

**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, 2020 or

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

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

Commission File Number 000-38334

**Immersion Corporation**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

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

**330 Townsend Street, Suite 234, San Francisco, CA 94107**

*(Address of principal executive offices, zip code)*

**(408) 467-1900**

*(Registrant's telephone number, including area code)*

**50 Rio Robles, San Jose, CA 95134**

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

**Securities registered pursuant to Section 12(b) of the Act: None**

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

Indicate by check mark 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 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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, 2020, the last business day of the registrant's most recently completed second fiscal quarter, was \$80,883,149 (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 who 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 on February 26, 2021 is 30,088,019.

**DOCUMENTS INCORPORATED BY REFERENCE**

Items 10 (as to directors and Delinquent Section 16(a) Reports (if any)), 11, 12 (as to Beneficial Ownership), 13 and 14 of Part III of this Annual Report on Form 10-K incorporate by reference portions of the Registrant's definitive Proxy Statement for the 2021 Annual Meeting of Stockholders.

IMMERSION CORPORATION  
2020 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,” “can,” “will,” “places,” “estimates,” and other similar expressions. However, these words are not the only way we identify forward-looking statements. Examples of forward-looking statements include any expectations, projections, or other characterizations of future events, or circumstances, and include statements regarding: the impact of COVID-19 on our business, including as to revenue, and potential cost reduction measures, and the impact of COVID-19 on our customers, suppliers, and on the economy in general; our strategy and our ability to execute our business plan; our competition and the market in which we operate; our customers and suppliers; our revenue and the recognition and components thereof; our costs and expenses; including capital expenditures; seasonality and demand; our investment in research and technology development; changes to general and administrative expenses; our foreign operations and the reinvestment of our earnings related thereto; our investment in and protection of our IP; our employees; capital expenditures and the sufficiency of our capital resources; unrecognized tax benefit and tax liabilities; the impact of changes in interest rates and foreign exchange rates, as well as our plans with respect to foreign currency hedging in general; changes in laws and regulations; including with respect to taxes; our plans related to and the impact of current and future litigation; our sublease and the timing and income related thereto; and our stock repurchase program.*

## Risk Factor Summary

Our business is subject to numerous risks and uncertainties that could affect our ability to successfully implement our business strategy and affect our financial results. You should carefully consider all of the information in this report and, in particular, the following principal risks and all of the other specific factors described in Item 1A of this report, "Risk Factors," before deciding whether to invest in our company.

- Risks related to our business:
  - Our business, results of operations, financial condition, cash flows, and stock price can be adversely affected by catastrophic events, such as pandemics, or other public health emergencies, such as COVID-19, or by the uncertain economic and political environment in geographies in which we operate.
  - Our business could be materially and adversely affected if we are unable to enter into new licensing arrangements (or renew existing licenses) on favorable terms. In addition, a limited number of customers account for a significant portion of our revenue, and the loss of major customers could harm our operating results.
  - If we fail to protect and enforce our patent rights and other IP rights, our ability to license our technologies and generate revenues could be impaired.
  - Our failure to develop or acquire successful innovations and obtain patents on those innovations could significantly harm our business.
  - Potential changes in patent and litigation legislation, regulations and enforcement, as well as rulings in legal proceedings could have a material adverse effect on our licensing business as well as our business as a whole.
  - If we are not able to attract, recruit and retain qualified personnel, we may not be able to effectively develop and deploy our technologies. In addition, we have experienced turnover in our senior management and our employee base, which could result in operational and administrative inefficiencies and could hinder the execution of our growth strategy.
  - We are or may become involved in litigation to enforce our IP rights (or defend against assertions that we violate a third party's IP), or resolve conflicts over license terms in our license agreements, and the costs thereof could adversely affect our business.
  - Our licenses with component manufacturers may cause confusion as to our licensing model and may prevent us from enforcing our patents based on the patent exhaustion doctrine, or other legal doctrines.
  - We may not return to consistent profitability in the future.
  - We may incur greater tax liability than anticipated which could adversely affect our financial condition and operating results.
  - Our international operations subject us to risks and costs, and our failure to comply with complex U.S. or foreign laws could have a material adverse effect on our operations.
  - We may not be able to continue to derive significant revenues from gaming peripheral makers for various reasons, including as a result of our fixed payment license with Microsoft, which could adversely affect our financial condition and operating results.

