

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the PTAB issued a Final Written Decision finding claims 1-4, 6, 23-26, and 28 of the '571 patent unpatentable. On February 1, 2018, the parties emailed the PTAB and requested authorization to file a joint motion to vacate final decision and terminate proceeding in IPR2016-1372 in light of the settlement between the parties. On February 2, 2018, the PTAB denied the parties' request to file such a motion. On March 14, 2018, Immersion filed with the USPTO and the U.S. Court of Appeal for the Federal Circuit notices of appeal from the Board's final written decision in IPR2016-1372 for the '571 patent. On March 27, 2018, Immersion filed in the Federal Circuit the required Certificates of Interest and Docketing Statements. Apple also filed in the Federal Circuit notices stating that it will not be participating in the appeals. On April 23, 2018, the USPTO filed the certified list of documents that comprise the record in IPR2016-1372. Our opening brief in the appeal was due on June 22, 2018. On May 10, 2018, we filed a motion seeking a 30-day extension to file the brief and the motion was granted on May 11, 2018. The Federal Circuit is awaiting a response from the USPTO to an order requesting that the USPTO inform the Federal Circuit whether it intends to participate in the appeal. On or about February 12, 2017, Apple submitted in the United States Patent and Trademark Office a second IPR petition challenging the patentability of certain claims of the '571 patent in light of alleged prior art references. This Petition bears Case No. IPR2017-00896. We filed our Patent Owner's Preliminary Response in this IPR on May 22, 2017. On August 17, 2017, the PTAB issued a decision denying Apple's petition and declining to institute the second IPR.

On July 8, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '356 patent. The petition bears Case No. IPR2016-01381. The petition challenged the patentability of certain claims of the '356 patent in light of alleged prior art references. On October 12, 2016, we filed a Patent Owner's Preliminary Response responding to the petition's challenges to patentability of claims of the '356 patent. On January 11, 2017, the PTAB issued its decision instituting the IPR on certain grounds raised in the Petition. The Board set a schedule of certain due dates in the IPR. On May 31, 2017, we submitted our Patent Owner's Response to the IPR. Apple filed its Reply to the Patent Owner's Response on July 28, 2017. On August 31, 2017, we submitted a Motion for Observation regarding the testimony of Apple's expert on cross-examination at deposition. Apple responded to these observations on September 5, 2017. On October 5, 2017, the PTAB conducted the Oral Hearing in this IPR. On January 10, 2018, the PTAB issued a Final Written Decision finding claims 1-3, 5, 7, 9-13, 15, 17, 19-23, 25, and 26 of the '356 patent unpatentable. On January 10, 2018, Apple submitted to the Chief ALJ in the ITC proceeding a Notice of Supplemental Authority Regarding the '356 Patent to inform the Chief ALJ of the Board's decision in this IPR. On February 1, 2018, the parties emailed the PTAB and requested authorization to file a joint motion to vacate final decision and terminate proceeding in IPR2016-1381 in light of the settlement between the parties. On February 2, 2018, the PTAB denied the parties' request to file such a motion. On March 14, 2018, Immersion filed with the USPTO and the U.S. Court of Appeal for the Federal Circuit notices of appeal from the Board's final written decision in IPR2016-1381 for the '356 patent. On March 27, 2018, Immersion filed in the Federal Circuit the required Certificates of Interest and Docketing Statements. Apple also filed in the Federal Circuit notices stating that it will not be participating in the appeals. On April 23, 2018, the USPTO filed the certified list of documents that comprise the record in IPR2016-01381. Our opening brief in the appeal was due on June 22, 2018. On May 10, 2018, we filed a motion seeking a 30-day extension to file the brief and the motion was granted on May 11, 2018. The USPTO entered a notice of intervention on April 25, 2018. The case on appeal is Immersion Corporation v. Iancu (18-cv-1678) (N.D. Cal.). On or about February 12, 2017, Apple submitted in the United States Patent and Trademark Office a second IPR petition challenging the patentability of certain claims of the '356 patent in light of alleged prior art references. This IPR bears Case No. 2017-00897. We filed our Patent Owner's Preliminary Response in this IPR on May 22, 2017. On August 17, 2017, the PTAB issued a decision denying Apple's petition and declining to institute the second IPR.

On August 12, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '710 patent. The petition bears Case No. IPR2016-01603. The petition challenged the patentability of certain claims of the '710 patent in light of alleged prior art references. On November 28, 2016, we filed a Patent Owner's Preliminary Response responding to the petition's challenges to patentability of claims of the '710 patent. On February 23, 2017, the PTAB issued its decision instituting the IPR on certain grounds raised in the petition. The Board set a schedule of certain due dates in the IPR. On June 28, 2017, we submitted our Patent Owner's Response in the IPR. Apple filed its Reply to the Patent Owner's Response on August 24, 2017. On October 16, 2017, we submitted a Motion for Observation regarding testimony of Apple's expert on cross-examination at deposition. On November 16, 2017, the PTAB conducted the Oral Hearing in this IPR. On February 1, 2018, the parties emailed the PTAB and requested authorization to file a joint motion to terminate IPR2016-1603 in light of the settlement between the parties. On February 2, 2018, the PTAB granted the request. On February 8, 2018, the parties filed a joint motion to terminate the IPR. The parties also requested confidential treatment of the settlement agreement. On February 12, 2018, the PTAB granted the parties' joint motion to terminate the IPR as well as the parties' joint request for confidential treatment of the settlement agreement. On or about May 4, 2017, Apple submitted in the United States Patent and Trademark Office a second IPR petition challenging the patentability of certain claims of the '710 patent in light of alleged prior art references. This IPR bears Case No. 2017-01368. We filed our Patent Owner's Preliminary Response on August 24, 2017. On November 7, 2017, the PTAB issued a decision denying Apple's petition and declining to institute the second IPR.

On September 12, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '507 patent. The petition bears Case No. IPR2016-01777. The petition challenged the patentability of certain claims of the '507 patent in light of alleged prior art references. On December 27, 2016, we filed a Patent Owner's Preliminary Response responding





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to the petition's challenges to patentability of claims of the '507 patent. On March 23, 2017, the Board issued its decision denying the Petition and declining to institute the IPR. On May 9, 2017, Apple submitted in the United States Patent and Trademark Office a second IPR petition challenging the patentability of certain claims of the '507 patent in light of alleged prior art references. This IPR bears Case No. 2017-01310. We filed our Patent Owner's Preliminary Response on August 9, 2017. On November 2, 2017, the PTAB issued a decision denying Apple's petition and declining to institute the second IPR.

On September 23, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '260 patent. The petition bears Case No. IPR2016-01884. The petition challenged the patentability of certain claims of the '260 patent in light of alleged prior art references. On January 4, 2017, we filed a Patent Owner's Preliminary Response responding to the petition's challenges to patentability of claims of the '260 patent. In response to a request of the Petitioner, the Board also authorized the parties to file Reply and Sur-Reply briefs on certain issues. Petitioner filed a Reply Brief on January 31, 2017. We filed our Patent Owner's Sur-Reply brief on February 14, 2017. On April 3, 2017, the Board issued a decision instituting the IPR on certain grounds raised in the petition. The Board set a schedule of certain due dates in the IPR. On July 3, 2017, we submitted our Patent Owner's Response in the IPR. Apple filed its Reply to the Patent Owner's Response on October 10, 2017. The Oral Hearing took place on January 10, 2018. On February 1, 2018, the parties emailed the PTAB and requested authorization to file a joint motion to terminate IPR2016-1884 in light of the settlement between the parties. On February 2, 2018, the PTAB granted the request. On February 8, 2018, the parties filed a joint motion to terminate the IPR. The parties also requested confidential treatment of the settlement agreement. On March 22, 2018, the Board issued a decision granting the joint motion to terminate. The Board also granted the joint motion to treat the underlying settlement agreement as confidential business information and kept separate from the rest of the file. On or about May 4, 2017, Apple submitted in the United States Patent and Trademark Office a second IPR petition challenging the patentability of certain claims of the '260 patent in light of alleged prior art references. This IPR bears Case No. 2017-01369. We filed our Patent Owner's Preliminary Response on August 24, 2017. On November 21, 2017, the PTAB issued a decision denying Apple's petition and declining to institute the second IPR.

On September 29, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '488 patent. The petition bears Case No. IPR2016-01907. The petition challenged the patentability of certain claims of the '488 patent in light of alleged prior art references. On January 5, 2017, we filed a Patent Owner's Preliminary Response responding to the petition's challenges to patentability of claims of the '488 patent. In response to a request of the Petitioner, the Board authorized the parties to file Reply and Sur-Reply briefs. Petitioner filed a Reply Brief on January 31, 2017. We filed our patent owner's Sur-Reply brief on February 14, 2017. On April 3, 2017, the Board issued a decision instituting the IPR on certain grounds raised in the petition. The Board set a schedule of certain due dates in the IPR. On July 3, 2017, we filed our Patent Owner's Response in the IPR. Apple filed its Reply to the Patent Owner's Response on October 10, 2017. The Oral Hearing took place on January 10, 2018. On February 1, 2018, the parties emailed the PTAB and requested authorization to file a joint motion to terminate IPR2016-1907 in light of the settlement between the parties. On February 2, 2018, the PTAB granted the request. On February 8, 2018, the parties filed a joint motion to terminate the IPR. The parties also requested confidential treatment of the settlement agreement. On March 22, 2018, the Board issued a decision granting the joint motion to terminate. The Board also granted the joint motion to treat the underlying settlement agreement as confidential business information and kept separate from the rest of the file. On or about May 4, 2017, Apple submitted in the United States Patent and Trademark Office a second IPR petition challenging the patentability of certain claims of the '488 patent in light of alleged prior art references. This IPR bears Case No. 2017-01371. We filed our Patent Owner's Preliminary Response on August 24, 2017. On November 21, 2017, the PTAB issued a decision denying Apple's petition and declining to institute the second IPR.

On October 26, 2017, we filed a patent infringement lawsuit in the Beijing High People's Court against Apple Computer Trading (Shanghai) Co., Ltd., Apple Electronic Product Commerce (Beijing) Co., Ltd., and Apple Trading (Shanghai) Co., Ltd. alleging that the iPhone 6s, iPhone 6s Plus, iPhone 7, iPhone 7 Plus, iPhone 8 and iPhone 8 Plus infringe our Chinese patents ZL02821854.X and ZL200810008845.X. We sought a permanent injunction preventing the importation, sale and offering for sale of the iPhone products noted above in China as well as damages. As noted above, on January 29, 2018, we announced that we reached a settlement with Apple resolving the above-described litigation. The Beijing High People's Court has approved the withdrawal of this case.

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

On June 29, 2017, local counsel for Immersion filed a patent infringement lawsuit against Fitbit, Inc. ("Fitbit") in the Shanghai Intellectual Property Court alleging that Fitbit has infringed three of our China patents. The three patents at issue are China Patent No. CN101305416B, entitled "methods and systems for providing haptic messaging to handheld communication devices"; No. CN102187647B, entitled "systems and methods for mapping message contents to virtual physical properties for sending vibrotactile messaging"; and No. CN102160366B, entitled "systems and methods for transmitting haptic messages." The Shanghai Intellectual Property Court accepted the case on July 7, 2017. Petitions for Invalidation have been filed by FitBit for China Patent Nos. CN101305416B, CN102160366B, and CN102187647B (details below). The Shanghai Intellectual Property Court is currently reviewing the objection to jurisdiction filed by the reseller defendant, Rui Jin Lin (Dalian) Information Technology Co., Ltd. The



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court held an inter-party hearing on April 11, 2018 to discuss, among other things, whether Rui Jin Lin shall be incorporated as a defendant along with Runtong.

A hearing for FitBit's Petition for Invalidation of China Patent No. CN102160366B took place on April 16, 2018, and a hearing for China Patent No. CN101305416B took place on April 26, 2018. A hearing date of May 30, 2018 has been set for China Patent No. CN102187647B.

### *Immersion Corporation v. Fitbit, Inc., Case No. 5:17-cv-03886-LHK (N.D. Cal.)*

On July 10, 2017, we filed a patent infringement lawsuit against Fitbit in the U.S. District Court for the Northern District of California alleging that Fitbit has infringed three of our U.S. Patents. The three patents at issue are U.S. Patent No. 8,351,299, which covers "Apparatus and Method for Providing Condition-Based Vibrotactile Feedback"; No. 8,059,105, entitled "Haptic Feedback for Touchpads and Other Touch Controls"; and No. 8,638,301, for "Systems and Methods for Transmitting Haptic Messages." Generally, these U.S. patents cover "touch-feedback" - or haptic feedback - devices, systems and methods. Fitbit devices alleged to infringe include the Fitbit Flex, Fitbit Flex 2, Fitbit Alta, Fitbit Alta HR, Fitbit Charge, Fitbit Charge 2, Fitbit Charge HR, Fitbit Blaze and Fitbit Surge. We served Fitbit with the Complaint, among other papers, on July 11, 2017. On October 4, 2017, in lieu of answering, Fitbit filed a Motion to Dismiss pursuant to 12(b)(6) based on 35 USC § 101. The hearing on Fitbit's Motion to Dismiss was set for February 15, 2018. The parties attended an Initial Case Management Conference on October 18, 2017. The claim construction hearing has been scheduled for May 10, 2018, and the trial date has been scheduled for May 6, 2019. On November 1, 2017, we filed our response to Fitbit's motion to dismiss. On February 8, 2018, the parties participated in Court-ordered mediation of the U.S. district court case. On February 13, 2018, the Court took Fitbit's Motion to Dismiss under submission without oral argument and vacated the hearing previously set for February 15, 2018. The Court denied Fitbit's Motion to Dismiss under 35 USC 101 with respect to the '105 Patent and '299 Patent, but granted with respect to the '301 Patent. Thus, there are two patents-in-suit remaining. The parties have exchanged proposed claim constructions and we served our opening claim construction brief on April 2, 2018. Fitbit alleges that two of the claim terms are indefinite, and that the asserted claims are therefore invalid. The claim construction hearing was originally scheduled for May 10, 2018 but has been moved to June 21, 2018, and the trial date has been scheduled for May 6, 2019.

On February 7, 2018, Fitbit filed in the United States Patent and Trademark Office two petitions for inter partes review (IPR) of the '105 patent (Case Nos. IPR2018-00588 and IPR2018-00590); a petition for inter partes review of the '299 patent (Case No. IPR2018-00591); and two petitions for inter partes review of the '301 patent (Case Nos. IPR2018-00592 and IPR2018-00593). The Patent Owner's Preliminary Responses to respond to the petitions are due May 15, 2018. (Case Nos. IPR2018-00588 and IPR2018-00590), May 23, 2018 (Case Nos. IPR2018-00592 and IPR2018-00593), and June 15, 2018 (Case No. IPR2018-00591). The last days for the Patent Trial and Appeal Board to decide whether to institute IPR are August 15, 23, and September 17, 2018, respectively.

### *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 United States District Court for the Eastern District of Texas alleging that certain Samsung touchscreen phones, including those phones that Samsung had not commenced commercially producing, distributing and selling before January 1, 2016 (the "Accused Phones"), infringe certain of our patents that cover haptic feedback systems and methods. In the complaint, we are seeking to stop Samsung from further infringement as well as the recovery of damages. The complaints assert infringement by the Accused Phones of the following patents:

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

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

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

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

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

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.



*Immersion Corporation vs. Samsung Electronics Co., Ltd. and Samsung Electronics America, Inc. (C.A. No. 18-cv-55)*

On March 8, 2018, we filed a complaint against Samsung Electronics Co., Ltd. and Samsung Electronics America, Inc. (collectively, “Samsung”) in the United States District Court for the Eastern District of Texas alleging that certain Samsung touchscreen phones, including those phones that Samsung had not commenced commercially producing, distributing and selling before January 1, 2016 (the “Accused Phones”), infringe 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. The Court has not yet issued a schedule for the case.

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

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

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

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

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.

*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 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 \$6.3 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. We believe that there are valid defenses to all of the claims from the Korean tax authorities and that Samsung’s claims are without merit. We intend to vigorously defend against these claims and as a result, we have concluded that the likelihood of a material charge resulting from this claim is remote. In the event Samsung were to prevail in the arbitration in advance of the conclusion of the appeal with the Korea Tax Tribunal, we could be required to make a payment to Samsung even though it would later be reimbursed should we prevail in the appeal.

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.



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*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”), 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 asks the court to move the case to Beijing IP court. Samsung Huizhou filed a jurisdictional objection on April 10, 2018 in which it asks the court to move the case to Guangzhou IP court. On May 8, 2018, the court rejected both jurisdictional objections. A pretrial conference is scheduled for June 14-15, 2018. 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 may supplement their petitions by May 16, 2018, and our response is due June 1, 2018.

## 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. Further, upon adoption of ASC 606 effective January 1, 2018, a substantial portion of the revenue from our fixed license fee contracts was recognized up front after execution of the license, with the portion that relates to our future performance obligations to be transferred during the contract term being recognized over time. Previously, our fixed license fee revenue was usually recognized ratably over time in accordance with revenue recognition guidance under ASC 605. This change in accounting policy for fixed license fees revenue will further provide less predictability in our future revenue when compared to historical periods. We face numerous risks in obtaining new or renewed licenses on terms consistent with our business objectives and in maintaining, expanding, and supporting our relationships with our current licensees. These risks include:

- difficulties in persuading device manufacturers to take a license or renew a license to our intellectual property without the expenditure of significant resources;
- difficulties in persuading existing customers that they still need a license to the portfolio as individual patents expire or become limited in scope, declared unenforceable or invalidated;
- reluctance of device manufacturers to take a license or renew a license to our intellectual property because other larger device manufacturers are not licensed;
- difficulties in entering into or renewing gaming licenses if video game console makers choose not to license third parties to make peripherals for their new consoles, if video console makers no longer require peripherals to play video games, if video console makers no longer utilize technology in the peripherals that are covered by our patents or if the overall market for video consoles deteriorates substantially;
- the competition we may face from third parties and/or the internal design teams of existing and potential licensees;
- difficulties in achieving and maintaining consumer and market demand or acceptance for our products;

- difficulties in persuading third parties to work with us, to rely on us for critical technology, and to disclose to us proprietary product development and other strategies;



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- 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;

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

One customer accounted for more than 10% of our total revenues for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017 where three customers accounted for 18%, 15%, and 10% of our total revenues, respectively. In the quarter ended September 30, 2016, we entered into an additional amendment to our License Agreement with Samsung pursuant to which we agreed to permit Samsung to exercise its rights to continue to sell products that were licensed under the agreement as of December 31, 2015 for the life of such products in exchange for \$19 million. We have not entered into a renewal agreement with Samsung for any products released after December 31, 2015, and on August 3, 2017, we filed the first patent infringement suit against Samsung in the U.S. District Court in the Eastern District of Texas. See Part I, Item 3, "Legal Proceedings". Because we have not renewed our agreement with Samsung, there is no assurance that Samsung will continue to generate similar revenue in any future period; and even if we were to renew our agreement with Samsung, our revenue could be adversely impacted by recalls or poorly performing mobile devices.

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

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

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

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

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

In addition, our patents will continue to expire according to their terms which may have an adverse effect on our business. For example, certain of our U.S. gaming patents expired in 2015, and as a result, Sony has ceased paying royalties for sales. 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.



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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, Motorola, and Fitbit for patent infringement and we recently settled our litigation with Apple. 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 material amounts of 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.

***Our current or any future litigation, arbitration and administrative proceedings to enforce or defend our intellectual property rights and to defend our licensing practices is expensive, disruptive, and time consuming, and will continue to be, until resolved, and regardless of whether we are ultimately successful, could adversely affect our business.***

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

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

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

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

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

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

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



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

We also license to semiconductor manufacturers who incorporate certain of our less fully-featured software into their integrated circuits for use in certain electronic devices. While our relationships with these semiconductor manufacturers increases our distribution channels by leveraging their sales channels, it is possible that customers may elect to implement haptics using less fully-featured software integrated circuit solutions rather than the higher-end solutions we offer directly, which may negatively impact our financial results. It is also possible that when a customer uses the integrated circuit, it is doing so in violation of our intellectual property rights and we may seek to enforce our IP.

***Our restructuring efforts may not be successful, and may negatively impact our business.***

In December 2017, we announced a restructuring of our business to exit the Mobile Advertising market, largely focus on IP licensing for the gaming and Virtual Reality ("VR")/Augmented Reality ("AR") markets, move to a mobile OEM licensing model for China, significantly reduce the size of our workforce and consolidate some of our operations. Consolidations and business restructurings involve numerous risks and uncertainties, including, but not limited to: the potential loss of key employees, customers and business partners; market uncertainty related to our future business plans; the incurrence of unexpected expenses or charges; diversion of management attention from other key areas of our business; negative impacts on employee morale; and other potential dislocations and disruptions to the business. In addition, if our business expands, it may be more difficult for us to attract additional personnel and develop the resources we would need to support a larger customer base. Accordingly, if we are unable to manage this consolidation and transition effectively, our overall business and operating results could be materially and adversely affected.

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

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

There can be no assurance that the taxing authorities of the jurisdictions in which we operate or to which we are otherwise deemed to have sufficient tax nexus will not challenge the restructuring or the tax position that we take. From time to time, we enter into license agreements with our licensees pursuant to which we 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 is requesting that we pay them the amount of KRW 7,841,324,165 (approximately \$6.3 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 an initial status conference on February 7, 2018. On February 15, 2018, the arbitration panel denied the motion to stay and has proposed a procedural schedule with a hearing in July 2018.

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, Immersion 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 restructuring.

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

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

We currently have sales personnel in Japan, Korea, and China. International revenues accounted for approximately 11% of our total revenue for the three months ended March 31, 2018. International operations are subject to a number of difficulties, risks, and special costs, including:

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

Our international operations could also increase our exposure to international laws and regulations, which are subject to change. If we cannot comply with foreign laws and regulations, which are often complex and subject to variation, differing or inconsistent government interpretation, and unexpected changes, we could incur unexpected costs and potential litigation. For example, the governments of foreign countries might attempt to regulate our products or levy sales or other taxes relating to our activities. In addition, foreign countries may impose tariffs, duties, price controls, or other restrictions on foreign currencies or trade barriers, any of which could make it more difficult for us to conduct our business. Our international operations could also increase our exposure to complex international tax rules and regulations. Changes in, or interpretations of, tax rules and regulations may adversely affect our income tax provision. In addition, our operations outside the United States may be affected by changes in trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment, including the Foreign Corrupt Practices Act and local laws prohibiting corrupt payments by our employees, vendors, or agents.

***We had an accumulated deficit of \$83 million as of March 31, 2018, and may not return to consistent profitability in the future.***

As of March 31, 2018, we had an accumulated deficit of \$83 million. We need to generate significant ongoing revenue to return to consistent profitability. We will continue to incur expenses as we:

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

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

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

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

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

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

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

A significant portion of our gaming royalty revenues comes from third-party peripheral makers who make licensed gaming products designed for use with popular video game console systems from Microsoft, Sony, and Nintendo. Video game console systems are closed, proprietary systems, and video game console system makers typically impose certain requirements or restrictions on third-party peripheral makers who wish to make peripherals that will be compatible with a particular video game console system. If third-party peripheral makers cannot or are not allowed to satisfy these requirements or restrictions, our gaming royalty revenues could be significantly reduced. Furthermore, should a significant video game console maker choose to omit touch-enabling capabilities from its console systems or somehow restrict or impede the ability of third parties to make touch-enabling peripherals, it could lead our gaming licensees to stop making products with touch-enabling capabilities, thereby significantly reducing our gaming royalty revenues. Also, if the gaming industry changes such that mobile or other platforms increase in popularity at the expense of traditional video game consoles, our gaming royalty revenues could be substantially reduced if we are unable to enter into replacement arrangements enabling us to license our software or IP in connection with gaming on such mobile or other platforms. Although Immersion has a significant software and IP position with respect to Virtual Reality 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 virtual and augmented reality. Microsoft has significantly greater financial, sales, and marketing resources, as well as greater name recognition and a larger customer base than some of our other licensees. In the event that Microsoft increases its share of these markets, our royalty revenue from other licensees in these market segments may decline.



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

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

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

A key part of our business strategy is to license our software and IP to companies that manufacture and sell products incorporating our touch-enabling technologies. For the three months ended March 31, 2018, substantially all of our total revenues were royalty and license revenues, as compared to 98% for the same period in 2017. We do not control or influence the design, manufacture, quality control, promotion, distribution, or pricing of products that are manufactured and sold by our licensees, nor can we control consolidation within an industry which could either reduce the number of licensable products available or reduce royalty rates for the combined licensees. In addition, we generally do not have commitments from our licensees that they will continue to use our technologies in current or future products. As a result, products incorporating our technologies may not be brought to market, achieve commercial acceptance, or otherwise generate meaningful royalty revenue for us. For us to generate royalty and license revenue, licensees that pay us per-unit royalties must manufacture and distribute products incorporating our touch-enabling technologies in a timely fashion and generate consumer demand through marketing and other promotional activities. If our licensees' products fail to achieve commercial success, or if their products are recalled because of quality control problems or if they do not ship products incorporating our touch-enabling technologies in a timely fashion or fail to achieve strong sales, our revenues will not grow and could decline.

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

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

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

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

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

In addition, our business involves the storage and transmission of customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. These security measures may be breached as a result of third-party action, employee error, malfeasance or otherwise, during transfer of data, and result in someone obtaining unauthorized access to our data or our customers' data. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing

sensitive information such as user names, passwords or other information in order to gain access to our data or our customers' data. Because the techniques used to obtain unauthorized access, or to sabotage systems, change

frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, our customers may authorize third party technology providers, to access their customer data. Because we do not control the transmissions between our customers and third-party technology providers, or the processing of such data by third-party technology providers, we cannot ensure the complete integrity or security of such transmissions or processing. Any security breach could result in a loss of confidence in the security of our service, damage our reputation, lead to legal liability and negatively impact our future sales.

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

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

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

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

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

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

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

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

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

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

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

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

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

***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 our 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 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 Immersion, we would be required to apply a new or revised guidance, which may result in retrospective adjustments to our financial statements, and change the way we account for certain transaction than under the existing guidance. Changes in GAAP and reporting standards could substantially change our reporting practices in a number of areas, including revenue recognition and recording of assets and liabilities, and consequently affect our reported financial condition or results of operations.

