

IMMERSION CORP  
Form 10-K  
March 03, 2017  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016 or

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

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

Commission File Number 000-27969

Immersion Corporation

(Exact name of registrant as specified in its charter)

Delaware

94-3180138

(State or other jurisdiction of incorporation or organization) (IRS 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)

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on which Registered |
|---------------------|---|
|---------------------|---|

|                                 |                             |
|---------------------------------|-----------------------------|
| Common Stock, \$0.001 par value | The Nasdaq Stock Market LLC |
|---------------------------------|-----------------------------|

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer

Smaller reporting company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was \$117,078,997 (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer and director and each person whom owns 5% or more of the outstanding common stock of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. Number of shares of common stock outstanding at February 22, 2017: 28,984,917.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement for the 2017 Annual Meeting are incorporated by reference into Part III hereof.

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 2016 FORM 10-K ANNUAL REPORT  
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Forward-looking Statements

In addition to historical information this Annual Report on Form 10-K 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 frequently identified by words such as “anticipates,” “believes,” “expects,” “intends,” “may,” “will,” 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,” “Risk Factors” and those described elsewhere in this report, and those described in our other reports filed with the Securities and Exchange Commission (“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.

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PART I

Item 1. Business

Overview

Immersion Corporation (“Immersion”) is a premier licensing company focused on the creation, design, development, and licensing of innovative haptic technologies that allow people to use their sense of touch more fully as they engage with products and experience the digital world around them. We are the torchbearers of haptics and our mission is to innovate touch technology that informs, humanizes, and excites while working with customers and industry partners to bring these tactile experiences to consumers. Our technologies are designed to facilitate the creation of high-quality haptic experiences, enable their widespread distribution, and ensure that their playback is optimized for end users. Our primary business is currently in the mobility, gaming, automotive and medical markets, but we believe our technology is broadly applicable and see opportunities in evolving new markets, including entertainment, social and advertising content, virtual and augmented reality, and wearables. In recent years, we have seen a trend towards broad market adoption of haptic technology, and estimate our technology is now in more than 3 billion devices worldwide. As other companies follow our leadership in recognizing how important tactile feedback can be in people's digital lives, we expect the opportunity to license our intellectual property (“IP”) will continue to expand.

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 to our patented technology to our customers. Our licenses enable our customers to deploy haptically-enabled devices, content and other offerings, which they typically sell under their own brand names. In 2016, we and our wholly-owned subsidiaries increased our issued or pending patents by 300 to more than 2,400 patents worldwide as of December 31, 2016, 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. We believe that our IP is relevant to many of the most important and cutting-edge ways in which haptic technology is and can be deployed, including in connection with Basic Haptic mobile interfaces and user interactions, in association with pressure and other sensing technologies, as part of video and interactive content offerings, related to virtual and augmented reality experiences, and in connection with advanced actuation technologies and techniques.

We were incorporated in 1993 in California and reincorporated in Delaware in 1999. We consummated our initial public offering on November 12, 1999.

Our Business Strategy

Our goal is to continue to be the technology and market leader in haptics and drive the adoption of our touch technology across markets and applications to improve user experiences in the digital realm. Key aspects of our strategy include:

**Innovate:** Develop and patent our innovative technology to provide haptics in mobile, gaming, automotive, wearable, virtual and augmented reality, content, and other products and services to transform user experiences with unique and customizable tactile effects.

**Drive Adoption:** Communicate the advantages of our patented innovations and technologies to the relevant customers in target end markets and encourage their adoption through demonstrations and incorporation in the offerings of world-class companies.

**Monetize:** License our technology to customers for use in the creation, distribution and playback of high quality haptic experiences in various products, services and markets.

**Expand Markets and Applications:** Work closely with component suppliers, chip vendors, systems integrators, content enablers and other partners to broaden the use of haptics within our current core markets and to expand it into emerging markets, such as wearables, virtual and augmented reality, and the Internet of Things.

We rely on the skills and talent of our employees to successfully execute our strategy through ongoing innovation, licensing activities, and collaboration with customers and partners to ensure that high quality tactile experiences are brought to market. Accordingly, we seek to hire and retain employees with world class haptic expertise, as well as the executive management and operating personnel required to successfully execute our business strategies. In order to attract these high caliber employees, we have created an environment and culture that fosters and supports research,

development, and innovation in breakthrough technologies with significant opportunities for broad industry adoption through licensing. We believe we have created a compelling company for inventive and entrepreneurial technology professionals who are able to work within our collaborative and supportive corporate environment to innovate and execute on our opportunities and drive strong growth.

We drive substantially all of our revenue from the licensing of our software and patents. Parties licensed to our IP regard that act as an investment-one which is devalued when unlicensed parties use our IP. Litigation against unlicensed third parties as a strategy is a last step after all other avenues for resolution have been exhausted. If unlicensed parties continue to ship products that use our technology solutions or intellectual property without fairly remunerating us, litigation is the proper

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public step to protect our intellectual property and assets, as well as inform existing licensees that we are protecting their investment. As haptics gains wider acceptance in the market, the likelihood of unlicensed use of our IP increases. This could result in ongoing dispute resolution and litigation efforts, as we seek to protect the investment that we and our valid licensees have made in the technology.

### Haptics and Its Benefits

While the digital world offers many advanced technologies and capabilities, it often fails to provide us with the meaningful touch experiences that inform and enrich our real-world interactions. As we experience the physical world in our everyday lives, we rely on our sense of touch to provide us with reassuring context and confirmation, to bring us closer to one another through rich communications, and to enjoy entertainment, sports and other activities through realistic engagement. Without these tactile qualities, our digital experiences can feel flat and ineffective, pale reflections of the real world.

Immersion haptic technologies breathe life back into digital experiences, restoring the missing elements of confirmation, realism and rich communication to the digital world and help realize our Vision - “With touch, we make people’s digital lives more personal, vivid, and meaningful”:

**Confirmation:** Today’s touchscreens, touch pads, and other touch surfaces can lack the physical feedback that is provided by mechanical keyboards and switches and that we need to fully understand the context of our interactions. By providing users with intuitive and unmistakable tactile confirmation as they push virtual buttons and scroll through lists, haptics can instill confidence, increase input speed, reduce errors and help improve safety. This is especially important in environments that involve distractions, such as automotive and commercial applications, where audio or visual confirmation is insufficient.

**Realism:** Haptics can inject a sense of realism into user experiences by exciting the senses and allowing the user to become immersed in the action and nuance of the application. For example, in haptically-enhanced videos, mobile games and simulations that integrate audio-visual content with tactile sensations, users can literally feel guns recoil, engines revving, and the crack of a baseball bat crushing a home run. As another example, medical students and doctors can practice performing cardiac procedures by using simulation systems that realistically recreate the forces that would be encountered in navigating pacing leads through a beating heart.

**Rich Communications:** When humans communicate through touch, they are better able to establish emotional connections and feelings of closeness. In mobile devices and wearables, haptics can enhance voice, chat and video applications by creating a sense of physical presence, allowing for more personal and engaging communications between users. Moreover, haptics can offer users a discreet and unobtrusive way of exchanging meaningful information without disruptive audio or visual feedback.

We believe these features of our haptic technology are broadly applicable to a number of markets and devices. By continuing to enhance these features through further research and development, we believe we will serve as a strategic partner for our customers and partners in helping them develop a more compelling user experience for consumers.

### Our Offerings

We provide software, IP and haptic expertise to our customers through a variety of different offerings, including software licenses, patent licenses, and combined licenses that cover both software and patents. In most cases, our software licenses include services, design tools and software development kits (“SDKs”), as well as licenses to our patents to the extent necessary to implement the licensed software, with the specific rights and restrictions to the applicable patents described in the license agreements. When we offer patent licenses, we provide the customer with a defined right to use our patented innovations in its own products by allowing it to use specified aspects of our broad international patent portfolio, subject to limitations by specific field of use and other restrictions. In certain cases, we also provide our patent licensees with enablement tools such as reference designs and prototypes, technical and design services as well as other assistance and support.

Our agreements are typically structured with fixed, variable or a mix of fixed and variable royalty and/or license payments over certain defined periods, as well as, in certain cases, fees for support or other services.

### Software Offerings

We generally license our software as part of Immersion TouchSense-branded offerings that are intended to address the needs of our target markets. Our TouchSense offerings include haptic creation, deployment and playback software, SDKs, developer and enablement tools and documentation, technical and design services, as well as support.

TouchSense Lite and TouchSense Premium: Targeted to the mobile device, wearables, and consumer electronics markets, TouchSense software development kits consist of solutions enabling the design of tactile effects used in device interfaces and applications, and enhancing the playback of haptic content. Our toolkits enable original equipment manufacturers (“OEMs”) and



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their suppliers to easily add customized haptic experiences to their own branded devices and other products. Our offerings include TouchSense Lite and TouchSense Premium for Mobile and Wearable OEMs.

**TouchSense Software Development Kits:** Targeted to mobile game developers, application developers, platform providers, and content creators, TouchSense Software Development Kits consist of design tools, integration software and effect libraries that allow for the design, encoding and playback of tactile effects in mobile content, including games, ads and video. TouchSense Software Development Kits offer high fidelity tactile effects to augment and enhance mobile content, while ensuring quality playback within consumer devices. Our offerings include TouchSense Software Development Kit for Mobile Games and for Mobile Videos.

**TouchSense Ads:** Targeted at advertisers, digital marketers and mobile advertising distribution platforms. TouchSense Ads consists of mobile video advertisements from brand advertisers that have been enabled to playback with haptic effects on Android mobile devices. Immersion's haptic technology controls the actuator on the mobile devices to produce tailored effects that users can feel while viewing the video advertisement. TouchSense Ads can be played on mobile web sites and in an app using standard VAST/VPAID compatible mobile video players that support HTML5. The product includes design services for creating haptic waveforms, or tracks, as well as a web-based ad campaign reporting portal.

**TouchSense Force:** TouchSense Force is the suite of offerings for the PC/Console gaming/virtual reality markets. It is targeted at developers, peripheral manufacturers, and platforms. The suite consists of design tools, APIs, reference designs, and firmware that aim to set the standard for haptics in gaming and virtual reality by providing advanced next generation haptic solutions that enable consistent haptic experiences on existing vibration based controllers and enable new tactile gaming experiences.

### Patent Licenses

Through more than twenty years of innovative research, development and business activity, we have built a far-reaching and deep portfolio of patents covering many of the foundational aspects and commercial applications of haptic technology. We have implemented formal policies and procedures governing how we create, protect and maintain our IP assets, and devote substantial resources to ensure that our IP coverage of the haptic landscape is as comprehensive as possible. Our growing portfolio now includes more than 2,400 worldwide issued or pending patents, which support our TouchSense offerings, protect our business activities and prospects, and represent an important independent licensing and revenue channel for us. We believe that our IP is relevant to many of the most important ways in which haptic technology is and can be deployed, including in connection with mobile interfaces and user interactions, in association with pressure and other sensing technologies, as part of video and interactive content offerings, related to virtual and augmented reality experiences, and in connection with advanced actuation technologies and techniques, to name a few.

### Haptic Expertise

We frequently offer our expertise to licensees to help them design and integrate touch effects into their products. This expertise includes engineering and integration services, design kits for prototyping, authoring tools, and application programming interfaces ("APIs").

**Engineering and Integration Services:** We offer engineering assistance, including technical and design assistance and integration services that allow our licensees to incorporate our touch-enabling solutions and technologies into their products at a reasonable cost and within a shortened time frame, allowing them to bring products to market quickly by using our years of haptic development and solution deployment expertise. We offer product development solutions including software libraries, design, prototype creation, technology transfer, actuator selection, component sourcing, SDKs, sample source code, comprehensive documentation, and other engineering services. In addition, we help ensure a quality end-user experience by offering testing and certification services to a number of licensees and ecosystem participants such as actuator vendors.

**Design Kits for Prototyping:** We offer several design kits for customers to use for technology evaluation, internal evaluation, usability testing, and focus group testing. The kits include components and documentation that designers, engineers, and system integrators need for prototyping tactile effects into existing or sample products and applications.

**Authoring Tools:** In addition to TouchSense Haptic Development Kits, we license authoring tools that enable haptic designers and software developers in other markets, such as console gaming, to quickly design and incorporate

customized touch feedback into their applications. Authoring tools allow designers to create, modify, experience, and save or restore haptic effects for a haptically-enabled device.

**Application Programming Interfaces:** Our APIs provide haptic-effect generation capability. This allows designers and software programmers to focus on adding haptic effects to their applications instead of struggling with the mechanics of programming real-time algorithms and handling communications between computers and devices. Some of our haptic APIs are device independent (for example, they work with scroll wheels, rotary knobs, 2D joysticks, and other devices) to allow flexibility and reusability. Others are crafted to meet the needs of a particular customer or industry.

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**Platform Independent Solutions:** Our software driver and API technologies have been designed to be easily ported to a variety of operating systems including Android, Tizen, Linux, and Windows.

### Markets

**Mobile Communications, Wearables, and Consumer Electronics:** We offer TouchSense Lite and TouchSense Premium and patent licenses, as well as haptic expertise, to OEMs in the mobile device, wearables, and consumer electronics markets. In addition, certain of our integrated circuit partners preload their integrated circuits with certain of our less fully-featured TouchSense software and offer these integrated circuits to OEMs in the mobile device market.

Our licensees currently include some of the top makers of mobile devices in the world, including LG Electronics, Lenovo, Fujitsu, Gionee, HTC, Huawei, Kyocera, Panasonic, Meizu, Meitu, and Toshiba, as well as integrated circuit manufacturers such as Texas Instruments.

**Mobile Applications:** In addition to working with device manufacturers, we provide our TouchSense Software Development Kits to application developers, and other content ecosystem participants to enable them to easily incorporate tactile effects into mobile games, advertisements and other content. Our licensees include Bandai Namco, Gameloft, GSN Games, Perfect World, Rockstar, Rovio Entertainment, TenCent, and Ubisoft.

**Mobile Advertising:** We work with leading brands, media and creative agencies, mobile ad networks and publishers to promote and license our technology for the mobile advertising market. Our offering, TouchSense Ads, includes our TouchSense Software Development Kit as well as a Haptic Ad Service to cater to the market for ads that are viewed in mobile browsers (HTML5).

For the years ended December 31, 2016, 2015, and 2014, respectively, 57%, 62%, and 60% of our total revenues were generated from OEMs and integrated circuit customers in the mobile communications market.

**Console and PC Gaming:** We have licensed our patents directly to Microsoft, Nintendo, and Sony Computer Entertainment for use in their console gaming products. Additionally, we have licensed our patents to third party gaming peripheral manufacturers and distributors for use in spinning mass and force feedback devices such as controllers, steering wheels and joysticks, to be used with PC platforms running on Microsoft Windows and other operating systems, as well as in connection with video game consoles made by Microsoft, Sony, Nintendo and others. Our gaming licensees include Bensussen Deutsch & Associates, Guillemot, Logitech, Mad Catz, Microsoft, Performance Designed Products, Razer, and Sony.

For the years ended December 31, 2016, 2015, and 2014, respectively, 24%, 24%, and 27% of our total revenues were generated from customers in the PC and console gaming markets.

**Automotive:** We offer patent licenses and assistance such as reference designs, prototypes and enablement services to automotive makers and suppliers. Our current licensees include ALPS Electric Co., Continental, Marquardt, Panasonic Automotive Systems, SMK Corporation, and Tokai Rika.

For the years ended December 31, 2016, 2015, and 2014, respectively, 7%, 7%, and 5% of our total revenues were from automotive customers.

**Medical:** We offer patent licenses to the medical market. Our current licensees include CAE Healthcare, Laerdal Medical A/S, Symbionix, Stryker Medical (formerly MAKO Surgical), and SOFAR.

For the years ended December 31, 2016, 2015, and 2014, respectively, 12%, 7%, and 8% of our total revenues were from medical customers.

### Sales

Our sales are seasonal. Seasonal fluctuations have impacted our overall revenue trends in the past.

We employ a consolidated direct sales force in the United States, Europe, and Asia to license our software and patents across our target markets and augment that sales force via partnerships and licensing agreements with component suppliers and system integrators.

Additional information about significant customers is incorporated herein by reference to Note 16 of our consolidated financial statements and related financial information in Item 8. Financial Statements and Supplementary Data.

### Competition

Our biggest source of competition derives from decisions made by internal design groups at our OEM and other customers, as well as potential customers. We expect that these internal design groups will continue to make choices

regarding whether to implement haptics or not, as well as whether to develop their own haptic solutions. In the event we have granted a license to our patent portfolio to a customer, its internal design group may design technology that is less expensive to implement or that enables products with higher performance or additional features. In some cases, the

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customer may elect not to include haptics in its products or other offerings due to the higher costs associated with incorporating haptics.

The principal competitive factors impacting our business are the strength of the patents underlying our technology, as well as the technological expertise and design innovation and the use, reliability and cost-effectiveness of our software solutions. We believe we compete favorably in all these areas.

Our competitive position is also impacted by the competitive positions of our licensees' products and other offerings. Our licensees' markets are highly competitive. We believe that the principal competitive factors in our licensees' markets include price, performance, user-centric design, ease-of-use, quality, and timeliness of products, as well as the licensee's responsiveness, capacity, technical abilities, established customer relationships, distribution channels and access to retail shelf space, advertising, promotional programs, and brand recognition. Touch-related benefits in some of these markets may be viewed simply as enhancements and compete with non-touch-enabled technologies.

### Research and Development

Our success depends on our ability to invent and improve our technologies in a timely manner; to design and develop software to meet specifications based on research and our understanding of customer needs and expectations; to offer tools and technology that enable high-quality, end-to-end haptic experiences, from the time of creation to the time of playback; and to collaborate with our licensees who are integrating our technologies into theirs.

**Engineering:** We have assembled a multi-disciplinary team of highly skilled engineers and scientists with the experience required for development of touch-enabling technology. The team's experience includes skills related to mechanical engineering, electrical engineering, embedded systems and firmware, control techniques, software, quality control, haptic content design, and project and process management. This team continues to generate patents that strengthen our IP position.

**Application Engineering and Technical Support:** We may provide application engineering and technical support during integration of our touch-enabling technology into customer products and other offerings, including content. To facilitate the validation and adoption of touch-enabling technology, we have developed various design kits. These kits may include actuators, mounting suggestions, controller boards, software libraries, programming examples, and documentation. Our application engineers support customer use of these design kits, including through phone and e-mail technical support and onsite training. This team continues to generate patents that strengthen our IP position.

**Research:** We have multi-disciplinary expertise in usability and multimodal user interface design, actuator design, sensors, integration, material science, real-time simulation algorithms, control, and software development. Our research team works with existing and potential partners to help them assess and prove the value of haptics in their field of interest, creating main competitive differentiator and value added solutions. This team continues to generate patents, actively contributing to the strength of our IP position.

**User Experience:** We have a dedicated team of user interaction specialists, focusing on user research and design to enable new and improved applications of haptics. We have unique expertise in haptics, usability, content creation, and interface design. Our team works with existing and potential partners to help them determine the best implementation of haptics in their specific application. This team works on the cutting edge of new user interface paradigms using haptics, resulting in an ongoing generation of patents, actively contributing to the development of new IP for us.

For the years ended December 31, 2016, 2015, and 2014, research and development expenses were \$13.4 million, \$14.8 million, and \$11.8 million respectively.

### Intellectual Property

We believe that IP protection is crucial to our business. We rely on a combination of patents, copyrights, trade secrets, trademarks, nondisclosure agreements with employees and third parties, licensing arrangements, and other contractual agreements with third parties to protect our IP. We maintain and support an active program to protect our IP, primarily through the filing of patent applications and the defense of issued patents against infringement.

Our failure to obtain or maintain adequate protection for our IP rights for any reason could hurt our competitive position. There is no guarantee that patents will be issued from the patent applications that we have filed or may file. Our issued patents may be challenged, invalidated, or circumvented, and claims of our patents may not be of sufficient scope or strength, or issued in the proper geographic regions, to provide meaningful protection or any commercial advantage. Our position and revenue resulting from licensing our patents can also be affected by the expiration of

patents and our ability to persuade licensees that other patents in our portfolio continue to be relevant.

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At the end of 2016, we and our wholly owned subsidiaries had over 2,400 currently issued or pending patents worldwide that cover various aspects of our technologies. The duration of our issued patents is determined by the laws of the country of issuance and for the United States is typically 17 years from the date of issuance of the patent or 20 years from the date of filing of the patent application resulting in the patent. Some of our U.S. patents began expiring in 2007.

**Financial Information about Industry Segments and Geographic Areas**

We manage our operations and allocate resources as a single reporting segment. Additional information about our business segments and geographic areas is incorporated herein by reference to Note 16 of our consolidated financial statements and related financial information in Item 8. Financial Statements and Supplementary Data.

**Investor Information**

You can access financial and other information in the Investor Relations section of our web site at [www.immersion.com](http://www.immersion.com). We make available, on our Web site, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

The charters of our audit committee, our compensation committee, and our nominating/corporate governance committee, our Code of Business Conduct and Ethics (including code of ethics provisions that apply to our principal executive officer, principal financial officer, controller, and senior financial officers), our Corporate Governance Principles and our Stock Ownership Policy are also available at our web site under “Corporate Governance.” These items are also available to any stockholder who requests them by calling +1 408.467.1900.