- Automobiles incorporating our technologies are subject to lengthy development periods, making it difficult to predict when and whether we will receive royalties for these product types.
- If our licensees' efforts fail to generate consumer demand, our revenue may be adversely affected.
- Our business and operations could suffer in the event of any actual or perceived security breaches, including breaches that compromise personal information.
- The rejection of our haptic technology by standards-setting organizations, or failure of the standards-setting organization to develop timely commercially viable standards may negatively impact our business.
- If we are unable to develop open-source compliant products (or our products contain undetected errors), our ability to license our technologies and generate revenues may be impaired.
- Our business depends in part on access to third-party platforms and technologies. If such access is withdrawn, denied, or is not available on terms acceptable to us, or if the platforms or technologies change, our business and operating results could be adversely affected.
- 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 business and our stock price.
- Entrance into the highly competitive and fragmented sexual wellness market may adversely impact our financial results.
- Risks related to investing in our common stock:
  - Our quarterly revenues and operating results are volatile, and if our future results are below expectations, the price of our common stock is likely to decline. Our stock price may fluctuate regardless of our performance.
  - Future sales of our equity could result in significant dilution to our existing stockholders and depress the market price of our common stock. In addition, we will have broad discretion as to the use of proceeds from the "at the market" offering that we announced in February 2021, and we may not use the proceeds effectively.
  - We may elect to purchase digital or alternative currencies as part of our capital allocation or investment strategy; and if we determine to purchase digital or alternative currencies such as bitcoin and other cryptocurrencies, our financial results and the market price of our common stock may be affected by the price of these alternative investments, which may be highly volatile.
  - We may engage in the acquisition of other companies or other investments outside of our current line of business, which may have an adverse material effect on our existing business.
  - Any stock repurchase program could affect our stock price and add volatility.
  - Changes in financial accounting standards or policies may affect our reported financial condition or results of operations.
  - Our business is subject to changing regulations regarding corporate governance and other compliance areas that will increase both our costs and the risk of noncompliance. Further, 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.

## PART I

### Item 1. Business

#### Overview

Immersion Corporation (the “Company”, “Immersion”, “we”, or “us”) 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 to engage with products and experience the digital world around them. We are one of the leading experts in haptics, and our focus on innovation allows us to deliver world-class intellectual property (“IP”) and technology that enables the creation of products that delight end users. Our technologies are designed to facilitate the creation of high-quality haptic experiences, enable their widespread distribution, and ensure that their playback is optimized. Our primary business is currently in the mobility, gaming, and automotive markets, but we believe our technology is broadly applicable and see opportunities in evolving new markets, including entertainment, social content, virtual and augmented reality, sexual wellness and wearables, as well as residential, commercial, and industrial Internet of Things. In recent years, we have seen a trend towards broad market adoption of haptic technology. As other companies follow our leadership in recognizing how important tactile feedback can be in people’s digital lives, we expect the opportunity to license our IP and technologies will continue to expand.

We have adopted a business model under which we provide advanced tactile software, related tools and technical assistance designed to integrate our patented technology into our customers’ products or enhance the functionality of our patented technology, and offer licenses to our patented technology to our customers. Our licenses enable our customers to deploy haptically-enabled devices, content and other offerings, which they typically sell under their own brand names. We and our wholly-owned subsidiaries hold more than 1,900 issued or pending patents worldwide as of December 31, 2020. Our patents cover a wide range of digital technologies and ways in which touch-related technology can be incorporated into and between hardware products and components, systems software, application software, and digital content. We believe that our IP is relevant to many of the most important and cutting-edge ways in which haptic technology is and can be deployed, including in connection with mobile interfaces and user interactions, in association with pressure and other sensing technologies, as part of video and interactive content offerings, as related to virtual and augmented reality experiences, and in connection with advanced actuation technologies and techniques.

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

#### Our Business Strategy

Our goals are to continue to be a leading player in the haptics industry and to 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, incorporation in the offerings of world-class companies and participation in standards-setting organizations.

*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 the wearables, virtual and augmented reality and sexual wellness markets.

#### 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 touchscreen, touch pad, and other touch surfaces often lack the physical feedback that is provided by mechanical keyboards, buttons, and switches 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 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, reference designs, and/or 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 generally provide the customer with a defined right to use our patented innovations in its own products, subject to limitations by specific field of use and other restrictions.

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 and Engineering Offerings***

We generally license our technology through integrated licensing kit offerings that may include tools, software, firmware, reference designs, and related documentation to enable development and deployment of advanced haptic experiences in consumer devices and applications. Our offerings include:

*Reference Designs:* We offer reference designs for customers to use for technology evaluation and product development purposes. Our designs include documentation and materials that designers, engineers, and system integrators may utilize to integrate advanced haptics into existing or new products and applications.

*Software and firmware:* We offer software and firmware for OEMs and supply chain partners to integrated advanced haptic capabilities and optimize system performance. Our SDKs consist of tools, integration software and effect libraries that allow for the design, encoding and playback of tactile effects. The SDKs offer high-fidelity tactile effects to augment and enhance content, while ensuring quality playback within consumer devices. Our firmware is designed to optimize control and performance of haptic system hardware.

*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. 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.

### **Patent Licenses**

Through more than 26 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 we devote substantial resources to ensure that our IP coverage of the haptic landscape is as comprehensive as possible. We continue to pursue intellectual property that aligns with our business strategy while efficiently managing our patent prosecution and maintenance costs. Our portfolio now includes more than 1,900 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.

### **Markets**

*Mobile Communications, Wearables, and Consumer Electronics:* We offer haptic expertise to Original Equipment Manufacturers (“OEM”) in the mobile, gaming, and related consumer electronics markets.

Our licensees currently include some of the top makers of mobile devices in the world, including Apple, LG Electronics, Google, Sony, Samsung, Panasonic, as well as integrated circuit manufacturers such as Awinic and Dongwoon.