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

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

***Our stock price may fluctuate regardless of our performance.***

The stock market has experienced extreme volatility that often has been unrelated or disproportionate to the performance of particular companies. These market fluctuations may cause our stock price to decline regardless of our performance. The market

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

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

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

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

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

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



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**SIGNATURES**

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

Date: May 11, 2018

IMMERSION CORPORATION

By \_\_\_\_\_ /s/ Nancy Erba  
Nancy Erba  
*Chief Financial Officer and Principal Accounting Officer*

**EXHIBIT INDEX**

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.1	<a href="#">Separation Agreement dated January 2, 2018 between Immersion and Victor Viegas</a>	8-K/A	000-27969	10.2	January 3, 2018	
10.2 #	<a href="#">Settlement and License Agreement, between Immersion and Apple Inc., dated as of January 26, 2018</a>					X
10.4 **	<a href="#">Amended and Restated Retention and Ownership Change Agreement dated February 26, 2018 by and between Immersion and Nancy Erba</a>					X
10.6 **	<a href="#">Amended and Restated Retention and Ownership Change Agreement dated February 26, 2018 by and between Immersion and Anne Marie Peters</a>					X
31.1	<a href="#">Certification of Carl Schlachte, Interim Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
31.2	<a href="#">Certification of Nancy Erba, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
32.1*	<a href="#">Certification of Carl Schlachte, Interim Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					X
32.2*	<a href="#">Certification of Nancy Erba, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					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

# Certain portions of this exhibit have been omitted and filed separately with the SEC pursuant to a request for confidential treatment under Rule 24b-2 as promulgated under the Exchange Act.

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

\*\* Constitutes a management contract or compensatory plan.

NOTE: THIS DOCUMENT IS THE SUBJECT OF A CONFIDENTIAL TREATMENT REQUEST PURSUANT TO RULE 24B-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. PORTIONS OF THIS DOCUMENT FOR WHICH CONFIDENTIAL TREATMENT HAS BEEN REQUESTED HAVE BEEN REDACTED AND ARE MARKED HEREIN BY “[\*\*\*]”. SUCH REDACTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE COMMISSION PURSUANT TO THE CONFIDENTIAL TREATMENT REQUEST.

## SETTLEMENT AND LICENSE AGREEMENT

This Settlement and License Agreement (“**Agreement**”) is made as of January 26, 2018 (“**Effective Date**”) between Apple Inc., a California corporation (“**Apple**”) and Immersion Corporation, a Delaware corporation (“**Immersion**”). As used herein, “**Party**” refers to either Immersion or Apple, and “**Parties**” refers to Immersion and Apple collectively.

WHEREAS, Apple desires to acquire a non-exclusive license under [\*\*\*] patents [\*\*\*], and to resolve any disputes related thereto.

WHEREAS Immersion brought suit against Apple in United States International Trade Commission Inv. Nos. 337-TA-1004/990 (consolidated); Immersion Corp. v. Apple Inc., et al., Civil Action Nos. 1:16-cv- 00077 and 1:16-cv- 00325 (D. Delaware); and an action in the Beijing High People’s Court against Apple Computer Trading (Shanghai) Co., Ltd., Apple Electronic Product Commerce (Beijing) Co., Ltd., and Apple Trading (Shanghai) Co., Ltd. (collectively, the “**Lawsuit**”); and

WHEREAS the Parties now desire to settle the Lawsuit and enter into this agreement providing for a [\*\*\*] settlement of the subject matter of the Lawsuit and for certain [\*\*\*], all on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the above premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

### 1.0 DEFINITIONS.

1.1 “**Licensed Product**” means [\*\*\*] product, product line, service, device, system, component, hardware, software, any combination of the foregoing, or other offering that is designed, branded, made, used, sold, offered for sale, leased, purchased, licensed, imported, exported, supplied or otherwise provided [\*\*\*]. For the avoidance of doubt, any of the above enumerated items that is not designed, branded, made, used, sold, offered for sale, leased, purchased, licensed, imported, exported, supplied or [\*\*\*] shall not

qualify as a Licensed Product even if such item is identical or similar to an item that is supplied or [\*\*\*]. Notwithstanding the above, no right to become a foundry to third parties other than [\*\*\*] is granted under this Agreement.

1.2 “**Immersion Patents**” means (i) [\*\*\*] patents and patent applications (along with patents issuing thereon) [\*\*\*] that are, as of the Effective Date, [\*\*\*], including without limitation U.S. Patent Numbers 8,772,356, 8,619,051, 8,659,571, 7,336,260, 7,808,488, 8,749,507, 8,581,710, and (ii) any divisional, continuation, continuation-in-part, reissue, reexamination, utility model, foreign counterpart, parent or extension of any patent or application included in Section 1.2(i) or (ii), and any patent or patent application whose [\*\*\*]. Notwithstanding anything to the contrary, the term “Immersion Patents” do not include: (a) patents and patent applications owned or controlled by a third party that acquires Immersion or any of its Affiliates after the Effective Date, whether by merger, acquisition, or purchase of all or substantially all of the assets of Immersion or its Affiliates; (b) patents and patent applications owned or controlled by a third party that is acquired by Immersion or any of its Affiliates after the Effective Date, whether by merger, acquisition, or purchase of all or substantially all of the assets of such third party; or (c) Conditional Patents.

1.3 “**Conditional Patents**” shall mean a patent or patent application for which the grant of licenses, releases, or freedom from suit to a third party results in an obligation to pay, or the payment of, additional royalties by Immersion or any of its Affiliates to a third party owner or a third party licensor of the patent or patent application. Immersion represents and warrants that, as of the Effective Date, [\*\*\*].

1.4 “**Affiliate**” means, with respect to a person, corporation or other entity, any other person, corporation or entity that directly or indirectly controls, is controlled by, or is under common control with such corporation or entity. For purposes of this definition, “control” means the possession, directly or indirectly, of the power to direct or cause the direction of management or policies of a person, corporation or other entity whether through the ownership of voting securities, by contract or otherwise. Notwithstanding the above, Affiliates shall not include any Excluded Apple Assignees.

1.5 “**Covered Apple Parties**” means Apple, [\*\*\*], in each case, solely to exercise the rights set forth in Section 2 with respect to Licensed Products.

1.6 “**Excluded Apple Assignee**” shall mean, [\*\*\*].

1.7 “**Pending Inter Partes Reviews**” shall mean: (a) the proceedings pending in the United States Patent and Trademark Office to conduct an *inter partes* review of Immersion patents based on petitions Apple filed with the Patent Trial and Appeal Board (“PTAB” or “Board”), including the following IPRs: IPR2016-1372 (’571 patent), IPR2016-1381 (’356 patent), IPR2016-1603 (’710 patent), IPR2016-1884 (’260 patent), and IPR2016-1907 (’488 patent), (b) the Requests for Reexaminations and Invalidation at the State Intellectual Property Office of the People’s Republic of China of Chinese Patent No. ZL02821854.X and Chinese Patent No. ZL200810008845.X, and (c) any other pending

proceedings by Apple or its Affiliates challenging or contesting the validity or enforceability of the Immersion Patents.

## 2.0 LICENSE AND RELEASE.

2.1 License. Subject to the terms and conditions of this Agreement [\*\*\*] and solely during the Term, Immersion, on behalf of itself, its Affiliates, and their successors and assigns, grants to the Covered Apple Parties a [\*\*\*] license under the Immersion Patents to make, have made, use, purchase, sell, offer for sale, license, lease, import, export, or otherwise dispose of [\*\*\*].

### 2.2 Covenant. In addition to Sections 2.1

2.2.1 By Immersion. In addition to [\*\*\*], and effective and conditioned upon [\*\*\*], Immersion, on behalf of itself, its Affiliates, and their successors and assigns, hereby covenants not to sue the Covered Apple Parties for infringement of the Immersion Patents with respect to Licensed Products licensed above in Section 2.1. No Licensed Product shall be used to satisfy any claim or claim element asserted by Immersion or its Affiliates, and their successors and assigns, against Apple, its Affiliates, their successors and assigns, customers, users, licensees, service providers, distributors, retailers, or direct and indirect suppliers. Notwithstanding anything to the contrary in this Agreement, the covenant not to sue in this Section 2.2.1 shall not: (a) preclude Immersion or any of its Affiliates from bringing a claim for a breach of this Agreement; or (b) prevent Immersion from bringing an infringement suit against a Covered Apple Party or its Affiliates after the termination or expiration of this Agreement for actions that occur after termination or expiration of this Agreement, or with respect to patents that are not Immersion Patents.

2.2.2 By Apple. Apple, on behalf of itself, its Affiliates, and their successors and assigns, hereby covenants not to sue Immersion, its Affiliates, their successors and assigns, direct or indirect customers, users, licensees, service providers, distributors, retailers, or direct and indirect suppliers for any claims related to the Immersion Patents, and covenants not to contest or assist in the contest in any forum, including federal courts, whether under 28 U.S.C. §§ 2201-2202 or not, United States Patent and Trademark Office, and/or the International Trade Commission, that the Immersion Patents are valid and enforceable. This section shall not apply, however, if Immersion, or its Affiliates, successors, directors, employees, or agents (a) breaches the covenant not to sue of Section 2.2.1 in any regard; (b) acts in a manner inconsistent with the licenses and releases of Sections 2.1 and 2.3 in any regard; or (c) alleges or claims that any Covered Apple Party infringes or will infringe the Immersion Patents based on Licensed Products. This section shall not preclude Apple, or any Apple Affiliate, successor, assign, predecessor, customer, or supplier, who receives a lawful subpoena, discovery request, Court or administrative order, or any other form of legal process or government directive, from responding to such a request, order, or directive by producing or providing documents, testimony, or other information.

### 2.3 Release.

2.3.1 By Immersion. [\*\*\*], Immersion, on behalf of itself, its Affiliates, and their successors and assigns hereby releases, acquits and forever discharges the Covered Apple Parties from any and all actions, causes of action, claims or demands, liabilities, losses, damages, attorney fees, court costs, or any other form of claim or compensation, whether known or unknown as of the Effective Date, arising out of the facts, events or occurrences underlying or giving rise to or otherwise related to, [\*\*\*] any released party on account of any such claim. For the avoidance of doubt, the release set forth in this Section 2.3.1 shall not prevent Immersion from bringing an infringement suit against a Covered Apple Party or its Affiliates after the termination or expiration of this Agreement for actions that occur after termination or expiration of this Agreement, or with respect to patents that are not Immersion Patents.

2.3.2 By Apple. In addition to Section 2.2, Apple, on behalf of itself, its Affiliates, and their successors and assigns hereby releases, acquits and forever discharges Immersion (together with its Affiliates, predecessors, successors, agents, attorneys, insurers, servants, distributors, licensees, service providers, retailers, suppliers, employees, officers, directors, users and customers) from any and all actions, causes of action, claims or demands, liabilities, losses, damages, attorney fees, court costs, or any other form of claim or compensation, whether known or unknown as of the Effective Date, [\*\*\*]. This section shall not apply, however, if Immersion, or its Affiliates, successors, directors, employees, or agents (a) breaches the covenant not to sue of Section 2.2 in any regard; (b) acts in a manner inconsistent with the licenses and releases of Sections 2.1 and 2.3.1 in any regard; or (c) alleges or claims that Apple, any Apple Affiliate, or any Apple successor, assign, predecessor, customer, or supplier infringes or will infringe the Immersion Patents based on Licensed Products.

2.4 Each Party, having specific intent to release all potential claims described in the foregoing Sections 2.1, 2.2, and 2.3, whether known or unknown, does hereby acknowledge and expressly waive the provisions of Section 1542 of the California Civil Code (and similar provisions in other jurisdictions, whether by statute or common law), which provides:

“A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her, must have materially affected his settlement with debtor.”

2.5 Dismissal. [\*\*\*], Immersion shall submit on behalf of the parties (i) in the ITC, a motion to terminate the ITC Investigation in substantially the form attached hereto as Exhibit A-1; (ii) in the District Court for the United States District of Delaware, a joint stipulation of dismissal of all claims with prejudice and counterclaims without prejudice, in substantially the form attached hereto as Exhibit A-2; (iii) documents requesting the termination and dismissal of all pending IPRs in substantially the form attached hereto as Exhibit A-3 or otherwise mutually agreed upon by the parties; and (iv) a request that the

action before the Beijing High People's Court be dismissed with prejudice in a form satisfactory to Immersion's counsel in the Chinese action. In the event that papers other than those attached hereto as exhibits are required to effectuate the dismissal, the parties will cooperate in order to prepare such papers and effectuate the dismissal of the Lawsuit. Immersion and Apple, on behalf of themselves and their Affiliates, further agree to take no additional action to prosecute the Lawsuit against the other party (except that Immersion may appeal the '571 patent IPR and the '356 patent IPR if those proceedings are not terminated pursuant to the motion of the parties), including seeking any discovery or other relief, after such request for dismissal is made. Apple makes no admission of infringement or liability by the negotiation, execution, or performance of this Agreement.

2.6 To the extent that Immersion does not have the right to grant fully the releases, licenses, covenants and other rights set out in this Agreement, it grants the broadest such rights that it is entitled to grant consistent with the terms set out herein.

### 3.0 CONSIDERATION.

3.1 [\*\*\*], Apple will pay to Immersion [\*\*\*] which is non-refundable and non-creditable. [\*\*\*]

3.2 Option. Subject to the terms and conditions of this Section 3.2, if Apple provides written notice of its intent to exercise the option described in this Section 3.2 (the "Option") and agrees to pay Immersion [\*\*\*] (the "Option Fee"), then the Term shall be automatically extended until the expiration of the last Immersion Patent. The Option Fee shall be non-refundable and non-creditable if paid. The payments described in [\*\*\*] shall be the [\*\*\*] compensation paid to Immersion for the rights granted in this Agreement, and [\*\*\*]. Payment of the Option Fee shall be made by electronic transfer of funds to Immersion's bank account set forth in Section 3.1 (or such other Immersion bank account as Immersion provides to Apple). Immersion shall provide notice to Apple [\*\*\*] informing Apple of the its right to exercise the Option. Such notice shall include the deadline by which Apple is required to accept the Option, which deadline shall be no earlier than [\*\*\*] and shall attach an updated wire instructions and Form W-9 (or equivalent). Notwithstanding the foregoing, the Option shall remain available to Apple until [\*\*\*] pursuant to the Agreement. If Apple exercises the Option, then the Option Fee shall be due within [\*\*\*] of the date that Apple exercises the Option.

3.3 Attached as Exhibit C to this Agreement is Immersion's IRS Form W-9. Immersion will be responsible for any duties, taxes, and levies resulting from any payment hereunder.

### 4.0 WARRANTIES.

4.1 Apple warrants and represents that it is a validly existing business and in good standing under the laws of the respective jurisdictions in which it has activities, and



has the full power and authority to enter into this Agreement and to perform its obligations hereunder and consummate the transactions contemplated herein.

4.2 Immersion represents and warrants to Apple that: (a) it has all requisite legal right, power and authority to execute, deliver and perform this Agreement; (b) as of the Effective Date, it owns or otherwise has the right to license the Immersion Patents, and that no other third party owns any right to enforce or recover for infringement of the Immersion Patents by Apple or its Affiliates; (c) it has not granted and will not grant any licenses or other rights, under the Immersion Patents or otherwise, that would conflict with or prevent the licenses, covenants, releases and rights granted to Apple and its Affiliates hereunder; and (d) it has not sold or assigned patents or patent applications since the filing of the Lawsuit. Immersion represents and warrants that there are no liens, conveyances, mortgages, assignments, encumbrances, or other agreements that would prevent or impair the full and complete exercise of the terms of this Agreement. Immersion agrees to indemnify and hold Apple and its Affiliates harmless from any claim brought by a third party who claims any interest in, or any right to recover under any Immersion Patent. Immersion shall not grant or assign any rights under the Immersion Patents, unless such grants or assignments are made subject to the rights granted in this Agreement.

4.3 As of the Effective Date, Immersion represents and warrants that it does not directly or indirectly own or control, nor is it owned or controlled by or in common with, any other company or other entity that owns any patents or patent applications other than the Immersion Patents. The express purpose of this clause is to permit Apple to understand all patent rights that could be asserted against it by anyone having an interest in the Immersion Patents; as such, any omission is deemed material to this entire Agreement. In the event that, and notwithstanding this representation and warranty of Section 4.3, there are other patents that are directly or indirectly owned or controlled by Immersion or another entity that is owned or controlled by or in common with Immersion, then such other patents shall be treated as if they were Immersion Patents for the purposes of all licenses, covenants, releases and other rights granted in this Agreement.

## 5.0 TERM AND TERMINATION.

5.1 This Agreement shall commence as of the Effective Date and continue until [\*\*\*] (the “**Term**”); provided that if Apple exercises the Option and pays the Option Fee to Immersion in accordance with Section 3.2, then this Agreement shall continue until the expiration of the last Immersion Patent. Upon expiration or termination of the Term, the licenses and covenants not to sue set forth in this Agreement shall cease.

5.2 Other than as set forth in Section 5.1, this Agreement may only be terminated by mutual written agreement of the Parties.

## 6.0 ASSIGNABILITY.

6.1 Neither party may grant or assign any rights or delegate any duties under this Agreement to any third party without the prior written consent of the other, and any attempted assignment without such consent shall be null and void. Notwithstanding the foregoing, Apple may (i) assign rights under this Agreement to any of its Affiliates, except any Excluded Apple Assignee and (ii) assign rights under this Agreement to (a) an acquirer of all or substantially all of the equity or assets of its business to which this Agreement relates or (b) the surviving entity in any merger, consolidation, equity exchange, or reorganization of its business to which this Agreement relates, provided however that the licenses and/or covenants not to sue as applied to such acquirer or surviving entity is limited to products and services that qualify as Licensed Products and equivalent generations thereof as of the effective date of the applicable transaction in (ii); and (2) Immersion may (i) assign rights under this Agreement to any of its Affiliates, (ii) assign this Agreement to an acquirer of all or substantially all of the equity or assets of its business to which this Agreement relates, or (iii) the surviving entity in any merger, consolidation, equity exchange, or reorganization of its business to which this Agreement relates. All license rights and covenants contained herein shall run with the Immersion Patents and shall be binding on any successors-in-interest or assigns thereof. Immersion and its Affiliates shall not assign any Immersion Patent to any other party unless such assignment or grant is subject to all of the terms and conditions of this Agreement. Any attempted assignment or grant in contravention of this Section 6.1 shall be null and void. This Agreement shall be binding upon, inure to the benefit of and be enforceable by the Parties and their permitted successors and assigns.

## 7.0 CONFIDENTIALITY.

7.1 The terms of this Agreement and all correspondence relating to this Agreement are confidential. The Parties shall keep terms and particulars of this Agreement strictly confidential and no Party shall now or hereafter disclose such terms and particulars to any third party except: (i) with the prior written consent of the other Party, (ii) as may be required by applicable law, regulation or order of a governmental authority of competent jurisdiction, (iii) during the course of litigation so long as the disclosure of such terms and conditions is subject to the same restrictions as is the confidential information of the other litigating parties, such restrictions are embodied in a court-entered protective order limiting disclosure to outside counsel and such disclosing Party provides the other Party written notice at least ten (10) business days prior to such disclosure, (iv) in confidence to the professional legal and financial counsel representing such Party, or (v) in confidence to any party covered by the releases, licenses or covenants granted herein. With respect to the foregoing (ii), such disclosing Party shall, to the extent legally permissible, provide the other Party with prior written notice of such applicable law, regulation or order and, at the request of the other Party, use reasonable efforts to limit the disclosure of the terms and conditions of this Agreement, and to obtain a protective order or other confidential treatment.

7.2 Immersion may issue a press release as set forth in Exhibit D. Except with respect to such press release, neither Party shall issue a press release or make any other public statement regarding this Agreement or the settlement of the Lawsuit, except that Apple and Immersion may make any statement it deems appropriate to satisfy its various public reporting obligations. Immersion, and its representatives and counsel, shall not directly or indirectly seek any publicity regarding this Agreement, the settlement, or any litigation with Apple by any means, including but not limited to, initiating or responding to any inquiry by the press concerning Apple, the Agreement, the settlement, or the Lawsuit. If a third party expressly inquires about the Lawsuit or the Agreement, the only statements that a Party may provide in response, without breach of the provisions herein, are (i) that [\*\*\*]; and (ii) to direct the third party [\*\*\*].

7.3 The confidentiality provisions of this Agreement are material terms of this Agreement, and any breach of these provisions will constitute a material breach of this Agreement. The failure of any Party to enforce at any time any of the provisions governing the confidentiality of the terms of this Agreement or to require at any time performance by any of the Parties of any such provisions shall in no way be construed as a waiver of such provision or relinquishment of the right thereafter to enforce such provision.

## 8.0 NOTICES.

8.1 All notices required or permitted to be given hereunder shall be in writing and shall be deemed delivered (i) upon receipt if delivered by hand, (ii) the next business day after being sent by prepaid, nationally-recognized, overnight air courier, (iii) five (5) business days after being sent by registered or certified airmail, return receipt required, postage prepaid, or (iv) upon transmittal when transmitted by confirmed telecopy (provided that such notice is followed notice pursuant to any of (i) – (iii) above).

8.2 All notices shall be addressed as follows:

For Apple:

General Counsel  
Apple Inc.  
One Apple Park, 301-4GC  
Cupertino, CA 95014  
Fax: (408) 974-8530

*And with a copy to:*

Chief IP Counsel  
Apple Inc.  
One Apple Park, 169-3IPL  
Cupertino, CA 95014  
Fax: (408) 974-4992

*And (for Section 7 notices only) with a copy to:*

prod\_requests@apple.com

For Immersion:

General Counsel  
Immersion Corporation  
50 Rio Robles  
San Jose, California 95134

## 9.0 MISCELLANEOUS.

9.1 Immersion has no obligation hereunder to institute any action or suit against any third party for infringement of any of the Immersion Patents, or to defend against any action challenging the validity of the Immersion Patents. Apple has no right to institute any action against any third party for infringement of any Immersion Patent.

9.2 Immersion agrees on behalf of itself, its Affiliates, and their successors and assigns not to claim that the rights conveyed to Apple in this Agreement or Apple's alleged practice of any Immersion Patent are evidence of a domestic industry pursuant to Section 337(a) of the Tariff Act of 1930 or any similar foreign or domestic statute, and hereby irrevocably waives any such argument.

9.3 Nothing in this Agreement is intended or shall be deemed to constitute a partnership, agency, employer-employee, or joint venture relationship between the Parties. Neither Party shall incur any debts or make any commitments for the other. There is no fiduciary duty or special relationship of any kind between the Parties to this Agreement. Each Party expressly disclaims any reliance on any act, word, or deed of the other Party in entering into this Agreement.

9.4 Nothing contained in this Agreement shall be construed as conferring any right to a license or to otherwise use any patent, patent application, trademark, service name, service mark, trade dress, trade secret or other intellectual property belonging to Apple.

9.5 If any portion of this Agreement is found to be invalid, illegal, or unenforceable for any reason, the remainder of the Agreement shall continue in force and,



if needed, the Parties or a court of competent jurisdiction shall substitute suitable provisions having like economic effect and intent.

9.6 This Agreement cannot be modified, terminated or amended in any respect orally or by conduct of the Parties. Any termination, modification, or amendment may be made only by a writing signed by all Parties. No waiver of any provision shall be binding in any event unless executed in writing by the Party making the waiver.

9.7 This Agreement may be executed in several counterparts (including via PDF, facsimile, or electronic signature), each of which is deemed to be an original but all of which constitute one and the same instrument.

9.8 Each Party and counsel have reviewed and approved this Agreement, and accordingly any presumption or rule of construction permitting ambiguities to be resolved against the drafting party shall not be employed in the interpretation or application of this Agreement.

9.9 The headings inserted in this Agreement are for reference only and are not intended to form any part of the operative portion of this Agreement, and they shall not be employed in the interpretation or application of this Agreement.

9.10 This Agreement shall be construed, and the relationship between the Parties determined, in accordance with the laws of Delaware, notwithstanding any choice-of-law principle that might dictate a different governing law. Each Party irrevocably agrees, consents and submits to jurisdiction and venue in the federal and state courts located within Santa Clara County, California, with respect to any dispute arising out of or relating in any way to this Agreement. The Parties acknowledge that Apple is headquartered in Santa Clara County and that Immersion conducts business in Santa Clara County, and the Parties hereby waive all defenses based upon *forum non conveniens*, improper venue, or personal jurisdiction.

9.11 This Agreement sets forth the entire understanding of the Parties with respect to the Immersion Patents, and replaces any prior oral or written communications, discussions or agreements between them.

9.12 The remedy for breach of this Agreement shall be limited to damages and/or injunctive relief, as appropriate, for breach of contract and shall not include remedies for patent infringement. The immediately preceding sentence shall not apply with respect to any breach of this Agreement [\*\*\*].

9.13 EXCEPT WITH RESPECT TO A CLAIM OF INFRINGEMENT OF ONE PARTY'S INTELLECTUAL PROPERTY RIGHTS AGAINST THE OTHER PARTY TO THIS AGREEMENT AND EXCEPT AS OTHERWISE PROVIDED EXPLICITLY HEREIN, IN NO EVENT SHALL ANY PARTY BE LIABLE TO ANY OTHER PARTY OR ANY OTHER PERSON OR ENTITY (UNDER CONTRACT, STRICT LIABILITY,

NEGLIGENCE, OR OTHER THEORY) FOR SPECIAL, INDIRECT, EXEMPLARY, INCIDENTAL, OR CONSEQUENTIAL DAMAGES, INCLUDING LOST PROFITS, OPPORTUNITIES OR SAVINGS, ARISING OUT OF OR RELATED TO THE SUBJECT MATTER OF THIS AGREEMENT. IN NO EVENT WILL IMMERSION'S AGGREGATE LIABILITY UNDER ALL CLAIMS UNDER OR IN CONNECTION WITH THIS AGREEMENT, WHETHER SUCH CLAIMS ARE IN CONTRACT, TORT, OR ANY OTHER THEORY OF LIABILITY, [\*\*\*]. The parties acknowledge that the limitations of liability in this Section 9.13 and in the other provisions of this Agreement and the allocation of risk herein are an essential element of the bargain between the parties, without which Immersion would not have entered into this Agreement.