The SEC maintains an Internet site that contains reports, proxy, and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

**Employees**

As of December 31, 2016, we had 132 full-time and part-time employees, including 54 in research and development, 42 in sales and marketing, and 36 in legal, finance, and administration. We also use independent contractors. None of our employees are represented by a labor union, and we consider our employee relations to be positive.

**Executive Officers**

The following table sets forth information regarding our executive officers as of February 22, 2017.

| Name              | Position with the Company  | Age |
|-------------------|--|-----|
| Victor Viegas     | Chief Executive Officer and<br>Member of the Board of<br>Directors | 59  |
| Nancy Erba        | Chief Financial Officer<br>General Counsel and Senior Vice         | 50  |
| Anne Marie Peters | President IP Licensing and Legal<br>Affairs                        | 46  |
| Mahesh Sundaram   | Vice President, Worldwide Sales<br>and Customer Support            | 46  |

Victor Viegas was named our Chief Executive Officer in April 2010, and served as our Interim Chief Financial Officer from December 2011 until May 2012 and from February 2016 to September 2016. He served as our Interim Chief Executive Officer from October 2009 to April 2010, and has served as a member of the board of directors since October 2002. Mr. Viegas was our Chief Executive Officer from October 2002 through April 2008, and President from February 2002 through April 2008. Mr. Viegas was also Chairman of the board of directors from October 2007 to February 2009. Mr. Viegas also served as Chief Financial Officer until February 2005, having joined us in August 1999 as Chief Financial Officer, Vice President, Finance. From June 1996 to August 1999, he served as Vice President, Finance and Administration and Chief Financial Officer of Macrovision Corporation, a developer and licensor of video and software copy protection technologies. From October 1986 to June 1996, he served as Vice President of Finance and Chief Financial Officer of Balco Incorporated, a manufacturer of advanced automotive service equipment. He holds a B.S. in Accounting and an M.B.A. from Santa Clara University. Mr. Viegas is also a

Certified Public Accountant in the State of California, on inactive status.

Nancy Erba joined Immersion as Chief Financial Officer in September 2016. Prior to joining Immersion, Ms. Erba was Vice President, Financial Planning and Analysis of Seagate Technology from February 2015 to October 2015. Prior executive roles at Seagate Technology include Division CFO and Vice President of Finance, for Strategic Growth Initiatives from 2013 to 2015, Vice President, Business Operations and Planning from 2009 to 2013, Division CFO and Vice President of Finance of the Consumer



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Solutions Division from 2008 to 2009 and Vice President, Corporate Development from 2006 to 2008. Ms. Erba holds a Bachelor of Arts in Mathematics from Smith College and a Master of Business Administration from Baylor University.

Anne Marie Peters has been at Immersion since December 2008 serving as General Counsel and Corporate Secretary. In July 2016, Ms. Peters' role was expanded to include leading Immersion's patent licensing portion of our business. From 1998 to 2008, Ms. Peters was an associate, and then corporate partner at Morrison & Foerster LLP. Prior to practicing law, Ms. Peters held positions in the diagnostic manufacturing field at Chiron Corporation. Ms. Peters holds a Bachelor in Molecular and Cell Biology from the University of California, Berkeley, a Master of Business Administration from the Graduate School of Management at the University of California, Davis, and a Juris Doctor degree from the University of California, Davis School of Law. Ms. Peters was admitted to the California State Bar in 1999.

Mahesh Sundaram joined Immersion in October 2014. He is responsible for leading our worldwide sales and customer support organization to support the growing opportunities of Immersion technology. Prior to joining Immersion, Mr. Sundaram was Vice President, Asia Pacific of Dolby Laboratories, a developer of audio, imaging and voice technologies for cinema, home theaters, PCs, mobile phones, and games, from October 2008 to October 2014. Mr. Sundaram also served as a Director of Consumer Electronics Market Segment at Dolby Laboratories, from July 2006 to September 2008. From January 1996 to November 2003, he managed product marketing for Intel, one of the largest manufacturers of semiconductors for PCs, servers, phones, tablets, and consumer electronic devices, where he was responsible for product marketing and bringing new products and technologies to market in the Asia Pacific region. Mr. Sundaram holds a Bachelor of Engineering in electrical engineering from University of Mumbai.

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Item 1A. Risk Factors

You should carefully consider the following risks and uncertainties, as well as other information in this report and our other SEC filings, in considering our business and prospects. If any of the following risks or uncertainties actually occurs, our business, financial condition, or results of operations could be materially adversely affected. The following risks and uncertainties are not the only ones facing us. Additional risks and uncertainties of which we are unaware or that we currently believe are immaterial could also materially adversely affect our business, financial condition, or results of operations. In any case, the trading price of our common stock could decline, and you could lose all or part of your investment. See also the Forward-looking Statements discussion in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Company Risks

If we are unable to enter into new and renewed licensing arrangements with our existing licensees and with additional third-parties for our touch-enabling technologies, our royalty and license revenue may not grow and could decline. Our revenue growth is largely dependent on our ability to enter into new and renew existing licensing arrangements. Our failure to enter into new or renewed licensing arrangements will cause our operating results to suffer. We face numerous risks in obtaining new or renewed licenses on terms consistent with our business objectives and in maintaining, expanding, and supporting our relationships with our current licensees. These risks include:

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

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

Samsung Electronics accounted for approximately 33%, 32%, and 38% of our total revenues for the years ended December 31, 2016, 2015, and 2014, respectively. Two other customers each accounted for 14% and 13% of our revenues in 2016, for 18% and 14% of our revenues in 2015, and for 17% and 12% in 2014. 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, including the Samsung

Note 7, which is currently being recalled by Samsung. Because we have not renewed our agreement with

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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.

Our current or any future litigation, arbitration and administrative proceedings to enforce or defend our intellectual property rights and to defend our licensing practices is expensive, disruptive, and time consuming, and will continue to be, until resolved, and regardless of whether we are ultimately successful, could adversely affect our business. We have been in the past and are currently a party to various legal proceedings with companies that have significantly greater financial resources than us to enforce or defend our intellectual property rights and to defend our licensing practices. For example, in 2016, we initiated patent infringement litigation against Apple and AT&T Mobility for infringement of seven patents, and Apple filed for inter partes review on each of the seven patents. We also initiated arbitration against Sony claiming that they are infringing one of our US patents. Due to the inherent uncertainties of litigation, arbitration 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. As a result, until such time as it is resolved or concluded, litigation, arbitration and administrative proceedings could cause our technology to be perceived as less valuable in the marketplace, which could reduce our sales and adversely affect our business. Further, any unfavorable outcome could adversely affect our business. For additional background on our litigation, please see Part I, Item 3, "Legal Proceedings".

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

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

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

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

See “Legal Proceedings”. 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 Apple and AT&T Mobility for patent infringement. We may need to continue to initiate legal proceedings in the future. Any legal or administrative proceeding initiated by us to protect or enforce our IP rights has, and may in the future result in substantial legal expenses and risk, could lead to counterclaims and adverse rulings affecting our patents, and may divert our management's time and attention away from our other business operations, which could significantly harm our business.

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

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

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

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

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

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

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

as a result of such litigation, choose not to adopt our technologies. In addition, these legal proceedings could be very expensive and could have a negative impact on our financial results.

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

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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 74% of our revenue in 2016. 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.

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

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

We had an accumulated deficit of \$119 million as of December 31, 2016, and may not return to profitability in the future.

As of December 31, 2016, we had an accumulated deficit of \$119 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.

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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. Finally, as some of our litigated patents have expired related to video game peripherals, we may need to persuade our licensees that other patents in our portfolio continue to be relevant which could result in the expenditure of significant resources and/or failure to persuade the licensee of the relevance of the patents. See Legal Proceedings.

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.

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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 years ended December 31, 2016, 2015, and 2014, 98%, 97%, and 98% of our total revenues were royalty and license revenues, respectively. We do not control or influence the design, manufacture, quality control, promotion, distribution, or pricing of products that are manufactured and sold by our licensees, nor can we control consolidation within an industry which could either reduce the number of licensable products available or reduce royalty rates for the combined licensees. In addition, we generally do not have commitments from our licensees that they will continue to use our technologies in current or future products. As a result, products incorporating our technologies may not be brought to market, achieve commercial acceptance, or otherwise generate meaningful royalty revenue for us. For us to generate royalty and license revenue, licensees that pay us per-unit royalties must manufacture and distribute products incorporating our touch-enabling technologies in a timely fashion and generate consumer demand through marketing and other promotional activities. If our licensees' products fail to achieve commercial success, or if their products are recalled because of quality control problems or if they do not ship products incorporating our touch-enabling technologies in a timely fashion or fail to achieve strong sales, our revenues will not grow and could decline.

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. 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 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

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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.

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

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

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

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

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

We believe that our future success will also depend largely on our ability to attract, integrate, and retain sales, support, marketing, and research and development personnel. Competition for such personnel is intense, and we may not be successful in attracting, integrating, and retaining such personnel. Given the protracted nature of, if, how, and when we collect royalties on new design contracts, it may be difficult to craft compensation plans that will attract and retain the level of salesmanship needed to secure these contracts. Additionally, our compensation packages need to be competitive in the Silicon Valley where the stock component of compensation is an important factor that candidates and employees consider. We have not increased the amount of shares available for issuance under our equity incentive plans since 2014 and it is possible that our current pool of shares under our plans will not be sufficient to recruit and retain executive officers and key employees and if we are unable to obtain stockholder approval of any future increases in the share pool, we may be unable to attract and retain key personnel. Finally, 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.

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

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

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

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

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

### Investment Risks

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

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

These factors include:

- the establishment or loss of licensing relationships;
- the timing and recognition of payments under fixed and/or up-front license agreements, as well as other multi-element arrangements;
- seasonality in the demand for our technologies or products or our licensees' products;
- 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, policies or practices may have adverse, unexpected financial reporting implications and affect our reported results of operations.

A change in accounting standards, policies, or practices, such as the new revenue accounting standard that will become effective for us in 2018, ASU No. 2014-09 "Revenue from Contracts with Customers: Topic 606", can have a significant effect on our reported results and may affect our reporting of transactions. New accounting

pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

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

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

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

As part of our business strategy, we have in the past and may in the future, acquire businesses or IP that we feel could complement our business, enhance our technical capabilities, or increase our IP portfolio. The pursuit of potential

acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating, and pursuing suitable acquisitions, whether or not they are consummated.

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

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

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

### Item 1B. Unresolved Staff Comments

None.

### Item 2. Properties

We lease a facility in San Jose, California of approximately 42,000 square feet, which serves as our corporate headquarters and includes our sales, marketing, administration, and research and development functions. The lease for this facility expires in April 2023 and we have an option to renew through April 2028.

We lease a facility in Montreal, Quebec, Canada of approximately 10,000 square feet, for our subsidiary, Immersion Canada Corporation. The facility is used for research and development and administration functions. The lease for this property expires in December 2018.

We also lease office space in Seocho-gu, Seoul, Korea; Shanghai, China; Beijing, China; Zhonghe City, Taipei, Taiwan; Tokyo, Japan; Mriehel, Birkirkara, Malta; and Dublin, Ireland.

We believe that our existing facilities are adequate to meet our current needs.

### Item 3. Legal Proceedings

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

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

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

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

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

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

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

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

On March 14, 2016, the ITC issued a Notice of Institution of Investigation stating that the ITC instituted an investigation to investigate our allegations of infringement with respect to the '051, '356, and '571 patents and determine whether violations of

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

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

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

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

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

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

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

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

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

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

On June 6, 2016, the ITC issued a Notice of Institution of Investigation stating that the ITC instituted an investigation to investigate our allegations of infringement with respect to the '507, '488, '710, and '260 patents and determine whether violations of section 337 of the Tariff Act of 1930 have occurred. The investigation bears the designation Inv. No. 337-TA-1004 ("1004 Investigation"). On June 9, 2016, the Chief ALJ entered an order consolidating the 990 and 1004 Investigations. On June 15, 2016, the Chief ALJ granted a joint motion by the parties to stay the 990 Investigation deadlines until a new procedural schedule is entered in the consolidated Investigation.

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

On June 27, 2016, Respondents Apple and AT&T Mobility served responses to the complaint denying the material allegations of the complaint and alleging affirmative defenses, including among others that the asserted patents are not infringed, invalid and unenforceable. Respondents also alleged that the '710 patent is unenforceable for alleged inequitable conduct before the United States Patent Office. We will respond to the allegations of Respondents during the investigation on the procedural schedule set by the Chief ALJ. On June 29, 2016, the Chief ALJ entered an order setting the Markman hearing in the consolidated case for October 18, 2016, and the evidentiary hearing for April 27-May 5, 2017. On July 12, 2016, the Chief ALJ entered the procedural schedule in the consolidated Investigation. The procedural schedule in the Investigation includes, among other things, deadlines for the parties to conduct three required settlement conferences. On July 26, 2016, representatives from the Company and Respondent AT&T conducted their first settlement conference. On July 28, 2016, representatives for the Company and Respondent Apple conducted their first settlement conference. The parties did not reach an agreement to settle the dispute underlying this

Investigation.

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



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

On December 15, 2016, Respondents filed a motion for summary determination that the asserted claims 1 and 2 of the '260 patent are invalid under 35 U.S.C. § 101 for an alleged failure to recite patentable subject matter. On December 27, 2016, the Company filed its opposition to the motion. On December 27, 2016, the Commission Investigative Staff submitted a response to the motion stating that the Staff supports the motion. The Chief ALJ has not issued a decision on 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.

The proceedings in the ITC with respect to Apple and AT&T Mobility are ongoing. The parties have conducted extensive fact and expert discovery and are in the process of completing discovery and preparing materials for the hearing set to begin on April 27, 2017. The Company is preparing its contentions and expects to respond to the allegations of Respondents during the investigation on the procedural schedule set by the Chief ALJ.

On July 7, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '051 patent. The petition bears Case No. IPR2016-01371. The petition challenges the patentability of certain claims of the '051 patent in light of alleged prior art references. On October 13, 2016, we filed a patent owner's preliminary response responding to the petition's challenges to patentability of claims of the '051 patent. On January 11, 2017, the Patent Trial and Appeal Board issued a decision denying the Petition and declining to institute the 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 challenges the patentability of certain claims of the '571 patent in light of alleged prior art references. On October 13, 2016, we filed a patent owner's preliminary response responding to the petition's challenges to patentability of claims of the '571 patent. On January 11, 2017, the

Patent Office's Patent Trial and Appeal Board issued its decision instituting the IPR on certain grounds raised in the Petition. The Board's decision also declined to institute the IPR as to certain claims of the '571 patent. The Board has set a schedule of certain due dates in the IPR, including an April 24, 2017 due date for the patent owner's response. 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. Our preliminary patent owner's response is due within three months of the filing of this new petition.

On July 8, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '356 patent. The petition bears Case No. IPR2016-01381. The petition challenges the patentability of certain claims of the '356

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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 Patent Office's Patent Trial and Appeal Board issued its decision instituting the IPR on certain grounds raised in the Petition. The Board has set a schedule of certain due dates in the IPR, including an April 24, 2017 due date for the patent owner's response. 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. Our preliminary patent owner's response is due within three months of the filing of this new petition. On August 12, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '710 patent. The petition bears Case No. IPR2016-01603. The petition challenges the patentability of certain claims of the '710 patent in light of alleged prior art references. On November 28, 2016, we filed a patent owner's preliminary response responding to the petition's challenges to patentability of claims of the '710 patent. On February 23, 2017, the Patent Office's Patent Trial and Appeal Board issued its decision instituting the IPR on certain grounds released in the petition. The Board has set a schedule of certain due dates in the IPR, including a May 24, 2017 due date for the Patent Owners' response.

On September 12, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '507 patent. The petition bears Case No. IPR2016-01777. The petition challenges the patentability of certain claims of the '507 patent in light of alleged prior art references. On December 27, 2016, we filed a patent owner's preliminary response responding to the petition's challenges to patentability of claims of the '507 patent. The Board's decision on whether to institute the IPR is due within ninety days of the filing of our response.

On September 23, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '260 patent. The petition bears Case No. IPR2016-01884. The petition challenges the patentability of certain claims of the '260 patent in light of alleged prior art references. On January 4, 2017, we filed a patent owner's preliminary response responding to the petition's challenges to patentability of claims of the '260 patent. The Board's decision on whether to institute the IPR is due within ninety days of the filing of our response. 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 September 29, 2016, Apple filed in the United States Patent and Trademark Office a petition for inter partes review of the '488 patent. The petition bears Case No. IPR2016-01907. The petition challenges the patentability of certain claims of the '488 patent in light of alleged prior art references. On January 5, 2017, we filed a patent owner's preliminary response responding to the petition's challenges to patentability of claims of the '488 patent. The Board's decision on whether to institute the IPR is due within ninety days of the filing of our response. 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.

Although we believe we have strong claims, the outcome of litigation is inherently uncertain.

Furthermore, Apple and AT&T Mobility have significant resources and therefore, this litigation could be protracted.

#### Amit Agarwal v. Immersion Corporation

On March 29, 2016, Amit Agarwal, an individual, filed in the United States Patent and Trademark Office a petition for inter partes review of U.S. Patent No. 8,773,356 entitled: "Method and Apparatus for Providing Tactile Sensations." The petition bears Case No. IPR2016-00807. The petition challenges the patentability of certain claims of the '356 patent in light of alleged prior art references. On July 6, 2016, we filed a patent owner's preliminary response responding to the petition's challenges to patentability of claims of the '356 patent. On September 19, 2016, the Patent Office's Patent Trial and Appeal Board denied the Petition and declined to institute further proceedings.

Immersion Corporation vs. Motorola Mobility, Inc., Motorola Mobility Holdings, Inc., HTC Corporation, HTC America Holding, Inc., HTC America, Inc., HTC (B.V.I.) Corporation, Exedeia, Inc., Brightstar Corporation, and Brightpoint, Inc.

On February 7, 2012, we filed a complaint against Motorola with the ITC alleging that certain Motorola mobile electronic devices, including smartphones and cellular phones, infringe six of our patents that cover various uses of haptic effects in connection with touchscreens (the "ITC Complaint"). We amended the ITC Complaint on March 2, 2012 to add the following parties: HTC Corporation, HTC America Holding, Inc., HTC America, Inc., HTC (B.V.I.)

Corporation, Exedea, Inc., Brightstar Corporation and Brightpoint, Inc. We subsequently withdrew HTC America Holding, Inc., HTC (B.V.I.) Corporation, Exedea, Brightstar, and Brightpoint from the ITC Complaint. The ITC instituted an investigation against Motorola Mobility, Inc., Motorola Mobility Holdings, Inc., HTC Corporation, and HTC America, Inc. on April 2, 2012.

On March 2, 2012, we filed a complaint against HTC Corporation, HTC America Holding, Inc., HTC America, Inc., HTC (B.V.I.) Corporation, Exedea, Inc., Brightstar Corporation and Brightpoint, Inc. (collectively, "HTC") in the U.S. District Court for the District of Delaware (the "HTC Delaware Complaint") alleging that certain of HTC's mobile electronic devices,

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including smartphones and cellular phones, infringed six of our patents that cover various uses of haptic effects. The HTC Delaware Complaint covered the same patents as the ITC Complaint. The HTC Delaware Complaint sought damages and injunctive relief. The parties stipulated to stay the case pending the completion of the ITC investigation. The HTC Delaware Complaint asserted infringement of the following patents:

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

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

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

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

U.S. Patent No 8,059,105 (the '105 patent): "Haptic Feedback for Touchpads and Other Touch Controls"

HTC asserted that the patents are not infringed, are invalid, and are unenforceable.

On November 21, 2012, we entered into a confidential settlement agreement with Motorola. On January 15, 2013, the Administrative Law Judge issued an Initial Determination terminating the ITC investigation as to Motorola. On March 15, 2013, we dismissed the Motorola Delaware Complaint.

On March 12, 2013, we filed motions to suspend the procedural schedule and to terminate the ITC investigation against HTC. The Administrative Law Judge issued an order granting the motion to suspend the procedural schedule on March 19, 2013 and issued an Initial Determination terminating the ITC investigation as to HTC on March 27, 2013. The decision became final on April 26, 2013.

We requested that the U.S. District Court for the District of Delaware re-open the case against HTC filed in that Court, and the case was reopened on May 1, 2013. We filed an amended complaint on May 3, 2013. HTC answered the amended complaint on June 28, 2013, stating affirmative defenses of (1) non-infringement, (2) invalidity, (3) prosecution history estoppel, (4) equitable estoppel, exhaustion, license, and/or waiver, (5) intervening rights, (6) unclean hands, (7) patent misuse, (8) inequitable conduct based on '720 patent reexamination, (9) inequitable conduct ('846 patent family), (10) inequitable conduct ('288 patent), (11) double patenting, (12) failure to comply with 35 U.S.C. § 120, and (13) failure to mark / failure to mitigate.