Revenue generated from OEMs and integrated circuit customers in the mobile communications market, as a percentage of our total revenue, in 2020 and 2019, were 69% and 63%, respectively, of our total revenue.

*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, Bosch, Preh, Panasonic Automotive Systems, Mobase Electronics (formerly Seoyon Electronics) and Tokai Rika.

Revenue generated from automotive customers, as a percentage of our total revenue, in 2020 and 2019, were 15% and 21%, respectively.

*Console and PC Gaming:* We have licensed our patents directly to Microsoft, Sony 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 PC gaming licensees include Guillemot, Microsoft, and Razer. We will not receive any further royalties from Microsoft under our current agreement with Microsoft, including with respect to Microsoft’s gaming products or any other haptic-related product that Microsoft produces or sells.

Revenue generated from customers in the PC and console gaming market or gaming devices market, as a percentage of our total revenue, in 2020 and 2019, were 15% and 16%, respectively.

*Other:* We offer patent licenses to the medical, adult and other markets. Our current licensees include Feel Robotics, Stanley, CAE Healthcare and Laerdal Medical A/S.

Revenue generated from other customers, as a percentage of our total revenue, in 2020 and 2019 were not material.

We expect the mix of our total revenue from our markets to remain fairly consistent. However, certain markets may fluctuate significantly from quarter to quarter based upon the terms in our technology licenses, our revenue recognition policies and the seasonality of our licensee’s shipments.

### **Sales**

Our revenue fluctuates quarterly and is generally higher in the third quarter of our fiscal year due to increased shipments by our customers of licensed products in preparation for the holiday season. However, significant fluctuations in the timing of our revenue are driven by the terms of our licensing agreements, the period in which such agreements become effective and our revenue recognition policies.

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 12. *Segment Reporting, Geographic Information, and Significant Customers* of the Notes to Consolidated Financial Statement 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 manufacturer, and other customers, as well as potential customers. Our strong patent position generally makes us unique in the market in that we may lose a software licensing opportunity, for example, to a competitor or in-house team but still secure a patent license when haptics are used.

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.

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 marginal enhancements and may compete with non-touch-enabled technologies and price elasticity may be a significant factor in whether these markets incorporate haptic 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. For the years ended December 31, 2020, and 2019, our research and development expenses were \$5.0 million and \$7.8 million, respectively.

#### **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 competitive differentiators 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. 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 strength of our IP portfolio.

### **Intellectual Property**

Protection of our IP portfolio 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.

As of December 31, 2020, we and our wholly owned subsidiaries had more than 1,900 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 is typically 20 years from the effective date of filing of the patent application resulting in the patent.

### **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 a website 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, 2020, we had 54 full-time employees located in 6 countries. Of these, 46, or 85%, were located in the United States and Canada.

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, supported by competitive compensation, including with respect to our equity incentive program and patent compensation program. 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 to drive strong growth.

**Item 1A. Risk Factors**

*As previously discussed, our actual results could differ materially from our forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to:*

*These and many other factors described in this report could adversely affect our operations, performance and financial condition.*

**Company Risks**

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

Our business, results of operations, financial condition, cash flows and stock price can be adversely affected by catastrophic events, such as natural disasters, war, acts of terrorism, pandemics, epidemics, or other public health emergencies, such as the outbreak of COVID-19, which has spread throughout the United States, Canada, and much of the rest of the world. The World Health Organization characterized COVID-19 as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The outbreak has resulted in governments around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines, “shelter in place” and “stay at home” orders, travel restrictions, business curtailments, school closures, and other measures, which has resulted in a significant number of layoffs or furloughs of employees, and/or other negative economic conditions in many of the countries in which we operate. While some governments around the world are easing restrictions designed to help control the spread of the virus, a resurgence of COVID-19 cases may cause governments around the world to implement or reinstitute such restrictions. The full extent to which the COVID-19 pandemic will impact our business and operating results will depend on future developments that are highly uncertain and cannot be accurately predicted.

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

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

Our facilities could also be subject to a catastrophic loss such as fire, flood, earthquake, power outage, or terrorist activity. An earthquake at or near our facilities could disrupt our operations and result in large expenses to repair and replace the facility. While we believe that we maintain insurance sufficient to cover most long-term potential losses at our facilities, our existing insurance may not be adequate for all possible losses including losses due to earthquakes.

***If we are unable to renew our existing licensing arrangements for our patents and other technologies on favorable terms that are consistent with our business objectives, our royalty and license revenue and cash flow could be materially and adversely affected.***

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

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

- difficulties caused by the effects of COVID-19 on our existing licensees' businesses;
- difficulties in persuading existing customers to renew a license to our patents or other technologies (including delays associated with existing customers questioning the scope, validity, or enforceability) without the expenditure of significant resources;
- difficulties in persuading existing customers that they need a license to our patents as individual patents expire or become limited in scope, declared unenforceable or invalidated;
- reluctance of existing customers to renew their license to our patents or other technologies because other companies are not licensed;
- difficulties in renewing gaming licenses if video game console makers choose not to license third parties to make peripherals for their new consoles, if video game console makers no longer require peripherals to play video games, if video game console makers no longer utilize technology in the peripherals that are covered by our patents or if the overall market for video game consoles deteriorates substantially;
- the competition we may face from third parties, including the internal design and development teams of existing licensees;
- difficulties in persuading existing licensees who compensate us for including our software in certain of their touch-enabled products to also license and compensate us for our patents that cover other touch-enabled products of theirs that do not include our software; and
- inability of current licensees to ship certain devices if they are involved in IP infringement claims by third parties that ultimately prevent them from shipping products or that impose substantial royalties on their products.

