

IMMERSION CORP
Form 10-K
February 27, 2019
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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, 2018 or

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

For the transition period from _____ to _____

Commission File Number 000-38334

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
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Common Stock, \$0.001 par value	The Nasdaq Stock Market LLC
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Preferred Stock Purchase Rights

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark 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.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging Growth Company

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

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

Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was \$284,594,233 (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 20, 2019 is 30,854,570.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2019 Annual Meeting are incorporated by reference into Part III hereof.

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 2018 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 leading experts in haptics and our focus on innovation allows us to deliver world-class intellectual property (“IP”) and technology that enables the creation of products that delight end users. Our technologies are designed to facilitate the creation of high-quality haptic experiences, enable their widespread distribution, and ensure that their playback is optimized. Our primary business is currently in the mobility, gaming, and automotive markets, but we believe our technology is broadly applicable and see opportunities in evolving new markets, including entertainment, social content, virtual and augmented reality, wearables, as well as residential, commercial, and industrial Internet of Things (“IoT”). In recent years, we have seen a trend towards broad market adoption of haptic technology, and estimate our technology is now in more than 3 billion devices worldwide. As other companies follow our leadership in recognizing how important tactile feedback can be in people's digital lives, we expect the opportunity to license our IP and technologies will continue to expand. We have adopted a business model under which we provide advanced tactile software, related tools and technical assistance designed to help integrate our patented technology into our customers’ products or enhance the functionality of our patented technology, and offer licenses to our patented technology to our customers. Our licenses enable our customers to deploy haptically-enabled devices, content and other offerings, which they typically sell under their own brand names. In 2018, we and our wholly-owned subsidiaries increased our issued or pending patents by 600 to more than 3,400 patents worldwide as of December 31, 2018. Our patents cover a wide range of digital technologies and include many of the ways in which touch-related technology can be incorporated into and between hardware products and components, systems software, application software, and digital content. We believe that our IP is relevant to many of the most important and cutting-edge ways in which haptic technology is and can be deployed, including in connection with mobile interfaces and user interactions, in association with pressure and other sensing technologies, as part of video and interactive content offerings, as related to virtual and augmented reality experiences, and in connection with advanced actuation technologies and techniques.

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

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. Our strategy is founded upon the ability to:

Innovate: Develop and patent our innovative technology to provide haptics in mobile, gaming, automotive, wearable, virtual and augmented reality, 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 and virtual and augmented reality.

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. 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.

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,

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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, buttons, 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.

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 enabling technology, IP and haptic expertise to our customers through a variety of different offerings, including technology licenses, patent licenses, and combined licenses that cover both technology and patents. In most cases, our technology licenses include services, design tools, reference designs, 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.

Technology Offerings

We generally license our technology 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 and support services.

Targeted at manufacturers of mobile devices, wearables, gaming consoles/peripherals, automotive experiences, consumer electronics and their suppliers, our haptic reference implementations and reference designs consist of solutions enabling the design of tactile effects used in device interfaces and applications, and enhancing the playback of haptic content. Our offerings consist of design tools, application programming interfaces (“APIs”), reference designs, and firmware enabling the easy addition of new, customized haptic experiences to branded devices and other products.

Our SDKs are targeted at content and application developers and platforms, and consist of design tools, integration software and effect libraries that allow for the design, encoding and playback of tactile effects in content. The SDKs

offer high-fidelity tactile effects to augment and enhance content, while ensuring quality playback within consumer devices.

Patent Licenses

Through more than 25 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

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includes more than 3,400 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, 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 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, and others are crafted to meet the needs of a particular customer or industry.

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 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 Apple, LG Electronics, Google, Fujitsu, Sony, and Panasonic, as well as integrated circuit manufacturers such as Texas Instruments.

For the years ended December 31, 2018, 2017, and 2016, 81%, 49%, and 57%, respectively, of our total revenues were generated from OEMs and integrated circuit customers in the mobile communications market.

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, Bosch, Preh, Panasonic Automotive Systems, SMK Corporation, and Tokai Rika.