9.14 The Parties acknowledge and agree that the Immersion Patents are “intellectual property” as defined in Section 101(35A) of the United States Bankruptcy Code (the “**Code**”), as the same may be amended from time to time, that have been licensed hereunder in a contemporaneous exchange for value. Immersion acknowledges that if Immersion, as a debtor in possession or a trustee in bankruptcy in a case under the Code, rejects this Agreement, Apple may elect to retain its rights under this Agreement as provided in Section 365(n) of the Code. Upon written request from Apple to Immersion or the bankruptcy trustee of Immersion's election to proceed under Section 365(n), Immersion or the bankruptcy trustee shall comply in all respects with Section 365(n), including, without limitation, by not interfering with the rights of Apple as provided by this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, this Agreement has been duly executed by the Parties to be effective as of the Effective Date.

**APPLE INC.**

**IMMERSION CORP.**

By: /s/ Noreen Krall

By: /s/ Carl Schlachte

Name: Noreen Krall

Name: Carl Schlachte

Its: Vice President, Chief Litigation Counsel

Its: Interim Chief Executive Officer

Dated: January 26, 2018

Dated: January 26, 2018



**EXHIBIT A-1**

**[MOTION TO TERMINATE ITC INVESTIGATION ATTACHED]**



**UNITED STATES INTERNATIONAL TRADE COMMISSION  
Washington, D.C.**

**Before the Honorable Charles E. Bullock  
Chief Administrative Law Judge**

In the Matter of:

CERTAIN MOBILE ELECTRONIC DEVICES  
INCORPORATING HAPTICS (INCLUDING  
SMARTPHONES AND SMARTWATCHES)  
AND COMPONENTS THEREOF

CERTAIN MOBILE AND PORTABLE  
ELECTRONIC DEVICES INCORPORATING  
HAPTICS (INCLUDING SMARTPHONES  
AND LAPTOPS) AND COMPONENTS  
THEREOF

Inv. No. 337-TA-1004  
Inv. No. 337-TA-990  
(Consolidated)

**JOINT MOTION TO TERMINATE THE INVESTIGATION  
ON THE BASIS OF A SETTLEMENT AGREEMENT**

Complainant Immersion Corporation (“Immersion”) and Respondents Apple Inc. (“Apple”) and AT&T Mobility LLC (“AT&T”) hereby jointly move to terminate the above captioned consolidated Investigation pursuant to 19 C.F.R. § 210.21(b) based on an agreement to settle the dispute underlying the Investigation. This motion is based on the following settlement agreement submitted herewith:

- Exhibit \_\_ [Confidential Agreement]
- Exhibit \_\_ [Public Version]

Other than the attached settlement agreement and the stipulations filed in this Investigation, there are no other agreements written or oral, express or implied, between Immersion and Respondents concerning the subject matter of this Investigation.



The Settlement Agreement between Immersion and Respondents contains Confidential Business Information (“CBI”) within the meaning of 19 C.F.R. § 201.6. Immersion and Respondents therefore request that the Settlement Agreement attached hereto as Exhibit \_\_\_ be treated as CBI under the Protective Order (Order No. 1) in this Investigation. A public version of this agreement with the CBI redacted is attached hereto as Exhibit \_\_\_.

**Ground Rule 3.2 Certification**

Pursuant to Ground Rule 3.2, Immersion certifies that reasonable, good-faith efforts to resolve these matters with Respondents and Staff were made at least two business days prior to filing this motion. Respondents have joined the motion and are submitting this motion jointly with Complainant. Staff \_\_\_\_\_.

Dated: January \_\_, 2018      Respectfully submitted,

/s/  
\_\_\_\_\_  
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Richard Birnholz  
Lisa Glasser  
Rebecca Carson  
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/s/  
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/s/

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*Counsel for Respondent AT&T Mobility,  
LLC*





UNITED STATES INTERNATIONAL TRADE COMMISSION  
Washington, D.C.

Before the Honorable Charles E. Bullock  
Chief Administrative Law Judge

In the Matter of:

CERTAIN MOBILE ELECTRONIC DEVICES  
INCORPORATING HAPTICS (INCLUDING  
SMARTPHONES AND SMARTWATCHES)  
AND COMPONENTS THEREOF

CERTAIN MOBILE AND PORTABLE  
ELECTRONIC DEVICES INCORPORATING  
HAPTICS (INCLUDING SMARTPHONES  
AND LAPTOPS) AND COMPONENTS  
THEREOF

Inv. No. 337-TA-1004  
Inv. No. 337-TA-990  
(Consolidated)

**MEMORANDUM IN SUPPORT OF JOINT MOTION TO TERMINATE THE INVESTIGATION ON  
THE BASIS OF A SETTLEMENT AGREEMENT**

Complainant Immersion Corporation (“Immersion”) and Respondents Apple Inc. (“Apple”) and AT&T Mobility LLC (“AT&T”) jointly move to terminate the above captioned Investigation pursuant to 19 C.F.R. § 210.21(b) based on the attached Settlement Agreement between Immersion and Respondents. *See Confidential Exhibit \_\_\_*. The Settlement Agreement has been executed by Immersion and Respondents and completely resolves the dispute in this Investigation. Other than the attached settlement agreement and the stipulations filed in this Investigation, <sup>1</sup> there are no other agreements written or oral, express or implied, between Immersion and Respondents concerning the subject matter of this Investigation.



Commission Rule 210.21(b) provides that “[a]n investigation before the Commission may be terminated as to one or more respondents pursuant to section 337(c) of the Tariff Act of 1930 on the basis of a licensing or other settlement agreement.” In determining whether to terminate an Investigation pursuant to a settlement, “the administrative law judge is directed to consider and make appropriate findings regarding the effect of the proposed settlement on the public health and welfare, competitive conditions in the United States economy, production of like or directly competitive articles in the United States, and United States consumers.” *Certain Antivenom Compositions and Products Containing Same*, Inv. No. 337-TA-903, Order No. 62, 2014 WL 6480574, at \*1 (Nov. 13, 2014).

Immersion and Respondents submit that termination of this Investigation is in the public interest and will not have any adverse effect on the public health or welfare, competitive conditions in the United States, production of like or directly competitive articles in the United States, or United States consumers. Commission policy and the public interest generally favors settlements, which preserve Commission and party resources. *See, e.g., Certain Wireless Consumer Electronic Devices and Components Thereof*, Inv. No. 337-TA-853, Comm’n Op., 2013 WL 12313471 (Sep. 20, 2013) (“[T]he public interest favors settlement to avoid needless litigation and to conserve public and private resources.”); *Certain Consumer Electronic Devices, Including Televisions, Gaming Phones, and Tablets*, Inv. No. 337-TA-1060, Order No. 27, 2017 WL 6629314 (Dec. 20, 2017) (same). Further, termination pursuant to a settlement is routinely granted in Commission Investigations. *See, e.g., Certain Footwear Products*, Inv. No. 337-TA-936, Order No. 57, 2015 WL 1802273 (Feb. 23, 2015); *Certain Hemostatic Products*

*and Components Thereof*, Inv. No. 337-TA-913, Order No. 51, 2015 WL 1802261 (Apr. 2, 2015).

In accordance with 19 C.F.R. § 210.21(b), Immersion and Respondents are providing both confidential and public versions of the Settlement Agreement with this motion. Confidential Exhibit \_\_\_ is the complete and un-redacted Settlement Agreement, and Exhibit \_\_\_ is the public version of the Agreement.

For the foregoing reasons, Immersion and Respondents respectfully request that the Commission terminate this Investigation, allow them to file the Settlement Agreement as CBI, and approve the proposed public versions of the Settlement Agreement.

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<sup>1</sup> The Parties filed the following stipulations in this Investigation: (1) Joint Initial Discovery Stipulations (Apr. 11, 2016) (Doc. ID 578277); (2) Stipulation and Agreement to Terminate AT&T Inc. as a Proposed Respondent (May 9, 2016) (Doc. ID 580714); (3) Stipulation and Agreement Regarding AT&T Accused Products (Aug. 11, 2016) (Doc. ID 587832); (4) Joint Stipulation on Importation and Inventory (Dec. 14, 2016) (Doc. ID 598054); (5) Joint Stipulation on Importation and Inventory (Jan. 11, 2017) (Doc. ID 600692); (6) Stipulation and Agreement Regarding AT&T Accused Products (Mar. 30, 2017) (Doc. ID 607073); (7) Joint Stipulation Regarding Certain Fact Witnesses Not Testifying Live at the Hearing and Admission of Deposition Testimony (Apr. 14, 2017) (Doc. ID 608746); and (8) Joint Stipulation Regarding the Treatment of Source Code Exhibits at Trial (Apr. 28, 2017) (Doc. ID 610033).



Dated: January \_\_, 2018      Respectfully submitted,

/s/

---

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Page 20    **CONFIDENTIAL SETTLEMENT AND LICENSE AGREEMENT  
BETWEEN IMMERSION AND APPLE**

[\*\*\*] Confidential Treatment Request

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**APPENDIX OF EXHIBITS IN SUPPORT OF JOINT MOTION TO TERMINATE THE INVESTIGATION ON THE BASIS OF A SETTLEMENT AGREEMENT**

<b><u>Ex. No.</u></b>	<b><u>Description</u></b>

**EXHIBIT A-2**

**[JOINT STIPULATION (DE) ATTACHED]**

**IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF DELAWARE**

IMMERSION CORPORATION,	)	
	)	
Plaintiff,	)	
	)	
vs.	)	
	)	C.A. No. 16-077 (RGA)
APPLE INC.,	)	
AT&T INC., and	)	
AT&T MOBILITY LLC,	)	
	)	
Defendants.	)	

**JOINT STIPULATION TO DISMISS PURSUANT TO RULE 41  
OF THE FEDERAL RULES OF CIVIL PROCEDURE**

Pursuant to Rule 41(a)(1) of the Federal Rules of Civil Procedure and the agreements of the Parties, Plaintiff Immersion Corporation (“Immersion”) and Defendants Apple Inc. (“Apple”), AT&T Inc. (“AT&T”), and AT&T Mobility LLC (“AT&T Mobility”), (collectively the “Parties”), by and through counsel, hereby stipulate to the dismissal of this entire action as follows:

1. All claims asserted by Immersion against Defendants in the Complaint filed in this action are dismissed with prejudice in their entirety.
2. The Parties shall each bear their own costs and attorney’s fees incurred in connection with this action.

Dated: January \_\_, 2018

Respectfully submitted,

**FARNAN LLP**

/s/

---

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*Attorneys for Plaintiff Immersion  
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/s/

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*Attorneys for Defendant Apple Inc.*

**MORRIS, NICHOLS, ARSHT & TUNNELL LLP**

/s/

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kjacobs@mnat.com

*Attorneys for Defendants AT&T Inc. and  
AT&T Mobility LLC*

SO ORDERED this \_\_ day of \_\_\_\_\_, 2018

Hon. Richard G. Andrews  
U.S. District Court Judge



**IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF DELAWARE**

IMMERSION CORPORATION,	)	
	)	
Plaintiff,	)	
	)	
vs.	)	
	)	C.A. No. 16-00325 (RGA)
APPLE INC.,	)	
AT&T INC., and	)	
AT&T MOBILITY LLC,	)	
	)	
Defendants.	)	

**JOINT STIPULATION TO DISMISS PURSUANT TO RULE 41  
OF THE FEDERAL RULES OF CIVIL PROCEDURE**

Pursuant to Rule 41(a)(1) of the Federal Rules of Civil Procedure and the agreements of the Parties, Plaintiff Immersion Corporation (“Immersion”) and Defendants Apple Inc. (“Apple”), AT&T Inc. (“AT&T”), and AT&T Mobility LLC (“AT&T Mobility”), (collectively the “Parties”), by and through counsel, hereby stipulate to the dismissal of this entire action as follows:

1. All claims asserted by Immersion against Defendants in the Complaint filed in this action are dismissed with prejudice in their entirety.
2. The Parties shall each bear their own costs and attorney’s fees incurred in connection with this action.

Dated: January \_\_, 2018

Respectfully submitted,

**FARNAN LLP**

/s/

---

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*Attorneys for Defendants AT&T Inc. and  
AT&T Mobility LLC*

SO ORDERED this \_\_ day of \_\_\_\_\_, 2018

---

Hon. Richard G. Andrews  
U.S. District Court Judge



**EXHIBIT A-3**  
**[IPR DISMISSAL FORMS ATTACHED]**



Email to [Trials@USPTO.gov](mailto:Trials@USPTO.gov)

Dear Board:

The Parties have reached an agreement to resolve their disputes regarding the above referenced IPRs. Counsel for both parties request authorization to file a joint motion to terminate and dismiss in each of the following IPR proceedings under the Board's authority under 37 C.F.R. §§ 42.72:

IPR2016-1372 ('571 patent)

IPR2016-1381 ('356 patent)

IPR2016-1603 ('710 patent)

IPR2016-1884 ('260 patent)

IPR2016-1907 ('488 patent).

The motion will request that the Board terminate each of these IPRs under 35 U.S.C. § 317 and withdraw the decisions issued in IPRs 2016-1372 and -1381 as to which the period to request rehearing has not yet expired. The parties have conferred, and are in agreement on these motions.

The parties are available on [DATES AND TIMES TBD] should a conference be desired before authorizing the filing of the motions.

[NAMES OF COUNSEL FOR THE PATENT OWNER AND PETITIONER]

[CONTENT OF JOINT MOTIONS TO BE PREPARED BY COUNSEL]

0.001

**EXHIBIT B**

[\*\*\*]

Page 30    **CONFIDENTIAL SETTLEMENT AND LICENSE AGREEMENT  
BETWEEN IMMERSION AND APPLE**

[\*\*\*] Confidential Treatment Request

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**EXHIBIT C**

**[IMMERSION FORM W-9 ATTACHED]**

Page 31    **CONFIDENTIAL SETTLEMENT AND LICENSE AGREEMENT  
BETWEEN IMMERSION AND APPLE**

[\*\*\*] Confidential Treatment Request

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**Request for Taxpayer  
Identification Number and Certification**

Give form to the requester. Do not send to the IRS.

Name (as shown on your income tax return)  
**IMMERSION CORPORATION**

Business name, if different from above

Check appropriate box:  Individual/sole proprietor  Corporation  Partnership  
 Limited liability company. Enter the tax classification (D=disregarded entity, C=corporation, P=partnership) ▶ .....  Exempt payee  
 Other (see instructions) ▶

Address (number, street, and apt. or suite no.)  
**50 RIO ROBLES**

City, state, and ZIP code  
**SAN JOSE, CA 95134**

List account number(s) here (optional)

Requester's name and address (optional)

**Part I Taxpayer Identification Number (TIN)**

Enter your TIN in the appropriate box. The TIN provided must match the name given on Line 1 to avoid backup withholding. For individuals, this is your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN* on page 3.

**Note.** If the account is in more than one name, see the chart on page 4 for guidelines on whose number to enter.

Social security number
OR
Employer identification number <b>94-3180138</b>

**Part II Certification**

Under penalties of perjury, I certify that:

- The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and
- I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and
- I am a U.S. citizen or other U.S. person (defined below).

**Certification instructions.** You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the Certification, but you must provide your correct TIN. See the instructions on page 4.

Sign Here Signature of U.S. person ▶  Date ▶ **1/18/18**

**General Instructions**

Section references are to the Internal Revenue Code unless otherwise noted.

**Purpose of Form**  
A person who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) to report, for example, income paid to you, real estate transactions, mortgage interest you paid, acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA.

Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN to the person requesting it (the requester) and, when applicable, to:

- Certify that the TIN you are giving is correct (or you are waiting for a number to be issued),
- Certify that you are not subject to backup withholding, or
- Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the withholding tax on foreign partners' share of effectively connected income.

**Note.** If a requester gives you a form other than Form W-9 to request your TIN, you must use the requester's form if it is substantially similar to this Form W-9.

**Definition of a U.S. person.** For federal tax purposes, you are considered a U.S. person if you are:

- An individual who is a U.S. citizen or U.S. resident alien,
- A partnership, corporation, company, or association created or organized in the United States or under the laws of the United States,
- An estate (other than a foreign estate), or
- A domestic trust (as defined in Regulations section 301.7701-7).

**Special rules for partnerships.** Partnerships that conduct a trade or business in the United States are generally required to pay a withholding tax on any foreign partners' share of income from such business. Further, in certain cases where a Form W-9 has not been received, a partnership is required to presume that a partner is a foreign person, and pay the withholding tax. Therefore, if you are a U.S. person that is a partner in a partnership conducting a trade or business in the United States, provide Form W-9 to the partnership to establish your U.S. status and avoid withholding on your share of partnership income.

The person who gives Form W-9 to the partnership for purposes of establishing its U.S. status and avoiding withholding on its allocable share of net income from the partnership conducting a trade or business in the United States is in the following cases:

- The U.S. owner of a disregarded entity and not the entity,

- The U.S. grantor or other owner of a grantor trust and not the trust, and
- The U.S. trust (other than a grantor trust) and not the beneficiaries of the trust.

**Foreign person.** If you are a foreign person, do not use Form W-9. Instead, use the appropriate Form W-8 (see Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities*).

**Nonresident alien who becomes a resident alien.** Generally, only a nonresident alien individual may use the terms of a tax treaty to reduce or eliminate U.S. tax on certain types of income. However, most tax treaties contain a provision known as a "saving clause." Exceptions specified in the saving clause may permit an exemption from tax to continue for certain types of income even after the payee has otherwise become a U.S. resident alien for tax purposes.

If you are a U.S. resident alien who is relying on an exception contained in the saving clause of a tax treaty to claim an exemption from U.S. tax on certain types of income, you must attach a statement to Form W-9 that specifies the following five items:

1. The treaty country. Generally, this must be the same treaty under which you claimed exemption from tax as a nonresident alien.
2. The treaty article addressing the income.
3. The article number (or location) in the tax treaty that contains the saving clause and its exceptions.
4. The type and amount of income that qualifies for the exemption from tax.
5. Sufficient facts to justify the exemption from tax under the terms of the treaty article.

**Example.** Article 20 of the U.S.-China income tax treaty allows an exemption from tax for scholarship income received by a Chinese student temporarily present in the United States. Under U.S. law, this student will become a resident alien for tax purposes if his or her stay in the United States exceeds 5 calendar years. However, paragraph 2 of the first Protocol to the U.S.-China treaty (dated April 30, 1984) allows the provisions of Article 20 to continue to apply even after the Chinese student becomes a resident alien of the United States. A Chinese student who qualifies for this exception (under paragraph 2 of the first protocol) and is relying on this exception to claim an exemption from tax on his or her scholarship or fellowship income would attach to Form W-9 a statement that includes the information described above to support that exemption.

If you are a nonresident alien or a foreign entity not subject to backup withholding, give the requester the appropriate completed Form W-8.

**What is backup withholding?** Persons making certain payments to you must under certain conditions withhold and pay to the IRS 28% of such payments. This is called "backup withholding." Payments that may be subject to backup withholding include interest, tax-exempt interest, dividends, broker and barter exchange transactions, rents, royalties, nonemployee pay, and certain payments from fishing boat operators. Real estate transactions are not subject to backup withholding.

You will not be subject to backup withholding on payments you receive if you give the requester your correct TIN, make the proper certifications, and report all your taxable interest and dividends on your tax return.

**Payments you receive will be subject to backup withholding if:**

1. You do not furnish your TIN to the requester,
2. You do not certify your TIN when required (see the Part II instructions on page 3 for details),
3. The IRS tells the requester that you furnished an incorrect TIN,

4. The IRS tells you that you are subject to backup withholding because you did not report all your interest and dividends on your tax return (for reportable interest and dividends only), or

5. You do not certify to the requester that you are not subject to backup withholding under 4 above (for reportable interest and dividend accounts opened after 1983 only).

Certain payees and payments are exempt from backup withholding. See the instructions below and the separate Instructions for the Requester of Form W-9.

Also see *Special rules for partnerships* on page 1.

## Penalties

**Failure to furnish TIN.** If you fail to furnish your correct TIN to a requester, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

**Civil penalty for false information with respect to withholding.** If you make a false statement with no reasonable basis that results in no backup withholding, you are subject to a \$500 penalty.

**Criminal penalty for falsifying information.** Willfully falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

**Misuse of TINs.** If the requester discloses or uses TINs in violation of federal law, the requester may be subject to civil and criminal penalties.

## Specific Instructions

### Name

If you are an individual, you must generally enter the name shown on your income tax return. However, if you have changed your last name, for instance, due to marriage without informing the Social Security Administration of the name change, enter your first name, the last name shown on your social security card, and your new last name.

If the account is in joint names, list first, and then circle, the name of the person or entity whose number you entered in Part I of the form.

**Sole proprietor.** Enter your individual name as shown on your income tax return on the "Name" line. You may enter your business, trade, or "doing business as (DBA)" name on the "Business name" line.

**Limited liability company (LLC).** Check the "Limited liability company" box only and enter the appropriate code for the tax classification ("D" for disregarded entity, "C" for corporation, "P" for partnership) in the space provided.

For a single-member LLC (including a foreign LLC with a domestic owner) that is disregarded as an entity separate from its owner under Regulations section 301.7701-3, enter the owner's name on the "Name" line. Enter the LLC's name on the "Business name" line.

For an LLC classified as a partnership or a corporation, enter the LLC's name on the "Name" line and any business, trade, or DBA name on the "Business name" line.

**Other entities.** Enter your business name as shown on required federal tax documents on the "Name" line. This name should match the name shown on the charter or other legal document creating the entity. You may enter any business, trade, or DBA name on the "Business name" line.

**Note.** You are requested to check the appropriate box for your status (individual/sole proprietor, corporation, etc.).

### Exempt Payee

If you are exempt from backup withholding, enter your name as described above and check the appropriate box for your status, then check the "Exempt payee" box in the line following the business name, sign and date the form.

Generally, individuals (including sole proprietors) are not exempt from backup withholding. Corporations are exempt from backup withholding for certain payments, such as interest and dividends.

**Note.** If you are exempt from backup withholding, you should still complete this form to avoid possible erroneous backup withholding.

The following payees are exempt from backup withholding:

1. An organization exempt from tax under section 501(a), any IRA, or a custodial account under section 403(b)(7) if the account satisfies the requirements of section 401(f)(2).
2. The United States or any of its agencies or instrumentalities,
3. A state, the District of Columbia, a possession of the United States, or any of their political subdivisions or instrumentalities,
4. A foreign government or any of its political subdivisions, agencies, or instrumentalities, or
5. An international organization or any of its agencies or instrumentalities.

Other payees that may be exempt from backup withholding include:

6. A corporation,
7. A foreign central bank of issue,
8. A dealer in securities or commodities required to register in the United States, the District of Columbia, or a possession of the United States,
9. A futures commission merchant registered with the Commodity Futures Trading Commission,
10. A real estate investment trust,
11. An entity registered at all times during the tax year under the Investment Company Act of 1940,
12. A common trust fund operated by a bank under section 584(a),
13. A financial institution,
14. A middleman known in the investment community as a nominee or custodian, or
15. A trust exempt from tax under section 664 or described in section 4947.

The chart below shows types of payments that may be exempt from backup withholding. The chart applies to the exempt payees listed above, 1 through 15.

IF the payment is for . . .	THEN the payment is exempt for . . .
Interest and dividend payments	All exempt payees except for 9
Broker transactions	Exempt payees 1 through 13. Also, a person registered under the Investment Advisers Act of 1940 who regularly acts as a broker
Barter exchange transactions and patronage dividends	Exempt payees 1 through 5
Payments over \$600 required to be reported and direct sales over \$5,000 <sup>1</sup>	Generally, exempt payees 1 through 7 <sup>2</sup>

<sup>1</sup> See Form 1099-MISC, Miscellaneous Income, and its instructions.

<sup>2</sup> However, the following payments made to a corporation (including gross proceeds paid to an attorney under section 6045(f), even if the attorney is a corporation) and reportable on Form 1099-MISC are not exempt from backup withholding: medical and health care payments, attorneys' fees, and payments for services paid by a federal executive agency.

## Part I. Taxpayer Identification Number (TIN)

**Enter your TIN in the appropriate box.** If you are a resident alien and you do not have and are not eligible to get an SSN, your TIN is your IRS individual taxpayer identification number (ITIN). Enter it in the social security number box. If you do not have an ITIN, see *How to get a TIN* below.

If you are a sole proprietor and you have an EIN, you may enter either your SSN or EIN. However, the IRS prefers that you use your SSN.

If you are a single-member LLC that is disregarded as an entity separate from its owner (see *Limited liability company (LLC)* on page 2), enter the owner's SSN (or EIN, if the owner has one). Do not enter the disregarded entity's EIN. If the LLC is classified as a corporation or partnership, enter the entity's EIN. **Note.** See the chart on page 4 for further clarification of name and TIN combinations.

**How to get a TIN.** If you do not have a TIN, apply for one immediately. To apply for an SSN, get Form SS-5, Application for a Social Security Card, from your local Social Security Administration office or get this form online at [www.ssa.gov](http://www.ssa.gov). You may also get this form by calling 1-800-772-1213. Use Form W-7, Application for IRS Individual Taxpayer Identification Number, to apply for an ITIN, or Form SS-4, Application for Employer Identification Number, to apply for an EIN. You can apply for an EIN online by accessing the IRS website at [www.irs.gov/businesses](http://www.irs.gov/businesses) and clicking on Employer Identification Number (EIN) under Starting a Business. You can get Forms W-7 and SS-4 from the IRS by visiting [www.irs.gov](http://www.irs.gov) or by calling 1-800-TAX-FORM (1-800-829-3676).

If you are asked to complete Form W-9 but do not have a TIN, write "Applied For" in the space for the TIN, sign and date the form, and give it to the requester. For interest and dividend payments, and certain payments made with respect to readily tradable instruments, generally you will have 60 days to get a TIN and give it to the requester before you are subject to backup withholding on payments. The 60-day rule does not apply to other types of payments. You will be subject to backup withholding on all such payments until you provide your TIN to the requester.