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

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

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

- difficulties caused by the effects of COVID-19 on prospective licensees' businesses;
- difficulties in brand awareness among prospective customers, especially in markets in which we have not traditionally participated;
- difficulties in persuading prospective customers to take a license to our patents (including delays associated with prospective customers questioning the scope, validity or enforceability of our patents) without the expenditure of significant resources;
- reluctance of prospective customers to engage in discussions with us due to our history of litigation;
- difficulties in persuading prospective customers that they need a license to our patents as individual patents expire or become limited in scope, declared unenforceable or invalidated;
- reluctance of prospective customers to license our patents or other technologies because other companies are not licensed;
- the competition we may face from third parties, including the internal design teams of prospective customers;
- difficulties in achieving and maintaining consumer and market demand or acceptance for our products;

- difficulties in persuading third parties to work with us, to rely on us for critical technology, and to disclose to us proprietary product development and other strategies; and
- challenges in demonstrating the compelling value of our technologies and challenges associated with prospective customers' ability to easily implement our technologies.

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

A significant amount of our revenue is derived from a limited number of customers, and we expect that this will continue to be the case in the future. For example, for the year ended December 31, 2020, Samsung accounted for a significant amount of our total revenues.

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

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

***Our failure to continuously develop or acquire successful innovations and obtain patents on those innovations could significantly harm our business, financial condition, results of operations or cash flows.***

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

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

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

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

Rulings of courts and administrative bodies may affect our strategies for patent prosecution, licensing and enforcement. For example, in recent years, the USITC and U.S. courts, including the U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit, have taken actions that have been viewed as unfavorable to patentees. Decisions that occur in U.S. or in

international forums may change the law applicable to various patent law issues, such as with respect to, patentability, validity, patent exhaustion, patent misuse, remedies, permissible licensing practices, claim construction, and damages in ways that could be detrimental to our ability to enforce patents in our IP portfolio and to obtain damages awards.

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

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

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

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

We have experienced turnover in our senior management. For example, on November 3, 2020, Ramzi Haidamus departed as our Chief Executive Officer and a member of our board of directors, and Jared Smith, our Vice President, Worldwide Sales, was appointed as Interim Chief Executive Officer. Lack of management continuity could harm our customer relationships, delay product development processes, adversely affect our ability to successfully execute our growth strategy, result in operational and administrative inefficiencies and added costs, and could impede our ability to recruit new talented individuals to senior management positions, which could adversely impact our results of operations, stock price and customer relationships. Our success largely depends on our ability to integrate any new senior management within our organization in order to achieve our operating objectives, and changes in other key positions may affect our financial performance and results of operations as new members of management become familiar with our business. General employee turnover also presents risks discussed in this paragraph.

***We are or may become involved in litigation, arbitration and administrative proceedings to enforce or defend our intellectual property rights and to defend our licensing practices that are expensive, disruptive and time consuming, and will continue to be, until resolved, and regardless of whether we are ultimately successful, could adversely affect our business.***

If we believe that a third party is required, but has declined, to license our intellectual property in order to manufacture, sell, offer for sale, import or use products, we have in the past and may in the future commence legal or administrative action against such third party. In some cases, we have and may become party to legal proceedings in which we are adverse to companies that have significantly greater financial resources than us. For example, we had previously initiated patent infringement litigation against Samsung and Motorola. We anticipate that currently pending and any future legal proceedings will continue to be costly, especially in cases where our adverse parties have access to relatively more significant resources. Since there can be no assurance that we will be successful or be able to recover the costs we incur in connection with the legal proceedings (including outside counsel fees), as we incur additional legal costs, the cash available for other parts of our business may decrease. In addition, litigation could lead to counterclaims, adverse rulings affecting our patents, and could harm our relationship with our customers and potential customers, who may postpone licensing decisions pending the outcome of the litigation or dispute, or who may choose not to adopt our technologies. Although protecting our intellectual property is a fundamental part of our business, at times, our legal proceedings have diverted, and could continue to divert, the efforts and attention of some of our key management and personnel away from our licensing transactions and other aspects of our business. As a result, until such time as it is resolved or concluded, litigation, arbitration and administrative proceedings could cause our

technology to be perceived as less valuable in the marketplace, which could reduce our sales and adversely affect our business. Further, any unfavorable outcome could adversely affect our business. For additional background on our litigation, please see *Part I Item 3 Legal Proceedings*.