On October 3, 2014, HTC filed five motions with the Court: (1) motion to exclude the testimony of our damages expert; (2) motion for partial summary judgment shortening the damages period for U.S. Patent Nos. 7,969,288; 7,982,720, and 8,031,18; (3) motion for summary judgment of invalidity of U.S. Patent Nos. 8,059,105; 8,031,181; and 7,982,720; (4) motion for summary judgment of non-infringement of U.S. Patent No. 7,969,288, and; (5) motion for summary judgment of non-infringement of U.S. Patent Nos. 6,429,846; 7,982,720; 8,031,181; and 8,059,105. A hearing on claim construction and the latter three motions was held on November 25, 2014. A hearing on the first motion was held on January 30, 2015. On February 11, 2015, the Court issued rulings on claim construction and on four of HTC's five motions. The Court denied the motion for summary judgment of non-infringement of the '288 patent (because the Court found the '720 and '181 patents invalid as anticipated, it did not address HTC's arguments with regard to these patents); granted in part the motion for summary judgment of non-infringement of the '846, '720, '181, and '105 patents, finding that the HTC's products do not literally infringe the '846, and '105 patents; and granted the motions for partial summary judgment shortening the damages period of the '288 patent, and for summary judgment of invalidity of the '105, '181, and '720 patents. On February 24, 2015 the Court denied in part and granted in part the first motion, ruling that our damages expert may testify about reasonable royalties but not about lost profits.

Trial was scheduled to begin on March 23, 2015. On March 23, 2015, we announced that we agreed to enter into a settlement and license agreement with HTC, resolving the patent infringement litigation, but preserving our right to appeal the invalidity ruling affecting three of our patents. Under the settlement and license agreement, HTC will pay an undisclosed amount of compensation for prior shipments of its devices containing Basic Haptics and an additional undisclosed amount of compensation for a license to continue to manufacture and sell devices with Basic Haptics. On March 31, 2015 the Court entered a Final Judgment providing that HTC does not infringe the '105, '181, and '720 patents solely because the Court ordered that HTC prevailed on its affirmative defense of invalidity, and dismissing our claims of infringement of the '846 and '288 patents pursuant to the settlement and license agreement. We appealed the decision, and on June 21, 2016 the U.S. Court of Appeals for the Federal Circuit issued an opinion reversing the District Court's decision.

In the United States Patent and Trademark Office, HTC filed requests for ex-parte reexamination of three of our patents: the '288, '999, and '720 patents. Reexamination of the '288 patent was requested on July 30, 2012. The Patent Office granted the request on October 24, 2012. Reexamination of the '999 patent was requested on September 6, 2012. The Patent Office granted the request on November 26, 2012. Reexamination of the '720 patent was requested on September 10, 2012. The Patent

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Office granted the request on November 28, 2012. On July 24, 2013, the Patent Office issued a Reexamination Certificate for the '999 patent, after certain claims were cancelled and other claims were amended. On February 18, 2014, the Patent Office issued a Reexamination Certificate for the '720 patent after certain claims were cancelled and other claims were amended. On February 10, 2014 the U.S. Patent Office issued a Reexamination Certificate for the '288 patent after certain claims were cancelled and claim 18 was amended.

Samsung Electronics America, Inc.

On December 31, 2015, our amended and restated license agreement (the "Samsung License") with Samsung expired. On January 13, 2016, we filed an Application for Emergency Measures with the International Chamber of Commerce ("ICC"), asking that the ICC order Samsung to comply with its contractual obligations and enjoin Samsung from selling devices previously licensed under the Samsung License. On January 25, 2016, we also filed an arbitration demand with the ICC. The ICC appointed an Emergency Arbitrator, who on January 30, 2016 issued an Order denying the Application for Emergency Measures. The Emergency Arbitrator ruled that under the Samsung License, we could not file an arbitration demand until a 90-day negotiating period had passed, and that the 90 days began on December 4, 2015.

Based on the Emergency Arbitrator's Order, we withdrew our arbitration demand on February 1, 2016 and refiled it on March 4, 2016, requesting that Samsung be ordered to comply with its obligations under the Samsung License, including ceasing distributing devices previously licensed under the Samsung License and paying damages suffered by us. On April 12, 2016, Samsung filed a response to our arbitration demand.

On July 12, 2016, Immersion Corporation, together with Immersion Software Ireland Limited, an Irish company and a wholly owned subsidiary of Immersion, entered into an Amendment No. 4 (the "Amendment") to the Samsung License with Samsung. Pursuant to the Agreement, the parties agreed to amend Section 13.4(c) relating to the Product Life Cycle Wind-Down Rights (as defined in the Agreement) to permit Samsung to exercise the Product Life Cycle Wind-Down Rights for \$19.0 million. The parties also agreed to terminate the arbitration proceedings relating to the Product Life Cycle Wind-Down Rights and to release each other for a variety of matters. We also agreed not to bring any judicial, administrative or other action against Samsung relating to the Amendment or patent infringement for a period of time.

Sony Computer Entertainment America, Inc.

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

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

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

The arbitrator originally scheduled a claim construction hearing for January 10, 2017. The hearing was rescheduled to December 21, 2016, after the parties identified their proposed claims to be construed. The hearing was completed on December 21, 2016, and the arbitrator issued a claim construction ruling on February 2, 2017. Fact discovery is proceeding. A date for the arbitration hearing on the merits of the claim has not yet been scheduled.

We cannot predict the ultimate outcome of the above-mentioned federal and arbitral actions, and we are unable to estimate any potential liability we may incur.

Item 4. Mine Safety Disclosures

Not applicable.

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## PART II

## Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the Nasdaq Global Market under the symbol “IMMR.” The following table sets forth, for the periods indicated, the high and low sales prices for our common stock on such market.

|                                     | High     | Low      |
|-------------------------------------|----------|----------|
| Fiscal year ended December 31, 2016 |          |          |
| Fourth Quarter                      | \$ 11.92 | \$ 7.01  |
| Third Quarter                       | \$ 8.49  | \$ 6.24  |
| Second Quarter                      | \$ 8.53  | \$ 5.90  |
| First Quarter                       | \$ 11.45 | \$ 6.63  |
| Fiscal year ended December 31, 2015 |          |          |
| Fourth Quarter                      | \$ 14.45 | \$ 10.71 |
| Third Quarter                       | \$ 13.90 | \$ 10.37 |
| Second Quarter                      | \$ 13.03 | \$ 8.87  |
| First Quarter                       | \$ 10.32 | \$ 7.72  |

On February 22, 2017, the closing price was \$11.65 per share and there were 85 holders of record of our common stock. Because many of such shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

## Dividend Policy

We have never declared or paid any cash dividends on our common stock and we do not anticipate paying cash dividends in the foreseeable future. We currently intend to retain any earnings to fund future growth, product development, and operations.

## Company Stock Performance Graph

The information contained in the Performance Graph shall not be deemed to be “soliciting material” or “filed” with the SEC or subject to the liabilities of Section 18 of the Exchange Act, as amended, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act, as amended, or the Exchange Act.

The graph below depicts a five-year comparison of cumulative total shareholder returns for Immersion common stock, the NASDAQ Composite Index, and the RDG Technology Composite Index. The graph assumes an investment of \$100 for the five-year period commencing on December 31, 2011 and ending on December 31, 2016, in Immersion’s common stock, and in the NASDAQ Composite and the RDG Technology Composite indices, and reinvestment of dividends, if any.

The comparison below is based on historical data, and Immersion cautions that the stock price performance shown in the graph is not indicative of, nor intended to forecast, the potential future performance of Immersion’s common stock. Information used in the graph was obtained from a source believed to be reliable, but Immersion is not responsible for any errors or omissions in such information.

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|                          | December 31, |       |       |       |       |       |
|--------------------------|--------------|-------|-------|-------|-------|-------|
|                          | 2011         | 2012  | 2013  | 2014  | 2015  | 2016  |
| Immersion Corporation    | \$100        | \$133 | \$200 | \$183 | \$225 | \$205 |
| NASDAQ Composite         | 100          | 116   | 165   | 189   | 200   | 217   |
| RDG Technology Composite | 100          | 115   | 153   | 179   | 183   | 207   |

Securities Authorized for Issuance under Equity Compensation Plans

The information concerning our equity compensation plans is incorporated by reference herein to Note 9 to the notes to our consolidated financial statements.

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## Item 6. Selected Financial Data

The following selected consolidated financial data is qualified in its entirety by, and should be read in conjunction with, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The selected consolidated statement of operations data for each of the years ended December 31, 2016, 2015, and 2014 and the consolidated balance sheet data as of December 31, 2016 and 2015 are derived from our audited consolidated financial statements and accompanying notes, included in this Annual Report on Form 10-K. The selected consolidated statement of operations data for each of the years ended December 31, 2013 and 2012 and the consolidated balance sheet data as of December 31, 2014, 2013 and 2012 are derived from our audited consolidated financial statements which are not included in this report.

|  | Years Ended December 31,              |          |          |          |           |
|--|---------------------------------------|----------|----------|----------|-----------|
|  | 2016                                  | 2015     | 2014     | 2013     | 2012      |
|  | (In thousands, except per share data) |          |          |          |           |
| <b>CONSOLIDATED STATEMENTS OF OPERATIONS DATA:</b>             |                                       |          |          |          |           |
| Revenues   | \$57,086                              | \$63,393 | \$52,937 | \$47,470 | \$32,169  |
| Costs and expenses   | 72,349                                | 58,674   | 46,970   | 43,866   | 38,897    |
| Operating income (loss)  | (15,263 )                             | 4,719    | 5,967    | 3,604    | (6,728 )  |
| Income tax benefit (provision) from continuing operations      | (25,521 )                             | (1,591 ) | (2,196 ) | 36,483   | (792 )    |
| Income (loss) from continuing operations                       | (40,030 )                             | 2,858    | 4,123    | 40,155   | (7,350 )  |
| Income from discontinued operations                            | 649                                   | —        | —        | —        | 153       |
| Net income (loss)  | (39,381 )                             | 2,858    | 4,123    | 40,155   | (7,197 )  |
| Basic net income (loss) per share:                             |                                       |          |          |          |           |
| Continuing operations  | \$(1.39 )                             | \$0.10   | \$0.15   | \$1.42   | \$(0.27 ) |
| Discontinued operations  | 0.02                                  | —        | —        | —        | 0.01      |
| Total  | \$(1.37 )                             | \$0.10   | \$0.15   | \$1.42   | \$(0.26 ) |
| Shares used in calculating basic net income (loss) per share   | 28,759                                | 28,097   | 28,246   | 28,190   | 27,735    |
| Diluted net income (loss) per share:                           |                                       |          |          |          |           |
| Continuing operations  | \$(1.39 )                             | \$0.10   | \$0.14   | \$1.37   | \$(0.27 ) |
| Discontinued operations  | 0.02                                  | —        | —        | —        | 0.01      |
| Total  | \$(1.37 )                             | \$0.10   | \$0.14   | \$1.37   | \$(0.26 ) |
| Shares used in calculating diluted net income (loss) per share | 28,759                                | 29,015   | 29,144   | 29,338   | 27,735    |
|  | December 31,                          |          |          |          |           |
|  | 2016                                  | 2015     | 2014     | 2013     | 2012      |
|  | (In thousands)                        |          |          |          |           |
| <b>CONSOLIDATED BALANCE SHEET DATA:</b>                        |                                       |          |          |          |           |
| Cash, cash equivalents, and short-term investments             | \$89,772                              | \$64,931 | \$57,361 | \$71,112 | \$43,546  |
| Working capital  | 73,008                                | 53,749   | 58,025   | 64,249   | 38,378    |
| Total assets   | 103,767                               | 105,415  | 97,521   | 110,575  | 48,011    |
| Total stockholders’ equity                                     | 55,340                                | 86,615   | 76,603   | 80,671   | 29,278    |

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### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto. This Management's Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements within the meaning of Section 27A of the Securities Act, as amended, and Section 21E of the Exchange Act, as amended. The forward-looking statements involve risks and uncertainties. Forward-looking statements are frequently identified by words such as "anticipates," "believes," "expects," "intends," "may," "will," 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 in Item 1A, "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 release the results of any revisions to these forward-looking statements that could occur after the filing of this report.

#### Critical Accounting Policies and Estimates

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

We believe the following are our most critical accounting policies as they require our significant judgments and estimates in the preparation of our consolidated financial statements:

#### Revenue Recognition

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

**Persuasive evidence of an arrangement exists.** For a license arrangement, we require a written contract, signed by both the customer and us.

**Delivery has occurred.** We deliver software to our customers physically and also electronically. For electronic deliveries, delivery occurs when we provide the customer access codes or "keys" that allow the customer to take immediate possession of the software.

**The fee is fixed or determinable.** Our arrangement fee is based on the use of standard payment terms which are those that are generally offered to the majority of customers. For transactions involving extended payment terms, we deem these fees not to be fixed or determinable for revenue recognition purposes and revenue is deferred until the fees become due and payable.

**Collectability is probable.** To recognize revenue, we must judge collectability of fees, which we do on a customer-by-customer basis pursuant to our credit review policy. We typically sell to customers with whom we have a history of successful collection. For new customers, we evaluate the customer's financial condition and ability to pay.

If we determine that collectability is not probable based upon our credit review process or the customer's payment history, we recognize revenue when payment is received.

Royalty and license revenue — We license our patents and software to customers in a variety of industries such as mobility, gaming, automotive, and medical devices. Certain of these are variable fee arrangements where the royalties earned by us are based on units sold or sales volumes of the respective licensed products. We also enter into fixed license fee arrangements. The terms of the royalty agreements generally require licensees to give notification of royalties due to us within 30 – 45 days of the

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end of the quarter during which their related sales occur. As we are unable to reliably estimate the licensees' sales in any given quarter to determine the royalties due to us, we recognize royalty revenues based on royalties reported by licensees and when all revenue recognition criteria are met. Certain royalties could be subject to change and may result in out of period adjustments depending on the specific terms of the arrangement. We recognize fixed license fee revenue when earned under the terms of the agreements, which generally results in recognition on a straight-line basis over the expected term of the license.

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

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

### **Stock-based Compensation**

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period.

**Valuation and amortization methods** — We use the Black-Scholes-Merton option pricing model ("Black-Scholes model"), single-option approach to determine the fair value of standard stock options and Employee Stock Purchase Plan ("ESPP") shares. All share-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods. Stock-based compensation expense recognized at fair value includes the impact of estimated forfeitures. We estimate future forfeitures at the date of grant and revise the estimates if necessary, in subsequent periods if actual forfeitures differ from these estimates. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include actual and projected employee stock option exercise behaviors that impact the expected term, our expected stock price volatility over the term of the awards, risk-free interest rate, and expected dividends.

We use the Monte-Carlo Simulation model to value our stock options with a market condition. Valuation techniques such as the Monte-Carlo Simulation model have been developed to value path-dependent awards. The Monte-Carlo Simulation model is a generally accepted statistical technique used, in this instance, to simulate a range of our future stock prices.

The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics not present in our option grants and ESPP shares. Existing valuation models, including the Black-Scholes model and the Monte-Carlo Simulation, may not provide reliable measures of the fair values of our stock-based compensation. Consequently, there is a risk that our estimates of the fair

values of our stock-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination, or forfeiture of those stock-based payments in the future. Certain stock-based payments, such as employee stock options, may expire and be worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, value may be realized from these instruments that are significantly higher than the fair values originally estimated on the grant date and reported in our financial statements. There currently is no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values.

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If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods, or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating results.

See Note 9 to the consolidated financial statements for further information regarding stock-based compensation.

### Accounting for Income Taxes

We use the asset and liability method of accounting for income taxes as prescribed in ASC 740, Income Taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, tax losses, and credit carryforwards. This method requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance if, based on available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed periodically based on the ASC 740 more-likely-than-not realization ("MLTN") threshold criterion. This assessment considers matters such as future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. The evaluation of the recoverability of the deferred tax assets requires that the Company weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified.

Our judgments, assumptions, and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws, and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. We have established reserves for income taxes to address potential exposures involving tax positions that could be challenged by tax authorities. Although we believe our judgments, assumptions, and estimates are reasonable, changes in tax laws or our interpretation of tax laws and any future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

Our assumptions, judgments, and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income, such as income from operations or capital gains income. Actual operating results and the underlying amount and category of income in future years could render inaccurate our current assumptions, judgments, and estimates of recoverable net deferred tax assets. Any of the assumptions, judgments, and estimates mentioned above could cause our actual income tax obligations to differ from our estimates, thus materially impacting our financial position and results of operations.

We are a United States-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Certain portions of our foreign earnings for the current fiscal year were earned by our Irish subsidiaries. In addition to providing for U.S. income taxes on earnings from the U.S., we provide for U.S. income taxes on the earnings of foreign subsidiaries unless the subsidiaries' earnings are considered permanently reinvested outside the U.S. While we do not anticipate changing our intention regarding permanently reinvested earnings, if certain foreign earnings previously treated as permanently reinvested are repatriated, the related U.S. tax liability may be reduced by any foreign income taxes paid on these earnings but only to the extent that we generate sufficient United States based income.

Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates could be unfavorably affected by changes in the tax rates in jurisdictions where our income is earned, by changes in, our estimates related to, or our interpretation of, tax rules and regulations in the jurisdictions in which we do business, by unanticipated decreases in the amount of earnings in countries with low statutory tax rates, or by changes in the valuation of our deferred tax assets and liabilities. The United States, countries in the European Union and other countries where we do business have been considering changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to corporate multinationals. These potential changes could adversely affect our effective tax rates or result in other costs to us.

See Note 12 to the consolidated financial statements for further information concerning income taxes.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP, with no need for management's



judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

Results of Operations

Overview of 2016

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Revenues for 2016 were \$57.1 million, a decrease of \$6.3 million, or 10%, versus 2015. This decrease was primarily related to a decrease of \$5.6 million in royalty and license revenue, mostly in mobility and gaming markets, due to a one-time licensing fee of \$2.0 million recorded in 2015 that did not recur in 2016, and certain of license agreements with our customers that expired prior or during 2016. The decreases in royalty and license revenue from mobility and gaming markets were partially offset by an increase in medical market.

Net loss for 2016 was \$39.4 million, compared to net income of \$2.9 million for 2015. Net loss for fiscal year 2016 was primarily related to a non-cash valuation allowance charge of \$28.1 million recorded in the fourth quarter against our deferred tax assets, which resulted in an increase of \$23.9 million in tax provision as compared to 2015. Net loss for 2016 was also related to an increase of \$13.9 million in operating expenses due mainly to higher litigation expenses as our continuous effort to protect and preserve our IP, and a decrease of \$6.3 million in total revenues compared to the year ended December 31, 2015. These were partially offset by an increase of \$1.0 million in other income from continuing operations and \$649,000 in income from discontinued operations, net of tax, recorded in the second quarter of 2016. See Note 12 to the consolidated financial statements for additional information on our income taxes.

In 2017, we expect royalty and license revenue, mainly from mobility customers, to remain the major component of our revenue as our technology continues to be included in our licensees' products and as we continue to execute our patent licensing program in mobility market. Our gaming royalty and license revenue could be adversely impacted in 2017 by the expiration of several gaming patents in 2016. Revenue may also decrease due to timing and uncertainty associated with contract renewals. IP litigation, including our pending litigation with Apple and AT&T, may cause us to expend significant financial resources in the future and may have an adverse effect on the results of our operations. Additionally, our success could be limited by various factors, including global economic conditions, foreign currency exchange rates, the timely release of our new products and our licensees' products, continued market acceptance of our products and technology, and the introduction of new products by existing or new competitors and adverse rulings affecting our patents. For a further discussion of these and other risk factors, see Item 1A, "Risk Factors."

The following table sets forth our consolidated statements of income data as a percentage of total revenues:

|  | Years Ended December 31, |    |       |   |       |   |
|--|--------------------------|----|-------|---|-------|---|
|  | 2016                     |    | 2015  |   | 2014  |   |
| Revenues:  |                          |    |       |   |       |   |
| Royalty and license  | 98.2                     | %  | 97.3  | % | 97.9  | % |
| Development, services, and other   | 1.8                      |    | 2.7   |   | 2.1   |   |
| Total revenues   | 100.0                    |    | 100.0 |   | 100.0 |   |
| Costs and expenses:  |                          |    |       |   |       |   |
| Cost of revenues (exclusive of amortization of intangibles shown separately below) | 0.3                      |    | 0.7   |   | 0.9   |   |
| Sales and marketing  | 25.6                     |    | 23.2  |   | 20.6  |   |
| Research and development   | 23.5                     |    | 23.3  |   | 22.3  |   |
| General and administrative   | 77.3                     |    | 45.4  |   | 44.9  |   |
| Amortization of intangibles  | —                        |    | —     |   | 0.1   |   |
| Total costs and expenses   | 126.7                    |    | 92.6  |   | 88.8  |   |
| Operating income (loss)  | (26.7)                   | )  | 7.4   |   | 11.2  |   |
| Interest and other income  | 1.4                      |    | 0.3   |   | 1.1   |   |
| Other expense  | (0.1)                    | )  | (0.7) | ) | (0.4) | ) |
| Income (loss) from continuing operations before provision for income taxes         | (25.4)                   | )  | 7.0   |   | 11.9  |   |
| Provision for income taxes from continuing operations                              | (44.7)                   | )  | (2.5) | ) | (4.1) | ) |
| Income (loss) from continuing operations   | (70.1)                   | )% | 4.5   |   | 7.8   |   |
| Income from discontinued operations, net of tax                                    | 1.1                      | %  | —     |   | —     |   |
| Net income (loss)  | (69.0)                   | )% | 4.5   | % | 7.8   | % |



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## Revenues

| (\$ in thousands)                | 2016     | \$<br>Change | %<br>Change | 2015     | \$<br>Change | %<br>Change | 2014     |
|----------------------------------|----------|--------------|-------------|----------|--------------|-------------|----------|
| Royalty and license              | \$56,030 | \$(5,647)    | (9)%        | \$61,677 | \$9,873      | 19%         | \$51,804 |
| Development, services, and other | 1,056    | (660)        | (38)%       | 1,716    | 583          | 51%         | 1,133    |
| Total revenue                    | \$57,086 | \$(6,307)    | (10)%       | \$63,393 | \$10,456     | 20%         | \$52,937 |

## 2016 Compared to 2015

Royalty and license revenue — Royalty and license revenue is comprised of variable royalties earned based on usage by licensees and fixed payment license fees charged for our IP and software. Royalty and license revenue for 2016 was \$56.0 million, a decrease of \$5.6 million, or 9%, compared to \$61.7 million for 2015.