**Note.** Entering "Applied For" means that you have already applied for a TIN or that you intend to apply for one soon.

**Caution:** A disregarded domestic entity that has a foreign owner must use the appropriate Form W-8.

## Part II. Certification

To establish to the withholding agent that you are a U.S. person, or resident alien, sign Form W-9. You may be requested to sign by the withholding agent even if items 1, 4, and 5 below indicate otherwise.

For a joint account, only the person whose TIN is shown in Part I should sign (when required). Exempt payees, see *Exempt Payee* on page 2.

**Signature requirements.** Complete the certification as indicated in 1 through 5 below.

**1. Interest, dividend, and barter exchange accounts opened before 1984 and broker accounts considered active during 1983.** You must give your correct TIN, but you do not have to sign the certification.

**2. Interest, dividend, broker, and barter exchange accounts opened after 1983 and broker accounts considered inactive during 1983.** You must sign the certification or backup withholding will apply. If you are subject to backup withholding and you are merely providing your correct TIN to the requester, you must cross out item 2 in the certification before signing the form.



**3. Real estate transactions.** You must sign the certification. You may cross out item 2 of the certification.

**4. Other payments.** You must give your correct TIN, but you do not have to sign the certification unless you have been notified that you have previously given an incorrect TIN. "Other payments" include payments made in the course of the requester's trade or business for rents, royalties, goods (other than bills for merchandise), medical and health care services (including payments to corporations), payments to a nonemployee for services, payments to certain fishing boat crew members and fishermen, and gross proceeds paid to attorneys (including payments to corporations).

**5. Mortgage interest paid by you, acquisition or abandonment of secured property, cancellation of debt, qualified tuition program payments (under section 529), IRA, Coverdell ESA, Archer MSA or HSA contributions or distributions, and pension distributions.** You must give your correct TIN, but you do not have to sign the certification.

**What Name and Number To Give the Requester**

For this type of account:	Give name and SSN of:
1. Individual	The individual
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, the first individual on the account <sup>1</sup>
3. Custodian account of a minor (Uniform Gift to Minors Act)	The minor <sup>2</sup>
4. a. The usual revocable savings trust (grantor is also trustee)	The grantor-trustee <sup>3</sup>
b. So-called trust account that is not a legal or valid trust under state law	The actual owner <sup>3</sup>
5. Sole proprietorship or disregarded entity owned by an individual	The owner <sup>3</sup>
For this type of account:	Give name and EIN of:
6. Disregarded entity not owned by an individual	The owner
7. A valid trust, estate, or pension trust	Legal entity <sup>4</sup>
8. Corporate or LLC electing corporate status on Form 8832	The corporation
9. Association, club, religious, charitable, educational, or other tax-exempt organization	The organization
10. Partnership or multi-member LLC	The partnership
11. A broker or registered nominee	The broker or nominee
12. Account with the Department of Agriculture in the name of a public entity (such as a state or local government, school district, or prison) that receives agricultural program payments	The public entity

<sup>1</sup> List first and circle the name of the person whose number you furnish. If only one person on a joint account has an SSN, that person's number must be furnished.

<sup>2</sup> Circle the minor's name and furnish the minor's SSN.

<sup>3</sup> You must show your individual name and you may also enter your business or "DBA" name on the second name line. You may use either your SSN or EIN if you have one, but the IRS encourages you to use your SSN.

<sup>4</sup> List first and circle the name of the trust, estate, or pension trust. (Do not furnish the TIN of the personal representative or trustee unless the legal entity itself is not designated in the account title.) Also see Special rules for partnerships on page 1.

**Note.** If no name is circled when more than one name is listed, the number will be considered to be that of the first name listed.

**Privacy Act Notice**

Section 6109 of the Internal Revenue Code requires you to provide your correct TIN to persons who must file information returns with the IRS to report interest, dividends, and certain other income paid to you, mortgage interest you paid, the acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA, or Archer MSA or HSA. The IRS uses the numbers for identification purposes and to help verify the accuracy of your tax return. The IRS may also provide this information to the Department of Justice for civil and criminal litigation, and to cities, states, the District of Columbia, and U.S. possessions to carry out their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You must provide your TIN whether or not you are required to file a tax return. Payers must generally withhold 28% of taxable interest, dividend, and certain other payments to a payee who does not give a TIN to a payer. Certain penalties may also apply.

**Secure Your Tax Records from Identity Theft**

Identity theft occurs when someone uses your personal information such as your name, social security number (SSN), or other identifying information, without your permission, to commit fraud or other crimes. An identity thief may use your SSN to get a job or may file a tax return using your SSN to receive a refund.

To reduce your risk:

- Protect your SSN,
- Ensure your employer is protecting your SSN, and
- Be careful when choosing a tax preparer.

Call the IRS at 1-800-829-1040 if you think your identity has been used inappropriately for tax purposes.

Victims of identity theft who are experiencing economic harm or a system problem, or are seeking help in resolving tax problems that have not been resolved through normal channels, may be eligible for Taxpayer Advocate Service (TAS) assistance. You can reach TAS by calling the TAS toll-free case intake line at 1-877-777-4778 or TTY/TDD 1-800-829-4059.

**Protect yourself from suspicious emails or phishing schemes.** Phishing is the creation and use of email and websites designed to mimic legitimate business emails and websites. The most common act is sending an email to a user falsely claiming to be an established legitimate enterprise in an attempt to scam the user into surrendering private information that will be used for identity theft.

The IRS does not initiate contacts with taxpayers via emails. Also, the IRS does not request personal detailed information through email or ask taxpayers for the PIN numbers, passwords, or similar secret access information for their credit card, bank, or other financial accounts.

If you receive an unsolicited email claiming to be from the IRS, forward this message to [phishing@irs.gov](mailto:phishing@irs.gov). You may also report misuse of the IRS name, logo, or other IRS personal property to the Treasury Inspector General for Tax Administration at 1-800-368-4484. You can forward suspicious emails to the Federal Trade Commission at: [spam@uce.gov](mailto:spam@uce.gov) or contact them at [www.consumer.gov/idtheft](http://www.consumer.gov/idtheft) or 1-877-IDTHEFT(438-4338).

Visit the IRS website at [www.irs.gov](http://www.irs.gov) to learn more about identity theft and how to reduce your risk.

**EXHIBIT D**

**[IMMERSION PRESS RELEASE ATTACHED]**

Page 36    **CONFIDENTIAL SETTLEMENT AND LICENSE AGREEMENT  
BETWEEN IMMERSION AND APPLE**

[\*\*\*] Confidential Treatment Request

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## IMMERSION REACHES GLOBAL SETTLEMENT WITH APPLE

**SAN JOSE, Calif., January 29, 2018**-Immersion Corporation (Nasdaq: IMMR), the leading developer and licensor of touch feedback technology, today announced that the Company has entered into settlement and license agreements with Apple, the terms of which are confidential.

### About Immersion Corporation

Immersion is the leading innovator of touch feedback technology, also known as haptics. The company provides technology solutions for creating immersive and realistic experiences that enhance digital interactions by engaging users' sense of touch. With more than 2,600 issued or pending patents, Immersion's technology has been adopted in more than 3 billion digital devices, and provides haptics in mobile, automotive, advertising, gaming, medical and consumer electronics products. Immersion is headquartered in San Jose, California with offices worldwide. Learn more at [www.immersion.com](http://www.immersion.com).

Immersion and the Immersion logo are trademarks of Immersion Corporation in the United States and other countries.

(IMMR - C)

### Contacts

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**AMENDED AND RESTATED  
RETENTION AND OWNERSHIP  
CHANGE EVENT AGREEMENT**

This Amended and Restated Retention and Ownership Change Event Agreement (“Agreement”) is made effective as of the last date set forth below by and between Immersion Corporation (the “Company”) and **Nancy Erba** (“Executive”).

**RECITALS**

Executive and the Company entered into a Retention and Ownership Change Event Agreement dated as of September 6, 2016 and amended as of March 3, 2017 (the “Original Agreement”).

The Board has determined that it is in the best interests of the Company to amend the Original Agreement to provide for immediate vesting of 100% of Executive’s unvested Company equity awards upon termination without Cause or resignation for Good Reason due to a Change in Control.

**AGREEMENT**

In recognition thereof, the parties now agree as follows:

1. Definitions. For purposes of this Agreement:

(a) “Change in Control” means the occurrence of any of the following:

(i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total combined voting power of the Company’s then-outstanding securities entitled to vote generally in the election of the Company’s Board of Directors; provided, however, that the following acquisitions shall not constitute a Change in Control: (1) an acquisition by any such person who on the effective date of such transaction is the beneficial owner of more than fifty percent (50%) of such voting power, (2) any acquisition directly from the Company, including, without limitation, a public offering of securities, (3) any acquisition by the Company, (4) any acquisition by a trustee or other fiduciary under an employee benefit plan of the Company or (5) any acquisition by an entity owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the voting securities of the Company; or

(ii) an Ownership Change Event or series of related Ownership Change Events (collectively, a “Transaction”) in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding securities entitled to vote generally in the election of Directors or, in the case of an Ownership Change Event described in Section 1(c)(iii), the entity to which the assets of the Company were transferred (the “Transferee”), as the case may be; or

- (iii) a liquidation or dissolution of the Company;

provided, however, that a Change in Control shall be deemed not to include a transaction described in subsections (i) or (ii) of this Section 1(a) in which a majority of the members of the Board of Directors of the continuing, surviving or successor entity, or parent thereof, immediately after such transaction is comprised of incumbent members. Notwithstanding the foregoing, to the extent that any amount that constitutes deferred compensation subject to and not exempted from the requirements of Section 409A of the Code (“Section 409A”), would become payable under this Agreement by reason of a Change in Control, such amount shall become payable only if the event constituting a Change in Control would also constitute a change in ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company within the meaning of Section 409A.

(b) “Good Reason” means any of the following conditions, which condition(s) remain(s) in effect thirty (30) days after written notice to the Board or the Company’s Chief Executive Officer from Executive of such condition(s):

- (i) a material decrease in Executive’s base salary, other than a material decrease that applies generally to other executives of the Company at Executive’s level;

- (ii) a material, adverse change in the Executive’s title, authority, responsibilities, or duties; or

- (iii) the relocation of the Executive’s work place for the Company to a location that is more than forty (40) miles distant from Executive’s present work location for the Company;

provided, that such written notice must be given within thirty (30) days following the first occurrence of any of the good reason conditions set forth in this subsection (b) and the Executive’s resignation must occur within six (6) months following the first occurrence of the good reason condition.

(c) “Ownership Change Event” means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company).

(d) a termination for “Cause” means Executive’s termination based upon (1) Executive’s theft, dishonesty, misconduct, breach of fiduciary duty, or falsification of any Company documents or records; (2) Executive’s material failure to abide by the Company’s code of conduct or other policies (including, without limitation, policies relating to confidentiality and reasonable workplace conduct); (3) Executive’s unauthorized use, misappropriation, destruction or diversion of any tangible or intangible asset or corporate opportunity of the Company (including, without limitation, Executive’s improper use or disclosure of the Company’s confidential or proprietary information); (4) any intentional act by the Executive that has a material detrimental effect on the Company’s reputation or business; (5) Executive’s repeated

failure or inability to perform any reasonable assigned duties after written notice from the Company of, and a reasonable opportunity to cure, such failure or inability; (6) Executive's conviction (including any plea of guilty or nolo contendere) for any criminal act that impairs Executive's ability to perform her duties for the Company.

(e) "Separation from Service" shall have the meaning determined by Treasury Regulations issued pursuant to Section 409A.

2. Termination Without Cause or Resignation for Good Reason. In the event that the Company or its successor terminates Executive's employment without Cause or Executive resigns for Good Reason and Executive is not entitled to receive the severance pay and benefits described in Section 3 below, Executive will be entitled to receive the following payment and benefits, provided that prior to the sixtieth (60th) day following the date of such termination Executive has signed a general release of known and unknown claims in a form satisfactory to the Company, and the period for revocation has lapsed without the general release having been revoked:

(a) payment in a lump sum on the sixtieth (60th) day following Executive's termination of employment of an amount equal to six (6) months' base salary at Executive's final base salary rate, subject to applicable withholding; and

(b) commencing on the sixtieth (60th) day following Executive's termination of employment, payment of the premiums (including reimbursement to Executive of any such premiums paid by Executive during such sixty (60) day period) necessary to continue Executive's and dependents group health insurance coverage under COBRA until the earlier of (i) six (6) months following Executive's termination date, or (ii) the date on which Executive first becomes eligible to obtain other group health insurance coverage. Thereafter, Executive may elect to purchase continued group health insurance coverage at her own expense in accordance with COBRA. Notwithstanding the foregoing, payment of such premiums shall not commence unless and until Executive has incurred a Separation from Service.

In the event that a Change in Control constituting a change in ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company within the meaning of Section 409A (a "Section 409A Change in Control Event") occurs on or before the ninetieth (90th) day following a date on which Executive experiences a termination of employment in connection with which Executive is entitled to receive the payment provided by Section 2(a), Executive will be entitled to receive the following additional payment and benefits:

(a) payment on the sixtieth (60th) day following the Section 409A Change in Control Event of an amount equal to six (6) months' base salary at Executive's final base salary rate, subject to applicable withholding; and

(b) commencing with the seventh (7th) month following Executive's termination of employment, payment of the premiums necessary to continue Executive's and dependents group health insurance coverage under COBRA until the earlier of (i) twelve (12) months following Executive's termination date, or (ii) the date on which Executive first becomes eligible to obtain other group health insurance coverage. Thereafter, Executive may elect to

purchase continued group health insurance coverage at her own expense in accordance with COBRA. Notwithstanding the foregoing, payment of such premiums shall not commence unless and until Executive has incurred a Separation from Service.

3. Termination Without Cause or Resignation for Good Reason Due to a Change in Control. In the event that, within one (1) year following a Change in Control, the Company or its successor terminates Executive's employment without Cause or Executive resigns for Good Reason, Executive will be entitled to receive the following payment and benefits, provided that prior to the sixtieth (60th) day following the date of such termination Executive has signed a general release of known and unknown claims in a form satisfactory to the Company, and the period for revocation has lapsed without the general release having been revoked:

(a) payment in a lump sum on the sixtieth (60th) day following Executive's termination of employment of an amount equal to twelve (12) months' base salary at Executive's final base salary rate, subject to applicable withholding;

(b) commencing on the sixtieth (60th) day following Executive's termination of employment, payment of the premiums (including reimbursement to Executive of any such premiums paid by Executive during such sixty (60) day period) necessary to continue Executive's and dependents group health insurance coverage under COBRA until the earlier of (i) twelve (12) months following Executive's termination date, or (ii) the date on which Executive first becomes eligible to obtain other group health insurance coverage. Thereafter, Executive may elect to purchase continued group health insurance coverage at her own expense in accordance with COBRA. Notwithstanding the foregoing, payment of such premiums shall not commence unless and until Executive has incurred a Separation from Service; and

(c) Immediate vesting in one hundred percent (100%) of her then unvested Company equity awards.

4. Voluntary Termination. In the event that Executive resigns from her employment with the Company at any time (other than a resignation for Good Reason during the period covered by Section 2 or Section 3), or in the event that Executive's employment terminates at any time as a result of her death or disability (meaning Executive is unable to perform her duties for any consecutive six (6) month period, with or without reasonable accommodation, as a result of a physical and/or mental impairment), Executive will be entitled to no compensation or benefits from the Company other than those earned through the date of Executive's termination. Executive agrees that if she resigns from her employment with the Company, she will provide the Company with 20 calendar days' written notice of such resignation. The Company may, in its sole discretion, elect to waive all or any part of such notice period and accept the Executive's resignation at an earlier date.

5. Termination for Cause. If Executive's employment is terminated by the Company at any time for Cause as defined above in paragraph 1, Executive will be entitled to no compensation or benefits from the Company other than those earned through the date of her termination for Cause.

6. Compliance With Section 409A.

(a) Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to Section 2 or Section 3 of the Agreement which constitutes a “deferral of compensation” within the meaning of Treasury Regulations promulgated pursuant to Section 409A (the “Section 409A Regulations”) shall be paid unless and until Executive has incurred a Separation from Service. Furthermore, to the extent that Executive is a “specified employee” of the Company as of the date of Executive’s Separation from Service, and to the extent required by the Section 409A Regulations, no amount that constitutes a deferral of compensation which is payable on account of the Employee’s Separation from Service shall be paid to Executive before the date (the “Delayed Payment Date”) which is the first day of the seventh month after the date of Executive’s Separation from Service or, if earlier, the date of Executive’s death following such Separation from Service. All such amounts that would, but for this paragraph, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date. To the extent that any provision of this Agreement is ambiguous as to its compliance with Section 409A, the provision will be read in such a manner so that all payments hereunder comply with Section 409A. Payments pursuant to this section are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Section 409A Regulations.

(b) The parties intend that the payments and benefits provided to Executive pursuant to this Agreement be paid in compliance with Section 409A so that no excise tax is incurred under Section 409A. To the extent permitted by Section 409A and the Section 409A Regulations, the parties agree to modify this Agreement, the timing (but not the amount(s)) of the payments or benefits provided herein, or both, to the extent necessary to comply with Section 409A.

7. Limitation on Payments. In the event that the severance and other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute “parachute payments” within the meaning of Section 280G of the Code and (ii) but for this Section 7, would be subject to the excise tax imposed by Section 4999 of the Code, then Executive’s severance benefits under this Agreement and benefits payable outside of this Agreement will be either:

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such severance and other benefits being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by Executive on an after-tax basis, of the greatest amount of severance benefits, notwithstanding that all or some portion of such severance benefits may be taxable under Section 4999 of the Code. If a reduction in the payments is required pursuant to the preceding sentence, the reduction shall occur in the manner (the “Reduction Method”) that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the “Pro Rata Reduction Method”). Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the payments being subject to taxes pursuant to Section 409A of the Code that would not otherwise be subject to taxes pursuant to Section 409A of the Code, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to



avoid the imposition of taxes pursuant to Section 409A of the Code as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, the payments that are contingent on future events (e.g., being terminated without Cause), shall be reduced (or eliminated) before the payments that are not contingent on future events; and (C) as a third priority, the payments that are “deferred compensation” within the meaning of Section 409A of the Code shall be reduced (or eliminated) before the Contingent Payments that are not deferred compensation within the meaning of Section 409A of the Code. Unless the Company and Executive otherwise agree in writing, any determination required under this Section will be made in writing by the independent public accountants who are primarily used by the Company immediately prior to Change in Control (the “Accountants”), whose determination will be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required by this Section, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and Executive will furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company will bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section.

8. At-Will Employment. Notwithstanding anything contained in this Agreement, the parties acknowledge and agree that Executive’s employment with the Company is and shall continue to be “at-will.”

9. Dispute Resolution. In the event of any dispute or claim between the parties, including any claims relating to or arising out of this Agreement or the termination of Executive’s employment with the Company for any reason, Executive and the Company agree that all such disputes shall be fully resolved by binding arbitration conducted by the American Arbitration Association (“AAA”) in Santa Clara County, under the AAA’s National Rules for the Resolution of Employment Disputes then in effect, which are available online at the AAA’s website at [www.adr.org](http://www.adr.org). Executive and the Company each acknowledge and agree that they are waiving their respective rights to have any such disputes or claims tried by a judge or jury.

10. Notices. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when received if mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Executive, mailed notices shall be addressed to the Executive at the home address which the Executive most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Chief Executive Officer.

11. Successors.

(a) Company’s Successors. Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or purchase of all or substantially all of the Company’s business and/or assets) shall assume the Company’s obligations under this Agreement in writing and agree expressly to perform the Company’s obligations under this Agreement in the same manner and to the same extent that the Company

would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term “Company” shall include any successor to the Company’s business and/or assets which executes and delivers the assumption agreement described in this subsection (a) or which becomes bound by the terms of this Agreement by operation of law.

(b) Executive’s Successors. Without the written consent of the Company, the Executive shall not assign or transfer this Agreement or any right or obligation under this Agreement to any other person or entity. Notwithstanding the foregoing, the terms of this Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive’s personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

12. Termination. This Agreement shall terminate in the event that Executive is no longer part of the executive team of the Company as determined by the Board of Directors and does not terminate service for Good Reason.

13. Miscellaneous Provisions.

(a) No Duty to Mitigate. The Executive shall not be required to mitigate the amount of any payment contemplated by this Agreement, nor shall any such payment be reduced by any earnings that the Executive may receive from any other source.

(b) Modification/Waiver. No provision of this Agreement may be amended, modified, waived or discharged unless the amendment, modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Integration. This Agreement constitutes the entire agreement and understanding between the parties regarding Executive’s retention and severance benefits, and it supersedes all prior or contemporaneous agreements, whether written or oral, regarding that subject matter, including the Original Agreement.

(d) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

(e) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(f) Employment Taxes. All payments made pursuant to this Agreement shall be subject to withholding of applicable income and employment taxes.

(g) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

THE PARTIES SIGNING BELOW HAVE READ THE FOREGOING AGREEMENT AND FULLY UNDERSTAND AND AGREE TO EACH AND EVERY PROVISION CONTAINED HEREIN.

Date: 2/21/2018

/s/ Nancy Erba

Nancy Erba

Immersion Corporation

Date: 2/26/2018

By: Carl Schlachte

Its:

**AMENDED AND RESTATED  
RETENTION AND OWNERSHIP  
CHANGE EVENT AGREEMENT**

This Amended and Restated Retention and Ownership Change Event Agreement (“Agreement”) is made effective as of the last date set forth below by and between Immersion Corporation (the “Company”) and **Anne Peters** (“Executive”).

**RECITALS**

Executive and the Company entered into a Retention and Ownership Change Event Agreement dated as of December 12, 2008 and amended as of April 27, 2009, March 2, 2010, and March 3, 2017 (the “Original Agreement”).

The Board has determined that it is in the best interests of the Company to amend the Original Agreement to provide for immediate vesting of 100% of Executive’s unvested Company equity awards upon termination without Cause or resignation for Good Reason due to a Change in Control.

**AGREEMENT**

In recognition thereof, the parties now agree as follows:

1. Definitions. For purposes of this Agreement:

(a) “Change in Control” means the occurrence of any of the following:

(i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total combined voting power of the Company’s then-outstanding securities entitled to vote generally in the election of the Company’s Board of Directors; provided, however, that the following acquisitions shall not constitute a Change in Control: (1) an acquisition by any such person who on the effective date of such transaction is the beneficial owner of more than fifty percent (50%) of such voting power, (2) any acquisition directly from the Company, including, without limitation, a public offering of securities, (3) any acquisition by the Company, (4) any acquisition by a trustee or other fiduciary under an employee benefit plan of the Company or (5) any acquisition by an entity owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the voting securities of the Company; or

(ii) an Ownership Change Event or series of related Ownership Change Events (collectively, a “Transaction”) in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding securities entitled to vote generally in the election of Directors or, in the case of an Ownership Change Event described in Section 1(c)(iii), the entity to which the assets of the Company were transferred (the “Transferee”), as the case may be; or

- (iii) a liquidation or dissolution of the Company;

provided, however, that a Change in Control shall be deemed not to include a transaction described in subsections (i) or (ii) of this Section 1(a) in which a majority of the members of the Board of Directors of the continuing, surviving or successor entity, or parent thereof, immediately after such transaction is comprised of incumbent members. Notwithstanding the foregoing, to the extent that any amount that constitutes deferred compensation subject to and not exempted from the requirements of Section 409A of the Code (“Section 409A”), would become payable under this Agreement by reason of a Change in Control, such amount shall become payable only if the event constituting a Change in Control would also constitute a change in ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company within the meaning of Section 409A.

(b) “Good Reason” means any of the following conditions, which condition(s) remain(s) in effect thirty (30) days after written notice to the Board or the Company’s Chief Executive Officer from Executive of such condition(s):

- (i) a material decrease in Executive’s base salary, other than a material decrease that applies generally to other executives of the Company at Executive’s level;

- (ii) a material, adverse change in the Executive’s title, authority, responsibilities, or duties; or

- (iii) the relocation of the Executive’s work place for the Company to a location that is more than forty (40) miles distant from Executive’s present work location for the Company;

provided, that such written notice must be given within thirty (30) days following the first occurrence of any of the good reason conditions set forth in this subsection (b) and the Executive’s resignation must occur within six (6) months following the first occurrence of the good reason condition.

(c) “Ownership Change Event” means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company).

(d) a termination for “Cause” means Executive’s termination based upon (1) Executive’s theft, dishonesty, misconduct, breach of fiduciary duty, or falsification of any Company documents or records; (2) Executive’s material failure to abide by the Company’s code of conduct or other policies (including, without limitation, policies relating to confidentiality and reasonable workplace conduct); (3) Executive’s unauthorized use, misappropriation, destruction or diversion of any tangible or intangible asset or corporate opportunity of the Company (including, without limitation, Executive’s improper use or disclosure of the Company’s confidential or proprietary information); (4) any intentional act by the Executive that has a material detrimental effect on the Company’s reputation or business; (5) Executive’s repeated

failure or inability to perform any reasonable assigned duties after written notice from the Company of, and a reasonable opportunity to cure, such failure or inability; (6) Executive's conviction (including any plea of guilty or nolo contendere) for any criminal act that impairs Executive's ability to perform her duties for the Company.

(e) "Separation from Service" shall have the meaning determined by Treasury Regulations issued pursuant to Section 409A.

2. Termination Without Cause or Resignation for Good Reason. In the event that the Company or its successor terminates Executive's employment without Cause or Executive resigns for Good Reason and Executive is not entitled to receive the severance pay and benefits described in Section 3 below, Executive will be entitled to receive the following payment and benefits, provided that prior to the sixtieth (60th) day following the date of such termination Executive has signed a general release of known and unknown claims in a form satisfactory to the Company, and the period for revocation has lapsed without the general release having been revoked:

(a) payment in a lump sum on the sixtieth (60th) day following Executive's termination of employment of an amount equal to six (6) months' base salary at Executive's final base salary rate, subject to applicable withholding; and

(b) commencing on the sixtieth (60th) day following Executive's termination of employment, payment of the premiums (including reimbursement to Executive of any such premiums paid by Executive during such sixty (60) day period) necessary to continue Executive's and dependents group health insurance coverage under COBRA until the earlier of (i) six (6) months following Executive's termination date, or (ii) the date on which Executive first becomes eligible to obtain other group health insurance coverage. Thereafter, Executive may elect to purchase continued group health insurance coverage at her own expense in accordance with COBRA. Notwithstanding the foregoing, payment of such premiums shall not commence unless and until Executive has incurred a Separation from Service.