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

In order to generate revenues from our patent and other technology licensing business, we regularly enter into agreements pursuant to which our licensees are granted certain rights to our patents and other technology. These rights vary in scope and nature depending on the customer: for example, we may grant a licensee the right to use our technology in certain fields of use or with respect to limited market sectors or product categories, and we may or may not grant a licensee exclusive rights or sublicensing rights. We refer to the license terms and restrictions in our agreements, including, but not limited to, field of use definitions, market sector, and product category definitions, collectively, as “License Provisions”.

Due to the continuing evolution of market sectors, product categories, and business models and to the compromises inherent in the drafting and negotiation of License Provisions, our licensees may interpret License Provisions in their agreements in a way that is different from our interpretation of such License Provisions or in a way that is inconsistent with the rights that we have granted to other licensees. Such conflicting interpretations by our licensees may lead to claims that we have granted rights to one licensee that are inconsistent with the rights that we have granted to another licensee or that create a dispute as to which products are covered by the license and are thus subject to a royalty payment.

Many of our customers report royalties to us based on (i) the number of products in their shipments that incorporate our patented technology or other technology or (ii) our customers’ revenues and their interpretation and allocation of contracted royalty rates. When assessing payments due by customers under these types of arrangements, we rely upon the accuracy of our customers’ recordkeeping and reporting, and inaccuracies or payment disputes regarding amounts our customers owe under their licensing agreements may negatively impact our results of operations. The royalties that are originally reported by a customer could differ materially from those determined by either a customer-self-reported correction or from an audit we have performed on a customer’s books and records. Differing interpretations of royalty calculations may also cause disagreements during customer audits, may lead to claims or litigation, and may have an adverse effect on the results of our operations. Further, although our agreements generally give us the right to audit books and records of our licensees, audits can be expensive and time consuming and may not be cost-justified based on our understanding of our licensees’ businesses. Pursuant to our license compliance program, we audit certain licensees to review the accuracy of the information contained in their royalty reports in an effort to decrease the risk of our not receiving royalty revenues to which we are entitled, but we cannot give assurances that such audits will be effective.

In addition, after we enter into an agreement, it is possible that markets and/or products that incorporate our patented technology or other technology, or legal and/or regulatory environments, will evolve in an unexpected manner that could affect the scope of our rights to royalties under such agreement or another one of our licensing agreements or our ability to enforce and defend the technology covered by such agreement or another one of our licensing agreements. As a result, in any agreement, we may have granted rights that will preclude or restrict our exploitation of new opportunities that arise after the execution of the agreement.

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

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

***We had an accumulated deficit of \$113.2 million as of December 31, 2020, and we may not return to consistent profitability in the future.***

As of December 31, 2020, we had an accumulated deficit of \$113.2 million. We need to generate significant ongoing revenues to return to consistent profitability. Among other ongoing expenses, we may continue to incur expenses related to:

- sales and marketing efforts;

- research and development activities;
- the protection and enforcement of our IP; and
- litigation.

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

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

We began a reorganization of our corporate organization in 2019 in order to address changing international tax laws and to re-align our corporate structure with the evolving nature of our international business activities. As a result of this reorganization, we have maintained our overall effective tax rate through changes in how we develop and use our intellectual property and changes in the structure of our international sales operations, including by entering into intercompany arrangements. There can be no assurance that the taxing authorities of the jurisdictions in which we operate or to which we are otherwise deemed to have sufficient tax nexus will not challenge the restructuring or the tax position that we take.

Our tax rate is dependent on our ability to operate our business in a manner consistent with the 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. In addition, future changes to U.S. or non-U.S. tax laws, including legislation to reform U.S. or other countries' taxation of the organization.

Additionally, from time to time, we enter into license agreements with our licensees pursuant to which we may agree to indemnify a customer for certain taxes imposed on the customer by an applicable tax authority and related expense. We have received requests from certain licensees requesting that we reimburse them for certain tax liabilities. For example, on April 28, 2017, we received a letter from Samsung requesting that we reimburse Samsung with respect to withholding tax and penalties imposed on Samsung by the Korean tax authorities as a result of its determination that withholding taxes should have been withheld from certain payments made from Samsung to Immersion Software Ireland Limited, a request that was arbitrated by a panel of the International Chamber of Commerce. On March 27, 2019, the panel issued a final award. The award ordered us to pay Samsung KRW 7,841,324,165 (approximately \$6.9 million as of March 31, 2019), which we paid on April 22, 2019, denied Samsung's claim for interest from and after May 2, 2017; and ordered us to pay Samsung's cost of the arbitration in the amount of approximately \$871,454. In the first quarter of 2019, \$6.9 million was recorded as a deposit included in *Long-term deposits* on our *Condensed Consolidated Balance Sheets*. We are currently appealing in the Korean courts, on behalf of Samsung, the imposition of such withholding taxes and penalties. In the event that we do not ultimately prevail in our appeal in the Korean courts, the deposit included in *Long-term deposits* would be recorded as additional income tax expense on our Consolidated Statements of Operations and Comprehensive Income (Loss), in the period in which we do not ultimately prevail. For additional background on this matter, please see Part I, *Item 3 Legal Proceedings*.