Variable royalty revenue based on shipping volumes and per unit prices decreased by \$4.2 million, or 14%, to \$25.6 million for the year ended December 31, 2016, compared to \$29.8 million for the year ended December 31, 2015. The decrease was primarily caused by decreased volume from our gaming, mobility, and medical customers.

Fixed payment license revenue decreased by \$1.5 million, or 5%, to \$30.4 million for the year ended December 31, 2016, compared to \$31.9 million for the year ended December 31, 2015. The decrease was primarily related to the decrease in mobility license revenue due to a one-time licensing fee of \$2.0 million recorded in the second quarter of 2015 that did not recur in 2016, and certain of our license agreements with our mobility customers that expired prior or during 2016, including our previous license agreement with Samsung that expired at the end of 2015. The decrease in mobility license revenue was further offset by a non-recurring license fee of \$3.0 million from a medical customer and increased license fees from new gaming customers we signed during 2016.

Royalty and license revenue from mobility customers decreased by 17% primarily due to a non-recurring license fee of \$2.0 million from a completed contract with a mobility customer in the prior year that did not recur in 2016, along with decreased recurring license revenue from our previous license agreements, including Samsung that expired at the end of 2015. In the first quarter of 2016, we filed an arbitration requesting that Samsung be ordered to comply with its obligation under the Samsung License, including ceasing distributing devices previously licensed under the Samsung License and paying damages suffered by us. On July 12, 2016, we entered into an amendment to the original agreement to permit Samsung to exercise Product Life Cycle Wind Down Rights in exchange for a fee of \$19.0 million which we recognized as license revenue during 2016 that partially offset the decreased mobility license revenue. Pursuant to the amendment, we agreed to terminate the arbitration proceedings and release each other for a variety of matters. See Part I, Item 3. Legal Proceedings. We anticipate that our mobility business will continue to be the primary revenue stream in 2017.

Royalty and license revenue from gaming customers decreased by 9% primarily due to the decreased volume of sales by our licensees that drove down the per-unit royalty revenue during 2016. This decrease was partially offset by increased license fees from new gaming customers. Revenue from gaming customers can fluctuate based upon consumer gaming preferences, the timing of introductions of new gaming console systems, the timing of new products from third party peripheral makers that are our licensees, and the recognition by gaming customers of the relevance of our IP.

Royalty and license revenue from automotive customers remained relatively flat compared to 2015.

Royalty and license revenue increased by 46% from medical customers primarily due to a non-recurring license fee of \$3.0 million partially offset by reduced royalties from other medical customers.

We expect royalty and license revenue to continue to be the major component of our future revenue sources as our technology continues to be included in products and we continue our efforts to monetize our IP. We typically experience seasonally higher revenue from our gaming and mobility customers due to the reporting of holiday sales in the first calendar quarter compared to other calendar quarters. Our gaming royalty and license revenue could be adversely impacted in 2017 by the expiration of several gaming patents in 2016. Revenue may also decrease due to timing and a lack of contract renewals.

Development, services, and other revenue — Development, services, and other revenue is comprised primarily of development work, implementation support, and other contract engineering services provided to customers. Development, services, and other revenue for 2016 decreased by \$660,000, or 38%, versus 2015, mainly due to a decreased non-recurring service fees from contracts completed in prior year. We continue to focus our engineering resources on development efforts that leverage our existing sales

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and channel distribution capabilities. Accordingly, we do not expect development, services, and other revenue to be a significant part of total revenues in the future.

Geographically, revenues generated in North America, Europe, and Asia during 2016 represented 32%, 8%, and 60%, respectively, of our total revenue as compared to 28%, 5%, and 67%, respectively, for 2015. Revenue attributable to North America as a percentage of total revenue increased primarily due to increased license revenue from medical, partially offset by decreased royalty revenue from gaming and mobility. Revenue attributable to Europe as a percentage of total revenue increased primarily due to increased royalty revenue from gaming and automotive, partially offset by decreased royalty revenue from medical. Revenue attributable to Asia as a percentage of total revenue decreased primarily from decreased royalty and license revenue from mobility and, to a lesser extent, decreased royalty revenue from gaming and automotive.

**2015 Compared to 2014**

**Royalty and license revenue** — The increase in royalty and license revenue from 2014 to 2015 was driven primarily by increases from our mobility licensees and, to a lesser extent, by increases from our automotive, gaming, and medical licensees.

Variable royalty revenue based on shipping volumes and per unit prices increased to \$29.8 million for the year ended December 31, 2015 from \$21.6 million for the year ended December 31, 2014. The increase in 2015 variable royalty revenue was primarily due to increased volume from our mobility customers and, to a lesser extent, due to higher royalty rates and timing of revenue recognition. Fixed payment license revenue increased to \$31.9 million for the year ended December 31, 2015 from \$30.2 million for the year ended December 31, 2014, mainly due to a non-recurring license fee from a completed contract of \$2.0 million.

Royalty and license revenue from mobility customers increased by 23% primarily due to a non-recurring license fee from a completed contract of \$2.0 million and to a lesser extent increased volume from our new and existing customers. We anticipate that our mobility business will continue to be of primary importance.

Royalty and license revenue from automotive customers increased by 53%, primarily due to our technology being incorporated in an increased volume of vehicles sold by existing licensees and to a lesser extent the timing of revenue recognition.

Royalty and license revenue from gaming customers increased by 5%, primarily due to increased sales by our licensees of products containing our technology.

Royalty and license revenue also increased by 14% for medical customers primarily due to increased sales volumes from our licensees and timing of revenue recognition; partially offset by decreased license fees.

**Development, services, and other revenue** — Development, services, and other revenue increased mainly due to a non-recurring service fee from a completed contract of \$0.6 million.

For 2015 revenues generated in North America, Europe, and Asia represented 28%, 5%, and 67%, respectively, compared to 29%, 3%, and 68%, respectively, for 2014. The slight shift in revenues among regions was mainly due to an increase in royalty and license revenue in Asia primarily due to an increase in royalty revenue from our mobility and automotive licensees. The increase in royalty and license revenue in North America was primarily due to increased revenue from our mobility and gaming customers. The increase in royalty and license revenue in Europe was primarily due to increased revenue from our automotive, gaming, and medical customers. The increases in royalty and license revenue in Asia and North America were relatively less than the increase in Europe, resulting in the decreases in these regions as a percentage of revenues.

**Expenses**

| (\$ in thousands)   | 2016     | \$     | % | 2015     | \$      | %  | 2014       |
|---------------------|----------|--------|---|----------|---------|----|------------|
|                     |          |        |   |          |         |    |            |
| Sales and marketing | \$14,613 | \$(61) | — | \$14,674 | \$3,778 | 35 | % \$10,896 |

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|                             |        |         |       |        |       |       |        |
|-----------------------------|--------|---------|-------|--------|-------|-------|--------|
| Research and development    | 13,388 | (1,397) | (9)%  | 14,785 | 2,992 | 25%   | 11,793 |
| General and administrative  | 44,151 | 15,396  | 54%   | 28,755 | 5,001 | 21%   | 23,754 |
| Amortization of intangibles | 6      | (14)    | (70)% | 20     | (47)  | (70)% | 67     |

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**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 allocated facilities costs. Sales and marketing expense for 2016 was relatively flat as compared to 2015. We expect that sales and marketing expenses will increase in 2017 as we continue to invest in sales and marketing to further market acceptance for our touch technologies and expanding our focus on the content and media business. The increase in sales and marketing expense for 2015 as compared to 2014 was primarily due to increased compensation, benefits, and other related costs of \$2.8 million, mainly due to increased headcount and benefits; increased marketing and advertising expenses of \$551,000 mainly due to marketing initiatives and tradeshows; and increased consulting and outside services of \$254,000 due to tradeshows and sales initiatives in 2015.

**Research and Development** — Our research and development expenses are composed primarily of employee compensation and benefits, consulting fees, tooling and supplies, and allocated facilities costs. Research and development expenses decreased by \$1.4 million, or 9%, during 2016 as compared to 2015. The decrease was primarily due to a \$504,000 decrease in compensation, benefits, and other related costs and a \$216,000 decrease in travel costs, both resulted from decreased headcount, and a \$661,000 decrease in consulting services expense as a reflection of our redirected development efforts. We believe that continued investment in research and development is critical to our future success, and we expect to continue to make investments in areas of research and development to support future growth including our content and media business.

The increase in research and development expenses for 2015 as compared to 2014 was primarily due to increased compensation, benefits, and other related costs of \$2.1 million, mainly due to increased headcount and benefits; and increased consulting and outside services expense of \$609,000, related to our investment in projects to continue inventing and improving our haptic technologies.

**General and Administrative** — Our general and administrative expenses are primarily composed of employee compensation and benefits, legal and professional fees, external legal costs for patents, office supplies, travel, and allocated facilities costs. General and administrative expenses for 2016 increased \$15.4 million, or 54%, as compared to 2015. The increase was primarily related to a \$15.2 million increase in legal expense and a \$1.0 million increase in compensation, benefits, and other related costs as a result of increased headcount and stock compensation expense for 2016. The increased legal and professional fees were primarily due to a \$13.9 million increase in litigation expense relating to ongoing litigations including the current litigation with Apple and AT&T Mobility, and a \$1.2 million increase in patent related legal, filing, and maintenance costs. These increases in general and administrative expenses were partially offset by a \$676,000 decrease in professional and outside services mainly due to reduced accounting and tax services as we completed the reorganization of our international operations in 2015. We do not believe that our general and administrative expenses will decrease significantly in 2017 as we manage our business and strategic opportunities and continue to file, maintain, license, and enforce our IP and contractual rights, including in the current litigation against Apple, and AT&T Mobility, and defend any lawsuits brought against us or that we initiate against others to enforce our IP or contractual rights.

The increase in general and administrative expenses for 2015 as compared to 2014 was primarily due to increased legal and professional expenses of \$2.7 million and increased compensation, benefits, and other related costs of \$2.3 million. The increased legal and professional expenses were primarily due to increased professional services and license fee expenses of \$4.3 million, partially offset by decreased litigation expenses of \$1.6 million relating to ongoing and completed litigation. The increased compensation, benefits, and other related costs were mainly due to increased headcount, benefits, and stock compensation expense.

## Interest and Other Income

## Other Expense

| (\$ in thousands) | 2016 | \$ | % | 2015 | \$ | % | 2014 |
|-------------------|------|----|---|------|----|---|------|
|                   |      |    |   |      |    |   |      |



|                           |         |        |        |         |          |        |         |
|---------------------------|---------|--------|--------|---------|----------|--------|---------|
| Interest and other income | \$817   | \$ 640 | 362 %  | \$177   | \$(403 ) | (69 )% | \$580   |
| Other expense             | \$(63 ) | \$ 384 | (86 )% | \$(447) | \$(219 ) | 96 %   | \$(228) |

Interest and Other Income — Interest and other income consists primarily of interest income from cash and cash equivalents and short-term investments, interest on notes receivable, translation exchange rate gains and other income. Interest and other income increased in 2016 compared to 2015 primarily attributable to non-recurring other income of \$550,000 received in the third

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quarter of 2016. Interest and other income decreased in 2015 compared to 2014 as a result of a non-recurring gain of \$344,000 in 2014 that did not recur in 2015.

Other Expense — Other expense consist primarily of translation loss from exchange rate fluctuations. Other expense decreased in 2016 compared to 2015 as a result of exchange rate gains from our foreign subsidiaries. Other expense increased in 2015 compared to 2014 as a result of exchange rate losses from our foreign subsidiaries.

## Provision for Income Taxes from Continuing Operations

| (\$ in thousands)  | 2016       | \$ Change  | % Change | 2015      | \$ Change | % Change | 2014      |
|--|------------|------------|----------|-----------|-----------|----------|-----------|
| Provision for income taxes from continuing operations                      | \$(25,521) | \$(23,930) | 1,504 %  | \$(1,591) | \$ 605    | (28 )%   | \$(2,196) |
| Income (loss) from continuing operations before provision for income taxes | (14,509 )  |            |          | 4,449     |           |          | 6,319     |
| Effective tax rate   | (175.9 )%  |            |          | 35.8 %    |           |          | 34.8 %    |

For 2016 we recorded a provision for income taxes from continuing operations of \$25.5 million yielding an effective tax rate of (175.9)%. The 2016 provision reflects the increase in our deferred tax asset valuation allowance.

Prior to the year ended December 31, 2016, we maintained a valuation allowance only against certain of our U.S. Federal and Foreign deferred tax assets as we concluded that it was more likely than not that certain of these U.S. Federal deferred tax assets would be utilized. We also determined that a valuation allowance was needed against our State and certain other Foreign deferred tax assets as there was not sufficient evidence to support the release of the valuation allowance against them.

Based on our fourth quarter of 2016 assessment of the realizability of our deferred tax assets, we recorded a non-cash charge of \$28.1 million as additional valuation allowance against our federal deferred tax assets, thereby establishing a full valuation allowance against these deferred tax assets as of December 31, 2016. We continued to maintain a full valuation allowance against our state and certain of our foreign net deferred tax assets. As of December 31, 2016, the aggregating balance of our deferred tax assets totaled \$39.0 million with a valuation allowance of \$38.7 million, resulting in a net deferred tax asset balance of \$359,000. The valuation allowance of \$38.7 million is comprised of \$29.5 million against our U.S. federal deferred tax assets and \$9.2 million against our state and foreign deferred tax assets. The establishment of a valuation allowance has no effect on our ability to use the deferred tax assets in the future to reduce cash tax payments when taxable income is reported. As required by U.S. GAAP, we will continue to assess the likelihood that the deferred tax assets will be realizable at each reporting period and the valuation allowance will be adjusted accordingly, which could materially affect the Company's financial position and results of operations. For 2015 we recorded a provision for income taxes of \$1.6 million yielding an effective tax rate of 35.8%. The 2015 provision included the tax impact of nondeductible permanent items, including stock-based compensation and foreign withholding taxes, incurred for the period. The provision for income tax for 2015 also included tax expense on intercompany profits resulting from the sale of certain IP rights to one of our foreign subsidiaries as part of the reorganization described below. The change in tax provision results primarily from the effects of the above described reorganization, including an increase to the valuation allowance against certain deferred tax assets and, to a lesser extent, the change in income before provision for income taxes for each tax jurisdiction.

During the year ended December 31, 2015, we commenced and completed a reorganization of our international operations. The purpose of this reorganization was to more closely align our corporate structure and income tax profile with the international nature of our business activities. Steps taken to achieve the reorganization included making changes to our legal entity structure, transferring certain IP rights to one of our foreign subsidiaries, and the implementation of contractual agreements, including research and development cost-sharing arrangements, between the U.S. entity and its wholly owned foreign subsidiaries. There were no other expenses incurred, in relation to the reorganization described above, outside of those related to income taxes.



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We expect that this reorganization will result in a lower percentage of pre-tax income being subject to U.S. federal statutory tax rate over the long-term. However, our ability to realize the expected tax benefits of this reorganization is contingent upon numerous factors, including our ability to achieve our projected revenue and earnings both domestically and in the various countries in which the reorganization took place and the judgments of tax authorities in several jurisdictions. A change in these factors in future periods relative to our current assumptions may result in additional income tax expense and/or withholdings being recorded in future filings.

For 2014, we recorded a provision for income taxes of \$2.2 million, yielding an effective tax rate of 34.8%. The 2014 tax provision resulted primarily from the decrease in deferred tax assets and foreign withholding tax expense.

We also maintain liabilities for uncertain tax positions. We released reserves totaling \$310,000 in 2016 including interest and recorded a tax benefit due to the receipt of a tax refund related to the settlement with a taxing authority as noted above. As of December 31, 2016, we had unrecognized tax benefits under ASC 740 "Income Taxes" of approximately \$6.2 million and there was no applicable interest. The total amount of unrecognized tax benefits that would affect our effective tax rate, if recognized, is \$97,000.

#### Discontinued Operations

Discontinued Operations - Income from discontinued operations, net of taxes, of \$649,000 in the year ended December 31, 2016 is comprised of a final payment received from the sales of the 3D product line that occurred in the year ended December 31, 2009.

#### Liquidity and Capital Resources

Our cash, cash equivalents, and short-term investments consist primarily of money market funds and U.S. 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.

As of December 31, 2016, our cash, cash equivalents, and short-term investments totaled \$89.8 million, an increase of \$24.9 million from \$64.9 million on December 31, 2015, primarily due to cash receipts from our customers.

Cash provided by operating activities - Net cash provided by operating activities was \$22.0 million for 2016 compared to \$10.0 million for 2015. The \$12.0 million increase in net cash provided by operating activities was primarily attributable to \$29.2 million change in deferred revenue and customer advances, \$14.3 million change in deferred income taxes, and \$11.7 million decrease in working capital, partially offset by the change from \$2.9 million net income for 2015 to \$39.4 million net loss for 2016. The \$29.2 million change in deferred revenue and customer advance was mainly related to new billings for up-front licensee fees added in 2016 that have been deferred to be recognized over the contract terms. The \$14.3 million change in deferred income tax was primarily caused by a non-cash charge of \$28.1 million recorded in the fourth quarter of 2016 to establish a full valuation allowance against our U.S. deferred tax assets, partially offset by additions to our deferred tax assets recorded in the period. Working capital is defined as current assets (excluding cash and cash equivalents) minus current liabilities. Working capital decreased \$11.7 million in 2016 compared to 2015 due primarily to the decreases in the year-over-year change in prepaid income taxes and prepaid expense and other current assets of \$9.0 million and \$1.9 million, respectively, and an increase in the year-over-year change in accounts payable of \$5.3 million. This decrease was partially offset by an increase in the year-over-year change in accounts receivable of \$2.0 million and a decrease in the year-over-year change in accrued compensation and other current liabilities of \$2.4 million.

Cash provided by (used in) investing activities — Net cash provided by investing activities during 2016 was \$7.8 million, compared to the \$1.3 million cash used in investing activities during 2015. Net cash provided by investing activities during 2016 consisted of maturities of short-term investments of \$40.0 million and proceeds from sales of discontinued operations of \$1.0 million. This was partially offset by purchases of short-term investments of \$32.8 million and purchases of property, plant, and equipment of \$343,000. Net cash used in investing activities during 2015 was \$1.3 million, compared to the \$13.3 million net cash provided by investing activities during 2014. Net cash used in investing activities during 2015 consisted of purchases of short-term investments of \$44.9 million and purchases of property, plant, and equipment of \$4.4 million. This was partially offset by maturities of short-term investments of \$48.0 million.



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Cash provided by (used in) financing activities — Net cash provided by financing activities during 2016 was \$2.0 million, an increase of \$38,000 compared to \$1.9 million net cash provided during 2015. Net cash provided by financing activities during 2016 consisted primarily of exercises of stock options of \$2.4 million and the issuance of common stock under the ESPP of \$307,000, partially offset by repurchases of treasury stock of \$729,000. Net cash provided by financing activities during 2015 was \$1.9 million, compared to \$13.3 million used in financing activities during 2014. Net cash provided by financing activities during 2015 consisted primarily of exercises of stock options of \$1.6 million and the issuance of common stock under the ESPP of \$367,000.

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 \$89.8 million as of December 31, 2016, less than 10% 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. At December 31, 2016 there was \$33.7 million under our previously-approved share repurchase program. We anticipate that capital expenditures for property and equipment for the year ended December 31, 2017 will be less than \$1.0 million. Cash from operations could also be affected by various risks and uncertainties, including, but not limited to the risks detailed in Part I, Item 1A, “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

The following table reflects a summary of our contractual cash obligations and other commercial commitments as of December 31, 2016 (in thousands):

| Contractual Obligations Total | Less Than<br>1 Year | 1-3 Years | 3-5 Years | More Than<br>5 Years |
|-------------------------------|---------------------|-----------|-----------|----------------------|
| Operating Leases              | \$6,453             | \$ 1,281  | \$ 2,180  | \$ 1,762             |
|                               |                     |           |           | \$ 1,230             |

At December 31, 2016, we had a liability for unrecognized tax benefits totaling \$6.2 million including interest of \$2,000, of which approximately \$97,000 could be payable in cash. We did not have any other significant non-cancellable purchase commitments as of December 31, 2016.

#### Recent Accounting Pronouncements

See Note 1 to the consolidated financial statements for information regarding the effect of new accounting pronouncements on our financial statements.