In the event that a Change in Control constituting a change in ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company within the meaning of Section 409A (a "Section 409A Change in Control Event") occurs on or before the ninetieth (90th) day following a date on which Executive experiences a termination of employment in connection with which Executive is entitled to receive the payment provided by Section 2(a), Executive will be entitled to receive the following additional payment and benefits:

(a) payment on the sixtieth (60th) day following the Section 409A Change in Control Event of an amount equal to six (6) months' base salary at Executive's final base salary rate, subject to applicable withholding; and

(b) commencing with the seventh (7th) month following Executive's termination of employment, payment of the premiums necessary to continue Executive's and dependents group health insurance coverage under COBRA until the earlier of (i) twelve (12) months following Executive's termination date, or (ii) the date on which Executive first becomes eligible to obtain other group health insurance coverage. Thereafter, Executive may elect to

purchase continued group health insurance coverage at her own expense in accordance with COBRA. Notwithstanding the foregoing, payment of such premiums shall not commence unless and until Executive has incurred a Separation from Service.

3. Termination Without Cause or Resignation for Good Reason Due to a Change in Control. In the event that, within one (1) year following a Change in Control, the Company or its successor terminates Executive's employment without Cause or Executive resigns for Good Reason, Executive will be entitled to receive the following payment and benefits, provided that prior to the sixtieth (60th) day following the date of such termination Executive has signed a general release of known and unknown claims in a form satisfactory to the Company, and the period for revocation has lapsed without the general release having been revoked:

(a) payment in a lump sum on the sixtieth (60th) day following Executive's termination of employment of an amount equal to twelve (12) months' base salary at Executive's final base salary rate, subject to applicable withholding;

(b) commencing on the sixtieth (60th) day following Executive's termination of employment, payment of the premiums (including reimbursement to Executive of any such premiums paid by Executive during such sixty (60) day period) necessary to continue Executive's and dependents group health insurance coverage under COBRA until the earlier of (i) twelve (12) months following Executive's termination date, or (ii) the date on which Executive first becomes eligible to obtain other group health insurance coverage. Thereafter, Executive may elect to purchase continued group health insurance coverage at her own expense in accordance with COBRA. Notwithstanding the foregoing, payment of such premiums shall not commence unless and until Executive has incurred a Separation from Service; and

(c) Immediate vesting in one hundred percent (100%) of her then unvested Company equity awards.

4. Voluntary Termination. In the event that Executive resigns from her employment with the Company at any time (other than a resignation for Good Reason during the period covered by Section 2 or Section 3), or in the event that Executive's employment terminates at any time as a result of her death or disability (meaning Executive is unable to perform her duties for any consecutive six (6) month period, with or without reasonable accommodation, as a result of a physical and/or mental impairment), Executive will be entitled to no compensation or benefits from the Company other than those earned through the date of Executive's termination. Executive agrees that if she resigns from her employment with the Company, she will provide the Company with 20 calendar days' written notice of such resignation. The Company may, in its sole discretion, elect to waive all or any part of such notice period and accept the Executive's resignation at an earlier date.

5. Termination for Cause. If Executive's employment is terminated by the Company at any time for Cause as defined above in paragraph 1, Executive will be entitled to no compensation or benefits from the Company other than those earned through the date of her termination for Cause.

6. Compliance With Section 409A.

(a) Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to Section 2 or Section 3 of the Agreement which constitutes a “deferral of compensation” within the meaning of Treasury Regulations promulgated pursuant to Section 409A (the “Section 409A Regulations”) shall be paid unless and until Executive has incurred a Separation from Service. Furthermore, to the extent that Executive is a “specified employee” of the Company as of the date of Executive’s Separation from Service, and to the extent required by the Section 409A Regulations, no amount that constitutes a deferral of compensation which is payable on account of the Employee’s Separation from Service shall be paid to Executive before the date (the “Delayed Payment Date”) which is the first day of the seventh month after the date of Executive’s Separation from Service or, if earlier, the date of Executive’s death following such Separation from Service. All such amounts that would, but for this paragraph, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date. To the extent that any provision of this Agreement is ambiguous as to its compliance with Section 409A, the provision will be read in such a manner so that all payments hereunder comply with Section 409A. Payments pursuant to this section are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Section 409A Regulations.

(b) The parties intend that the payments and benefits provided to Executive pursuant to this Agreement be paid in compliance with Section 409A so that no excise tax is incurred under Section 409A. To the extent permitted by Section 409A and the Section 409A Regulations, the parties agree to modify this Agreement, the timing (but not the amount(s)) of the payments or benefits provided herein, or both, to the extent necessary to comply with Section 409A.

7. Limitation on Payments. In the event that the severance and other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute “parachute payments” within the meaning of Section 280G of the Code and (ii) but for this Section 7, would be subject to the excise tax imposed by Section 4999 of the Code, then Executive’s severance benefits under this Agreement and benefits payable outside of this Agreement will be either:

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such severance and other benefits being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by Executive on an after-tax basis, of the greatest amount of severance benefits, notwithstanding that all or some portion of such severance benefits may be taxable under Section 4999 of the Code. If a reduction in the payments is required pursuant to the preceding sentence, the reduction shall occur in the manner (the “Reduction Method”) that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the “Pro Rata Reduction Method”). Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the payments being subject to taxes pursuant to Section 409A of the Code that would not otherwise be subject to taxes pursuant to Section 409A of the Code, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to



avoid the imposition of taxes pursuant to Section 409A of the Code as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, the payments that are contingent on future events (e.g., being terminated without Cause), shall be reduced (or eliminated) before the payments that are not contingent on future events; and (C) as a third priority, the payments that are “deferred compensation” within the meaning of Section 409A of the Code shall be reduced (or eliminated) before the Contingent Payments that are not deferred compensation within the meaning of Section 409A of the Code. Unless the Company and Executive otherwise agree in writing, any determination required under this Section will be made in writing by the independent public accountants who are primarily used by the Company immediately prior to Change in Control (the “Accountants”), whose determination will be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required by this Section, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and Executive will furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company will bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section.

8. At-Will Employment. Notwithstanding anything contained in this Agreement, the parties acknowledge and agree that Executive’s employment with the Company is and shall continue to be “at-will.”

9. Dispute Resolution. In the event of any dispute or claim between the parties, including any claims relating to or arising out of this Agreement or the termination of Executive’s employment with the Company for any reason, Executive and the Company agree that all such disputes shall be fully resolved by binding arbitration conducted by the American Arbitration Association (“AAA”) in Santa Clara County, under the AAA’s National Rules for the Resolution of Employment Disputes then in effect, which are available online at the AAA’s website at [www.adr.org](http://www.adr.org). Executive and the Company each acknowledge and agree that they are waiving their respective rights to have any such disputes or claims tried by a judge or jury.

10. Notices. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when received if mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Executive, mailed notices shall be addressed to the Executive at the home address which the Executive most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Chief Executive Officer.

11. Successors.

(a) Company’s Successors. Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or purchase of all or substantially all of the Company’s business and/or assets) shall assume the Company’s obligations under this Agreement in writing and agree expressly to perform the Company’s obligations under this Agreement in the same manner and to the same extent that the Company

would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term “Company” shall include any successor to the Company’s business and/or assets which executes and delivers the assumption agreement described in this subsection (a) or which becomes bound by the terms of this Agreement by operation of law.

(b) Executive’s Successors. Without the written consent of the Company, the Executive shall not assign or transfer this Agreement or any right or obligation under this Agreement to any other person or entity. Notwithstanding the foregoing, the terms of this Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive’s personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

12. Termination. This Agreement shall terminate in the event that Executive is no longer part of the executive team of the Company as determined by the Board of Directors and does not terminate service for Good Reason.

13. Miscellaneous Provisions.

(a) No Duty to Mitigate. The Executive shall not be required to mitigate the amount of any payment contemplated by this Agreement, nor shall any such payment be reduced by any earnings that the Executive may receive from any other source.

(b) Modification/Waiver. No provision of this Agreement may be amended, modified, waived or discharged unless the amendment, modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Integration. This Agreement constitutes the entire agreement and understanding between the parties regarding Executive’s retention and severance benefits, and it supersedes all prior or contemporaneous agreements, whether written or oral, regarding that subject matter, including the Original Agreement.

(d) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

(e) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(f) Employment Taxes. All payments made pursuant to this Agreement shall be subject to withholding of applicable income and employment taxes.

(g) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

THE PARTIES SIGNING BELOW HAVE READ THE FOREGOING AGREEMENT AND FULLY UNDERSTAND AND AGREE TO EACH AND EVERY PROVISION CONTAINED HEREIN.

Date: 2/21/2018

/s/ Anne Peters

Anne Peters

Immersion Corporation

Date: 2/26/2018

By: Carl Schlachte

Its:

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

I, Carl Schlachte, 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 11, 2018

/s/ CARL SCHLACHTE

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Carl Schlachte

*Interim Chief Executive Officer*

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

I, Nancy Erba, 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 11, 2018

/s/ Nancy Erba

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Nancy Erba

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, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Carl Schlachte, Interim Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

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

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

/s/ CARL SCHLACHTE

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Carl Schlachte

*Interim Chief Executive Officer*

May 11, 2018

*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, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Nancy Erba, 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/ Nancy Erba

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Nancy Erba

Chief Financial Officer

May 11, 2018

*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.*

**Document and Entity  
Information - shares**

**3 Months Ended**  
**Mar. 31, 2018    May 04, 2018**

**[Document And Entity Information \[Abstract\]](#)**

<u><a href="#">Document Type</a></u>	10-Q	
<u><a href="#">Amendment Flag</a></u>	false	
<u><a href="#">Document Period End Date</a></u>	Mar. 31, 2018	
<u><a href="#">Document Fiscal Year Focus</a></u>	2018	
<u><a href="#">Document Fiscal Period Focus</a></u>	Q1	
<u><a href="#">Trading Symbol</a></u>	IMMR	
<u><a href="#">Entity Registrant Name</a></u>	IMMERSION CORP	
<u><a href="#">Entity Central Index Key</a></u>	0001058811	
<u><a href="#">Current Fiscal Year End Date</a></u>	--12-31	
<u><a href="#">Entity Filer Category</a></u>	Accelerated Filer	
<u><a href="#">Entity Common Stock, Shares Outstanding</a></u>		30,367,214



**CONDENSED  
CONSOLIDATED  
BALANCE SHEETS  
(Unaudited) - USD (\$)  
\$ in Thousands**

	Mar. 31, 2018	Dec. 31, 2017
<b>Current assets:</b>		
<u>Cash and cash equivalents</u>	\$ 119,128	\$ 24,622
<u>Short-term investments</u>	19,842	21,916
<u>Accounts and other receivables</u>	2,667	806
<u>Prepaid expenses and other current assets</u>	5,616	736
<u>Total current assets</u>	147,253	48,080
<u>Property and equipment, net</u>	2,903	3,150
<u>Deferred income tax assets</u>	371	401
<u>Other assets</u>	4,808	344
<u>Total assets</u>	155,335	51,975
<b>Current liabilities:</b>		
<u>Accounts payable</u>	4,256	6,647
<u>Accrued compensation</u>	2,552	4,133
<u>Other current liabilities</u>	3,296	3,896
<u>Deferred revenue</u>	4,920	4,424
<u>Total current liabilities</u>	15,024	19,100
<u>Long-term deferred revenue</u>	33,665	22,303
<u>Other long-term liabilities</u>	1,374	915
<u>Total liabilities</u>	50,063	42,318
<u>Contingencies (Note 12)</u>		
<b>Stockholders' equity:</b>		
<u>Common stock and additional paid-in capital — \$0.001 par value; 100,000,000 shares authorized; 37,043,975 and 35,950,518 shares issued, respectively; 30,357,285 and 29,263,828 shares outstanding, respectively</u>	235,438	228,046
<u>Accumulated other comprehensive income</u>	104	99
<u>Accumulated deficit</u>	(83,398)	(171,616)
<u>Treasury stock at cost: 6,686,690 shares</u>	(46,872)	(46,872)
<u>Total stockholders' equity</u>	105,272	9,657
<u>Total liabilities and stockholders' equity</u>	\$ 155,335	\$ 51,975

**CONDENSED  
CONSOLIDATED  
BALANCE SHEETS**  
(Unaudited) (Parenthetical) -  
\$ / shares

**Mar. 31, 2018 Dec. 31, 2017**

**Statement of Financial Position [Abstract]**

<u>Common stock, par value (in dollars per share)</u>	\$ 0.001	\$ 0.001
<u>Common Stock, shares authorized (in shares)</u>	100,000,000	100,000,000
<u>Common Stock, shares issued (in shares)</u>	37,043,975	35,950,518
<u>Common Stock, shares outstanding (in shares)</u>	30,357,285	29,263,828
<u>Treasury Stock, shares (in shares)</u>	6,686,690	6,686,690

**CONDENSED  
CONSOLIDATED  
STATEMENTS OF  
OPERATIONS AND  
COMPREHENSIVE  
INCOME (LOSS)  
(Unaudited) - USD (\$)  
shares in Thousands, \$ in  
Thousands**

**3 Months Ended**

**Mar. 31, 2018 Mar. 31, 2017**

**Revenues:**

<u>Royalty and license</u>	\$ 85,335	\$ 9,006
<u>Development, services, and other</u>	81	218
<u>Total revenues</u>	85,416	9,224
<b><u>Costs and expenses:</u></b>		
<u>Cost of revenues</u>	35	43
<u>Sales and marketing</u>	1,220	3,305
<u>Research and development</u>	2,820	3,196
<u>General and administrative</u>	11,236	15,532
<u>Total costs and expenses</u>	15,311	22,076
<u>Operating income (loss)</u>	70,105	(12,852)
<u>Interest and other income</u>	231	139
<u>Income (loss) before provision for income taxes</u>	70,336	(12,713)
<u>Provision for income taxes</u>	(453)	(152)
<u>Net income (loss)</u>	\$ 69,883	\$ (12,865)
<u>Basic net loss per share (in dollars per share)</u>	\$ 2.35	\$ (0.44)
<u>Shares used in calculating basic net income (loss) per share (in shares)</u>	29,700	29,024
<u>Diluted net loss per share (in dollars per share)</u>	\$ 2.29	\$ (0.44)
<u>Shares used in computation of diluted net income (loss) per share (in shares)</u>	30,566	29,024
<b><u>Other comprehensive income (loss), net of tax</u></b>		
<u>Change in unrealized gains (losses) on short-term investments</u>	\$ 5	\$ (22)
<u>Total other comprehensive income (loss)</u>	5	(22)
<u>Total comprehensive income (loss)</u>	\$ 69,888	\$ (12,887)

**CONDENSED  
CONSOLIDATED  
STATEMENTS OF CASH  
FLOWS (Unaudited) - USD  
(\$)  
\$ in Thousands**

**3 Months Ended**

**Mar. 31,  
2018      Mar. 31,  
2017**

**Cash flows provided by (used in) operating activities:**

Net income (loss) \$ 69,883      \$ (12,865)

**Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:**

Depreciation and amortization of property and equipment 227      232

Stock-based compensation 1,222      1,557

Deferred income taxes (67)      0

Loss on disposal of equipment 26      0

**Changes in operating assets and liabilities:**

Accounts and other receivables (1,861)      (527)

Prepaid expenses and other current assets 116      150

Other assets (4,524)      (55)

Accounts payable (2,391)      1,000

Accrued compensation and other current liabilities (2,181)      (1,741)

Deferred revenue 25,197      (2,046)

Other long-term liabilities 422      (22)

Net cash provided by (used in) operating activities 86,203      (14,317)

**Cash flows provided by (used in) investing activities:**

Purchases of short-term investments (8,861)      (9,931)

Proceeds from maturities of short-term investments 11,000      10,000

Purchases of property and equipment (6)      (83)

Net cash provided by (used in) investing activities 2,133      (14)

**Cash flows provided by financing activities:**

Issuance of common stock under employee stock purchase plan 98      175

Exercise of stock options 6,072      401

Net cash provided by financing activities 6,170      576

Net increase (decrease) in cash and cash equivalents 94,506      (13,755)

**Cash and cash equivalents:**

Beginning of period 24,622      56,865

End of period 119,128      43,110

**Supplemental disclosure of cash flow information**

Cash paid for taxes 90      39

**Supplemental disclosure of noncash operating, investing, and financing activities**

Amounts accrued for property and equipment 0      11

Release of Restricted Stock Units and Awards under company stock plan \$ 1,860      \$ 1,768

**SIGNIFICANT  
ACCOUNTING POLICIES**

**3 Months Ended  
Mar. 31, 2018**

**Accounting Policies**

**[Abstract]**

**SIGNIFICANT  
ACCOUNTING POLICIES**

**SIGNIFICANT ACCOUNTING POLICIES**

*Description of Business*

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

*Principles of Consolidation and Basis of Presentation*

The 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. The accompanying 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, 2017. 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, 2018 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*

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) 2014-09 “Revenue from Contracts with Customers (Topic 606)” (“Accounting Standard Codification 606”, “ASC 606”), which superseded most prior revenue

recognition guidance under ASC Topic 605, "Revenue Recognition" ("ASC 605") including industry-specific guidance. The underlying principle of ASC 606 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers at an amount that the entity expects to be entitled in exchange for those goods or services. The new standard provides a five-step analysis of transactions to determine when and how revenue is recognized, and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption if the modified retrospective transition method is elected. The new standard also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The Company adopted the new revenue standard 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. Therefore, comparative prior periods have not been adjusted and continue to be presented under ASC 605. Refer to Note 2 to the condensed consolidated financial statements for the Company's revised revenue recognition accounting policy and a summary of the impact of adoption of ASC 606.

#### *Recent Accounting Pronouncements*

##### *Adopted*

In March 2018, the FASB issued ASU2018-05 "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)", which updates Securities and Exchange Commission ("SEC") guidance released in December 2017 when the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. Additional information regarding the adoption of this ASU and its material impact on the Company's condensed consolidated financial statements is contained in Note 10 to the condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09 "Stock Compensation: Scope of Modification Accounting". The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2017. The Company adopted the standard effective January 1, 2018. The adoption of this ASU did not have a material impact on its condensed consolidated financial statements.

In December 2016, the FASB issued ASU 2016-19 "Technical Corrections and Improvements". The amendments in this update affect a wide variety of topics in the Accounting Standards Codification. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods in the annual period beginning after December 15, 2018. The Company adopted the standard effective January 1, 2018. The adoption of this ASU did not have a material impact on its condensed consolidated financial statements.

##### *Not yet adopted*

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". 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 is currently assessing when it will adopt this ASU and its potential impact on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 "Leases: Topic 842" ("ASU 2016-02"), which supersedes the existing guidance for lease accounting in Topic 840, Leases. The FASB

issued the ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 requires lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting remains largely unchanged. This ASU is effective for periods beginning after December 15, 2018, with early adoption permitted. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently in the process of evaluating the impact of this standard on its condensed consolidated financial statements, but has not elected to early adopt the standard and would plan to implement the standard on January 1, 2019.

## REVENUE RECOGNITION

3 Months Ended

Mar. 31, 2018

[Revenue from Contract with Customer \[Abstract\]](#)

[REVENUE RECOGNITION](#)

## REVENUE RECOGNITION

### *Revised Revenue Recognition Accounting Policy*

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective transition method. The new revenue standard has been applied to all contracts that were not completed as of the date of adoption. To the extent that modifications occurred prior to the adoption of ASC 606, the Company has reflected the aggregate impact of any modification when evaluating the impact of the adoption.

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. The adoption of ASC 606 affected the Company's revenue recognition model for both fixed fee license revenue and per-unit royalty revenue presented on "royalty and license revenue" on the Company's condensed consolidated statements of operations and comprehensive income (loss).

#### *Fixed fee license revenue*

In applying ASC 606, 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:

- 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.

Under the Company's previous accounting practices under ASC 605, fixed license fees were generally recognized on a straight-line basis over the contract term. As a result of the adoption of ASC 606, 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 be required to allocate the transaction price based on the standalone price for each of the two performance obligations. The Company has developed a process, and established internal controls around such process, to estimate standalone prices related to Performance Obligation A and B using a number of factors primarily related to the attributes of its patent portfolio. 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 have been presented on a net basis.

Historically, certain of the Company's license agreements contained fixed fees related to past infringements for which the fixed fees were recognized as revenue or recorded as a deduction to its operating expense in the quarter the license agreement was signed. After the adoption of ASC



606, the Company will recognize revenue from such fixed fees related to past infringements in the same manner in the quarter the license agreement is signed.

In the event a significant financing component is determined to exist in any of our agreements, the Company will recognize more or less revenue and corresponding interest expense or income, as appropriate.

#### *Per-unit Royalty revenue*

Under the Company's previous accounting practices under ASC 605, it recognized revenue from per-unit royalty agreements in the period in which the related royalty report was received from its licensees, generally one quarter in arrears from the period in which the underlying sales occurred (i.e. on a "quarter-lag"). 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. 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. For the three months ended March 31, 2018, the Company had no true-ups from the estimates made on January 1, 2018 which would require presentation herein.

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. Per the Company's previous accounting policy under ASC 605, such minimum royalties were recognized as revenue at the end of each reporting period (usually a calendar year) if the actual royalties reported by the customer for that reporting period were below the minimum threshold set forth in the contract. 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. Therefore, 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 will establish contract assets for the unbilled minimum royalties on a contract basis. Such contract asset balance will be reduced by the actual royalties 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 have been presented on a net basis.

#### *Development, services, and other revenue*

With little change from its previous accounting practices related to development, service and other revenue, the Company will continue to recognize revenue from this stream when it has satisfied service obligations. Consistent with the Company's previous accounting practices under ASC 605, the performance obligation related to its development, service and other revenue is satisfied over a period of time, and such revenue is recognized evenly over the period of performance obligation, which is generally consistent with the contractual term.

#### ***Adjustments upon Adoption of ASC 606***

The following table summarizes adjustments related to the Company's adoption of ASC 606.

	<b>Balance at December 31, 2017 as Reported under ASC 605</b>	<b>Adjustment for Fixed Fee License Revenue *</b>	<b>Elimination of Quarter- Lag Per-Unit Royalties</b>	<b>Total Adjustments upon Adoption of ASC 606</b>	<b>Balance at January 1, 2018 (ASC 606)</b>
<b>(in thousands)</b>					
Prepaid expenses and	\$ 736		\$ 4,996	\$ 4,996	\$ 5,732

other current assets					
Deferred revenue - current	(4,424)	1,766		1,766	(2,658)
Long-term deferred revenue	(22,303)	11,573		11,573	(10,730)
Accumulated deficit	171,616	(13,339)	(4,996)	(18,335)	153,281

\* Adjustment for fixed fee license revenue includes both the recognition of Performance Obligation A upon the adoption of ASC 606, which had previously been deferred under ASC 605, and the change in the transaction price allocated to Performance Obligation B and consequently the revenue recognized as of January 1, 2018.

### Disaggregated Revenue

The following table presents the disaggregation of the Company's revenue for the three months ended March 31, 2018 under ASC 606. Revenues for the three months ended March 31, 2017 are presented in accordance with ASC 605.

(in thousands)	Three Months Ended March 31,			Increase (Decrease)
	2018	2017		
Fixed fee license revenue	75,756	2,510	73,246	2,918 %
Per-Unit royalty revenue	9,579	6,496	3,083	47 %
Total royalty and license revenue	85,335	9,006	76,329	848 %
Development, services, and other revenue	81	218	(137)	(63)%
Total revenues	85,416	9,224	76,192	826 %

For the three months ended March 31, 2018, the Company recognized \$487,000 as revenue that had been included in deferred revenue as of the beginning of the period. As of March 31, 2018, the Company had contract assets of \$4.8 million and \$4.5 million included within prepaid expenses and other current assets and other non-current assets on the condensed consolidated balance sheet, respectively. During the three months ended March 31, 2018, there was no impairment of the contract assets.

### Impact of Adoption of ASC 606

In accordance with the requirements of ASC 606, the disclosure of the impact of adoption on the Company's condensed consolidated statements of operations and comprehensive income (loss) and balance sheet as of and for the three months ended March 31, 2018 is presented below. The Company believes that this additional information is vital during the transition year to allow readers of its financial statements to compare financial results from the preceding financial year given the use of the modified retrospective method of adoption. The adoption of ASC 606 did not affect the Company's reported total amounts of cash flows from operating, investing and financing activities as such separate tables for this separate financial statement have not been provided.

Amounts contained in the tables below are in thousands, except per share data.

	<b>Three Months Ended March 31,</b>			
	<b>2018</b>			<b>2017</b>
	<b>As Reported (ASC 606)</b>	<b>Adjustments</b>	<b>ASC 605</b>	<b>As Reported (ASC 605)</b>
<b>Revenues:</b>				
Fixed fee license revenue	\$ 75,756	\$ (72,341)	\$ 3,415	\$ 2,510
Per-unit royalty revenue	9,579	(4,351)	5,228	6,496
Total royalty and license revenue	85,335	(76,692)	8,643	9,006
Development, services, and other revenue	81	—	81	218
Total revenues	\$ 85,416	\$ (76,692)	\$ 8,724	\$ 9,224
Operating expenses	15,311	—	15,311	22,076
Operating income (loss)	70,105	(76,692)	(6,587)	(12,852)
Interest and other income	231	—	231	139
Income (loss) before provision for income taxes	70,336	(76,692)	(6,356)	(12,713)
Income tax provision	(453)	—	(453)	(152)
Net income (loss)	\$ 69,883	\$ (76,692)	\$ (6,809)	\$ (12,865)
Basic net income (loss) per share	\$ 2.35	\$ (2.58)	\$ (0.23)	\$ (0.44)
Diluted net income (loss) per share	\$ 2.29	\$ (2.51)	\$ (0.22)	\$ (0.44)

<b>(in thousands)</b>	<b>March 31, 2018</b>			<b>December 31, 2017</b>
	<b>As Reported (ASC 606)</b>	<b>Adjustments</b>	<b>ASC 605</b>	<b>As Reported (ASC 605)</b>
	Prepaid expenses and other current assets	5,616	(4,847)	769
Other non-current assets	4,808	(4,500)	308	344
Deferred revenue - current	(4,920)	(9,521)	(14,441)	(4,424)
Long-term deferred revenue	(33,665)	(76,160)	(109,825)	(22,303)
Accumulated Deficit	83,398	95,027	178,425	171,616

### Contracted Revenue

Based on contracts signed and payments received as of March 31, 2018, the Company expects to recognize \$38.6 million revenue related to Performance Obligation B under its fixed fee license agreements, which is satisfied over time, including \$14.3 million over one to three years, and \$24.3 million over more than three years, respectively.