For the years ended December 31, 2018, 2017, and 2016, 13%, 15%, and 7%, respectively, of our total revenues were from automotive customers.

Console and PC Gaming: We have licensed our patents directly to Microsoft and Nintendo 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, Microsoft, and Razer.

For the years ended December 31, 2018, 2017, and 2016, 5%, 30%, and 24%, respectively, of our total revenues were generated from customers in the PC and console gaming markets.

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Medical: We offer patent licenses to the medical market. Our current licensees include CAE Healthcare, Laerdal Medical A/S, and Transenterix.

For the years ended December 31, 2018, 2017, and 2016, 1%, 6%, and 12%, respectively, 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 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, haptic integrated circuit manufacturers, 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 the extent of their haptic investment and 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 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 continue 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 that strengthen 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.

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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.

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.

As of December 31, 2018, we and our wholly owned subsidiaries had over 3,400 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.

Investor Information

You can access financial and other information in the Investor Relations section of our web site at 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.

Employees

As of December 31, 2018, following a restructure of certain of our operations, we had 64 full-time employees.

Executive Officers

The following table sets forth information regarding our executive officers as of February 20, 2019.

Name	Position with the Company	Age
Ramzi Haidamus	Chief Executive Officer	54
Nancy Erba	Chief Financial Officer	52
Anne Marie Peters	General Counsel and Senior Vice President IP Licensing and Legal Affairs	48

Ramzi Haidamus was named our President and Chief Executive Officer in January 2019. He also serves as a member of the Board. Mr. Haidamus has substantial leadership, strategic planning and business development experience in technology and IP monetization. Previously, he was president of Nokia Technologies group from 2014 to 2016, where

he led the growth of the existing patent licensing division and the formation of its digital media, digital health and brand licensing divisions. From 1996 to 2014, Mr. Haidamus held numerous positions at Dolby Laboratories, Inc. From 2002 to 2006, he was also the founder, CEO, and President of Via Licensing Corp., a patent pool licensor. From 2017 to January 2019, he served as Chairman of the

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Advisory Board of UKL Tech Hub Accelerator, and in 2018, he served as a member of the Advisory Board of Keyssa, a secure high-speed data transfer developer. Mr. Haidamus is a member of the Academy of Motion Picture Arts and Sciences, a member on the investment committee of Berytech, a Lebanese venture capital firm and a member of the Board of Trustees of World Affairs Council, a non-profit, nonpartisan forum for the public to join leading foreign policy and international relations experts to discuss and debate global issue. He received a B.S. and M.S. in Electrical Engineering from University of the Pacific.

Nancy Erba joined as our Chief Financial Officer in September 2016. Prior to joining us, Ms. Erba was Vice President, Financial Planning and Analysis of Seagate Technology from February 2015 to October 2015. Prior executive roles at Seagate Technology, a data storage company, 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 Solutions Division from 2008 to 2009 and Vice President, Corporate Development from 2006 to 2008. Ms. Erba holds a B.A. in Mathematics from Smith College and a M.B.A. from Baylor University.

Anne Marie Peters joined us in 2008 serving as General Counsel and Corporate Secretary. In July 2016, Ms. Peters' role was expanded to include leading our 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 a biotechnology company that was acquired by Novartis International AG. Ms. Peters holds a B.A. in Molecular and Cell Biology from the University of California, Berkeley, a M.B.A. from the Graduate School of Management at the University of California, Davis, and a J.D. degree from the University of California, Davis School of Law.