#### Item 7A. 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 \$89.8 million as of December 31, 2016, 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 approximate \$141,000 in the fair value of our cash equivalents and short-term investments as of December 31, 2016.

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.

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dollar could cause our licenses to become relatively more expensive to customers in a particular country, leading to a reduction in sales or profitability in that country. We have no foreign exchange contracts, option contracts, or other foreign currency hedging arrangements and we do not expect to have such arrangements in the foreseeable future.

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Item 8. Financial Statements and Supplementary Data

IMMERSION CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Immersion Corporation

San Jose, California

We have audited the accompanying consolidated balance sheets of Immersion Corporation and subsidiaries (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income (loss), stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Immersion Corporation and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2017 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

San Jose, California

March 3, 2017

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CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

|   | December 31, |           |
|---|--------------|-----------|
|   | 2016         | 2015      |
| <b>ASSETS</b>   |              |           |
| Current assets:   |              |           |
| Cash and cash equivalents   | \$56,865     | \$25,013  |
| Short-term investments  | 32,907       | 39,918    |
| Accounts and other receivables (net of allowances for doubtful accounts of: \$0 and \$15, respectively)   | 1,382        | 1,213     |
| Prepaid expenses and other current assets   | 2,876        | 2,790     |
| Total current assets  | 94,030       | 68,934    |
| Property and equipment, net   | 4,016        | 4,589     |
| Deferred income tax assets  | 359          | 24,633    |
| Prepaid income taxes  | 4,997        | 6,995     |
| Intangibles and other assets, net   | 365          | 264       |
| Total assets  | \$103,767    | \$105,415 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |              |           |
| Current liabilities:  |              |           |
| Accounts payable  | \$5,951      | \$650     |
| Accrued compensation  | 4,753        | 4,840     |
| Other current liabilities   | 4,409        | 2,999     |
| Deferred revenue  | 5,909        | 6,696     |
| Total current liabilities   | 21,022       | 15,185    |
| Long-term deferred revenue  | 26,393       | 2,516     |
| Other long-term liabilities   | 1,012        | 1,099     |
| Total liabilities   | 48,427       | 18,800    |
| Commitments and contingencies (Notes 8 and 15)  |              |           |
| Stockholders' equity:   |              |           |
| Common stock and additional paid-in capital – \$0.001 par value; 100,000,000 shares authorized; 35,555,562 and 34,845,310 shares issued, respectively; 28,917,559 and 28,329,416 shares outstanding, respectively | 221,098      | 212,115   |
| Accumulated other comprehensive income  | 115          | 86        |
| Accumulated deficit   | (119,329 )   | (79,948 ) |
| Treasury stock at cost: 6,638,003 and 6,515,894 shares, respectively  | (46,544 )    | (45,638 ) |
| Total stockholders' equity  | 55,340       | 86,615    |
| Total liabilities and stockholders' equity  | \$103,767    | \$105,415 |
| See notes to consolidated financial statements.   |              |           |

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

|  | Years Ended December 31, |          |          |
|--|--------------------------|----------|----------|
|  | 2016                     | 2015     | 2014     |
| Revenues:  |                          |          |          |
| Royalty and license  | \$56,030                 | \$61,677 | \$51,804 |
| Development, services, and other   | 1,056                    | 1,716    | 1,133    |
| Total revenues   | 57,086                   | 63,393   | 52,937   |
| Costs and expenses:  |                          |          |          |
| Cost of revenues (exclusive of amortization of intangibles shown separately below) | 191                      | 440      | 460      |
| Sales and marketing  | 14,613                   | 14,674   | 10,896   |
| Research and development   | 13,388                   | 14,785   | 11,793   |
| General and administrative   | 44,151                   | 28,755   | 23,754   |
| Amortization of intangibles  | 6                        | 20       | 67       |
| Total costs and expenses   | 72,349                   | 58,674   | 46,970   |
| Operating income (loss)  | (15,263 )                | 4,719    | 5,967    |
| Interest and other income  | 817                      | 177      | 580      |
| Other expense  | (63 )                    | (447 )   | (228 )   |
| Income (loss) from continuing operations before provision for income taxes         | (14,509 )                | 4,449    | 6,319    |
| Provision for income taxes from continuing operations                              | (25,521 )                | (1,591 ) | (2,196 ) |
| Income (loss) from continuing operations   | (40,030 )                | 2,858    | \$4,123  |
| Income from discontinued operations, net of tax                                    | 649                      | —        | —        |
| Net income (loss)  | \$(39,381 )              | \$2,858  | \$4,123  |
| Basic net income (loss) per share:   |                          |          |          |
| Continuing operations  | \$(1.39 )                | \$0.10   | \$0.15   |
| Discontinued operations  | 0.02                     | 0.00     | 0.00     |
| Total  | \$(1.37 )                | \$0.10   | \$0.15   |
| Shares used in calculating basic net income (loss) per share                       | 28,759                   | 28,097   | 28,246   |
| Diluted net income (loss) per share:   |                          |          |          |
| Continuing operations  | \$(1.39 )                | \$0.10   | \$0.14   |
| Discontinued operations  | 0.02                     | 0.00     | 0.00     |
| Total  | \$(1.37 )                | \$0.10   | \$0.14   |
| Shares used in calculating diluted net income (loss) per share                     | 28,759                   | 29,015   | 29,144   |
| Other comprehensive income (loss), net of tax                                      |                          |          |          |
| Change in unrealized gains (losses) on short-term investments                      | 8                        | (16 )    | (10 )    |
| Foreign currency translation adjustments   | 21                       | —        | —        |
| Total other comprehensive income (loss)  | 29                       | (16 )    | (10 )    |
| Total comprehensive income (loss)  | \$(39,352 )              | \$2,842  | \$4,113  |
| See notes to consolidated financial statements.                                    |                          |          |          |

Table of ContentsIMMERSION CORPORATION  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share amounts)

|  | Common Stock and<br>Additional Paid-In Capital |            | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Accumulated<br>Deficit | Treasury Stock |            | Total<br>Stockholders'<br>Equity |
|--|--|------------|---|------------------------|----------------|------------|----------------------------------|
|  | Shares   | Amount     |   |                        | Shares         | Amount     |                                  |
| Balances at January 1, 2014  | 33,619,766                                     | \$ 198,057 | \$ 112  | \$(86,929)             | 4,982,744      | \$(30,569) | \$ 80,671                        |
| Net income   |  |            |   | 4,123                  |                |            | 4,123                            |
| Unrealized gain (loss) on<br>available-for-sale securities, net<br>of taxes              |  |            | (10)  |                        |                |            | (10)                             |
| Repurchase of stock  |  |            |   |                        | 1,527,647      | (15,000)   | (15,000)                         |
| Issuance of stock for ESPP<br>purchase   | 38,298   | 381        |   |                        |                |            | 381                              |
| Exercise of stock options  | 205,744  | 1,304      |   |                        |                |            | 1,304                            |
| Release of restricted stock units<br>and awards, including related<br>stock compensation | 361,970  | 3,976      |   |                        |                |            | 3,976                            |
| Tax benefit/(deficiency) from<br>the stock incentive plans                               |  | (161)      |   |                        |                |            | (161)                            |
| Stock based compensation for<br>stock options  |  | 1,319      |   |                        |                |            | 1,319                            |
| Balances at December 31, 2014  | 34,225,778                                     | \$ 204,876 | \$ 102  | \$(82,806)             | 6,510,391      | \$(45,569) | \$ 76,603                        |
| Net income   |  |            |   | 2,858                  |                |            | 2,858                            |
| Unrealized gain (loss) on<br>available-for-sale securities, net<br>of taxes              |  |            | (16)  |                        |                |            | (16)                             |
| Issuance of stock for ESPP<br>purchase   | 45,820   | 367        |   |                        |                |            | 367                              |
| Exercise of stock options, net of<br>shares withheld for employee<br>taxes               | 239,071  | 1,630      |   |                        | 5,503          | (69)       | 1,561                            |
| Release of restricted stock units<br>and awards, including related<br>stock compensation | 334,641  | 3,059      |   |                        |                |            | 3,059                            |
| Tax benefit/(deficiency) from<br>the stock incentive plans                               |  | (228)      |   |                        |                |            | (228)                            |
| Stock based compensation for<br>stock options  |  | 2,411      |   |                        |                |            | 2,411                            |
| Balances at December 31, 2015  | 34,845,310                                     | \$ 212,115 | \$ 86   | \$(79,948)             | 6,515,894      | \$(45,638) | \$ 86,615                        |
| Net loss   |  |            |   | (39,381)               |                |            | (39,381)                         |
| Unrealized gain (loss) on<br>available-for-sale securities, net<br>of taxes              |  |            | 8   |                        |                |            | 8                                |
| Foreign currency translation<br>adjustments  |  |            | 21  |                        |                |            | 21                               |
| Repurchase of stock  |  |            |   |                        | 105,750        | (729)      | (729)                            |

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|  |            |            |        |              |           |                      |
|--|------------|------------|--------|--------------|-----------|----------------------|
| Issuance of stock for ESPP purchase  | 45,825     | 307        |        |              |           | 307                  |
| Exercise of stock options, net of shares withheld for employee taxes               | 395,515    | 2,565      |        | 16,359       | (177 )    | 2,388                |
| Release of restricted stock units and awards, including related stock compensation | 268,912    | 2,257      |        |              |           | 2,257                |
| Stock based compensation for stock options   |            | 3,854      |        |              |           | 3,854                |
| Balances at December 31, 2016  | 35,555,562 | \$ 221,098 | \$ 115 | \$(119,329 ) | 6,638,003 | \$(46,544) \$ 55,340 |

See notes to consolidated financial statements.

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IMMERSION CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

|  | Years Ended December 31, |           |             |
|--|--------------------------|-----------|-------------|
|  | 2016                     | 2015      | 2014        |
| Cash flows from operating activities:  |                          |           |             |
| Net income (loss)  | \$(39,381)               | \$2,858   | \$4,123     |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                          |           |             |
| Depreciation and amortization of property and equipment                                  | 904                      | 996       | 500         |
| Amortization of intangibles  | 6                        | 20        | 67          |
| Stock-based compensation   | 6,111                    | 5,470     | 5,295       |
| Deferred income taxes  | 24,274                   | 9,935     | 1,893       |
| Allowance for doubtful accounts  | 2                        | (6        | ) 16        |
| Loss on disposal of equipment  | 17                       | 10        | 52          |
| Income from discontinued operations  | (649                     | ) —       | —           |
| Changes in operating assets and liabilities:   |                          |           |             |
| Accounts and other receivables   | (171                     | ) 1,814   | (2,439 )    |
| Prepaid income taxes   | 1,998                    | (6,995    | ) —         |
| Prepaid expenses and other current assets  | (86                      | ) (1,945  | ) (155 )    |
| Intangibles and other assets   | (275                     | ) (36     | ) (39 )     |
| Accounts payable   | 5,322                    | (19       | ) (10 )     |
| Accrued compensation and other current liabilities                                       | 967                      | 3,750     | (2,241 )    |
| Deferred revenue   | 23,090                   | (6,394    | ) (6,755 )  |
| Other long-term liabilities  | (87                      | ) 587     | (16 )       |
| Net cash provided by operating activities  | 22,042                   | 10,045    | 291         |
| Cash flows provided by (used in) investing activities:                                   |                          |           |             |
| Purchases of short-term investments  | (32,813                  | ) (44,910 | ) (42,953 ) |
| Proceeds from maturities of short-term investments                                       | 40,000                   | 48,000    | 57,000      |
| Purchases of property and equipment  | (343                     | ) (4,430  | ) (779 )    |
| Proceeds from discontinued operations  | 1,000                    | —         | —           |
| Net cash provided by (used in) investing activities                                      | 7,844                    | (1,340    | ) 13,268    |
| Cash flows provided by (used in) financing activities:                                   |                          |           |             |
| Issuance of common stock under employee stock purchase plan                              | 307                      | 367       | 381         |
| Exercise of stock options, net of shares withheld for employee taxes                     | 2,388                    | 1,561     | 1,304       |
| Purchases of treasury stock  | (729                     | ) —       | (15,000 )   |
| Net cash provided by (used in) financing activities                                      | 1,966                    | 1,928     | (13,315 )   |
| Net increase in cash and cash equivalents  | 31,852                   | 10,633    | 244         |
| Cash and cash equivalents:   |                          |           |             |
| Beginning of year  | 25,013                   | 14,380    | 14,136      |
| End of year  | \$56,865                 | \$25,013  | \$14,380    |
| Supplemental disclosure of cash flow information:  |                          |           |             |
| Cash paid for taxes  | \$(419                   | ) \$156   | \$47        |
| Supplemental disclosure of noncash operating, investing, and financing activities:       |                          |           |             |
| Amounts accrued for property and equipment   | \$22                     | \$18      | \$60        |
| Cashless option exercise under company stock plan  | \$177                    | \$69      | \$—         |
| Release of Restricted Stock Units and Awards under company stock plan                    | \$2,257                  | \$3,059   | \$3,976     |
| See notes to consolidated financial statements.  |                          |           |             |





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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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 cutting-edge 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 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 Company has prepared the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

## Cash Equivalents

The Company considers all highly liquid instruments purchased with an original or remaining maturity of less than three months at the date of purchase to be cash equivalents.

## Short-term Investments

The Company’s short-term investments consist primarily of U.S treasury bills and government agency securities purchased with an original or remaining maturity of greater than 90 days on the date of purchase. The Company classifies debt securities with readily determinable market values as “available-for-sale.” Even though the stated maturity dates of these debt securities may be one year or more beyond the balance sheet date, the Company has classified all debt securities as short-term investments as they are reasonably expected to be realized in cash or sold within one year. These investments are carried at fair market value with unrealized gains and losses considered to be temporary in nature reported as a separate component of other comprehensive income (loss) within stockholders’ equity.

The Company recognizes an impairment charge in the consolidated statement of income when a decline in value is judged to be other than temporary based on the specific identification method. Other-than-temporary impairment charges may exist when the Company has the intent to sell the security, will more likely than not be required to sell the security, or does not expect to recover the principal.

## Property and Equipment

Property is stated at cost and is depreciated using the straight-line method over the estimated useful life of the related asset. The estimated useful lives are typically as follows:

|   |           |
|---|-----------|
| Computer equipment and purchased software | 3 years   |
| Machinery and equipment                   | 3-5 years |
| Furniture and fixtures                    | 5 years   |

Leasehold improvements are amortized over the shorter of the lease term or their estimated useful life.

## Long-lived Assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of that asset may not be recoverable. An impairment loss would be recognized when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the asset.

## Revenue Recognition



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

**Persuasive evidence of an arrangement exists.** For a license arrangement, the Company requires a written contract, signed by both the customer and the Company.

**Delivery has occurred.** The Company delivers software and product to customers physically and also delivers software electronically. For electronic deliveries, delivery occurs when the Company provides the customer access codes or “keys” that allow the customer to take immediate possession of the software.

**The fee is fixed or determinable.** The Company’s arrangement fee is based on the use of standard payment terms, which are those that are generally offered to the majority of customers. For transactions involving extended payment terms, the Company deems these fees not to be fixed or determinable for revenue recognition purposes and revenue is deferred until the fees become due and payable.

**Collectability is probable.** To recognize revenue, the Company must judge collectability of fees, which is done on a customer-by-customer basis pursuant to the Company’s credit review policy. The Company typically sells to customers with whom there is a history of successful collection. For new customers, the Company evaluates the customer’s financial condition and ability to pay. If it is determined that collectability is not probable based upon the credit review process or the customer’s payment history, revenue is recognized when payment is received.

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

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

**Multiple element arrangements —** The Company enters into multiple element arrangements in which customers purchase time-based non-exclusive licenses that cannot be resold to others, which include a combination of software and/or IP licenses, engineering services, and in limited cases, PCS. For arrangements that are software based with an engineering services component, the services are generally not essential to the functionality of the software, and customers may purchase engineering services from the Company to facilitate the adoption of the Company’s technology, but they may choose to use their own resources or appoint other engineering service organizations to perform these services. For arrangements that are in substance subscription arrangements, the entire arrangement fee

is recognized ratably over the contract term, subject to any limitations related to extended payment terms. For arrangements involving upfront fees for services and royalties earned by the Company based on units sold or sales volumes of the respective licensed products, and the services are performed ratably over the arrangement or are front-end loaded, the upfront fees are recognized ratably over the contract term, and royalties based on units sold or sales volume are recognized when they become fixed and determinable. As the Company is unable to reliably estimate the licensees' sales in any given quarter to determine the royalties due to it, the Company recognizes per unit or sales volume driven royalty revenues based on royalties reported by licensees and when all revenue recognition criteria are met.

Deferred Revenue

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Deferred revenue consists of amounts that have been invoiced and for which the Company has the right to bill, but that have not been recognized as revenue. The amounts are primarily related to our fixed fee contracts which are recognized ratably over the license term (up to 10 years). Deferred revenue that will be realized during the succeeding 12-month period is recorded as current, and the remaining deferred revenue is recorded as non-current.

**Advertising**

Advertising costs (including obligations under cooperative marketing programs) are expensed as incurred and included in sales and marketing expense. Advertising expense was as follows:

|  | Year ended     |      |      |
|--|----------------|------|------|
|  | December 31,   |      |      |
|  | 2016           | 2015 | 2014 |
|  | (In thousands) |      |      |

|                     |       |       |       |
|---------------------|-------|-------|-------|
| Advertising expense | \$102 | \$265 | \$344 |
|---------------------|-------|-------|-------|

**Research and Development**

Research and development costs are expensed as incurred. The Company has sometimes generated revenues from development contracts with commercial customers that have enabled it to accelerate its own product development efforts. Such development revenues have only partially funded the Company's product development activities, and the Company generally retains ownership of the products developed under these arrangements. As a result, the Company classifies all development costs related to these contracts as research and development expenses.

**Income Taxes**

The Company uses the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized and are reversed at such time that realization is believed to be more likely than not.

**Software Development Costs**

Costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. The Company considers technological feasibility to be established upon completion of a working model of the software. Because the Company believes its current process for developing software is essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

**Stock-based Compensation**

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. See Note 9 for further information regarding the Company's stock-based compensation assumptions and expenses.

**Comprehensive Income**

Comprehensive income includes net income as well as other items of comprehensive income or loss. The Company's other comprehensive income (loss) consists of foreign currency translation adjustments and unrealized gains and losses on short term investments, net of tax.

**Use of Estimates**

The preparation of consolidated financial statements and related disclosures in accordance with U.S. GAAP and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include valuation of short-term investments, income taxes including uncertain tax provisions, revenue recognition, stock-based compensation, contingent liabilities from litigation, and accruals for other liabilities. Actual results may differ materially from those estimates which were made based on the best information known to management at that time.

**Concentration of Credit Risks**



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Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash, cash equivalents, short term investments, and accounts receivable. The Company invests primarily in money market accounts and highly liquid debt instruments purchased with an original or remaining maturity of greater than 90 days on the date of purchase. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand. The Company licenses technology primarily to companies in North America, Europe, and Asia. To reduce credit risk, management performs periodic credit evaluations of its customers' financial condition. The Company maintains reserves for estimated potential credit losses, but historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area.

### Certain Significant Risks and Uncertainties

The Company operates in multiple industries and its operations can be affected by a variety of factors. For example, management believes that changes in any of the following areas could have a negative effect on the Company's future financial position and results of operations: the mix of revenues; the loss of significant customers; fundamental changes in the technologies underlying the Company's and its licensees' products; market acceptance of the Company's and its licensees' products under development; development of sales channels; litigation or other claims in which the Company is involved; the ability to successfully assert its patent rights against others; the impact of changing economic conditions; the hiring, training, and retention of key employees; successful and timely completion of product and technology development efforts; and new product or technology introductions by competitors.

### Fair Value of Financial Instruments

Financial instruments consist primarily of cash equivalents, short-term investments, accounts receivable and accounts payable. Cash equivalents and short term investments are stated at fair value based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The recorded cost of accounts receivable and accounts payable approximate the fair value of the respective assets and liabilities.

### Foreign Currency Translation

The functional currency of the Company's foreign subsidiaries is U. S. dollars. Accordingly, gains and losses from the translation of the financial statements of the foreign subsidiaries and foreign currency transaction gains and losses are included in earnings.

### Recent Accounting Pronouncements

In December 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-19 "Technical Corrections and Improvements". The amendments in this update affect a wide variety of topics in the Accounting Standards Codification. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods in the annual period beginning after December 15, 2018. The Company will adopt the standard in the first quarter of fiscal 2018, but does not expect the adoption of ASU 2016-19 will have a material impact on its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16 "Income Taxes: Topic 740, Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16") which simplifies certain aspects of the income tax accounting for Intra-Entity Transfers of Assets. Under current GAAP, the tax effects of intra-entity asset transfers (intercompany sales) are deferred until the transferred asset is sold to a third party or otherwise recovered through use. This is an exception to the principle in ASC 740, Income Taxes, that generally requires comprehensive recognition of current and deferred income taxes. The new guidance eliminates the exception for all intra-entity sales of assets other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. The standard is effective for periods beginning after December 15, 2017, with early adoption permitted only as of annual reporting periods. The Company is currently in the process of evaluating the effect of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 "Compensation - Stock Compensation: Topic 718" ("ASU 2016-09") which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification in the statement of cash flows. The standard is effective for periods beginning after December 15, 2016, with early adoption permitted. The Company

elected to adopt ASU 2016-09 in the first quarter of 2017 as required. As permitted by the ASU, the Company plans to continue to use an estimated forfeiture rate. Further, the income tax impacts relative to this ASU are not expected to have a significant impact on the Company's consolidated financial statements due to the valuation allowance recorded in the fourth quarter of 2016, which is discussed further in Note 12.