**FAIR VALUE  
MEASUREMENTS**

**3 Months Ended  
Mar. 31, 2018**

[Fair Value Disclosures](#)

[\[Abstract\]](#)

[FAIR VALUE  
MEASUREMENTS](#)

**FAIR VALUE MEASUREMENTS**

*Cash Equivalents and Short-term Investments*

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

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

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

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

The types of instruments valued based on unobservable inputs which reflect the reporting entity's own assumptions or data that market participants would use in valuing an instrument are generally classified within Level 3 of the fair value hierarchy. The Company had no Level 3 instruments as of March 31, 2018 and December 31, 2017.

Financial instruments measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017 are classified based on the valuation technique in the table below:

	March 31, 2018			Total
	Fair value measurements using			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets:</b>				
U.S. Treasury securities	\$ —	\$ 19,842	\$ —	\$ 19,842
Money market accounts	56,273	—	—	56,273
Total assets at fair value	\$ 56,273	\$ 19,842	\$ —	\$ 76,115

The above table excludes \$62.9 million of cash held in banks.

	December 31, 2017			Total
	Fair value measurements using			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	

<b>Assets:</b>				
U.S. Treasury securities	\$	—	\$ 21,916	\$ — \$ 21,916
Money market accounts		1,117	—	— 1,117
Total assets at fair value	\$	1,117	\$ 21,916	\$ — \$ 23,033

The above table excludes \$23.5 million of cash held in banks.

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

*Short-term Investments*

<b>March 31, 2018</b>				
<b>(in thousands)</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Holding Gains</b>	<b>Gross Unrealized Holding Losses</b>	<b>Fair Value</b>
U.S. Treasury securities	\$ 19,860	\$ —	\$ (18)	\$ 19,842
Total	\$ 19,860	\$ —	\$ (18)	\$ 19,842

<b>December 31, 2017</b>				
<b>(in thousands)</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Holding Gains</b>	<b>Gross Unrealized Holding Losses</b>	<b>Fair Value</b>
U.S. Treasury securities	\$ 21,939	\$ —	\$ (23)	\$ 21,916
Total	\$ 21,939	\$ —	\$ (23)	\$ 21,916

The contractual maturities of the short-term investments (classified as available-for-sale securities) on March 31, 2018 and December 31, 2017 were all due within one year. There were no transfers of instruments between Level 1 and 2 during the three months ended March 31, 2018 and the year ended December 31, 2017.

ACCOUNTS AND OTHER  
RECEIVABLES

3 Months Ended  
Mar. 31, 2018

[Receivables \[Abstract\]](#)

[ACCOUNTS AND OTHER RECEIVABLES](#) ACCOUNTS AND OTHER RECEIVABLES

(in thousands)	March 31, 2018	December 31, 2017
Trade accounts receivable	\$ 2,279	\$ 458
Other receivables	388	348
Accounts and other receivables	\$ 2,667	\$ 806

**PROPERTY AND  
EQUIPMENT**

**3 Months Ended  
Mar. 31, 2018**

[Property, Plant and Equipment  
\[Abstract\]](#)

[PROPERTY AND EQUIPMENT](#)

**PROPERTY AND EQUIPMENT**

<b>(in thousands)</b>	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Computer equipment and purchased software	\$ 3,212	\$ 3,206
Machinery and equipment	834	834
Furniture and fixtures	1,146	1,274
Leasehold improvements	3,920	3,920
Total	9,112	9,234
Less accumulated depreciation	(6,209)	(6,084)
Property and equipment, net	\$ 2,903	\$ 3,150

**OTHER CURRENT  
LIABILITIES**

**3 Months Ended  
Mar. 31, 2018**

[Other Liabilities, Current \[Abstract\]](#)

[OTHER CURRENT LIABILITIES](#)

**OTHER CURRENT LIABILITIES**

<b>(in thousands)</b>	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Accrued legal	\$ 2,182	\$ 2,202
Income taxes payable	118	219
Other current liabilities	996	1,475
Total other current liabilities	<u>\$ 3,296</u>	<u>\$ 3,896</u>



## RESTRUCTURING COSTS

3 Months Ended

Mar. 31, 2018

[Restructuring and Related Activities \[Abstract\]](#)

## RESTRUCTURING COSTS

### RESTRUCTURING COSTS

In the fourth quarter of 2017, the Company executed a series of restructuring actions designed to sharpen the Company's strategic focus and establish a more cost-efficient operating structure. The restructuring activities primarily focused on a reduction of the Company's global workforce in conjunction with steps taken to:

- Significantly reduce the Company's presence in China and focus its efforts on Mobile OEM licensing in that region;
- Cease its Mobile Advertising activities; and
- Narrow its focus in the Gaming and VR/AR markets on development efforts to bolster its IP licensing model in these markets

The restructuring plan is expected to increase internal efficiencies through the consolidation of certain sites of operation and has resulted in the elimination of approximately 56 positions, or 41%, of the worldwide employee base.

For the year ended December 31, 2017, the Company recorded restructuring expenses of \$1.6 million. There were no additional restructuring activities during the three months ended March 31, 2018. The following table summarizes certain minor adjustments to the 2017 restructuring costs that were reflected in the consolidated statements of operations for the three months ended March 31, 2018. There were no restructuring costs for the three months ended March 31, 2017.

(in thousands)	Three Months Ended March 31, 2018			
	Employee Separation Costs	Asset-Related Charges	Other	Total
Restructuring	\$ (44)	\$ —	\$ —	\$ (44)

Employee separation costs are associated with worldwide headcount reductions. Asset-related charges consist primarily of accelerated depreciation costs related to the closure of one of the Company's offices in China. Accelerated depreciation costs represent the difference between the depreciation expense as determined using the useful life of the assets prior to the restructuring activities and the revised useful life resulting from the restructuring activities. Other expenses consist primarily of lease termination expenses related to the closure of one of the Company's offices in China.

Substantially all accrued amounts related to the 2017 restructuring activities were paid during the first quarter of 2018. The following table presents a reconciliation of the restructuring reserve recorded within accrued liabilities on the Company's condensed consolidated balance sheet as of March 31, 2018:

(in thousands)	Three Months Ended March 31, 2018			
	Employee Separation Costs	Asset-Related Charges	Other	Total

Balance as of December 31, 2017	\$	1,522	\$	—	\$	57	\$	1,579
Charges		—		—		—		—
Adjustments		(44)		—		—		(44)
Non-cash activity		—		—		(26)		(26)
Cash Payments		(1,468)		—		—		(1,468)
Balance as of March 31, 2018		10		—		31		41

**STOCK-BASED  
COMPENSATION**

**3 Months Ended  
Mar. 31, 2018**

[Disclosure of Compensation  
Related Costs, Share-based  
Payments \[Abstract\]](#)

[STOCK-BASED  
COMPENSATION](#)

**STOCK-BASED COMPENSATION**

*Stock Options and Awards*

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

	<b>March 31, 2018</b>
Common stock shares available for grant	1,653,597
Standard and market condition stock options outstanding	2,726,207
Restricted stock awards outstanding	44,538
RSU's outstanding	1,210,086

*Employee Stock Purchase Plan*

The Company has an Employee Stock Purchase Plan ("ESPP"). Under the ESPP, eligible employees may purchase common stock through payroll deductions at a purchase price of 85% of the lower of the fair market value of the Company's common stock at the beginning of the offering period or the purchase date. Participants may not purchase more than 2,000 shares in a six-month offering period or purchase stock having a value greater than \$25,000 in any calendar year as measured at the beginning of the offering period. A total of 1,000,000 shares of common stock has been reserved for issuance under the ESPP. As of March 31, 2018, 711,967 shares had been purchased since the inception of the ESPP in 1999. Under ASC 718-10, the ESPP is considered a compensatory plan and the Company is required to recognize compensation cost related to the fair value of the award purchased under the ESPP. Shares purchased under the ESPP for the three months ended March 31, 2018 are listed below. Shares purchased under the ESPP for the three months ended March 31, 2017 are 27,667. The intrinsic value listed below is calculated as the difference between the market value on the date of purchase and the purchase price of the shares.

	<b>Three Months Ended March 31, 2018</b>
Shares purchased under ESPP	13,834
Average price of shares purchased under ESPP	\$ 7.11

Intrinsic value of shares purchased under ESPP	\$	45,000
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*Summary of Standard Stock Options*

The following table sets forth the summary of activity with respect to standard stock options granted under the Company's stock option plans for the three months ended March 31, 2018:

	<b>Three Months Ended March 31, 2018</b>
Beginning outstanding balance	3,277,991
Granted	167,500
Exercised	(922,842)
Forfeited	(25,103)
Expired	(43,420)
Ending outstanding balance	2,454,126
Aggregate intrinsic value of options exercised	\$ 4,726,000
Weighted average fair value of options granted	\$ 5.48

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

Information regarding these standard stock options outstanding at March 31, 2018 is summarized below:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (years)</b>	<b>Aggregate Intrinsic Value (in millions)</b>
<b><u>March 31, 2018</u></b>				
Options outstanding	2,454,126	\$ 8.69	3.42	\$ 8.0
Options vested and expected to vest using estimated forfeiture rates	2,334,242	8.66	3.28	7.7
Options exercisable	1,730,105	\$ 8.56	2.33	\$ 5.9

*Summary of Market Condition Based Stock Options*

The Company continued to have an outstanding balance of 272,081 market condition based stock options as of both December 31, 2017 and March 31, 2018. No activity noted in the period presented.

*Summary of Restricted Stock Units*

RSU activity for the three months ended March 31, 2018 was as follows:

**Three Months  
Ended March 31,  
2018**

Beginning outstanding balance	508,880
Awarded	912,793
Released	(156,781)
Forfeited	(54,806)
Ending outstanding balance	1,210,086
Weighted average fair value on grant date of RSUs	\$ 11.84
Total fair value of RSUs released	\$ 1,860,000

Information regarding RSUs outstanding at March 31, 2018 is summarized below:

	Number of Shares	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in millions)
<b><u>March 31, 2018</u></b>			
RSUs outstanding	1,210,086	1.35	\$ 14.5
RSUs vested and expected to vest using estimated forfeiture rates	938,701	1.25	\$ 11.2

#### *Summary of Restricted Stock Awards*

Restricted stock award activity for the three months ended March 31, 2018 was as follows:

	Three Months Ended March 31, 2018
Beginning outstanding balance	44,538
Awarded	—
Released	—
Forfeited	—
Ending outstanding balance	44,538
Weighted average grant date fair value of restricted stock awarded	\$ —
Total fair value of restricted stock awards released	—

#### *Stock Plan Assumptions*

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

	Three Months Ended March 31,	
	2018	2017
<b><u>Standard Stock Options</u></b>		
Expected life (in years)	4.4	4.6
Volatility	54%	56%
Interest rate	2.5%	1.9%
Dividend yield	N/A	N/A

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b><u>Market Condition Based Stock Options</u></b>		
Expected life (in years)	7.0	7.0
Volatility	59%	59%
Interest rate	1.6%	1.6%
Dividend yield	N/A	N/A

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b><u>Employee Stock Purchase Plan</u></b>		
Expected life (in years)	0.5	0.5
Volatility	74%	50%
Interest rate	1.7%	0.7%
Dividend yield	N/A	N/A

#### *Compensation Costs*

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

<b>(in thousands)</b>	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b><u>Statement of Operations Classifications</u></b>		
Sales and marketing	\$ (67)	\$ 210
Research and development	256	336
General and administrative	1,033	1,011
<b>Total</b>	<b>\$ 1,222</b>	<b>\$ 1,557</b>

As of March 31, 2018, there was \$12.7 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock options, restricted stock awards and RSUs granted to the Company's employees and directors. This cost will be recognized over an estimated weighted-average period of approximately 2.56 years for standard options, 1.80 years for RSUs, and 0.17 years for restricted stock awards. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

**STOCKHOLDERS'  
EQUITY**

**3 Months Ended  
Mar. 31, 2018**

[Equity \[Abstract\]](#)

[STOCKHOLDERS' EQUITY](#)

**STOCKHOLDERS' EQUITY**

*Accumulated Other Comprehensive Income*

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

(in thousands)	Three Months Ended March 31, 2018		
	Unrealized Gains and Losses on Short-term Investments	Foreign Currency Items	Total
Beginning balance	\$ (23)	\$ 122	\$ 99
Other comprehensive income before reclassifications	5	—	5
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net current period other comprehensive income	5	—	5
Ending Balance	\$ (18)	\$ 122	\$ 104

*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 repurchase during the three months ended March 31, 2018 and 2017. As of March 31, 2018, the Stock Repurchase Program remains available with approximately \$33.4 million that may yet be purchased under the program.

*Stockholders Right Plan*

On December 26, 2017, the Board declared a dividend of one right (a "Right") for each of the Company's issued and outstanding shares of common stock, par value \$0.001 per share. The dividend was paid to the stockholders of record at the close of business on January 8, 2018 (the "Record Date"). Each Right entitles the holder to purchase from the Company one one-thousandth of a share of the Company's Series B Junior Participating Preferred Stock (the "Preferred Stock") at a price of \$30.00(the "Exercise Price"), subject to certain adjustments and contingently issuable.

There were no rights exercised during the three months ended March 31, 2018 and 2017.

## INCOME TAXES

**3 Months Ended  
Mar. 31, 2018**

### [Income Tax Disclosure](#)

#### [\[Abstract\]](#)

### [INCOME TAXES](#)

#### INCOME TAXES

Income tax provisions consisted of the following:

(in thousands)	Three Months Ended March 31,	
	2018	2017
Income (loss) from continuing operations before provision for income taxes	\$ 70,336	\$(12,713)
Provision for income taxes	\$ (453)	\$ (152)
Effective tax rate	0.6%	(1.2)%

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. The Company continues to carry a full valuation allowance on its federal deferred tax assets. As a result, no provision for U.S. sourced income was included in the calculation, the primary 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, 2017 resulted primarily from estimated foreign taxes and foreign withholding tax expense.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "Tax Act") was passed into law. The 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 ("BEAT"), which creates a new tax on certain related party payments.

During December 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provided guidance on accounting for the federal tax rate change and other tax effects of the Tax Act. SAB 118 provided a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740, Income Taxes. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete, but the company is able to determine a reasonable estimate, it must record a provisional estimate in its financial statements. If a company cannot determine a provision estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with the Company's adoption of the Tax Act and consideration of SAB 118, the following updates have been made to the Company's income tax provision. In the fourth quarter of 2017, the Company recorded a \$12.9 million reduction to deferred tax assets and related valuation allowance in connection with the re-measurement of certain deferred tax assets and liabilities, resulting in no impact to its results of operations. The Company estimated that no current tax expense should be recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings, a provisional estimate at December 31, 2017. There have been no changes as of March 31, 2018. Additional work is necessary to complete a more detailed analysis of the Company's deferred tax assets and liabilities and historical foreign earnings as well as potential correlative adjustments.



For the Global Intangible Low-Taxed Income (“GILTI”) provisions of the Tax Act, the Company has not yet completed its assessment or elected an accounting policy to either recognize deferred taxes for basis differences expected to reverse as GILTI or to record GILTI as period costs if and when incurred. At March 31, 2018, because the Company is still evaluating the GILTI provisions and the analysis of future taxable income that is subject to GILTI, the Company has included GILTI related to current-year operations only in its annual effective tax rate calculation and has not provided additional GILTI on deferred items. Additionally, the Company has determined that it has not met the threshold requirements of the BEAT.

The Company has made a reasonable estimate of the effects of the Act as of March 31, 2018 in accordance with guidance in SAB 118. The Company will continue to monitor the estimated impacts as additional guidance is released. Any adjustments recorded to the provisional amounts through fourth quarter 2018 may be included in net income as an adjustment to tax expense.

As of March 31, 2018, the Company had unrecognized tax benefits under ASC 740 “Income Taxes” of approximately \$4.3 million and applicable interest of \$12,000. The total amount of unrecognized tax benefits that would affect the Company’s effective tax rate, if recognized, is \$556,000. 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, 2018, the Company had net deferred income tax assets of \$371,000 consisting primarily of foreign net operating loss carryforwards, and deferred income tax liabilities of \$80,000. 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 \$37.6 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.

**NET INCOME (LOSS) PER  
SHARE**

**3 Months Ended  
Mar. 31, 2018**

**Earnings Per Share**

**[Abstract]**

**NET INCOME (LOSS) PER  
SHARE**

**NET INCOME (LOSS) PER SHARE**

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

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(in thousands, except per share amounts)</b>	
<b>Numerator:</b>		
Net income (loss)	\$ 69,883	\$ (12,865)
<b>Denominator:</b>		
Shares used in computation of basic net income (loss) per share (weighted average common shares outstanding)	29,700	29,024
<b>Dilutive potential common shares:</b>		
Stock options, ESPP, restricted Stock and RSUs	866	—
Shares used in computation of diluted net income (loss) per share	30,566	29,024
Basic net income (loss) per share	\$ 2.35	\$ (0.44)
Diluted net income (loss) per share	\$ 2.29	\$ (0.44)

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.

As of March 31, 2017, the Company had securities outstanding that could potentially dilute basic earnings per share in the future, but these were excluded from the computation of diluted net loss per share for the three months ended March 31, 2017, since their effect would have been anti-dilutive. These outstanding securities consisted of the following:

	<b>March 31, 2017</b>
Standard and market condition stock options outstanding	3,616,995
Restricted stock awards outstanding	77,540
RSUs outstanding	403,935
ESPP	11,889

## CONTINGENCIES

**3 Months Ended  
Mar. 31, 2018**

[Commitments and  
Contingencies Disclosure](#)

[\[Abstract\]](#)

[CONTINGENCIES](#)

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

On April 28, 2017, Immersion Corporation and Immersion Software Ireland Limited (collectively, "Immersion") received a letter from Samsung Electronics Co. ("Samsung") requesting that Immersion 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 September 29, 2017, Samsung filed an arbitration demand with the International Chamber of Commerce against Immersion demanding that Immersion reimburse Samsung for the imposed tax and penalties that Samsung paid to the Korean tax authorities. Samsung is requesting that Immersion pay Samsung the amount of KRW7,841,324,165 (approximately \$6.3 million) plus interest from and after May 2, 2017, plus the cost of the arbitration including legal fees. The Company denies liability, and has 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 panel denied our motion and has proposed a procedural schedule with a hearing in July 2018. We filed our Statement of Defense and Counterclaim on April 16, 2018. Immersion believes that there are valid defenses to all of the claims from the Korean tax authorities and that Samsung's claims are without merit. Immersion intends to vigorously defend against these claims and as a result, Immersion has concluded that the likelihood of a material charge resulting from this claim is remote. In the event Samsung were to prevail in the arbitration in advance of the conclusion of the appeal with the Korea Tax Tribunal, Immersion could be required to make a payment to Samsung even though it would later be reimbursed should Immersion prevail in the appeal.

On October 16, 2017, Immersion received a letter from LG Electronics Inc. ("LGE") requesting that Immersion 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, Immersion filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes. Immersion 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.

**SIGNIFICANT  
ACCOUNTING POLICIES  
(Policies)**

**3 Months Ended**

**Mar. 31, 2018**

[Accounting Policies](#)

[\[Abstract\]](#)

[Description of Business](#)

*Description of Business*

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

[Principles of Consolidation  
and Basis of Presentation](#)

*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. The accompanying 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, 2017. 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, 2018 are not necessarily indicative of the results to be expected for the full year.

[Segment Information](#)

*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](#)

*Revenue Recognition*

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") 2014-09 "Revenue from Contracts with Customers (Topic 606)" ("Accounting Standard Codification 606", "ASC 606"), which superseded most prior revenue recognition guidance under ASC Topic 605, "Revenue Recognition" ("ASC 605") including

industry-specific guidance. The underlying principle of ASC 606 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers at an amount that the entity expects to be entitled in exchange for those goods or services. The new standard provides a five-step analysis of transactions to determine when and how revenue is recognized, and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption if the modified retrospective transition method is elected. The new standard also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The Company adopted the new revenue standard 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. Therefore, comparative prior periods have not been adjusted and continue to be presented under ASC 605. Refer to Note 2 to the condensed consolidated financial statements for the Company's revised revenue recognition accounting policy and a summary of the impact of adoption of ASC 606.

### ***Revised Revenue Recognition Accounting Policy***

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective transition method. The new revenue standard has been applied to all contracts that were not completed as of the date of adoption. To the extent that modifications occurred prior to the adoption of ASC 606, the Company has reflected the aggregate impact of any modification when evaluating the impact of the adoption.

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. The adoption of ASC 606 affected the Company's revenue recognition model for both fixed fee license revenue and per-unit royalty revenue presented on "royalty and license revenue" on the Company's condensed consolidated statements of operations and comprehensive income (loss).

#### *Fixed fee license revenue*

In applying ASC 606, 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:

- 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.

Under the Company's previous accounting practices under ASC 605, fixed license fees were generally recognized on a straight-line basis over the contract term. As a result of the adoption of ASC 606, 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 be required to allocate the transaction price based on the standalone price for each of the two performance obligations. The Company has developed a process, and established internal controls around such process, to estimate standalone prices related to Performance Obligation A and B using a number of factors primarily related to the attributes of its patent portfolio. 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 have been presented on a net basis.

Historically, certain of the Company's license agreements contained fixed fees related to past infringements for which the fixed fees were recognized as revenue or recorded as a deduction to its operating expense in the quarter the license agreement was signed. After the adoption of ASC 606, the Company will recognize revenue from such fixed fees related to past infringements in the same manner in the quarter the license agreement is signed.

In the event a significant financing component is determined to exist in any of our agreements, the Company will recognize more or less revenue and corresponding interest expense or income, as appropriate.

#### *Per-unit Royalty revenue*

Under the Company's previous accounting practices under ASC 605, it recognized revenue from per-unit royalty agreements in the period in which the related royalty report was received from its licensees, generally one quarter in arrears from the period in which the underlying sales occurred (i.e. on a "quarter-lag"). 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. 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. For the three months ended March 31, 2018, the Company had no true-ups from the estimates made on January 1, 2018 which would require presentation herein.

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. Per the Company's previous accounting policy under ASC 605, such minimum royalties were recognized as revenue at the end of each reporting period (usually a calendar year) if the actual royalties reported by the customer for that reporting period were below the minimum threshold set forth in the contract. 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. Therefore, 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 will establish contract assets for the unbilled minimum royalties on a contract basis. Such contract asset balance will be reduced by the actual royalties 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 have been presented on a net basis.

#### *Development, services, and other revenue*

With little change from its previous accounting practices related to development, service and other revenue, the Company will continue to recognize revenue from this stream when it has satisfied service obligations. Consistent with the Company's previous accounting practices under ASC 605, the performance obligation related to its development, service and other revenue is satisfied over a period of time, and such revenue is recognized evenly over the period of performance obligation, which is generally consistent with the contractual term.

## [Recent Accounting Pronouncements](#)

### *Recent Accounting Pronouncements*

#### *Adopted*

In March 2018, the FASB issued ASU2018-05 "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)", which updates Securities and Exchange Commission ("SEC") guidance released in December 2017 when the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. Additional information regarding the adoption of this ASU and its material impact on the Company's condensed consolidated financial statements is contained in Note 10 to the condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09 "Stock Compensation: Scope of Modification Accounting". The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2017. The Company adopted the standard effective January 1, 2018. The adoption of this ASU did not have a material impact on its condensed consolidated financial statements.

In December 2016, the FASB issued ASU 2016-19 "Technical Corrections and Improvements". The amendments in this update affect a wide variety of topics in the Accounting Standards Codification. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods in the annual period beginning after December 15, 2018. The Company adopted the standard effective January 1, 2018. The adoption of this ASU did not have a material impact on its condensed consolidated financial statements.

*Not yet adopted*

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". 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 is currently assessing when it will adopt this ASU and its potential impact on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 "Leases: Topic 842" ("ASU 2016-02"), which supersedes the existing guidance for lease accounting in Topic 840, Leases. The FASB issued the ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 requires lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting remains largely unchanged. This ASU is effective for periods beginning after December 15, 2018, with early adoption permitted. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently in the process of evaluating the impact of this standard on its condensed consolidated financial statements, but has not elected to early adopt the standard and would plan to implement the standard on January 1, 2019.

**REVENUE RECOGNITION**  
(Tables)

**Revenue from Contract with Customer [Abstract]**

**Schedule of adjustments and impacts related to adoption of ASC 606**

**3 Months Ended**  
**Mar. 31, 2018**

Amounts contained in the tables below are in thousands, except per share data.