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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 also face numerous risks in obtaining new or renewed licenses on terms consistent with our business objectives and in maintaining, expanding, and supporting our relationships with our current licensees. These risks include:

- difficulties in persuading device manufacturers to take a license or renew a license to our intellectual property without the expenditure of significant resources;
- difficulties in persuading existing customers that they still need a license to the portfolio as individual patents expire or become limited in scope, declared unenforceable or invalidated;
- reluctance of device manufacturers to take a license or renew a license to our intellectual property because other larger device manufacturers are not licensed;
- difficulties in entering into or renewing gaming licenses if video game console makers choose not to license third parties to make peripherals for their new consoles, if video game console makers no longer require peripherals to play video games, if video game console makers no longer utilize technology in the peripherals that are covered by our patents or if the overall market for video game consoles deteriorates substantially;
- the competition we may face from third parties, including the internal design teams of existing and potential licensees;
- difficulties in achieving and maintaining consumer and market demand or acceptance for our products;
- difficulties in persuading third parties to work with us, to rely on us for critical technology, and to disclose to us proprietary product development and other strategies;
- difficulties in persuading existing licensees who compensate us for including our software in certain of their touch-enabled products to also license and compensate us for our patents that cover other touch-enabled products of theirs that do not include our software;
- challenges in demonstrating the compelling value of our technologies and challenges associated with customers' ability to easily implement our technologies; and
- inability of current or prospective licensees to ship certain devices if they are involved in IP infringement claims by third parties that ultimately prevent them from shipping products or that impose substantial royalties on their products. Further, with the adoption of the new revenue standard, Accounting Standard Codification ("ASC") 606, Revenue from Contracts with Customers, ("ASC 606"), effective January 1, 2018, we recognize a substantial portion of revenue from our fixed license fee contracts up front, with the remainder recognized over time, which relates to our future performance obligations to be transferred during the contract term. Previously, our fixed license fee revenue was typically recognized ratably over time in accordance with revenue recognition guidance under ASC 605, Revenue Recognition ("ASC 605"). This change in accounting policy provides less predictability in our revenue when compared to historical periods.

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

One customer, Apple Inc., accounted for 69% of our total revenues for the year ended December 31, 2018, as compared to the year ended December 31, 2017 where three customers accounted for 20%, 18% and 11% of our total revenues, and to the year ended December 31, 2016 where Samsung Electronics ("Samsung") accounted for 60% of

our total revenues. Additionally, 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

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with Samsung for any products released after December 31, 2015 and on August 3, 2017, we filed a patent infringement suit against Samsung in the U.S. District Court in the Eastern District of Texas. See Part I, Item 3, "Legal Proceedings". Because we have not renewed our agreement with Samsung, there is no assurance that Samsung will continue to generate similar revenue in any future period.

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

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

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

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

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

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

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

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

- laws and contractual restrictions may not be sufficient to prevent misappropriation of our technologies or deter others from developing similar technologies; and

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•policing unauthorized use of our patented technologies, trademarks, and other proprietary rights would be difficult, expensive, and time-consuming, within and particularly outside of the United States.

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

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

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

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

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

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

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

As a small company, we may not have the resources to reach every company who is introducing or planning to introduce haptics into the market. In addition, as a small company, we have limited engineering resources that may make it difficult to support every type of haptic implementation with our software offerings or to introduce new technologies in a timely manner. In the instances where a potential customer is not using our software but implements unlicensed haptic capability, we may need to seek to enforce our intellectual property. If the customer is unwilling to enter into a license agreement, we may elect to pursue litigation which would harm our relationship with the potential customer and could harm our relationships with other licensees or our ability to gain new customers, who may

postpone licensing decisions pending the outcome of the litigation or dispute, or who may, as a result of such litigation, choose not to adopt our technologies. In addition, these legal proceedings could be very expensive and could have a negative impact on our financial results.

We also license our software and/or patents to semiconductor manufacturers who incorporate our technologies into their integrated circuits for use in certain electronic devices. While our relationships with these semiconductor manufacturers increase our distribution channels by leveraging their sales channels, this could introduce confusion into our licensing model which has traditionally been focused on licensing the OEM. In the event that the semiconductor manufacturers do not recognize the need to license our technologies or in the event we do not correctly structure our licensing programs to avoid patent exhaustion or implied licenses, we could negatively impact our business and financial results.

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We had an accumulated deficit of \$99 million as of December 31, 2018 and may not return to consistent profitability in the future.

As of December 31, 2018, we had an accumulated deficit of \$99 million. We need to generate significant ongoing revenues 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.

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. Managem