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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 consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09 “Revenue from Contracts with Customers: Topic 606” (“ASU 2014-09”) which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Further, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. In August 2015, the FASB issued ASU 2015-14 “Revenue from Contracts with Customers: Deferral of the Effective Date”, which deferred the effective date of ASU 2014-09 for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. In March 2016, the FASB issued ASU 2016-08 “Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations” (“ASU 2016-08”) which provides updates to revenue recognition guidance relating to considerations for reporting revenue gross versus net. In April 2016, the FASB issued ASU 2016-10 “Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing” (“ASU 2016-10”), which provides updates to revenue recognition guidance relating to performance obligations and accounting for licensing revenue. In May 2016, the FASB issued ASU 2016-12 “Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”) which provides updates to revenue recognition guidance relating to scope and practical expedients for revenue recognition. In December 2016, the FASB issued ASU 2016-20 “Technical Corrections and Improvements to Topic 606” (“ASU 2016-20”) which further provides updates to certain aspects of the revenue recognition guidance. Accordingly, ASU 2014-09, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20 amends certain aspects of the new revenue standard in ASU 2014-09. The amendments may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). The Company has completed portions of its implementation plan, and is continuing to evaluate the method of adoption and the impact this ASU and related amendments and interpretations will have on its consolidated financial statements. Based on the procedures performed to date, the Company has concluded that there will be a shift in the method and timing by which it recognizes its per-unit royalty revenue. In accordance with current GAAP, the Company records this revenue when the royalty reports are received from its customers (typically in arrears); however, under the new standard, the Company will be required to estimate the amount of this revenue in the quarter when the sales actually occur. As a result, there will be variances between the estimated per-unit royalty revenue and that based on the actual sales reported by its customers. The Company has also concluded that it will not early adopt ASU 2014-09. Accordingly, the ASU will be effective for the Company in the first quarter of 2018.

## 2. Fair Value Disclosures

### 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 mostly money market securities. 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 and investment-grade corporate commercial paper.

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. As of December 31, 2016 and 2015, the Company did not hold any Level 3 instruments.

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The Company recorded no other than temporary impairment charges in the years ended December 31, 2016, 2015, and 2014.

Financial instruments measured at fair value on a recurring basis as of December 31, 2016 and December 31, 2015 are listed in the table below:

December 31, 2016  
Fair value measurements using  
Quoted Prices in  
Active  
Markets  
for  
Identical  
Assets  
(Level  
1)  
(In thousands)

|  | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total |
|--|---|--|-------|
|--|---|--|-------|

Assets:

|                            |          |           |    |           |
|----------------------------|----------|-----------|----|-----------|
| U.S. Treasury securities   | \$—      | \$ 32,907 | \$ | —\$32,907 |
| Money market funds         | 32,031   | —         | —  | 32,031    |
| Total assets at fair value | \$32,031 | \$ 32,907 | \$ | —\$64,938 |

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

December 31, 2015  
Fair value measurements using  
Quoted Prices in  
Active  
Markets  
for  
Identical  
Assets  
(Level  
1)  
(In thousands)

|  | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total |
|--|---|--|-------|
|--|---|--|-------|

Assets:

|                            |          |           |    |           |
|----------------------------|----------|-----------|----|-----------|
| U.S. Treasury securities   | \$—      | \$ 39,918 | \$ | —\$39,918 |
| Money market funds         | 14,032   | —         | —  | 14,032    |
| Total assets at fair value | \$14,032 | \$ 39,918 | \$ | —\$53,950 |

The above table excludes \$11.0 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 consolidated balance sheets.

#### Short-term Investments

December 31, 2016

|  | Gross<br>Amortized<br>Cost | Unrealized<br>Holding<br>Gains | Unrealized<br>Holding<br>Losses | Fair Value |
|--|----------------------------|--------------------------------|---------------------------------|------------|
|--|----------------------------|--------------------------------|---------------------------------|------------|

(In thousands)

|                          |          |    |          |           |
|--------------------------|----------|----|----------|-----------|
| U.S. Treasury securities | \$32,914 | \$ | —\$ (7 ) | \$ 32,907 |
| Total                    | \$32,914 | \$ | —\$ (7 ) | \$ 32,907 |



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| December 31, 2015 |            |            |            |
|-------------------|------------|------------|------------|
|                   | Gross      | Gross      |            |
| Amortized         | Unrealized | Unrealized | Fair Value |
| Cost              | Holding    | Holding    |            |
|                   | Gains      | Losses     |            |

(In thousands)

|                          |          |    |           |           |
|--------------------------|----------|----|-----------|-----------|
| U.S. Treasury securities | \$39,933 | \$ | —\$ (15 ) | \$ 39,918 |
|--------------------------|----------|----|-----------|-----------|

|       |          |    |           |           |
|-------|----------|----|-----------|-----------|
| Total | \$39,933 | \$ | —\$ (15 ) | \$ 39,918 |
|-------|----------|----|-----------|-----------|

The contractual maturities of the Company's available-for-sale securities on December 31, 2016 and December 31, 2015 were all due within one year. There were no transfers of instruments between Level 1 and 2 during the years ended December 31, 2016 and 2015.

## 3. Accounts and Other Receivables

| December 31, |      |
|--------------|------|
| 2016         | 2015 |

(In thousands)

|                                    |         |         |
|------------------------------------|---------|---------|
| Trade accounts receivable          | \$1,084 | \$935   |
| Receivables from vendors and other | 298     | 278     |
| Accounts and other receivables     | \$1,382 | \$1,213 |

## 4. Property and Equipment

| December 31, |      |
|--------------|------|
| 2016         | 2015 |

(In thousands)

|   |          |          |
|---|----------|----------|
| Computer equipment and purchased software | \$3,489  | \$3,564  |
| Machinery and equipment                   | 882      | 923      |
| Furniture and fixtures                    | 1,290    | 1,361    |
| Leasehold improvements                    | 3,917    | 3,838    |
| Total                                     | 9,578    | 9,686    |
| Less accumulated depreciation             | (5,562 ) | (5,097 ) |
| Property and equipment, net               | \$4,016  | \$4,589  |

## 5. Intangibles and Other Assets

| December 31, |      |
|--------------|------|
| 2016         | 2015 |

(In thousands)

|   |          |          |
|---|----------|----------|
| Purchased patents and other purchased intangible assets                             | \$4,605  | \$4,605  |
| Less: Accumulated amortization of purchased patents and other purchased intangibles | (4,605 ) | (4,599 ) |
| Purchased patents and other purchased intangible assets, net                        | —        | 6        |
| Other assets  | 365      | 258      |
| Intangibles and other assets, net   | \$365    | \$264    |

The Company amortizes its intangible assets related to purchased patents over their estimated useful lives, generally 10 years from the purchase date. The Company recorded \$6,000, \$20,000 and \$67,000 in amortization of purchased patents for the year ended December 31, 2016, 2015 and 2014, respectively.

## 6. Other Current Liabilities

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|                                 | December 31,   |         |
|---------------------------------|----------------|---------|
|                                 | 2016           | 2015    |
|                                 | (In thousands) |         |
| Accrued legal                   | \$3,096        | \$1,458 |
| Accrued services                | 473            | 849     |
| Income taxes payable            | 164            | 129     |
| Other current liabilities       | 676            | 563     |
| Total other current liabilities | \$4,409        | \$2,999 |

## 7. Long-term Deferred Revenue

Long-term deferred revenue consisted of the following:

|  | December 31,   |         |
|--|----------------|---------|
|  | 2016           | 2015    |
|  | (In thousands) |         |
| Deferred revenue for Sony Computer Entertainment | \$—            | \$1,263 |
| Other deferred revenue                           | 26,393         | 1,253   |
| Long-term deferred revenue                       | \$26,393       | \$2,516 |

Long-term deferred revenue increased from \$2.5 million as of December 31, 2015 to \$26.4 million as of December 31, 2016. The increase was primarily attributable to new billings for up-front licensee fees added in 2016 that have been deferred to be recognized ratably over the contract terms.

## 8. Commitments

The Company leases several of its facilities under non-cancelable operating lease arrangements that expire at various dates through 2023.

On November 12, 2014, the Company entered into an amendment to the lease of its primary facilities. The amendment terminated the prior lease of a San Jose, California facility of approximately 33,000 square feet as of May 2015, which had been scheduled to expire in December 2016. It also began the current lease of a San Jose, California facility of approximately 42,000 square feet as of February 2015. The lease contains provisions for leasehold improvement incentives and expires as of April 2023 and can be extended to April 2028.

Minimum future lease payments obligations are as follows:

|            | Operating Leases |
|------------|------------------|
|            | (In thousands)   |
| 2017       | 1,281            |
| 2018       | 1,240            |
| 2019       | 940              |
| 2020       | 868              |
| 2021       | 894              |
| Thereafter | 1,230            |
| Total      | \$ 6,453         |

Rent expense was as follows:

|              | Year ended     |         |       |
|--------------|----------------|---------|-------|
|              | December 31,   |         |       |
|              | 2016           | 2015    | 2014  |
|              | (In thousands) |         |       |
| Rent expense | \$1,283        | \$1,291 | \$742 |



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## 9. Stock-based Compensation

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 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 these programs, 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 4 years and expire from 5 to 10 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 their expiration. Restricted stock generally vests over one year. RSUs generally vest over 3 years. Awards granted other than an option or stock appreciation right shall reduce the common stock shares available for grant by 1.75 shares for every share issued.

|   |                      |
|---|----------------------|
|   | December 31,<br>2016 |
| Common stock shares available for grant                       | 500,587              |
| Standard and market condition based stock options outstanding | 3,646,121            |
| Restricted stock awards outstanding                           | 77,540               |
| Restricted stock units outstanding                            | 427,192              |
| 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 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 have been reserved for issuance under the ESPP. As of December 31, 2016, 649,383 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 year ended December 31, 2016 are listed below. Shares purchased under the ESPP for the year ended December 31, 2015 were 45,820. 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.

|  |                                       |
|--|---------------------------------------|
|  | Year<br>Ended<br>December<br>31, 2016 |
| Shares purchased under ESPP                    | 45,825                                |
| Average price of shares purchased under ESPP   | \$ 6.70                               |
| Intrinsic value of shares purchased under ESPP | \$ 54,000                             |

## Summary of Standard Stock Options

The following table sets forth the summary of standard stock option activity under the Company's stock option plans for the years ended December 31, 2016, 2015, and 2014:



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|                                  | Number of Shares | Weighted Average Exercise Price | Weighted Average Fair Value Of Options Granted | Aggregate Intrinsic Value of Options Exercised (In thousands) |
|----------------------------------|------------------|---------------------------------|--|---|
| Outstanding at January 1, 2014   | 3,227,167        | \$ 7.78                         |  |   |
| Granted                          | 604,620          | 10.32                           | \$ 4.93  |   |
| Exercised                        | (205,744 )       | 6.34                            |  | \$ 1,125  |
| Forfeited                        | (102,454 )       | 7.20                            |  |   |
| Expired                          | (37,432 )        | 10.19                           |  |   |
| Outstanding at December 31, 2014 | 3,486,157        | 8.30                            |  |   |
| Granted                          | 525,840          | 10.15                           | 4.56   |   |
| Exercised                        | (239,071 )       | 6.82                            |  | 1,186   |
| Forfeited                        | (116,425 )       | 12.38                           |  |   |
| Expired                          | (59,968 )        | 13.75                           |  |   |
| Outstanding at December 31, 2015 | 3,596,533        | 8.45                            |  |   |
| Granted                          | 815,794          | 7.85                            | 3.67   |   |
| Exercised                        | (395,515 )       | 6.48                            |  | 918   |
| Forfeited                        | (344,541 )       | 9.05                            |  |   |
| Expired                          | (251,150 )       | 8.87                            |  |   |
| Outstanding at December 31, 2016 | 3,421,121        | 8.44                            |  |   |

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

Information regarding standard stock options outstanding at December 31, 2016, 2015, and 2014 is summarized below:

|  | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (years) | Aggregate Intrinsic Value (In millions) |
|--|------------------|---------------------------------|---|---|
| December 31, 2014  |                  |                                 |   |   |
| Options outstanding  | 3,486,157        | \$ 8.30                         | 4.85  | \$ 6.6                                  |
| Options vested and expected to vest using estimated forfeiture rates | 3,319,308        | 8.21                            | 4.80  | 6.6                                     |
| Options exercisable  | 2,023,024        | 7.18                            | 4.26  | 6.0                                     |
| December 31, 2015  |                  |                                 |   |   |
| Options outstanding  | 3,596,533        | \$ 8.45                         | 4.23  | \$ 12.5                                 |
| Options vested and expected to vest using estimated forfeiture rates | 3,452,487        | 8.36                            | 4.16  | 12.3                                    |
| Options exercisable  | 2,252,744        | 7.59                            | 3.56  | 9.9                                     |
| December 31, 2016  |                  |                                 |   |   |
| Options outstanding  | 3,421,121        | \$ 8.44                         | 3.99  | \$ 9.0                                  |
| Options vested and expected to vest using estimated forfeiture rates | 3,223,919        | 8.43                            | 3.87  | 8.5                                     |
| Options exercisable  | 2,131,268        | 8.22                            | 3.10  | 6.4                                     |

Additional information regarding standard options outstanding as of December 31, 2016 is as follows:

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| Range of Exercise Prices | Options Outstanding |   |                                 | Options Exercisable |                                 |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
|                          | Number Outstanding  | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable  | Weighted Average Exercise Price |
| \$2.70 - \$3.72          | 9,438               | 2.21  | \$ 2.80                         | 9,438               | \$ 2.80                         |
| 3.85 - 3.85              | 600,000             | 2.87  | 3.85                            | 600,000             | 3.85                            |
| 4.95 - 6.61              | 355,048             | 4.91  | 6.27                            | 190,479             | 6.08                            |
| 6.86 - 8.09              | 460,593             | 6.00  | 7.79                            | 87,802              | 7.91                            |
| 8.10 - 9.00              | 371,903             | 4.55  | 8.75                            | 131,372             | 8.47                            |
| 9.01 - 9.20              | 271,861             | 3.91  | 9.18                            | 178,480             | 9.17                            |
| 9.53 - 9.53              | 770,000             | 3.18  | 9.53                            | 519,374             | 9.53                            |
| 9.61 - 12.48             | 376,478             | 5.01  | 11.89                           | 220,735             | 11.95                           |
| 12.49 - 15.12            | 105,800             | 2.05  | 14.22                           | 93,588              | 14.37                           |
| 16.57 - 16.57            | 100,000             | 0.74  | 16.57                           | 100,000             | 16.57                           |
| \$2.70 - \$16.57         | 3,421,121           | 3.99  | \$ 8.44                         | 2,131,268           | \$ 8.22                         |

## Summary of Market Condition Based Stock Options

In 2014, the Company began granting options that are subject to both time-based vesting and a market condition. For these options, 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 seven year life of the options. The following table sets forth the summary of the market condition based option activity under the Company's stock option plans for the years ended December 31, 2016 and 2015:

|                                  | Number of Shares | Weighted Average Exercise Price | Weighted Average Fair Value Of Options Granted | Aggregate Intrinsic Value of Options Exercised (In thousands) |
|----------------------------------|------------------|---------------------------------|--|---|
| Outstanding at January 1, 2014   | —                | \$ —                            | —  |   |
| Granted                          | 50,000           | 11.94                           | 5.71   |   |
| Exercised                        | —                | —                               |  | \$ —  |
| Forfeited                        | —                | —                               |  |   |
| Expired                          | —                | —                               |  |   |
| Outstanding at December 31, 2014 | 50,000           | 11.94                           |  |   |
| Granted                          | 150,000          | 8.09                            | 3.64   |   |
| Exercised                        | —                | —                               |  |   |
| Forfeited                        | —                | —                               |  |   |
| Expired                          | —                | —                               |  |   |
| Outstanding at December 31, 2015 | 200,000          | 9.05                            |  |   |
| Granted                          | 75,000           | 9.00                            | 3.68   |   |
| Exercised                        | —                | —                               |  | —   |
| Forfeited                        | (50,000 )        | 11.94                           |  |   |
| Expired                          | —                | —                               |  |   |
| Outstanding at December 31, 2016 | 225,000          | 8.39                            |  |   |

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

Information regarding these market condition based stock options outstanding at December 31, 2016 and 2015 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) |
|--|------------------|---------------------------------|---|---|
| December 31, 2014  |                  |                                 |   |   |
| Options outstanding  | 50,000           | \$ 11.94                        | 6.15  | \$ —                                    |
| Options vested and expected to vest using estimated forfeiture rates | 45,430           | 11.94                           | 6.15  | —                                       |
| Options exercisable  | —                | —                               | 0.0   | —                                       |
| December 31, 2015  |                  |                                 |   |   |
| Options outstanding  | 200,000          | \$ 9.05                         | 5.92  | \$ 0.5                                  |
| Options vested and expected to vest using estimated forfeiture rates | 184,125          | 9.12                            | 5.90  | 0.5                                     |
| Options exercisable  | —                | —                               | 0.0   | —                                       |
| December 31, 2016  |                  |                                 |   |   |
| Options outstanding  | 225,000          | \$ 8.39                         | 5.50  | \$ 0.5                                  |
| Options vested and expected to vest using estimated forfeiture rates | 209,141          | 8.38                            | 5.49  | 0.5                                     |
| Options exercisable  | 65,625           | 8.09                            | 5.17  | 0.2                                     |

Additional information regarding market condition based stock options outstanding as of December 31, 2016 is as follows:

| Range of Exercise Prices | Options Outstanding |   | Options Exercisable             |                                 |
|--------------------------|---------------------|---|---------------------------------|---------------------------------|
|                          | Number Outstanding  | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Weighted Average Exercise Price |
| \$8.09 - \$8.09          | 150,000             | 5.17  | \$ 8.09                         | 65,625 \$ 8.09                  |
| 9.00 - 9.00              | 75,000              | 6.16  | 9.00                            | — —                             |
| \$8.09 - \$9.00          | 225,000             | 5.50  | \$ 8.39                         | 65,625 \$ 8.09                  |

## Summary of Restricted Stock Units

RSU activity for the years ended December 31, 2016, 2015, and 2014 was as follows:

|                                  | Number of Shares | Weighted Average Grant Date Fair Value | Fair Value of Released RSU's (In thousands) |
|----------------------------------|------------------|--|---|
| Outstanding at January 1, 2014   | 668,056          |  |   |
| Awarded                          | 265,630          | \$ 11.35                               |   |
| Released                         | (317,970 )       |  | \$ 3,491                                    |
| Forfeited                        | (50,825 )        |  |   |
| Outstanding at December 31, 2014 | 564,891          |  |   |
| Awarded                          | 281,290          | 8.16                                   |   |
| Released                         | (299,277 )       |  | 2,626                                       |
| Forfeited                        | (59,481 )        |  |   |
| Outstanding at December 31, 2015 | 487,423          |  |   |
| Awarded                          | 320,880          | 8.67                                   |   |
| Released                         | (247,556 )       |  | 2,118                                       |

Forfeited (133,555 )

Outstanding at December 31, 2016 427,192

Information regarding RSU's at December 31, 2016, 2015, and 2014 is summarized below:

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|  | Number of<br>Shares | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (years) | Aggregate<br>Intrinsic<br>Value<br>(In millions) | Fair Value<br>(In millions) |
|--|---------------------|---|--|-----------------------------|
| December 31, 2014  |                     |   |  |                             |
| RSUs outstanding   | 564,891             | 0.84  | \$ 5.3   | \$ 5.3                      |
| RSUs vested and expected to vest using estimated<br>forfeiture rates | 502,411             | 0.80  | 4.8  |                             |
| December 31, 2015  |                     |   |  |                             |
| RSUs outstanding   | 487,423             | 0.90  | \$ 5.7   | \$ 5.7                      |
| RSUs vested and expected to vest using estimated<br>forfeiture rates | 414,934             | 0.87  | 4.8  |                             |
| December 31, 2016  |                     |   |  |                             |
| RSUs outstanding   | 427,192             | 0.93  | 4.5  | \$ 4.5                      |
| RSUs vested and expected to vest using estimated<br>forfeiture rates | 349,759             | 0.80  | 3.7  |                             |

The aggregate intrinsic value is calculated as the market value as of the end of the reporting period.