	Three Months Ended March 31,			
	2018			2017
	As Reported (ASC 606)	Adjustments	ASC 605	As Reported (ASC 605)
Revenues:				
Fixed fee license revenue	\$ 75,756	\$ (72,341)	\$ 3,415	\$ 2,510
Per-unit royalty revenue	9,579	(4,351)	5,228	6,496
Total royalty and license revenue	85,335	(76,692)	8,643	9,006
Development, services, and other revenue	81	—	81	218
Total revenues	\$ 85,416	\$ (76,692)	\$ 8,724	\$ 9,224
Operating expenses	15,311	—	15,311	22,076
Operating income (loss)	70,105	(76,692)	(6,587)	(12,852)
Interest and other income	231	—	231	139
Income (loss) before provision for income taxes	70,336	(76,692)	(6,356)	(12,713)
Income tax provision	(453)	—	(453)	(152)
Net income (loss)	\$ 69,883	\$ (76,692)	\$ (6,809)	\$ (12,865)
Basic net income (loss) per share	\$ 2.35	\$ (2.58)	\$ (0.23)	\$ (0.44)
Diluted net income (loss) per share	\$ 2.29	\$ (2.51)	\$ (0.22)	\$ (0.44)

(in thousands)	March 31, 2018			December 31, 2017
	As Reported (ASC 606)	Adjustments	ASC 605	As Reported (ASC 605)
	Prepaid expenses and other current assets	5,616	(4,847)	769
Other non-current assets	4,808	(4,500)	308	344
Deferred revenue - current	(4,920)	(9,521)	(14,441)	(4,424)
Long-term deferred revenue	(33,665)	(76,160)	(109,825)	(22,303)
Accumulated Deficit	83,398	95,027	178,425	171,616

The following table summarizes adjustments related to the Company's adoption of ASC 606.

(in thousands)	Balance at December 31, 2017 as Reported	Adjustment for Fixed Fee License Revenue *	Elimination of Quarter-Lag Per-Unit Royalties	Total Adjustments upon Adoption of ASC 606	Balance at January 1, 2018 (ASC 606)



**under ASC  
605**

Prepaid expenses and other current assets	\$ 736		\$ 4,996	\$ 4,996	\$ 5,732
Deferred revenue - current	(4,424)	1,766		1,766	(2,658)
Long-term deferred revenue	(22,303)	11,573		11,573	(10,730)
Accumulated deficit	171,616	(13,339)	(4,996)	(18,335)	153,281

\* Adjustment for fixed fee license revenue includes both the recognition of Performance Obligation A upon the adoption of ASC 606, which had previously been deferred under ASC 605, and the change in the transaction price allocated to Performance Obligation B and consequently the revenue recognized as of January 1, 2018.

Disaggregated revenue

The following table presents the disaggregation of the Company's revenue for the three months ended March 31, 2018 under ASC 606. Revenues for the three months ended March 31, 2017 are presented in accordance with ASC 605.

(in thousands)	Three Months Ended March 31,		Increase (Decrease)	
	2018	2017		
Fixed fee license revenue	75,756	2,510	73,246	2,918 %
Per-Unit royalty revenue	9,579	6,496	3,083	47 %
Total royalty and license revenue	85,335	9,006	76,329	848 %
Development, services, and other revenue	81	218	(137)	(63)%
<b>Total revenues</b>	<b>85,416</b>	<b>9,224</b>	<b>76,192</b>	<b>826 %</b>

Contracted revenue

Based on contracts signed and payments received as of March 31, 2018, the Company expects to recognize \$38.6 million revenue related to Performance Obligation B under its fixed fee license agreements, which is satisfied over time, including \$14.3 million over one to three years, and \$24.3 million over more than three years, respectively.

**FAIR VALUE  
MEASUREMENTS (Tables)**

**3 Months Ended  
Mar. 31, 2018**

[Fair Value Disclosures \[Abstract\]  
Schedule of financial instruments  
measured at fair value on recurring  
basis](#)

Financial instruments measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017 are classified based on the valuation technique in the table below:

March 31, 2018				
Fair value measurements using				
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
U.S. Treasury securities	\$ —	\$ 19,842	\$ —	\$ 19,842
Money market accounts	56,273	—	—	56,273
Total assets at fair value	\$ 56,273	\$ 19,842	\$ —	\$ 76,115

December 31, 2017				
Fair value measurements using				
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
U.S. Treasury securities	\$ —	\$ 21,916	\$ —	\$ 21,916
Money market accounts	1,117	—	—	1,117
Total assets at fair value	\$ 1,117	\$ 21,916	\$ —	\$ 23,033

[Schedule of short-term investments](#)

*Short-term Investments*

March 31, 2018				
(in thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. Treasury securities	\$ 19,860	\$ —	\$ (18)	\$ 19,842
Total	\$ 19,860	\$ —	\$ (18)	\$ 19,842

December 31, 2017				
(in thousands)	Amortized Cost	Gross Unrealized Holding	Gross Unrealized Holding	Fair Value

		<b>Gains</b>	<b>Losses</b>	
U.S. Treasury securities	\$ 21,939	\$ —	\$ (23)	\$ 21,916
Total	\$ 21,939	\$ —	\$ (23)	\$ 21,916

ACCOUNTS AND OTHER  
RECEIVABLES (Tables)

3 Months Ended  
Mar. 31, 2018

[Receivables \[Abstract\]](#)

[Schedule of accounts and other receivables](#)

(in thousands)	March 31, 2018	December 31, 2017
Trade accounts receivable	\$ 2,279	\$ 458
Other receivables	388	348
Accounts and other receivables	<u>\$ 2,667</u>	<u>\$ 806</u>

**PROPERTY AND  
EQUIPMENT (Tables)**

**3 Months Ended  
Mar. 31, 2018**

[Property, Plant and Equipment  
\[Abstract\]](#)

[Schedule of property and equipment](#)

<b>(in thousands)</b>	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Computer equipment and purchased software	\$ 3,212	\$ 3,206
Machinery and equipment	834	834
Furniture and fixtures	1,146	1,274
Leasehold improvements	3,920	3,920
Total	9,112	9,234
Less accumulated depreciation	(6,209)	(6,084)
Property and equipment, net	\$ 2,903	\$ 3,150

**OTHER CURRENT  
LIABILITIES (Tables)**

**3 Months Ended  
Mar. 31, 2018**

**Other Liabilities, Current [Abstract]**

**Components of other current liabilities**

<b>(in thousands)</b>	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Accrued legal	\$ 2,182	\$ 2,202
Income taxes payable	118	219
Other current liabilities	996	1,475
Total other current liabilities	<u>\$ 3,296</u>	<u>\$ 3,896</u>

**RESTRUCTURING COSTS**  
(Tables)

**3 Months Ended**  
**Mar. 31, 2018**

[Restructuring and Related Activities \[Abstract\]](#)

[Schedule of restructuring costs](#)

The following table presents a reconciliation of the restructuring reserve recorded within accrued liabilities on the Company's condensed consolidated balance sheet as of March 31, 2018:

(in thousands)	Three Months Ended March 31, 2018			
	Employee Separation Costs	Asset-Related Charges	Other	Total
Balance as of December 31, 2017	\$ 1,522	\$ —	\$ 57	\$ 1,579
Charges	—	—	—	—
Adjustments	(44)	—	—	(44)
Non-cash activity	—	—	(26)	(26)
Cash Payments	(1,468)	—	—	(1,468)
Balance as of March 31, 2018	10	—	31	41

017 restructuring costs that were reflected in the consolidated statements of operations for the three months ended March 31, 2018. There were no restructuring costs for the three months ended March 31, 2017.

(in thousands)	Three Months Ended March 31, 2018			
	Employee Separation Costs	Asset-Related Charges	Other	Total
Restructuring	\$ (44)	\$ —	\$ —	\$ (44)

**STOCK-BASED  
COMPENSATION (Tables)**

**3 Months Ended  
Mar. 31, 2018**

[Disclosure of Compensation Related Costs,  
Share-based Payments \[Abstract\]  
Schedule of stock options and awards](#)

	<b>March 31, 2018</b>
Common stock shares available for grant	1,653,597
Standard and market condition stock options outstanding	2,726,207
Restricted stock awards outstanding	44,538
RSU's outstanding	1,210,086

[Schedule of employee stock purchase plan](#)

The intrinsic value listed below is calculated as the difference between the market value on the date of purchase and the purchase price of the shares.

	<b>Three Months Ended March 31, 2018</b>
Shares purchased under ESPP	13,834
Average price of shares purchased under ESPP	\$ 7.11
Intrinsic value of shares purchased under ESPP	\$ 45,000

[Schedule of standard and market-based stock  
options activity](#)

The following table sets forth the summary of activity with respect to standard stock options granted under the Company's stock option plans for the three months ended March 31, 2018:

	<b>Three Months Ended March 31, 2018</b>
Beginning outstanding balance	3,277,991
Granted	167,500
Exercised	(922,842)
Forfeited	(25,103)
Expired	(43,420)
Ending outstanding balance	2,454,126
Aggregate intrinsic value of options exercised	\$ 4,726,000
Weighted average fair value of options granted	\$ 5.48

[Schedule of information regarding standard and  
market condition based stock options  
outstanding](#)

Information regarding these standard stock options outstanding at March 31, 2018 is summarized below:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (years)</b>	<b>Aggregate Intrinsic Value (in millions)</b>
<b>March 31, 2018</b>				



Options outstanding	2,454,126	\$	8.69	3.42	\$	8.0
Options vested and expected to vest using estimated forfeiture rates	2,334,242		8.66	3.28		7.7
Options exercisable	1,730,105	\$	8.56	2.33	\$	5.9

[Schedule of restricted stock units activity](#)

RSU activity for the three months ended March 31, 2018 was as follows:

	<b>Three Months Ended March 31, 2018</b>
Beginning outstanding balance	508,880
Awarded	912,793
Released	(156,781)
Forfeited	(54,806)
Ending outstanding balance	1,210,086
Weighted average fair value on grant date of RSUs	\$ 11.84
Total fair value of RSUs released	\$ 1,860,000

[Schedule of information regarding restricted stock units outstanding](#)

Information regarding RSUs outstanding at March 31, 2018 is summarized below:

	<b>Number of Shares</b>	<b>Weighted Average Remaining Contractual Life (years)</b>	<b>Aggregate Intrinsic Value (in millions)</b>
<b>March 31, 2018</b>			
RSUs outstanding	1,210,086	1.35	\$ 14.5
RSUs vested and expected to vest using estimated forfeiture rates	938,701	1.25	\$ 11.2

[Schedule of restricted stock awards activity](#)

Restricted stock award activity for the three months ended March 31, 2018 was as follows:

	<b>Three Months Ended March 31, 2018</b>
Beginning outstanding balance	44,538
Awarded	—
Released	—
Forfeited	—
Ending outstanding balance	44,538

[Schedule of stock options, market condition based stock options and employee stock purchase plan, valuation assumptions](#)

Weighted average grant date fair value of restricted stock awarded	\$	—
Total fair value of restricted stock awards released		—

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

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b><u>Standard Stock Options</u></b>		
Expected life (in years)	4.4	4.6
Volatility	54%	56%
Interest rate	2.5%	1.9%
Dividend yield	N/A	N/A

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b><u>Market Condition Based Stock Options</u></b>		
Expected life (in years)	7.0	7.0
Volatility	59%	59%
Interest rate	1.6%	1.6%
Dividend yield	N/A	N/A

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b><u>Employee Stock Purchase Plan</u></b>		
Expected life (in years)	0.5	0.5
Volatility	74%	50%
Interest rate	1.7%	0.7%
Dividend yield	N/A	N/A

[Schedule of stock-based compensation](#)

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

<b>(in thousands)</b>	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b><u>Statement of Operations Classifications</u></b>		
Sales and marketing	\$ (67)	\$ 210
Research and development	256	336
General and administrative	1,033	1,011
Total	<u>\$ 1,222</u>	<u>\$ 1,557</u>

**STOCKHOLDERS'  
EQUITY (Tables)**

**3 Months Ended  
Mar. 31, 2018**

[Equity \[Abstract\]](#)

[Changes in accumulated other comprehensive income](#)

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

(in thousands)	Three Months Ended March 31, 2018		
	Unrealized Gains and Losses on Short-term Investments	Foreign Currency Items	Total
Beginning balance	\$ (23)	\$ 122	\$ 99
Other comprehensive income before reclassifications	5	—	5
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net current period other comprehensive income	5	—	5
Ending Balance	\$ (18)	\$ 122	\$ 104

## INCOME TAXES (Tables)

**3 Months Ended  
Mar. 31, 2018**

### [Income Tax Disclosure](#)

#### [\[Abstract\]](#)

#### [Schedule of income tax provisions](#)

Income tax provisions consisted of the following:

(in thousands)	Three Months Ended March 31,	
	2018	2017
Income (loss) from continuing operations before provision for income taxes	\$ 70,336	\$(12,713)
Provision for income taxes	\$ (453)	\$ (152)
Effective tax rate	0.6%	(1.2)%

**NET INCOME (LOSS) PER  
SHARE (Tables)**

**3 Months Ended  
Mar. 31, 2018**

[Earnings Per Share \[Abstract\]](#)

[Reconciliation used in Computing Basic  
and Diluted Net Income \(Loss\) per Share](#)

The following is a reconciliation of the numerators and denominators used in computing basic and diluted net loss per share for both continuing and discontinued operations:

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(in thousands, except per share amounts)</b>	
<b>Numerator:</b>		
Net income (loss)	\$ 69,883	\$(12,865)
<b>Denominator:</b>		
Shares used in computation of basic net income (loss) per share (weighted average common shares outstanding)	29,700	29,024
<b>Dilutive potential common shares:</b>		
Stock options, ESPP, restricted Stock and RSUs	866	—
Shares used in computation of diluted net income (loss) per share	30,566	29,024
Basic net income (loss) per share	\$ 2.35	\$ (0.44)
Diluted net income (loss) per share	\$ 2.29	\$ (0.44)

[Schedule of Antidilutive Securities  
Excluded from Computation of Earnings  
Per Share](#)

These outstanding securities consisted of the following:

	<b>March 31, 2017</b>
Standard and market condition stock options outstanding	3,616,995
Restricted stock awards outstanding	77,540
RSUs outstanding	403,935
ESPP	11,889

**SIGNIFICANT  
ACCOUNTING POLICIES  
- ADDITIONAL  
INFORMATION (Detail)**

**3 Months Ended  
Mar. 31, 2018  
Segment**

[Accounting Policies \[Abstract\]](#)

[Number of reporting segments](#) 1

[Number of operating segments](#) 1

## REVENUE RECOGNITION

- Adjustments Upon  
Adoption of ASC 606  
(Details) - USD (\$)  
\$ in Thousands

Mar. 31, Jan. 01, Dec. 31,  
2018 2018 2017

### Revenue, Initial Application Period Cumulative Effect Transition [Line Items]

<u>Prepaid expenses and other current assets</u>	\$ 5,616	\$ 5,732	\$ 736
<u>Deferred revenue</u>	(4,920)	(2,658)	(4,424)
<u>Long-term deferred revenue</u>	(33,665)	(10,730)	(22,303)
<u>Accumulated deficit</u>	83,398	153,281	171,616

Calculated under revenue guidance in effect before Topic 606

### Revenue, Initial Application Period Cumulative Effect Transition [Line Items]

<u>Prepaid expenses and other current assets</u>	769		736
<u>Deferred revenue</u>	(14,441)		(4,424)
<u>Long-term deferred revenue</u>	(109,825)		(22,303)
<u>Accumulated deficit</u>	178,425		\$ 171,616

Accounting Standards Update 2014-09 | Difference between revenue guidance in effect before and after Topic 606

### Revenue, Initial Application Period Cumulative Effect Transition [Line Items]

<u>Prepaid expenses and other current assets</u>	(4,847)	4,996	
<u>Deferred revenue</u>	(9,521)	1,766	
<u>Long-term deferred revenue</u>	(76,160)	11,573	
<u>Accumulated deficit</u>	\$ 95,027	(18,335)	

Adjustment for Fixed Fee License Revenue | Accounting Standards Update 2014-09 | Difference between revenue guidance in effect before and after Topic 606

### Revenue, Initial Application Period Cumulative Effect Transition [Line Items]

<u>Deferred revenue</u>		1,766	
<u>Long-term deferred revenue</u>		11,573	
<u>Accumulated deficit</u>		(13,339)	

Elimination of Quarter-Lag Per-Unit Royalties | Accounting Standards Update 2014-09 | Difference between revenue guidance in effect before and after Topic 606

### Revenue, Initial Application Period Cumulative Effect Transition [Line Items]

<u>Prepaid expenses and other current assets</u>		4,996	
<u>Accumulated deficit</u>		\$ (4,996)	

<b>REVENUE RECOGNITION</b>	<b>3 Months Ended</b>		<b>12 Months Ended</b>
<b>- Disaggregated Revenue</b>	<b>Mar. 31, 2018</b>	<b>Mar. 31, 2017</b>	<b>Mar. 31, 2018</b>
<b>(Details) - USD (\$)</b>			
<b><u>Disaggregation of Revenue [Line Items]</u></b>			
<u>Revenue</u>	\$ 85,416,000	\$ 9,224,000	
<u>Revenue, increase (decrease)</u>			\$ 76,192,000
<u>Revenue, increase (decrease), percent</u>			826.00%
<u>Revenue, revenue recognized</u>	487,000		
<u>Contract with customer, asset, current</u>	4,800,000		\$ 4,800,000
<u>Contract with customer, asset, noncurrent</u>	4,500,000		4,500,000
<u>Contract assets, impairment</u>	0		
<u>Fixed fee license revenue</u>			
<b><u>Disaggregation of Revenue [Line Items]</u></b>			
<u>Revenue</u>	75,756,000	2,510,000	
<u>Revenue, increase (decrease)</u>			\$ 73,246,000
<u>Revenue, increase (decrease), percent</u>			2918.00%
<u>Per-unit royalty revenue</u>			
<b><u>Disaggregation of Revenue [Line Items]</u></b>			
<u>Revenue</u>	9,579,000	6,496,000	
<u>Revenue, increase (decrease)</u>			\$ 3,083,000
<u>Revenue, increase (decrease), percent</u>			47.00%
<u>Total royalty and license revenue</u>			
<b><u>Disaggregation of Revenue [Line Items]</u></b>			
<u>Revenue</u>	85,335,000	9,006,000	
<u>Revenue, increase (decrease)</u>			\$ 76,329,000
<u>Revenue, increase (decrease), percent</u>			848.00%
<u>Development, services, and other revenue</u>			
<b><u>Disaggregation of Revenue [Line Items]</u></b>			
<u>Revenue</u>	\$ 81,000	\$ 218,000	
<u>Revenue, increase (decrease)</u>			\$ (137,000)
<u>Revenue, increase (decrease), percent</u>			(63.00%)



**REVENUE RECOGNITION**  
**- Impact of Adoption of ASC**  
**606 (Details) - USD (\$)**  
**\$ / shares in Units, \$ in**  
**Thousands**

**3 Months Ended**

	<b>Mar. 31,</b>	<b>Mar.</b>	<b>Jan. 01, Dec. 31,</b>
	<b>2018</b>	<b>31,</b>	<b>2018 2017</b>
		<b>2017</b>	
<b>Revenues:</b>			
<u>Royalty and license</u>	\$ 85,335	\$ 9,006	
<u>Development, services, and other</u>	81	218	
<u>Total revenues</u>	85,416	9,224	
<u>Operating Expenses</u>	15,311		
<u>Operating income (loss)</u>	70,105	(12,852)	
<u>Interest and other income</u>	231	139	
<u>Income (loss) before provision for income taxes</u>	70,336	(12,713)	
<u>Provision for income taxes</u>	(453)	(152)	
<u>Net income (loss)</u>	\$ 69,883	\$ (12,865)	
<u>Basic net loss per share (in dollars per share)</u>	\$ 2.35	\$ (0.44)	
<u>Diluted net loss per share (in dollars per share)</u>	\$ 2.29	\$ (0.44)	
<b>Balance Sheets</b>			
<u>Prepaid expenses and other current assets</u>	\$ 5,616		\$ 5,732 \$ 736
<u>Other assets</u>	4,808		344
<u>Deferred revenue - current</u>	(4,920)		(2,658) (4,424)
<u>Long-term deferred revenue</u>	(33,665)		(10,730) (22,303)
<u>Accumulated deficit</u>	83,398		153,281 171,616
<u>Fixed fee license revenue</u>			
<b>Revenues:</b>			
<u>Royalty and license</u>	75,756		
<u>Per-unit royalty revenue</u>			
<b>Revenues:</b>			
<u>Royalty and license</u>	9,579		
<u>Calculated under revenue guidance in effect before Topic 606</u>			
<b>Revenues:</b>			
<u>Royalty and license</u>	8,643	\$ 9,006	
<u>Development, services, and other</u>	81	218	
<u>Total revenues</u>	8,724	9,224	
<u>Operating Expenses</u>	15,311	22,076	
<u>Operating income (loss)</u>	(6,587)	(12,852)	
<u>Interest and other income</u>	231	139	
<u>Income (loss) before provision for income taxes</u>	(6,356)	(12,713)	
<u>Provision for income taxes</u>	(453)	(152)	
<u>Net income (loss)</u>	\$ (6,809)	\$ (12,865)	
<u>Basic net loss per share (in dollars per share)</u>	\$ (0.23)	\$ (0.44)	
<u>Diluted net loss per share (in dollars per share)</u>	\$ (0.22)	\$ (0.44)	

**Balance Sheets**

<u>Prepaid expenses and other current assets</u>	\$ 769	736
<u>Other assets</u>	308	344
<u>Deferred revenue - current</u>	(14,441)	(4,424)
<u>Long-term deferred revenue</u>	(109,825)	(22,303)
<u>Accumulated deficit</u>	178,425	\$ 171,616

Calculated under revenue guidance in effect before Topic 606 | Fixed fee license revenue

**Revenues:**

Royalty and license 3,415 \$ 2,510

Calculated under revenue guidance in effect before Topic 606 | Per-unit royalty revenue

**Revenues:**

Royalty and license 5,228 \$ 6,496

Accounting Standards Update 2014-09 | Difference between revenue guidance in effect before and after Topic 606

**Revenues:**

Royalty and license (76,692)

Development, services, and other 0

Total revenues (76,692)

Operating Expenses 0

Operating income (loss) (76,692)

Interest and other income 0

Income (loss) before provision for income taxes (76,692)

Provision for income taxes 0

Net income (loss) \$  
(76,692)

Basic net loss per share (in dollars per share) \$ (2.58)

Diluted net loss per share (in dollars per share) \$ (2.51)

**Balance Sheets**

<u>Prepaid expenses and other current assets</u>	\$ (4,847)	4,996
<u>Other assets</u>	(4,500)	
<u>Deferred revenue - current</u>	(9,521)	1,766
<u>Long-term deferred revenue</u>	(76,160)	11,573
<u>Accumulated deficit</u>	95,027	(18,335)

Accounting Standards Update 2014-09 | Difference between revenue guidance in effect before and after Topic 606 | Fixed fee license revenue

**Revenues:**

Royalty and license (72,341)

**Balance Sheets**

<u>Deferred revenue - current</u>		1,766
<u>Long-term deferred revenue</u>		11,573
<u>Accumulated deficit</u>		(13,339)

[Accounting Standards Update 2014-09 | Difference between revenue guidance in effect before and after Topic 606 | Per-unit royalty revenue](#)

**Revenues:**

[Royalty and license](#)

\$ (4,351)

**Balance Sheets**

[Prepaid expenses and other current assets](#)

4,996

[Accumulated deficit](#)

\$  
(4,996)

**REVENUE RECOGNITION**  
**- Contracted Revenue**  
**(Details)**  
**\$ in Millions**

**Mar. 31,**  
**2018**  
**USD (\$)**

Revenue, Remaining Performance Obligation, Expected Timing of Satisfaction, Start Date [Axis]:  
2018-12-31

**Revenue, Remaining Performance Obligation, Expected Timing of Satisfaction [Line Items]**

Revenue, remaining performance obligation \$ 14.3

Revenue, Remaining Performance Obligation, Expected Timing of Satisfaction, Start Date [Axis]:  
2021-12-31

**Revenue, Remaining Performance Obligation, Expected Timing of Satisfaction [Line Items]**

Revenue, remaining performance obligation 24.3

Revenue, Remaining Performance Obligation, Expected Timing of Satisfaction, Start Date [Axis]:  
(nil)

**Revenue, Remaining Performance Obligation, Expected Timing of Satisfaction [Line Items]**

Revenue, remaining performance obligation \$ 38.6

**FAIR VALUE  
MEASUREMENTS -  
SCHEDULE OF  
FINANCIAL  
INSTRUMENTS  
MEASURED AT FAIR  
VALUE ON RECURRING  
BASIS (Detail) - USD (\$)  
\$ in Thousands**

**Mar. 31,    Dec. 31,  
2018        2017**

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis  
[Line Items]**

<u>Total assets at fair value</u>	\$ 76,115	\$ 23,033
<u>Short-term investments   U.S. Treasury securities</u>		

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis  
[Line Items]**

<u>Total assets at fair value</u>	19,842	21,916
<u>Cash and cash equivalents   Money market accounts</u>		

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis  
[Line Items]**

<u>Total assets at fair value</u>	56,273	1,117
<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>		

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis  
[Line Items]**

<u>Total assets at fair value</u>	56,273	1,117
<u>Quoted Prices in Active Markets for Identical Assets (Level 1)   Short-term investments  </u>		

U.S. Treasury securities

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis  
[Line Items]**

<u>Total assets at fair value</u>	0	0
<u>Quoted Prices in Active Markets for Identical Assets (Level 1)   Cash and cash</u>		

equivalents | Money market accounts

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis  
[Line Items]**

<u>Total assets at fair value</u>	56,273	1,117
<u>Significant Other Observable Inputs (Level 2)</u>		

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis  
[Line Items]**

<u>Total assets at fair value</u>	19,842	21,916
<u>Significant Other Observable Inputs (Level 2)   Short-term investments   U.S. Treasury</u>		

securities

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis  
[Line Items]**

<u>Total assets at fair value</u>	19,842	21,916
<u>Significant Other Observable Inputs (Level 2)   Cash and cash equivalents   Money market</u>		

accounts

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis**

**[Line Items]**

Total assets at fair value 0 0

Significant Unobservable Inputs (Level 3)

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis**

**[Line Items]**

Total assets at fair value 0 0

Significant Unobservable Inputs (Level 3) | Short-term investments | U.S. Treasury securities

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis**

**[Line Items]**

Total assets at fair value 0 0

Significant Unobservable Inputs (Level 3) | Cash and cash equivalents | Money market accounts