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

On November 3, 2017, on behalf of LGE, we filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes. The Korea Tax Tribunal hearing took place on March 5, 2019. On March 19, 2019, the Korea Tax Tribunal issued its ruling in which it decided not to accept our arguments with respect to the Korean tax authorities' assessment of withholding tax and penalties imposed on LGE. On behalf of LGE, we filed an appeal with the Korea Administrative Court on June 10, 2019. For additional background on this matter, please see Part I, *Item 3 Legal Proceedings*.

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



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

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

We currently have sales personnel in the United Kingdom, Japan and Korea who engage customers and prospective customers in those regions. International revenues accounted for approximately 84% of our total revenues in 2020. International operations are subject to a number of difficulties, risks, and special costs, including:

- compliance with multiple, conflicting and changing governmental laws and regulations;
- laws and business practices favoring local competitors;
- foreign exchange and currency risks;
- changing import and export restrictions, duties, tariffs, quotas and other barriers;
- difficulties staffing and managing foreign operations;
- business risks, including fluctuations in demand for our technologies and products and the cost and effort to conduct international operations and travel abroad to promote international distribution and overall global economic conditions;
- multiple conflicting and changing tax laws and regulations;
- political and economic instability;
- the possibility of an outbreak of hostilities or unrest in markets where major customers are located, including Korea;
- potential economic disruption based on the United Kingdom's recent withdrawal from the European Union, commonly referred to as Brexit; and
- the possibility of volatility in financial markets as certain market participants transition away from the London Inter-bank Offered Rate (LIBOR).

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

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

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

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

increase our exposure to complex international tax rules and regulations. Changes in, or interpretations of, tax rules and regulations may adversely affect our income tax provision. In addition, our operations outside the United States may be affected by changes in trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment, including the U.S. Foreign Corrupt Practices Act and local laws prohibiting corrupt payments by our employees, vendors, or agents.

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

***We may not be able to continue to innovate in the gaming market or continue to derive significant revenues from third party gaming peripheral makers for video gaming platforms.***

To remain competitive in the gaming market, we must continue introduce new haptic patents in a timely manner and the market must adopt such technology. As part of our continuing efforts to bring new advanced haptic technologies to the gaming market, we seek to engage with third party gaming peripheral makers to utilize our advanced haptic technologies and expand the use of haptics across the gaming market. If our engagement efforts are not successful or are significantly delayed, we may be unsuccessful in our innovation efforts in the gaming market, which could have an adverse effect on our revenues.

In addition, while Microsoft, Sony, and Nintendo are among our licensees in the gaming market, 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 such video game console makers. Video game console systems are closed, proprietary systems, and video game console system makers typically impose certain requirements or restrictions on third-party peripheral makers who wish to make peripherals that will be compatible with a particular video game console system. If third-party peripheral makers cannot or are not allowed to satisfy these requirements or restrictions, our gaming royalty revenues could be significantly reduced. Furthermore, should a significant video game console maker choose to omit touch-enabling capabilities from its console systems or restrict or impede the ability of third parties to make touch-enabling peripherals, it could lead our gaming licensees to stop making products with touch-enabling capabilities, thereby significantly reducing our gaming royalty revenues. Also, if the video game industry changes such that mobile or other platforms increase in popularity at the expense of traditional video game consoles, our gaming royalty revenues could be substantially reduced if we are unable to enter into replacement arrangements enabling us to license our software, patents, or other IP in connection with gaming on such mobile or other platforms. Although we have a significant software and patent position with respect to virtual reality (or VR) peripherals and systems, the market may not become large enough to generate material revenues. Finally, as some of our litigated patents related to video game peripherals have expired, our gaming royalty revenues will likely decline until we are successful in proving the relevance of our patents for this market.

***Because we have a fixed payment license with Microsoft, our royalty revenue from licensing in the gaming market and other consumer markets has previously declined and may further do so if Microsoft increases its volume of sales of touch-enabled products at the expense of our other licensees.***

Under the terms of our present agreement with Microsoft, Microsoft receives a royalty-free, perpetual, irrevocable license (including sublicense rights) to our worldwide portfolio of patents. This license permits Microsoft to make, use, and sell hardware, software, and services, excluding specified products, covered by our patents. We will not receive any further revenues or royalties from Microsoft under our current agreement with Microsoft, including with respect to Microsoft's Xbox Series X gaming product or any other haptic-related product that Microsoft produces or sells. Microsoft has a significant share of the market for touch-enabled console gaming computer peripherals and is pursuing other consumer markets such as mobile devices, tablets, personal computers, and VR and augmented reality (or AR). Microsoft has significantly greater financial, sales, and marketing resources, as well as greater name recognition and a larger customer base than some of our other licensees from whom, unlike with respect to Microsoft, we are able to collect royalty payments. In the event that Microsoft increases its share of these markets relative to companies from whom we are not precluded from collecting royalty payments, our royalty revenue from other licensees in these market segments may decline.