## Summary of Restricted Stock Awards

Restricted stock award activity for the years ended December 31, 2016, 2015, and 2014 was as follows:

|                                  | Number<br>of Shares | Weighted<br>Average<br>Grant Date<br>Fair Value | Total<br>Fair<br>Value of<br>Awards<br>Released<br>(In thousands) |
|----------------------------------|---------------------|---|---|
| Outstanding at January 1, 2014   | 44,000              | \$ 14.09  |   |
| Awarded                          | 35,364              | 10.97   |   |
| Released                         | (44,000 )           | 14.09   | \$ 483  |
| Forfeited                        | —                   |   |   |
| Outstanding at December 31, 2014 | 35,364              | 10.97   |   |
| Awarded                          | 21,356              | 12.26   |   |
| Released                         | (35,364 )           | 10.97   | 434   |
| Forfeited                        | —                   |   |   |
| Outstanding at December 31, 2015 | 21,356              | 12.26   |   |
| Awarded                          | 77,540              | 6.52  |   |
| Released                         | (21,356 )           | 12.26   | 139   |
| Forfeited                        | —                   |   |   |
| Outstanding at December 31, 2016 | 77,540              | 6.52  |   |

## Stock-based Compensation

Valuation and amortization methods — The Company uses the Black-Scholes-Merton option pricing model (“Black-Scholes model”), single-option approach to determine the fair value of standard stock options and ESPP shares. All share-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods. Stock-based compensation expense recognized at fair value includes the impact of estimated forfeitures. The Company estimates future forfeitures at the date of grant and revises the estimates if necessary, in subsequent periods if actual forfeitures differ from these estimates. The determination of the fair value of share-based payment awards on the date of grant using an option pricing model is affected by the Company’s stock price as well as assumptions regarding a number of complex and subjective variables. These variables include actual and projected employee stock option exercise behaviors that impact the expected term, the Company’s expected stock

price volatility over the term of the awards, risk-free interest rate, and expected dividends.

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Expected term — The Company estimates the expected term of options granted by calculating the average term from the Company's historical stock option exercise experience. The expected term of ESPP shares is the length of the offering period. The Company used the simplified method approved by the SEC to determine the expected term for options granted prior to December 31, 2007.

Expected volatility — The Company estimates the volatility of its common stock taking into consideration its historical stock price movement and its expected future stock price trends based on known or anticipated events.

Risk-free interest rate — The Company bases the risk-free interest rate that it uses in the option pricing model on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options.

Expected dividend — The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option-pricing model.

Forfeitures — The Company is required to estimate future forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and records stock-based compensation expense only for those awards that are expected to vest.

The Company uses the Monte-Carlo Simulation model to value the stock options with a market condition. Valuation techniques such as a Monte-Carlo Simulation model have been developed to value path-dependent awards. The Monte-Carlo Simulation model is a generally accepted statistical technique used, in this instance, to simulate a range of future stock prices for the Company.

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

|                          | Standard Stock Options               |       |       |
|--------------------------|--------------------------------------|-------|-------|
|                          | 2016                                 | 2015  | 2014  |
| Expected life (in years) | 4.5                                  | 4.7   | 4.7   |
| Interest rate            | 1.2 %                                | 1.4 % | 1.4 % |
| Volatility               | 56 %                                 | 56 %  | 57 %  |
| Dividend yield           | — %                                  | — %   | — %   |
|                          | Market Condition Based Stock Options |       |       |
|                          | 2016                                 | 2015  | 2014  |
| Expected life (in years) | 7.0                                  | 7.0   | 7.0   |
| Interest rate            | 1.6 %                                | 1.9 % | 2.2 % |
| Volatility               | 59 %                                 | 65 %  | 66 %  |
| Dividend yield           | — %                                  | — %   | — %   |
|                          | Employee Stock Purchase Plan         |       |       |
|                          | 2016                                 | 2015  | 2014  |
| Expected life (in years) | 0.5                                  | 0.5   | 0.5   |
| Interest rate            | 0.4 %                                | 0.1 % | 0.1 % |
| Volatility               | 53 %                                 | 48 %  | 43 %  |
| Dividend yield           | — %                                  | — %   | — %   |

Total stock-based compensation recognized in the consolidated statements of income is as follows:

|   | Year Ended   |         |         |
|---|--------------|---------|---------|
|   | December 31, |         |         |
|   | 2016         | 2015    | 2014    |
| Income Statement Classifications (In thousands) |              |         |         |
| Sales and marketing                             | \$1,280      | \$1,116 | \$1,117 |
| Research and development                        | 1,297        | 1,303   | 1,267   |
| General and administrative                      | 3,534        | 3,051   | 2,911   |
| Total   | \$6,111      | \$5,470 | \$5,295 |



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As of December 31, 2016, there was \$6.6 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock options, restricted stock awards and RSU's granted to the Company's employees and directors. This cost will be recognized over an estimated weighted-average period of approximately 2.49 years for standard options, 2.50 years for market condition based options, 0.42 years for restricted stock awards and 1.65 years for RSU's. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

## 10. Stockholders' Equity

## Accumulated Other Comprehensive Income (Loss)

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

|   | Year Ended December<br>31, 2016  |        |        |
|---|--|--------|--------|
|   | Unrealized Gains<br>and<br>Losses Foreign<br>on Currency Total<br>Available for Sale<br>Securities |        |        |
|   | (In thousands)   |        |        |
| Beginning balance   | \$(15)   | \$ 101 | \$ 86  |
| Other comprehensive income before reclassifications                     | 8  | 21     | 29     |
| Amounts reclassified from accumulated other comprehensive income (loss) | —  |        | —      |
| Net current period other comprehensive income (loss)                    | 8  | 21     | 29     |
| Ending Balance  | \$(7 )   | \$ 122 | \$ 115 |

## Stock Repurchase Program

On November 1, 2007, the Company announced its board of directors' authorized the repurchase of up to \$50 million of the Company's common stock. In addition, on October 22, 2014, the board of directors authorized another \$30 million under the share repurchase program. The Company may repurchase its 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.

During the year ended December 31, 2016, the Company repurchased 105,750 shares for \$729,000 at an average cost of \$6.90 net of transaction costs through open market repurchases. There were no stock repurchases in 2015 under this stock repurchase program. During the year ended December 31, 2014, the Company repurchased 1,527,647 shares for \$15.0 million at an average cost of \$9.82 net of transaction costs through open market repurchases. These amounts are classified as treasury stock on the Company's consolidated balance sheet. As of December 31, 2016, the program remains available with approximately \$33.7 million that may yet be purchased under it.

## 11. Discontinued Operations

During the year ended December 31, 2009, the Company sold its 3D product line including inventory, fixed assets, and intangibles and recorded a gain of discontinued operations of \$187,000 at the time of the sales. Total initially negotiated consideration for the sales was \$2.7 million which comprised of \$320,000 in cash paid in the year ended December 31, 2009 and notes receivable of \$2.4 million which were payable through the year ended December 31, 2013. Given the inherent uncertainty relative to the credit worthiness of the buyers, the Company concluded that they would recognize income from the notes receivable as proceeds were received. The operations of the 3D product line were classified as discontinued operations in the period of the initial sales transactions. In the year ended December 31, 2016, a final settlement payment of \$1.0 million was received relative to these sales, resulting in a gain of \$649,000 of discontinued operations, net of tax of \$351,000. There were no discontinued operations during the

years ended December 31, 2014 and 2015.

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## 12. Income Taxes

Income tax provisions from continuing operations consisted of the following:

|   | Year Ended December 31, |          |          |
|---|-------------------------|----------|----------|
|   | 2016                    | 2015     | 2014     |
|   | (In thousands)          |          |          |
| Income (loss) from continuing operations before provisions for income taxes | \$(14,509)              | \$4,449  | \$6,319  |
| Provision for income taxes from continuing operations                       | (25,521 )               | (1,591 ) | (2,196 ) |
| Effective tax rate  | (175.9 )%               | 35.8 %   | 34.8 %   |

The 2016 provision for income tax from continuing operations resulted primarily from the application of a full federal valuation allowance against deferred tax assets. The 2015 provision for income tax from continuing operations resulted primarily from the Company's federal and foreign tax recognized at statutory rates, adjusted for the tax impact of non-deductible permanent items including stock-based compensation expenses and foreign withholding taxes. The 2015 provision for income tax from continuing operations also includes non-cash tax expense based on intercompany profit that resulted from the sale of certain IP rights in 2015, and also includes an increase to the valuation allowance against certain of the Company's deferred tax assets. The 2014 provision for income tax from continuing operations resulted primarily from the decrease in deferred tax assets and foreign withholding tax expense.

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

The Company reported pre-tax book income or loss from continuing operations of:

|          | Year Ended December 31, |           |         |
|----------|-------------------------|-----------|---------|
|          | 2016                    | 2015      | 2014    |
|          | (In thousands)          |           |         |
| Domestic | \$(14,656)              | \$21,160  | \$5,867 |
| Foreign  | 147                     | (16,711 ) | 452     |
| Total    | \$(14,509)              | \$4,449   | \$6,319 |

The benefit or (provisions) for income taxes from continuing operations consisted of the following:

|                       | Year Ended December 31, |           |           |
|-----------------------|-------------------------|-----------|-----------|
|                       | 2016                    | 2015      | 2014      |
|                       | (In thousands)          |           |           |
| <b>Current:</b>       |                         |           |           |
| United States federal | \$(1,649 )              | \$(1,426) | \$(218 )  |
| State and local       | 859                     | (12 )     | (12 )     |
| Foreign               | (442 )                  | (389 )    | (75 )     |
| Total current         | \$(1,232 )              | \$(1,827) | \$(305 )  |
| <b>Deferred:</b>      |                         |           |           |
| United States federal | (24,261 )               | 585       | (2,137 )  |
| State and local       | —                       | —         | —         |
| Foreign               | (28 )                   | (349 )    | 246       |
| Total deferred        | (24,289 )               | 236       | (1,891 )  |
|                       | \$(25,521)              | \$(1,591) | \$(2,196) |

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In 2016, 2015, and 2014 the Company's income tax payable was not decreased by the tax benefit related to stock options. The Company includes only the direct tax effects of employee stock incentive plans in calculating this benefit, which is recorded to additional paid-in capital.

Deferred tax assets and liabilities are recognized for the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, tax losses, and credit carryforwards. Significant components of the net deferred tax assets and liabilities consisted of:

|   | December 31,   |           |
|---|----------------|-----------|
|   | 2016           | 2015      |
|   | (In thousands) |           |
| Deferred tax assets:                                  |                |           |
| Net operating loss carryforwards                      | \$ 15,337      | \$ 6,824  |
| State income taxes                                    | 1              | 1         |
| Deferred revenue                                      | 458            | 2,505     |
| Research and development and other credits            | 11,418         | 10,626    |
| Reserves and accruals recognized in different periods | 5,397          | 6,395     |
| Basis difference in investment                        | 969            | 967       |
| Capitalized R&D expenses                              | 4,569          | 4,654     |
| Depreciation and amortization                         | 585            | 523       |
| Deferred rent   | 306            | 243       |
| Other   | 2              | 14        |
| Total deferred tax assets                             | 39,042         | 32,752    |
| Valuation allowance                                   | (38,683 )      | (8,119 )  |
| Net deferred tax assets                               | 359            | 24,633    |
| Foreign credits                                       | (33 )          | —         |
| Net deferred tax liabilities                          | (33 )          | —         |
| Net deferred taxes                                    | \$ 326         | \$ 24,633 |

The Company accounts for deferred taxes under ASC Topic 740, "Income Taxes" ("ASC 740") which requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance if, based on available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed periodically based on the ASC 740 more-likely-than-not realization ("MLTN") threshold criterion. This assessment considers matters such as future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. The evaluation of the recoverability of the deferred tax assets requires that the Company weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified.

The Company considered both positive and negative evidence in its fourth quarter of 2016 analysis of the realizability of its deferred tax assets. In performing this analysis, the Company considered recent results of operations, scheduled reversals of deferred tax liabilities, projected future income, and available tax planning strategies. A significant piece of negative evidence evaluated was the cumulative loss incurred by the Company over the three-year period ended December 31, 2016 (which arose in the Company's fourth quarter of 2016). When performing the evaluation of the cumulative loss, the Company considered the book loss as reported, as well as permanent differences and one-time gains and losses not indicative of future business activities. The Company determined that the three-year cumulative loss constitutes negative objective evidence, limiting the Company's ability to consider other evidence, such as the Company's projections for future growth. As a result, the Company concluded that it would be appropriate to record a non-cash charge of \$28.1 million as additional valuation allowance, thereby establishing a full valuation allowance against all of its net federal deferred tax assets. The Company continued to maintain a full valuation allowance on its state and certain of its foreign net deferred tax assets.

As of December 31, 2016, the net operating loss carryforwards for federal and state income tax purposes were approximately \$52.1 million and \$52.5 million, respectively. The federal net operating losses expire between 2026

and 2036 and the state net operating losses begin to expire in 2028. Included in the Company's net operating losses, \$9.6 million was associated with excess benefits related to stock compensation. The Company also has net operating loss carryforwards from Ireland of \$2.9 million that can be carried forward indefinitely and do not expire. As of December 31, 2016, the Company had federal and state tax credit carryforwards of approximately \$9.9 million and \$1.7 million, respectively, available to offset future tax liabilities. The federal

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credit carryforwards will expire between 2017 and 2036 and the California tax credits will carryforward indefinitely. In addition, as of December 31, 2016, the Company has Canadian research and development credit carryforwards of \$1.5 million, which will expire at various dates through 2036. These operating losses and credit carryforwards have not been reviewed by the relevant tax authorities and could be subject to adjustment upon examinations. Section 382 of the Internal Revenue Code (“IRC Section 382”) imposes limitations on a corporation’s ability to utilize its net operating losses and credit carryforwards if it experiences an “ownership change” as defined by IRC Section 382. Utilization of a portion of the Company’s federal net operating loss carryforward was limited in accordance with IRC Section 382, due to an ownership change that occurred during 1999. This limitation has fully lapsed as of December 31, 2010. As of December 31, 2016, the Company conducted an IRC Section 382 analysis with respect to its net operating loss and credit carryforwards and determined there was no limitation. There can be no assurance that future issuances of the Company’s securities will not trigger limitations under IRC Section 382 which could limit utilization of these tax attributes.

For purposes of the reconciliation between the provision for income taxes at the statutory rate and the effective tax rate, a national U.S. 35% rate is applied as follows:

|   | 2016     | 2015    | 2014    |
|---|----------|---------|---------|
| Federal statutory tax rate              | 35.0 %   | 35.0 %  | 35.0 %  |
| Sale of IP rights to foreign subsidiary | (13.8 )% | 22.5 %  | — %     |
| Benefit from foreign losses             | — %      | 7.8 %   | — %     |
| Foreign withholding                     | (1.2 )%  | 0.5 %   | 3.5 %   |
| Stock compensation expense              | (6.6 )%  | 5.8 %   | 3.8 %   |
| Meals & entertainment                   | — %      | 0.1 %   | 0.1 %   |
| Foreign rate differential               | (1.2 )%  | (24.0)% | (1.1 )% |
| Prior year true-up items                | (0.3 )%  | 1.7 %   | (0.2 )% |
| Tax reserves                            | 1.8 %    | 3.9 %   | 0.8 %   |
| Loss on foreign share transfer          | — %      | 5.9 %   | — %     |
| Credits                                 | 1.6 %    | (35.5)% | (5.7 )% |
| State Refunds                           | 3.8 %    | — %     | — %     |
| Other                                   | (1.6 )%  | 3.9 %   | (1.4 )% |
| Valuation allowance                     | (193.4)% | 8.2 %   | — %     |
| Effective tax rate                      | (175.9)% | 35.8 %  | 34.8 %  |

Undistributed earnings of the Company’s foreign subsidiaries are considered to be indefinitely reinvested and accordingly, no provision for federal and state income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to various foreign countries.

The Company maintains liabilities for uncertain tax positions. These liabilities involve considerable judgment and estimation and are continuously monitored by management based on the best information available, including changes in tax regulations, the outcome of relevant court cases, and other information. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

|   | 2016           | 2015    | 2014    |
|---|----------------|---------|---------|
|   | (In thousands) |         |         |
| Balance at beginning of year                      | \$6,285        | \$1,744 | \$1,634 |
| Gross increases for tax positions of prior years  | —              | 141     | —       |
| Gross decreases for tax positions of prior years  | (22 )          | (15 )   | (4 )    |
| Gross increases for tax positions of current year | 111            | 4,415   | 114     |
| Settlements                                       | —              | —       | —       |
| Lapse of statute of limitations                   | (142 )         | —       | —       |
| Balance at end of year                            | \$6,232        | \$6,285 | \$1,744 |

The unrecognized tax benefits relate primarily to federal and state research and development credits and intercompany profit on the transfer of certain IP rights to one of the Company’s foreign subsidiaries as part of the Company’s tax

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described above. The Company's policy is to account for interest and penalties related to uncertain tax positions as a component of income tax expense. As of December 31, 2016, the Company accrued interest or penalties related to uncertain tax positions in the amount of \$2,000. As of December 31, 2016, the total amount of unrecognized tax benefits that would affect the Company's effective tax rate, if recognized, is \$97,000.

Because the Company has 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.

## 13. Net Income (Loss) Per Share

Basic 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. Diluted net income (loss) per share is computed using the weighted average common shares outstanding for the period plus dilutive potential shares including assumed release of unvested restricted stock and RSUs, assumed exercise of stock options, and assumed issuance of common stock under ESPP using the treasury stock method. The following is a reconciliation of the numerators and denominators used in computing basic and diluted net income (loss) per share:

|  | Years Ended December 31,                 |          |          |
|--|--|----------|----------|
|  | 2016                                     | 2015     | 2014     |
|  | (In thousands, except per share amounts) |          |          |
| Numerator:   |  |          |          |
| Income (loss) from continuing operations   | \$ (40,030 )                             | \$ 2,858 | \$ 4,123 |
| Income from discontinued operations, net of tax  | \$ 649                                   | \$ —     | \$ —     |
| Net income (loss) used in computing basic net income (loss) per share  | \$ (39,381 )                             | \$ 2,858 | \$ 4,123 |
| Denominator:   |  |          |          |
| Shares used in computation of basic net income (loss) per share (weighted average common shares outstanding) | 28,759                                   | 28,097   | 28,246   |
| Dilutive potential common shares:  |  |          |          |
| Stock options, ESPP, Restricted Stock and RSUs   | —  | 918      | 898      |
| Shares used in computation of diluted net income (loss) per share  | 28,759                                   | 29,015   | 29,144   |
| Basic net income (loss) per share:   |  |          |          |
| Continuing Operations  | \$ (1.39 )                               | \$ 0.10  | \$ 0.15  |
| Discontinued Operations  | \$ 0.02                                  | \$ 0.00  | \$ 0.00  |
| Total  | \$ (1.37 )                               | \$ 0.10  | \$ 0.15  |
| Diluted net income (loss) per share:   |  |          |          |
| Continuing Operations  | \$ (1.39 )                               | \$ 0.10  | \$ 0.14  |
| Discontinued Operations  | \$ 0.02                                  | \$ 0.00  | \$ 0.00  |
| Total  | \$ (1.37 )                               | \$ 0.10  | \$ 0.14  |

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 year ended December 31, 2015, options to purchase approximately 1.2 million shares of common stock with an exercise price greater than the average fair market value of the Company's stock of \$11.16 per share were not included in the calculation because the effect would have been anti-dilutive.

For the year ended December 31, 2014, options to purchase approximately 1.6 million shares of common stock with an exercise price greater than the average fair market value of the Company's stock of \$10.46 per share were not included in the calculation because the effect would have been anti-dilutive.



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As of December 31, 2016, the Company had securities outstanding that could potentially dilute basic earnings per share in the future, but these were excluded from the computation of diluted net loss per share for the year ended December 31, 2016 since their effect would have been anti-dilutive. These outstanding securities consisted of the following:

|   |                         |
|---|-------------------------|
|   | December<br>31,<br>2016 |
| Standard and market condition stock options outstanding | 3,646,121               |
| Restricted stock awards outstanding                     | 77,540                  |
| RSUs outstanding  | 427,192                 |
| ESPP  | 17,506                  |

14. Employee Benefit Plan

The Company has a 401(k) tax-deferred savings plan under which eligible employees may elect to have a portion of their salary deferred and contributed to the 401(k) plan. Contributions may be matched by the Company at its discretion. Beginning in January 2016, the Company matched 25% of the employee’s contribution up to \$3,000 for the year. From 2008 to 2015, the Company matched 25% of the employee's contribution up to \$2,000 for every year.

Year ended  
December 31,  
2016 2015 2014  
(In thousands)

Company contribution to 401 (k) plan \$ 172 \$ 127 \$ 106

15. Contingencies

From time to time, the Company receives claims from third parties asserting that technologies of the Company, or its licensees, infringe on the other parties’ IP rights. In addition, 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 indemnifications of varying scope to customers against claims of IP infringement made by third parties arising from the use of the Company’s IP, technology, or products. 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.

16. Segment Reporting, Geographic Information, and Significant Customers

Segment Information

The Company develops, licenses, and supports a wide range of software and IP that more fully engage users’ sense of touch when operating digital devices. The Company focuses on the following target application areas: mobile devices, wearables, consumer, mobile entertainment and other content; console gaming; automotive; medical; and commercial. The Company manages these application areas in one operating and reporting segment with only one set of management, development, and administrative personnel.

The Company’s chief operating decision maker (“CODM”) is the Chief Executive Officer. The CODM approves budgets and allocates resources to and assesses the performance of the Company using information about its revenue and operating loss. There is only one segment that is reported to management.