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis**

**[Line Items]**

Total assets at fair value \$ 0 \$ 0

**FAIR VALUE  
MEASUREMENTS -  
SCHEDULE OF SHORT-  
TERM INVESTMENTS**

**Mar. 31, 2018 Dec. 31, 2017**

**(Detail) - USD (\$)  
\$ in Thousands**

**Schedule of Available-for-sale Securities [Line Items]**

<u>Short-term investments, amortized cost</u>	\$ 19,860	\$ 21,939
<u>Short-term investments, gross unrealized holding gains</u>	0	0
<u>Short-term investments, gross unrealized holding losses</u>	(18)	(23)
<u>Short-term investments, fair value</u>	19,842	21,916
<u>U.S. Treasury securities</u>		

**Schedule of Available-for-sale Securities [Line Items]**

<u>Short-term investments, amortized cost</u>	19,860	21,939
<u>Short-term investments, gross unrealized holding gains</u>	0	0
<u>Short-term investments, gross unrealized holding losses</u>	(18)	(23)
<u>Short-term investments, fair value</u>	\$ 19,842	\$ 21,916

**FAIR VALUE  
MEASUREMENTS -  
ADDITIONAL  
INFORMATION (Detail) -  
USD (\$)**

	<b>3 Months Ended</b>	<b>12 Months Ended</b>
	<b>Mar. 31, 2018</b>	<b>Dec. 31, 2017</b>

**Fair Value Disclosures [Abstract]**

<u>Cash held in banks</u>	\$ 62,900,000	\$ 23,500,000
<u>Period for contractual maturities of the Company's available-for-sale securities</u>	1 year	1 year
<u>Fair value assets, Level 1 to Level 2</u>	\$ 0	\$ 0
<u>Fair value assets, Level 2 to Level 1</u>	0	0
<u>Fair value liabilities, Level 1 to Level 2</u>	0	0
<u>Fair value liabilities, Level 2 to Level 1</u>	\$ 0	\$ 0



**ACCOUNTS AND OTHER  
RECEIVABLES -  
SCHEDULE OF  
ACCOUNTS AND OTHER    Mar. 31, 2018    Dec. 31, 2017  
RECEIVABLES (Detail) -  
USD (\$)  
\$ in Thousands**

**Receivables [Abstract]**

<u>Trade accounts receivable</u>	\$ 2,279	\$ 458
<u>Other receivables</u>	388	348
<u>Accounts and other receivables</u>	2,667	806
<u>Allowance for doubtful accounts</u>	\$ 0	\$ 0

**PROPERTY AND  
EQUIPMENT -  
SCHEDULE OF  
PROPERTY AND  
EQUIPMENT (Detail) - USD  
(\$)  
\$ in Thousands**

**Mar. 31, 2018 Dec. 31, 2017**

**Property, Plant and Equipment [Line Items]**

<u>Property and equipment, total</u>	\$ 9,112	\$ 9,234
<u>Less accumulated depreciation</u>	(6,209)	(6,084)
<u>Property and equipment, net</u>	2,903	3,150

Computer equipment and purchased software

**Property, Plant and Equipment [Line Items]**

<u>Property and equipment, total</u>	3,212	3,206
--------------------------------------	-------	-------

Machinery and equipment

**Property, Plant and Equipment [Line Items]**

<u>Property and equipment, total</u>	834	834
--------------------------------------	-----	-----

Furniture and fixtures

**Property, Plant and Equipment [Line Items]**

<u>Property and equipment, total</u>	1,146	1,274
--------------------------------------	-------	-------

Leasehold improvements

**Property, Plant and Equipment [Line Items]**

<u>Property and equipment, total</u>	\$ 3,920	\$ 3,920
--------------------------------------	----------	----------

**OTHER CURRENT  
LIABILITIES (Detail) - USD  
(\$)  
\$ in Thousands**

**Mar. 31, 2018 Dec. 31, 2017**

**Other Liabilities, Current [Abstract]**

<u>Accrued legal</u>	\$ 2,182	\$ 2,202
<u>Income taxes payable</u>	118	219
<u>Other current liabilities</u>	996	1,475
<u>Total other current liabilities</u>	\$ 3,296	\$ 3,896

<b>RESTRUCTURING COSTS</b>	<b>3 Months Ended</b>	<b>12 Months Ended</b>	
<b>(Details) - 2017 Strategic</b>	<b>Mar. 31, 2018</b>	<b>Mar. 31, 2017</b>	<b>Dec. 31, 2017</b>
<b>Restructuring Plan</b>	<b>USD (\$)</b>	<b>USD (\$)</b>	<b>USD (\$)</b>
	<b>position</b>		

**Restructuring Cost and Reserve [Line Items]**

<u>Restructuring charges, number of position eliminated   position</u>	56		
<u>Restructuring charges, percentage of position eliminated</u>	41.00%		
<u>Charges   \$</u>	\$ 0	\$ 0	\$ 1,600,000

<b>RESTRUCTURING COSTS</b>	<b>3 Months Ended</b>
<b>- Restructuring Costs</b>	
<b>(Details) - 2017 Strategic</b>	<b>Mar. 31, 2018</b>
<b>Restructuring Plan</b>	<b>USD (\$)</b>
<b>\$ in Thousands</b>	

**Restructuring Cost and Reserve [Line Items]**

Restructuring adjustment \$ (44)

Employee Separation Costs

**Restructuring Cost and Reserve [Line Items]**

Restructuring adjustment (44)

Asset-Related Charges

**Restructuring Cost and Reserve [Line Items]**

Restructuring adjustment 0

Other

**Restructuring Cost and Reserve [Line Items]**

Restructuring adjustment \$ 0

<b>RESTRUCTURING COSTS</b>	<b>3 Months Ended</b>		<b>12 Months Ended</b>
<b>- Restructuring Accrual</b>			
<b>(Details) - 2017 Strategic</b>	<b>Mar. 31, 2018</b>	<b>Mar. 31, 2017</b>	<b>Dec. 31, 2017</b>
<b>Restructuring Plan - USD (\$)</b>			
<b><u>Restructuring Reserve [Roll Forward]</u></b>			
<u>Liability beginning of period</u>	\$ 1,579,000		
<u>Charges</u>	0	\$ 0	\$ (1,600,000)
<u>Restructuring adjustment</u>	(44,000)		
<u>Non-cash activity</u>	(26,000)		
<u>Cash Payments</u>	(1,468,000)		
<u>Liability end of period</u>	41,000		1,579,000
<u>Employee Separation Costs</u>			
<b><u>Restructuring Reserve [Roll Forward]</u></b>			
<u>Liability beginning of period</u>	1,522,000		
<u>Charges</u>	0		
<u>Restructuring adjustment</u>	(44,000)		
<u>Non-cash activity</u>	0		
<u>Cash Payments</u>	(1,468,000)		
<u>Liability end of period</u>	10,000		1,522,000
<u>Asset-Related Charges</u>			
<b><u>Restructuring Reserve [Roll Forward]</u></b>			
<u>Liability beginning of period</u>	0		
<u>Charges</u>	0		
<u>Restructuring adjustment</u>	0		
<u>Non-cash activity</u>	0		
<u>Cash Payments</u>	0		
<u>Liability end of period</u>	0		0
<u>Other</u>			
<b><u>Restructuring Reserve [Roll Forward]</u></b>			
<u>Liability beginning of period</u>	57,000		
<u>Charges</u>	0		
<u>Restructuring adjustment</u>	0		
<u>Non-cash activity</u>	(26,000)		
<u>Cash Payments</u>			
<u>Liability end of period</u>	\$ 31,000		\$ 57,000

**STOCK-BASED  
COMPENSATION -  
SCHEDULE OF STOCK  
OPTIONS AND AWARDS  
(Detail) - shares**

**Mar. 31,  
2018**      **Dec. 31,  
2017**

**Share-based Compensation Arrangement by Share-based Payment Award [Line  
Items]**

Common stock shares available for grant (in shares) 1,653,597

Standard and market condition stock options outstanding

**Share-based Compensation Arrangement by Share-based Payment Award [Line  
Items]**

Standard and market condition stock options outstanding (in shares) 2,726,207

Restricted stock awards outstanding

**Share-based Compensation Arrangement by Share-based Payment Award [Line  
Items]**

Restricted stock outstanding (in shares) 44,538      44,538

RSUs outstanding

**Share-based Compensation Arrangement by Share-based Payment Award [Line  
Items]**

Restricted stock outstanding (in shares) 1,210,086      508,880

**STOCK-BASED  
COMPENSATION -  
SCHEDULE OF  
EMPLOYEE STOCK  
PURCHASE PLAN (Detail)  
- USD (\$)  
\$ / shares in Units, \$ in  
Thousands**

**3 Months Ended**

**Mar. 31, 2018 Mar. 31, 2017**

**Disclosure of Compensation Related Costs, Share-based Payments [Abstract]**

<u>Shares purchased under ESPP (in shares)</u>	13,834	27,667
<u>Average price of shares purchased under ESPP (in dollars per share)</u>	\$ 7.11	
<u>Intrinsic value of shares purchased under ESPP</u>	\$ 45	



**STOCK-BASED  
COMPENSATION -  
SCHEDULE OF  
STANDARD AND  
MARKET-BASED STOCK  
OPTIONS ACTIVITY  
(Detail) - Standard Stock  
Options  
\$ / shares in Units, \$ in  
Thousands**

**3 Months  
Ended**

**Mar. 31,  
2018  
USD (\$)  
\$ / shares  
shares**

**Share-based Compensation Arrangement by Share-based Payment Award, Options,  
Nonvested, Number of Shares [Roll Forward]**

<u>Beginning outstanding balance (in shares)</u>	3,277,991
<u>Granted (in shares)</u>	167,500
<u>Exercised (in shares)</u>	(922,842)
<u>Forfeited (in shares)</u>	(25,103)
<u>Expired (in shares)</u>	(43,420)
<u>Ending outstanding balance (in shares)</u>	2,454,126
<u>Aggregate intrinsic value of options exercised   \$</u>	\$ 4,726,000
<u>Weighted average fair value of options granted (in dollars per share)   \$ / shares</u>	\$ 5.48

**STOCK-BASED  
COMPENSATION -  
SCHEDULE OF  
INFORMATION  
REGARDING STANDARD  
AND MARKET  
CONDITION BASED  
STOCK OPTIONS  
OUTSTANDING (Detail) -  
USD (\$)  
\$ / shares in Units, \$ in  
Millions**

**3 Months  
Ended**

**Mar. 31, 2018      Dec. 31,  
2017**

Standard Stock Options

**Share-based Compensation Arrangement by Share-based Payment Award,  
Options, Outstanding [Roll Forward]**

<u>Common stock options outstanding (in shares)</u>	2,454,126	3,277,991
---	-----------	-----------

<u>Options vested and expected to vest using estimated forfeiture rates, number (in shares)</u>	2,334,242	
---	-----------	--

<u>Options exercisable, number (in shares)</u>	1,730,105	
--	-----------	--

<u>Options outstanding, Weighted Average Exercise Price (in dollars per share)</u>	\$ 8.69	
--	---------	--

<u>Options vested and expected to vest using estimated forfeiture rates, Weighted Average Exercise Price (in dollars per share)</u>	8.66	
---	------	--

<u>Options exercisable, Weighted Average Exercise Price (in dollars per share)</u>	\$ 8.56	
--	---------	--

<u>Options outstanding, Weighted Average Remaining Contractual Life (years)</u>	3 years 5 months	
	1 day	

<u>Options vested and expected to vest using estimated forfeiture rates, Weighted Average Remaining Contractual Life (years)</u>	3 years 3 months	
	10 days	

<u>Options exercisable, weighted average remaining contractual (years)</u>	2 years 3 months	
	29 days	

<u>Options outstanding, aggregate intrinsic value (in dollars)</u>	\$ 8.0	
--	--------	--

<u>Options vested and expected to vest using estimated forfeiture rates, Aggregate Intrinsic Value (in dollars)</u>	7.7	
---	-----	--

<u>Options exercisable, aggregate intrinsic value (in dollars)</u>	\$ 5.9	
--	--------	--

Market Condition Based Stock Options

**Share-based Compensation Arrangement by Share-based Payment Award,  
Options, Outstanding [Roll Forward]**

<u>Common stock options outstanding (in shares)</u>	272,081	272,081
---	---------	---------

**STOCK-BASED  
COMPENSATION -  
SCHEDULE OF  
RESTRICTED STOCK  
UNITS ACTIVITY (Detail) -  
RSUs outstanding - USD (\$)  
\$ / shares in Units, \$ in  
Thousands**

**3  
Months  
Ended**

**Mar. 31,  
2018**      **Dec.  
31,  
2017**

**Share-based Compensation Arrangement by Share-based Payment Award, Equity  
Instruments Other than Options, Nonvested, Number of Shares [Roll Forward]**

<u>Restricted stock outstanding (in shares)</u>	1,210,086	508,880
<u>Awarded (in shares)</u>	912,793	
<u>Released (in shares)</u>	(156,781)	
<u>Forfeited (in shares)</u>	(54,806)	
<u>Ending outstanding balance (in shares)</u>	1,210,086	
<u>Weighted average fair value on grant date of RSUs (in dollars per share)</u>	\$ 11.84	
<u>Total fair value of RSUs released (in dollars)</u>	\$ 1,860	

**STOCK-BASED  
COMPENSATION -  
SCHEDULE OF  
INFORMATION  
REGARDING  
RESTRICTED STOCK  
UNITS OUTSTANDING  
(Detail) - RSUs outstanding -  
USD (\$)  
\$ in Millions**

**3 Months  
Ended**

**Mar. 31, 2018      Dec. 31,  
2017**

**Share-based Compensation Arrangement by Share-based Payment Award [Line  
Items]**

<u>RSUs outstanding, number (in shares)</u>	1,210,086	508,880
<u>RSUs vested and expected to vest using estimated forfeiture rates, number (in shares)</u>	938,701	
<u>RSUs outstanding, weighted average remaining contractual life (years)</u>	1 year 4 months 6 days	
<u>RSUs vested and expected to vest using estimated forfeiture rates, Weighted Average Remaining Contractual Life (years)</u>	1 year 3 months	
<u>RSUs outstanding, aggregate intrinsic value (in dollars)</u>	\$ 14.5	
<u>RSUs vested and expected to vest using estimated forfeiture rates, aggregate intrinsic value (in dollars)</u>	\$ 11.2	

**STOCK-BASED  
COMPENSATION -  
SCHEDULE OF  
RESTRICTED STOCK  
AWARDS ACTIVITY  
(Detail) - Restricted stock  
awards outstanding  
\$ / shares in Units, \$ in  
Thousands**

**3 Months  
Ended  
  
Mar. 31,  
2018  
USD (\$)  
\$ / shares  
shares**

**Share-based Compensation Arrangement by Share-based Payment Award, Equity Instruments  
Other than Options, Nonvested, Number of Shares [Roll Forward]**

<u>Restricted stock outstanding (in shares)</u>	44,538
<u>Awarded (in shares)</u>	0
<u>Released (in shares)</u>	0
<u>Forfeited (in shares)</u>	0
<u>Ending outstanding balance (in shares)</u>	44,538
<u>Weighted average fair value on grant date of RSUs (in dollars per share)   \$ / shares</u>	\$ 0.00
<u>Total fair value of restricted stock awards released (in dollars)   \$</u>	\$ 0

**STOCK-BASED  
COMPENSATION -  
SCHEDULE OF STOCK  
OPTIONS, MARKET  
CONDITION BASED  
STOCK OPTIONS AND  
EMPLOYEE STOCK  
PURCHASE PLAN  
VALUATION  
ASSUMPTIONS (Detail)**

**3 Months Ended**

**Mar. 31, 2018      Mar. 31, 2017**

Employee Stock Purchase Plan

Share-based Compensation Arrangement by Share-based Payment

Award [Line Items]

<u>Expected life (in years)</u>	6 months	6 months
<u>Volatility</u>	74.00%	50.00%
<u>Interest rate</u>	1.70%	0.70%

Standard Stock Options

Share-based Compensation Arrangement by Share-based Payment

Award [Line Items]

<u>Expected life (in years)</u>	4 years 4 months 24 days	4 years 7 months 6 days
<u>Volatility</u>	54.00%	56.00%
<u>Interest rate</u>	2.50%	1.90%

Market Condition Based Stock Options

Share-based Compensation Arrangement by Share-based Payment

Award [Line Items]

<u>Expected life (in years)</u>	7 years	7 years
<u>Volatility</u>	59.00%	59.00%
<u>Interest rate</u>	1.60%	1.60%

**STOCK-BASED  
COMPENSATION -  
SCHEDULE OF STOCK-  
BASED COMPENSATION  
(Detail) - USD (\$)  
\$ in Thousands**

**3 Months Ended**

**Mar. 31,  
2018      Mar. 31,  
2017**

**Employee Service Share-based Compensation, Allocation of Recognized Period  
Costs [Line Items]**

Share-based compensation, total \$ 1,222 \$ 1,557

Sales and marketing

**Employee Service Share-based Compensation, Allocation of Recognized Period  
Costs [Line Items]**

Share-based compensation, total (67) 210

Research and development

**Employee Service Share-based Compensation, Allocation of Recognized Period  
Costs [Line Items]**

Share-based compensation, total 256 336

General and administrative

**Employee Service Share-based Compensation, Allocation of Recognized Period  
Costs [Line Items]**

Share-based compensation, total \$ 1,033 \$ 1,011

**STOCK-BASED  
COMPENSATION -  
ADDITIONAL  
INFORMATION (Detail) -  
USD (\$)**

**3 Months Ended**

**Jun. 02,  
2017      Mar. 31, 2018      Mar. 31,  
2017**

**Share-based Compensation Arrangement by Share-based Payment Award [Line Items]**

<u>Number of options for every share issued (in shares)</u>	1.75	
<u>Percentage of fair market value on the purchase date</u>	85.00%	
<u>Maximum number of shares per employee (in shares)</u>	2,000	
<u>Employee stock purchase plan offering period</u>	6 months	
<u>Maximum value of shares per employee</u>	\$ 25,000	
<u>Common stock reserved for issuance (in shares)</u>	1,000,000	
<u>Shares purchased by employee since inception of ESPP (in shares)</u>	711,967	
<u>Shares purchased under ESPP (in shares)</u>	13,834	27,667
<u>Unrecognized compensation cost</u>	\$ 12,700,000	

**Share-based Compensation Arrangement by Share-based Payment Award [Line Items]**

<u>Stock-based payment award vesting period (years)</u>	4 years
<u>Shares reserved for issuance (in shares)</u>	3,476,850

Standard and market condition stock options outstanding | Minimum

**Share-based Compensation Arrangement by Share-based Payment Award [Line Items]**

<u>Stock-based payment award expiration period (years)</u>	7 years
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Standard and market condition stock options outstanding | Maximum

**Share-based Compensation Arrangement by Share-based Payment Award [Line Items]**

<u>Stock-based payment award expiration period (years)</u>	10 years
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Restricted stock awards outstanding

**Share-based Compensation Arrangement by Share-based Payment Award [Line Items]**

<u>Stock-based payment award vesting period (years)</u>	1 year
<u>Unrecognized compensation cost, recognized over an estimated weighted-average period (years)</u>	2 months 1 day

RSUs outstanding

**Share-based Compensation Arrangement by Share-based Payment Award [Line Items]**

<u>Stock-based payment award vesting period (years)</u>	3 years
<u>Unrecognized compensation cost, recognized over an estimated weighted-average period (years)</u>	1 year 9 months 18 days

Standard Stock Options

**Share-based Compensation Arrangement by Share-based Payment Award [Line Items]**



Unrecognized compensation cost, recognized over an estimated weighted-average period (years)

2 years 6 months  
21 days

**STOCKHOLDERS'  
EQUITY - CHANGES IN  
ACCUMULATED OTHER  
COMPREHENSIVE  
INCOME (LOSS) (Detail)  
\$ in Thousands**

**3 Months  
Ended**

**Mar. 31, 2018  
USD (\$)**

**Reclassification from Accumulated Other Comprehensive Income, Current Period, Net of Tax [Abstract]**

<u>Beginning balance</u>	\$ 99
<b><u>Other Comprehensive Income (Loss), Net of Tax [Abstract]</u></b>	
<u>Other comprehensive income before reclassifications</u>	5
<u>Amounts reclassified from accumulated other comprehensive income</u>	0
<u>Net current period other comprehensive income</u>	5
<u>Ending balance</u>	104

Unrealized Gains and Losses on Short-term Investments

**Reclassification from Accumulated Other Comprehensive Income, Current Period, Net of Tax [Abstract]**

<u>Beginning balance</u>	(23)
<b><u>Other Comprehensive Income (Loss), Net of Tax [Abstract]</u></b>	
<u>Other comprehensive income before reclassifications</u>	5
<u>Amounts reclassified from accumulated other comprehensive income</u>	0
<u>Net current period other comprehensive income</u>	5
<u>Ending balance</u>	(18)

Foreign Currency Items

**Reclassification from Accumulated Other Comprehensive Income, Current Period, Net of Tax [Abstract]**

<u>Beginning balance</u>	122
<b><u>Other Comprehensive Income (Loss), Net of Tax [Abstract]</u></b>	
<u>Other comprehensive income before reclassifications</u>	0
<u>Amounts reclassified from accumulated other comprehensive income</u>	0
<u>Net current period other comprehensive income</u>	0
<u>Ending balance</u>	\$ 122

**STOCKHOLDERS'  
EQUITY - ADDITIONAL  
INFORMATION (Detail) -  
USD (\$)**

**3 Months Ended**

	Mar. 31, 2018	Mar. 31, 2017	Dec. 31, 2017	Dec. 26, 2017	Oct. 22, 2014	Nov. 01, 2007
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Class of Stock [Line Items]

<u>Stock repurchase program, additional authorized amount</u>					\$ 30,000,000	\$ 50,000,000
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<u>Repurchased shares (in shares)</u>	0	0				
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<u>Repurchased shares, value</u>	\$ 0	\$ 0				
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<u>Stock repurchase program, remaining available repurchase amount</u>	\$ 33,400,000					
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<u>Common stock, par value (in dollars per share)</u>	\$ 0.001		\$ 0.001	\$ 0.001		
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<u>Rights, exercised (in shares)</u>	0	0				
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Series B Junior Participating Preferred Stock

Class of Stock [Line Items]

<u>Right, exercise price (in dollars per share)</u>				\$ 30.00		
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**INCOME TAXES -  
SCHEDULE OF INCOME  
TAX PROVISIONS (Detail)**

**- USD (\$)**

**\$ in Thousands**

**3 Months Ended**

**Mar. 31, 2018 Mar. 31, 2017**

**[Income Tax Disclosure \[Abstract\]](#)**

<u><a href="#">Income (loss) from continuing operations before provision for income taxes</a></u>	\$ 70,336	\$ (12,713)
<u><a href="#">Provision for income taxes</a></u>	\$ (453)	\$ (152)
<u><a href="#">Effective tax rate</a></u>	0.60%	(1.20%)

**INCOME TAXES -  
ADDITIONAL  
INFORMATION (Detail) -  
USD (\$)  
\$ in Thousands**

**1 Months  
Ended  
Dec. 31, 2017    Mar. 31,  
2018**

**Income Tax Disclosure [Abstract]**

<u>Tax Cuts and Jobs Act of 2017, change in tax rate, deferred tax asset, provisional income tax expense</u>	\$ 12,900	
<u>Unrecognized tax benefits</u>		\$ 4,300
<u>Unrecognized tax benefits, interest</u>		12
<u>Unrecognized tax benefits that would affect the Company's effective tax rate</u>		556
<u>Deferred income tax assets</u>	\$ 401	371
<u>Deferred income tax liabilities</u>		80
<u>Valuation allowance of deferred tax assets</u>		\$ 37,600

**NET INCOME (LOSS) PER  
SHARE - BASIC AND  
DILUTED NET INCOME  
(LOSS) (Detail) - USD (\$)  
\$/ shares in Units, shares in  
Thousands, \$ in Thousands**

**3 Months Ended**

**Mar. 31, 2018 Mar. 31, 2017**

**Numerator:**

Net income (loss) \$ 69,883 \$ (12,865)

**Denominator:**

Shares used in calculating basic net income (loss) per share (in shares) 29,700 29,024

Stock options, ESPP, Restricted Stock and RSUs (in shares) 866 0

Shares used in computation of diluted net income (loss) per share (in shares) 30,566 29,024

Basic net loss per share (in dollars per share) \$ 2.35 \$ (0.44)

Diluted net loss per share (in dollars per share) \$ 2.29 \$ (0.44)

Options to purchase shares of common stock (in shares) 551

Average fair value price per share of common stock (in dollars per share) \$ 10.14

**NET INCOME (LOSS) PER  
SHARE - OUTSTANDING  
SECURITIES (Details) -  
shares**

**3 Months Ended**  
**Mar. 31,      Mar. 31,**  
**2018            2017**

**Antidilutive Securities Excluded from Computation of Earnings Per Share [Line Items]**

<u>Options to purchase shares of common stock (in shares)</u>	551,000
<u>Standard and market condition stock options outstanding</u>	

**Antidilutive Securities Excluded from Computation of Earnings Per Share [Line Items]**

<u>Options to purchase shares of common stock (in shares)</u>	3,616,995
<u>Restricted stock awards outstanding</u>	

**Antidilutive Securities Excluded from Computation of Earnings Per Share [Line Items]**

<u>Options to purchase shares of common stock (in shares)</u>	77,540
<u>RSUs outstanding</u>	

**Antidilutive Securities Excluded from Computation of Earnings Per Share [Line Items]**

<u>Options to purchase shares of common stock (in shares)</u>	403,935
<u>ESPP</u>	

**Antidilutive Securities Excluded from Computation of Earnings Per Share [Line Items]**

<u>Options to purchase shares of common stock (in shares)</u>	11,889
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**CONTINGENCIES (Details)**

**- Sep. 29, 2017**

**\$ in Millions**

**USD (\$)    KRW (₩)**

[Samsung](#) | [Pending litigation](#) | [Tax withholdings on royalty payments](#)

**Loss Contingencies [Line Items]**

[Loss contingency, estimate of possible loss](#)

\$ 6.3    ₩ 7,841,324,165