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

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

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

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

A key part of our business strategy is to license our software and patents (and other IP) to companies that manufacture and sell products incorporating our touch-enabling technologies. For the year ended December 31, 2020, 99% of our total revenues were royalty and license revenues, as compared to 99% for the year ended December 31, 2019. We do not control or influence the design, manufacture, quality control, promotion, distribution or pricing of products that are manufactured and sold by our licensees, nor can we control consolidation within an industry which could either reduce the number of licensable products available or reduce royalty rates for the combined licensees. In addition, we generally do not have commitments from our licensees that they will continue to use our technologies in current or future products. As a result, products incorporating our technologies may not be brought to market, achieve commercial acceptance or otherwise generate meaningful royalty revenue for us. For us to generate royalty and license revenue, licensees that pay us per-unit royalties must manufacture and distribute products incorporating our touch-enabling technologies in a timely fashion and generate consumer demand through marketing and other promotional activities. If our licensees' products fail to achieve commercial success, or if their products are recalled because of quality control problems or if they do not timely ship products incorporating our touch-enabling technologies or fail to achieve strong sales, our revenues could decline.

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

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

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

***Our business and operations could suffer in the event of any actual or perceived security breaches.***

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

Because the techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. There can be no assurance that any security measures that we or our third-party service providers have implemented will be effective against current or future security threats. Our security measures or those of our third-party service providers could fail, whether as a result of third-party action, employee error, malfeasance or otherwise, and could result in unauthorized access to or use of our systems or unauthorized, accidental, or unlawful access to, or disclosure, modification, misuse, loss or destruction of, our intellectual property and data and data of our customers.

In addition, our customers may authorize third party technology providers to access their customer data. Because we do not control the transmissions between our customers and third-party technology providers or the processing of such data by third-party technology providers, we cannot ensure the integrity or security of such transmissions or processing.

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

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

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

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

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

impact our business and financial results.

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

We have seen, and believe that we will continue to see, an increase in customers requesting that we develop products that will operate in an “open-source” environment. Developing open-source compliant products without imperiling the IP rights upon which our licensing business depends may prove difficult under certain circumstances, thereby placing us at a competitive disadvantage for new product designs.

Already, some of our proprietary technologies incorporate open-source software that may be subject to open-source licenses, which licenses may require that source code subject to the license be released or made available to the public. Such open-source licenses may mandate that software developed based on source code that is subject to the open-source license, or combined in specific ways with such open-source software, become subject to the open-source license. We take steps to ensure that proprietary software we do not wish to disclose is not combined with, or does not incorporate, open-source software in ways that would require such proprietary software to be subject to an open-source license. However, there is currently uncertainty in the legal landscape around open-source software, as few courts have interpreted open-source licenses, and the manner in which these licenses may be legally interpreted and enforced is therefore not yet clear. We often take steps to disclose source code for which disclosure is required under an open-source license, but it is possible that we have made or will make mistakes in doing so, which could negatively impact our brand or the adoption of our products by our customers or prospective customers or could expose us to additional liability.

In addition, we rely on multiple software programmers to design our proprietary products and technologies and we cannot be certain that open-source software is not inadvertently incorporated into products and technologies we intend to keep proprietary. In the event that portions of our proprietary technology are determined to be subject to an open-source license, or are intentionally released under an open-source license, we could be required to publicly release the relevant portions of our source code, which could reduce or eliminate our ability to commercialize our products and technologies. As a result, our revenues may not grow and could decline.

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

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

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

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

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

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

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

Any failure to provide high quality and reliable technologies, whether caused by our own failure or failures of our suppliers or customers, could damage our reputation and reduce demand for our technologies. Our technologies have in the past contained, and may in the future contain, undetected errors or defects. These errors or defects may increase as our technologies

are introduced into new devices, markets and applications, including the automotive market and the sexual wellness market, or as new versions are released. Some errors in our technologies may only be discovered after a customer's product incorporating our technologies has been shipped to customers. Undiscovered vulnerabilities in our technologies or products could expose our customers to hackers or other unscrupulous third parties who develop and deploy viruses, worms and other malicious software programs that could attach to our products or technologies. Any errors or defects discovered in our technologies after commercial release could result in product recalls, loss of revenue, loss of customers, and increased service and warranty costs, any of which could adversely affect our business.

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

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

For example, the EU General Data Protection Regulation ("GDPR"), which became fully effective on May 25, 2018, imposes more stringent data protection requirements than previously effective EU data protection law and provides for penalties for noncompliance of up to the greater of €20 million or four percent of worldwide annual revenues. The GDPR requires, among other things, that personal data only be transferred outside of the European Economic Area ("EEA") to certain jurisdictions, including the United States, if steps are taken to legitimize those data transfers. We rely on the Swiss-U.S. Privacy Shield programs, and the use of Standard Contractual Clauses ("SCCs") approved by the EU Commission, to legitimize these transfers. Previously, we relied on the EU-U.S. Privacy Shield framework to legitimize transfers of personal data from the EEA to the United States. However, on July 16, 2020, the Court of Justice of the European Union ("CJEU") invalidated Decision 2016/1250 on the adequacy of the protection provided by the EU-U.S. Privacy Shield Framework. This decision may increase our costs and limit our ability to process personal data from the European Union. The same decision also cast doubt on the ability to use one of the primary alternatives to the Privacy Shield, namely, SCCs, to lawfully transfer personal data from Europe to the United States and most other countries. At present, there are few if any viable alternatives to the Privacy Shield and the SCCs. This CJEU decision or other legal challenges relating to cross-border data transfer may serve as a basis for our personal data handling practices to be challenged and may otherwise adversely impact our business, financial condition and operating results.