Revenue by Market Area

The following is a summary of revenues by market areas. Revenue as a percentage of total revenues by market was as follows:

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|                                 | Years Ended December 31, |   |      |   |      |   |
|---------------------------------|--------------------------|---|------|---|------|---|
|                                 | 2016                     |   | 2015 |   | 2014 |   |
| Mobile, Wearables, and Consumer | 57                       | % | 62   | % | 60   | % |
| Gaming Devices                  | 24                       | % | 24   | % | 27   | % |
| Automotive                      | 7                        | % | 7    | % | 5    | % |
| Medical                         | 12                       | % | 7    | % | 8    | % |
| Total                           | 100                      | % | 100  | % | 100  | % |

## Revenue by Region

The following is a summary of revenues by geographic areas. Revenues are broken out geographically by the location of the customer. Geographic revenue as a percentage of total revenues by region was as follows:

|               | Years Ended December 31, |   |      |   |      |   |
|---------------|--------------------------|---|------|---|------|---|
|               | 2016                     |   | 2015 |   | 2014 |   |
| North America | 32                       | % | 28   | % | 29   | % |
| Europe        | 8                        | % | 5    | % | 3    | % |
| Asia          | 60                       | % | 67   | % | 68   | % |
| Total         | 100                      | % | 100  | % | 100  | % |

Geographic revenue as a percentage of total revenues by country was as follows:

|   | Years Ended December 31, |   |      |   |      |   |
|---|--------------------------|---|------|---|------|---|
|   | 2016                     |   | 2015 |   | 2014 |   |
| United States of America                            | 26                       | % | 27   | % | 27   | % |
| Korea   | 47                       | % | 46   | % | 51   | % |
| Japan   | 11                       | % | 14   | % | 10   | % |
| Countries of which none are more than 10% in a year | 16                       | % | 13   | % | 12   | % |
| Total   | 100                      | % | 100  | % | 100  | % |

## Long-lived Assets by Country

The following is a summary of long-lived assets by country. Long-lived assets include net property and equipment, intangibles, and other assets. Geographic long-lived assets as a percentage of total long-lived assets by country were as follows:

|                          | December 31, |   |      |   |
|--------------------------|--------------|---|------|---|
|                          | 2016         |   | 2015 |   |
| United States of America | 83           | % | 88   | % |
| Canada                   | 8            | % | 8    | % |
| Rest of World            | 9            | % | 4    | % |
| Total                    | 100          | % | 100  | % |

## Significant Customers

Customers comprising 10% or greater of the Company's net revenues are summarized as follows:

|                     | Years Ended December 31, |   |      |   |      |   |
|---------------------|--------------------------|---|------|---|------|---|
|                     | 2016                     |   | 2015 |   | 2014 |   |
| Samsung Electronics | 33                       | % | 32   | % | 38   | % |
| Customer B          | 13                       | % | 18   | % | 17   | % |
| Customer C          | 14                       | % | 14   | % | 12   | % |
| Total               | 60                       | % | 64   | % | 67   | % |

Customers comprising 10% or greater of the Company's outstanding accounts and other receivable are summarized as follows:

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|            | December 31, |       |      |
|------------|--------------|-------|------|
|            | 2016         | 2015  | 2014 |
| Customer C | 14%          | * 66% |      |
| Customer D | * 35%        | 16%   |      |
| Customer E | 36%          | 24%   | *    |
| Customer F | 13%          | * *   |      |

\* Represents less than 10% of the Company's outstanding accounts and other receivables.

## 17. Quarterly Results of Operations (Unaudited)

The following table presents certain consolidated statement of operations data for the Company's eight most recent quarters:

|   | Dec 31,<br>2016                       | Sept 30,<br>2016 | June 30,<br>2016 | Mar 31,<br>2016 | Dec 31,<br>2015 | Sept 30,<br>2015 | June 30,<br>2015 | Mar 31,<br>2015 |
|---|---------------------------------------|------------------|------------------|-----------------|-----------------|------------------|------------------|-----------------|
|   | (In thousands, except per share data) |                  |                  |                 |                 |                  |                  |                 |
| Revenues (1)  | \$9,293                               | \$26,306         | \$7,864          | \$13,623        | \$16,570        | \$14,313         | \$16,223         | \$16,287        |
| Gross profit  | 9,235                                 | 26,255           | 7,805            | 13,600          | 16,477          | 14,196           | 16,108           | 16,172          |
| Operating income (loss)   | (11,208)                              | 10,114           | (9,561 )         | (4,608 )        | 1,289           | 1,283            | 2,217            | (70 )           |
| Income (loss) from continuing operations before provision for taxes | (11,363)                              | 10,778           | (9,528 )         | (4,396 )        | 1,082           | 1,199            | 2,263            | (95 )           |
| Benefit (provision) for income taxes                                | (26,785)                              | (3,760 )         | 3,323            | 1,701           | 56              | (1,015 )         | (668 )           | 36              |
| Income (loss) from continuing operations                            | (38,148)                              | 7,018            | (6,205 )         | (2,695 )        | 1,138           | 184              | 1,595            | (59 )           |
| Net income from discontinued operations (net of tax)                | —                                     | —                | 649              | —               | —               | —                | —                | —               |
| Net income (loss)   | (38,148)                              | 7,018            | (5,556 )         | (2,695 )        | 1,138           | 184              | 1,595            | (59 )           |
| Basic net income (loss) per share (2)                               |                                       |                  |                  |                 |                 |                  |                  |                 |
| Continuing operations (2)   | \$(1.32 )                             | \$0.24           | \$(0.22 )        | \$(0.09 )       | \$0.04          | \$0.01           | \$0.06           | \$—             |
| Discontinued operations (2)   | —                                     | —                | 0.02             | —               | —               | —                | —                | —               |
| Total (2)   | (1.32 )                               | 0.24             | (0.20 )          | (0.09 )         | 0.04            | 0.01             | 0.06             | —               |
| Shares used in calculating basic net income (loss) per share        | 28,860                                | 28,849           | 28,834           | 28,493          | 28,305          | 28,190           | 28,070           | 27,818          |
| Diluted net income (loss) per share (2)                             |                                       |                  |                  |                 |                 |                  |                  |                 |
| Continuing operations (2)   | \$(1.32 )                             | \$0.24           | \$(0.22 )        | \$(0.09 )       | \$0.04          | \$0.01           | \$0.06           | \$—             |
| Discontinued operations (2)   | —                                     | —                | 0.02             | —               | —               | —                | —                | —               |
| Total (2)   | (1.32 )                               | 0.24             | (0.20 )          | (0.09 )         | 0.04            | 0.01             | 0.06             | —               |
| Shares used in calculating diluted net income (loss) per share      | 28,860                                | 29,298           | 28,834           | 28,493          | 29,322          | 29,134           | 28,906           | 27,818          |

(1) Revenue increased significantly in the third quarter of 2016 primarily related to the \$19 million received from Samsung in July, 2016, in exchange for Product Life Cycle Wind Down Rights.

(2) The quarterly earnings per share information is calculated separately for each period. Therefore, the sum of such quarterly per share amounts may differ from the total for the year.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

## Item 9A. Control and Procedures

## Management's Evaluation of Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as amended) as of December 31, 2016, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report for the purpose of ensuring that the information required to be disclosed by us in this Annual Report on Form 10-K is made known to them by others on a timely basis, and that

the information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in order to allow timely decisions regarding

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required disclosure, and that such information is recorded, processed, summarized, and reported by us within the time periods specified in the SEC's rules and instructions for Form 10-K.

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

**Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and our Chief Financial Officer and affected by our board of directors and management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. Management's assessment of internal control over financial reporting was conducted using the criteria in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In performing the assessment, our management concluded that, as of December 31, 2016, our internal control over financial reporting is effective based on these criteria.

Deloitte and Touche LLP, the independent registered public accounting firm that audited our financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting, which is included herein.

**Changes in internal control over financial reporting**

There were no changes in our internal control over financial reporting during the three months ended December 31, 2016 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Immersion Corporation  
San Jose, California

We have audited the internal control over financial reporting of Immersion Corporation and subsidiaries (the “Company”) as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2016 of the Company and our report dated March 3, 2017 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

San Jose, California

March 3, 2017

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PART III

The SEC allows us to include information required in this report by referring to other documents or reports we have already or will soon be filing. This is called “Incorporation by Reference.” We intend to file our definitive proxy statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report, and certain information therein is incorporated in this report by reference.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 with respect to executive officers is set forth in Part I of this Annual Report on Form 10-K and the remaining information required by Item 10 is incorporated by reference from the sections entitled “Election of Directors,” “Corporate Governance,” “Ownership of Our Equity Securities,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Audit Committee Report” in Immersion’s definitive Proxy Statement for its 2017 annual stockholders’ meeting.

Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference from the sections entitled “Election of Directors,” “Director Compensation,” “Corporate Governance,” “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Compensation Committee Interlocks and Insider Participation,” and “Executive Compensation” in Immersion’s definitive Proxy Statement for its 2017 annual stockholders’ meeting.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is incorporated by reference from the section entitled “Ownership of Our Equity Securities” and “Equity Compensation Plan Information” in Immersion’s definitive Proxy Statement for its 2017 annual stockholders’ meeting.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is incorporated by reference from the section entitled “Corporate Governance” and “Related Person Transactions” in Immersion’s definitive Proxy Statement for its 2017 annual stockholders’ meeting.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 is incorporated by reference from the section entitled “Ratification of Appointment of Independent Registered Public Accounting Firm” in Immersion’s definitive Proxy Statement for its 2017 annual stockholders’ meeting.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this Form:

1 Financial Statements

|   | Page      |
|---|-----------|
| Report of Independent Registered Public Accounting Firm | <u>42</u> |
| Consolidated Balance Sheets                             | <u>43</u> |
| Consolidated Statements of Income                       | <u>44</u> |
| Consolidated Statements of Stockholders' Equity         | <u>45</u> |
| Consolidated Statements of Cash Flows                   | <u>46</u> |
| Notes to Consolidated Financial Statements              | <u>47</u> |

2 Financial Statement Schedules

The following financial statement schedule of Immersion Corporation for the years ended December 31, 2016, 2015, and 2014 is filed as part of this Annual Report and should be read in conjunction with the Consolidated Financial Statements of Immersion Corporation.

Schedule II—Valuation and Qualifying Accounts Page 78

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the consolidated financial statements or notes herein.

3 Exhibits:

The following exhibits are filed herewith:



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| Exhibit Number | Exhibit Description  | Incorporated by Reference |            |         | Filing Date       | Filed Herewith |
|----------------|--|---------------------------|------------|---------|-------------------|----------------|
|                |  | Form                      | File No.   | Exhibit |                   |                |
| 3.1            | Amended and Restated Bylaws of Immersion Corporation, as adopted on October 31, 2016.                                | 8-K                       | 000-27969  | 3.1     | November 4, 2016  |                |
| 3.2            | Amended and Restated Certificate of Incorporation.   | 10-Q                      | 000-27969  | 3.1     | August 14, 2000   |                |
| 3.3            | Certificate of Designation of the Powers, Preferences and Rights of Series A Redeemable Convertible Preferred Stock. | 8-K                       | 000-27969  | 3.1     | July 29, 2003     |                |
| 10.1*          | 1997 Stock Option Plan and form of Incentive Stock Option Agreement and form of Nonqualified Stock Option Agreement. | S-1/A                     | 333-86361  | 10.2    | November 5, 1999  |                |
| 10.2*          | 1999 Employee Stock Purchase Plan and form of subscription agreement thereunder.                                     | S-1/A                     | 333-86361  | 10.21   | October 5, 1999   |                |
| 10.3*          | Immersion Corporation 2000 HT Non-Officer Nonstatutory Stock Option Plan.  | 8-K                       | 000-27969  | 2.4     | October 13, 2000  |                |
| 10.4#          | Settlement Agreement dated July 25, 2003 by and between Microsoft Corporation and Immersion Corporation.             | S-3                       | 333-108607 | 10.3    | September 8, 2003 |                |
| 10.5#          | License Agreement dated July 25, 2003 by and between Microsoft Corporation and Immersion Corporation.                | S-3/A                     | 333-108607 | 10.4    | February 13, 2004 |                |

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| Exhibit Number | Exhibit Description   | Incorporated by Reference |            |         | Filed Herewith   |
|----------------|---|---------------------------|------------|---------|------------------|
|                |   | Form                      | File No.   | Exhibit |                  |
| 10.6           | Letter Agreement dated March 18, 2004 by and between Microsoft Corporation and Immersion Corporation.   | S-3/A                     | 333-108607 | 10.10   | March 25, 2004   |
| 10.7*          | Form of Indemnity Agreement.  | S-3/A                     | 333-108607 | 10.11   | March 25, 2004   |
| 10.8#          | Agreement by and among Sony Computer Entertainment America Inc., Sony Computer Entertainment Inc., and Immersion Corporation dated March 1, 2007. | 10-Q                      | 000-27969  | 10.37   | May 10, 2007     |
| 10.9*          | 2007 Equity Incentive Plan.   | 8-K                       | 000-27969  | 99.1    | June 12, 2007    |
| 10.10*         | Form of Stock Option Agreement (U.S. Participant) for 2007 Equity Incentive Plan.   | 8-K                       | 000-27969  | 99.4    | June 12, 2007    |
| 10.11*         | Form of Stock Option Agreement (Non-U.S. Participant) for 2007 Equity Incentive Plan.   | 8-K                       | 000-27969  | 99.5    | June 12, 2007    |
| 10.12*         | The Immersion Corporation 2008 Employment Inducement Award Plan dated April 30, 2008.   | 10-Q                      | 000-27969  | 10.38   | August 8, 2008   |
| 10.13*         | Form of Stock Option Agreement for Immersion Corporation 2008 Employment Inducement Award Plan.   | 10-Q                      | 000-27969  | 10.39   | August 8, 2008   |
| 10.14*         | Settlement Agreement dated August 25, 2008 by and between Microsoft Corporation and Immersion Corporation.  | 10-Q                      | 000-27969  | 10.45   | November 7, 2008 |
| 10.15*         | Form of RSU Agreement for Immersion Corporation 2008 Employment Inducement Award Plan.  | 8-K                       | 000-27969  | 99.01   | March 4, 2009    |
| 10.16*         | Employment Agreement dated October 21, 2009 by and between Immersion Corporation and Victor Viegas.   | 10-K                      | 000-27969  | 10.42   | March 30, 2010   |
| 10.17*         | Form of 2010 Executive Incentive Plan.  | 10-Q                      | 000-27969  |         | May 7, 2010      |
| 10.18*         | 2011 Equity Incentive Plan.   | 10-Q                      | 000-27969  | 10.1    | August 5, 2011   |
| 10.19*         | Form of Stock Option Award Agreement for Immersion Corporation 2011 Equity Incentive Plan.  | 10-Q                      | 000-27969  | 10.2    | August 5, 2011   |
| 10.20*         | Form of Award Agreement (Restricted Stock Units) to the Immersion Corporation 2011 Equity Incentive Plan.   | 10-Q                      | 000-27969  | 10.3    | August 5, 2011   |
| 10.21*         | Form of Restricted Stock Agreement for Immersion Corporation 2011 Equity Incentive Plan.  | 10-Q                      | 000-27969  | 10.4    | August 5, 2011   |
| 10.22          | Office Lease between Carr NP Properties, L.L.C., and Immersion Corporation dated September 15, 2011.  | 10-Q                      | 000-27969  | 10.2    | November 7, 2011 |

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| Exhibit Number | Exhibit Description   | Incorporated by Reference |           |         | Filed Herewith    |
|----------------|---|---------------------------|-----------|---------|-------------------|
|                |   | Form                      | File No.  | Exhibit |                   |
| 10.23          | Amendment No. 1, Effective as of August 1, 2013, to Amended and Restated License Agreement by and between Immersion Software Ireland Limited, Immersion Corporation, and Samsung Electronics Co., Ltd. Entered into as of January 1, 2013.    | 10-Q                      | 000-27969 | 10.1    | November 6, 2013  |
| 10.24          | Amendment No. 2, Effective as of January 1, 2013, to Amended and Restated License Agreement by and between Immersion Software Ireland Limited, Immersion Corporation, and Samsung Electronics Co., Ltd. Entered into as of March 19, 2014.    | 10-Q                      | 000-27969 | 10.1    | May 6, 2014       |
| 10.25*         | 2011 Equity Incentive Plan (incorporated by reference to Annex A of Schedule 14A, File No. 000-27969, filed on April 22, 2014).   | 10-Q                      | 000-27969 | 10.1    | August 1, 2014    |
| 10.26          | Amendment No. 3, Effective as of January 1, 2013, to Amended and Restated License Agreement by and between Immersion Software Ireland Limited, Immersion Corporation, and Samsung Electronics Co., Ltd. entered into as of August 14, 2014.   | 10-Q                      | 000-27969 | 10.1    | October 31, 2014  |
| 10.27          | First Amendment to Office Lease dated November 12, 2014 by and between Immersion Corporation and BSREP Rio Robles LLC   | 8-K                       | 000-27969 | 10.1    | November 14, 2014 |
| 10.28*         | Offer Letter dated November 24, 2014 by and between Immersion Corporation and Mahesh Sundaram.  | 10-K                      | 000-27969 | 10.34   | February 27, 2015 |
| 10.29*         | Offer Letter dated August 22, 2016 by and between Immersion and Nancy Erba  | 8-K                       | 000-27969 | 10.1    | September 7, 2016 |
| 10.30*         | Retention and Ownership Change Agreement dated August 22, 2016 by and between Immersion and Nancy Erba  | 8-K                       | 000-27969 | 10.2    | September 7, 2016 |
| 10.31#         | Amendment No. 4, Effective as of January 1, 2013, to the Amended and Restated License Agreement by and between Immersion Software Ireland Limited, Immersion Corporation, and Samsung Electronics Co., Ltd. Entered into as of July 11, 2016. | 10-Q                      | 000-27969 | 10.1    | November 4, 2016  |

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| Exhibit Number | Exhibit Description   | Incorporated by Reference |                              | Filed Herewith |
|----------------|---|---------------------------|------------------------------|----------------|
|                |   | Form                      | File No. Exhibit Filing Date |                |
| 21.1           | Subsidiaries of Immersion Corporation.  |                           |                              | X              |
| 23.1           | Consent of Independent Registered Public Accounting Firm.   |                           |                              | X              |
| 31.1           | Certification of Victor Viegas, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |                           |                              | X              |
| 31.2           | Certification of Nancy Erba, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.    |                           |                              | X              |
| 32.1+          | Certification of Victor Viegas, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |                           |                              | X              |
| 32.2+          | Certification of Nancy Erba, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.    |                           |                              | X              |
| 101.INS        | XBRL Report Instance Document   |                           |                              | X              |
| 101.SCH        | XBRL Taxonomy Extension Schema Document   |                           |                              | X              |
| 101.CAL        | XBRL Taxonomy Calculation Linkbase Document   |                           |                              | X              |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document  |                           |                              | X              |
| 101.LAB        | XBRL Taxonomy Label Linkbase Document   |                           |                              | X              |
| 101.PRE        | XBRL Presentation Linkbase Document   |                           |                              | X              |

# 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.

\* Constitutes a management contract or compensatory plan.

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 3, 2017

IMMERSION CORPORATION

By /s/ NANCY ERBA

Nancy Erba

Chief Financial Officer and  
Principal Accounting Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Victor Viegas and Nancy Erba, jointly and severally, his or her attorney-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Name                                   | Title  | Date          |
|--|--|---------------|
| /S/ VICTOR VIEGAS<br>Victor Viegas     | Chief Executive Officer and Director (Principal Executive Officer)                           | March 3, 2017 |
| /S/ NANCY ERBA<br>Nancy Erba           | Chief Financial Officer<br>(Principal Financial Officer and<br>Principal Accounting Officer) | March 3, 2017 |
| /s/ CARL SCHLACHTE<br>Carl Schlachte   | Director   | March 3, 2017 |
| /S/ JACK SALTICH<br>Jack Saltich       | Director   | March 3, 2017 |
| /S/ DAVID HABIGER<br>David Habiger     | Director   | March 3, 2017 |
| /S/ DAVID SUGISHITA<br>David Sugishita | Director   | March 3, 2017 |
| /S/ JOHN VESCHI<br>John Veschi         | Director   | March 3, 2017 |
| /S/ SHARON HOLT<br>Sharon Holt         | Director   | March 3, 2017 |



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VALUATION AND QUALIFYING ACCOUNTS

|                                 | Balance at<br>Beginning<br>of<br>Period | Charged to<br>Costs and<br>Expenses | Deductions/<br>Write-offs<br>(Recoveries) | Balance at<br>End of<br>Period |
|---------------------------------|---|-------------------------------------|---|--------------------------------|
| (In thousands)                  |   |                                     |   |                                |
| Year ended December 31, 2016    |   |                                     |   |                                |
| Allowance for doubtful accounts | \$ 15                                   | \$ 2                                | \$ 17                                     | \$ —                           |
| Year ended December 31, 2015    |   |                                     |   |                                |
| Allowance for doubtful accounts | \$ 28                                   | \$ (6 )                             | \$ 7                                      | \$ 15                          |
| Year ended December 31, 2014    |   |                                     |   |                                |
| Allowance for doubtful accounts | \$ 9                                    | \$ 16                               | \$ (3 )                                   | \$ 28                          |