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

In 2018, California enacted the California Consumer Privacy Act ("CCPA"), legislation that, among other things, requires covered companies to provide new disclosures to California consumers and affords such consumers new abilities to opt-out of certain sales of personal information. The CCPA has been amended on multiple occasions and is the subject of proposed regulations of the California Attorney General that were released on October 10, 2019. While the CCPA went into effect on January 1, 2020, aspects of the legislation and its interpretation remain unclear at this time. We therefore cannot fully predict the impact of the CCPA on our business or operations, but it may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. Other privacy bills have been introduced at both the state and federal levels, and certain international territories are also imposing new or expanded privacy obligations.

In addition, ballot initiatives may also impose new or expanded privacy obligations. For example, California voters passed Proposition 24, also known as the California Privacy Rights and Enforcement Act of 2020, a November 2020 ballot measure that, among other effects, expands or amends the provisions of the CCPA, allows consumers to direct businesses to not share their personal information, removes the time period in which businesses can fix violations before being penalized, and creates the California Privacy Protection Agency to enforce the state's consumer data privacy laws.

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

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

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

Our management concluded that our internal control over financial reporting was effective as of December 31, 2020. However, we have in the past had material weaknesses in our internal control over financial reporting, and there are inherent limitations on the effectiveness of internal controls. We do not expect that our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met; no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company will have been detected.

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

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

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

#### **General Risk Factors: Investment Risks**

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

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

These factors include:

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

- the timing of our expenses, including costs related to litigation, stock-based awards, acquisitions of technologies, or businesses;
- developments in and costs of pursuing or settling any pending litigation;
- the timing of introductions and market acceptance of new technologies and products and product enhancements by us, our licensees, our competitors, or their competitors;
- the timing of work performed under development agreements; and
- errors in our licensees' royalty reports, and corrections and true-ups to royalty payments and royalty rates from prior periods.

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

Our stock price has experienced substantial price volatility in the past and may continue to do so in the future. Further, our business, the technology industry and the stock market as a whole have experienced extreme stock price and volume fluctuations that have affected stock prices in ways that may have been unrelated to corporate operating performance. For example, in 2020 as a result of macroeconomic conditions and the related impact of COVID-19, the stock market experienced wide fluctuations. In the past twelve months, our stock price has fluctuated from as low as \$4.23 per share in March 2020 to a high of \$16.64 in February 2021. This significant volatility may continue to occur in the future for reasons that are unrelated to our business or if our business experiences unexpected results. The market price of our common stock has been, and in the future could be, significantly affected by our operations as well 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; sale of stock by the company, changes in securities analysts' recommendations; personnel changes; changing circumstances regarding competitors or their customers; governmental regulatory action or inaction; developments with respect to patents or proprietary rights; inclusion in or exclusion from various stock indices; increased tariffs and international trade disputes; and general market conditions. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has been initiated against that company, which could lead to increased litigation costs and could adversely affect our operating results and our stock price.

***Future sales of our equity could result in significant dilution to our existing stockholders and depress the market price of our common stock.***

It is likely that we will need to seek additional capital in the future and from time to time. If this financing is obtained through the issuance of equity securities, debt convertible into equity securities, options or warrants to acquire equity securities or similar instruments or securities, our existing stockholders will experience dilution in their ownership percentage upon the issuance, conversion or exercise of such securities and such dilution could be significant. Additionally, any new equity securities issued by us could have rights, preferences or privileges senior to those of our common stock. For example, on February 11, 2021, we entered into an Equity Distribution Agreement with Craig-Hallum Capital Group LLC ("Craig-Hallum"), pursuant to which we may issue and sell shares of our common stock having an aggregate offering price of up to \$50 million, from time to time, through an "at the market" equity offering program under which Craig-Hallum will act as sales agent. The issuance and sale of shares of our common stock pursuant to our "at the market" equity offering program will have a dilutive impact on our existing stockholders. Further, the issuance and sale of, or the perception that we may issue and sell, additional shares of common stock pursuant to our "at the market" equity offering program or an additional private placement could have the effect of depressing the market price of our common stock or increasing the volatility thereof. Any issuance by us or sales of our securities by our security holders, including by any of our affiliates, or the perception that such issuances or sales could occur, could negatively impact the market price of our securities.

***We will have broad discretion as to the use of proceeds from the "at the market" offering that we announced in February 2021, and we may not use the proceeds effectively.***

We currently intend to use the net proceeds from our "at the market" offering announced in February 2021 for working capital and other general corporate purposes. We may also use a portion of the net proceeds from the offering to acquire or invest in businesses, assets or technologies. Accordingly, we will retain broad discretion over the use of proceeds. Pending application of the net proceeds as described above, we may, from time to time, invest in digital or alternative currencies such as bitcoin or other cryptocurrencies. We may also invest net proceeds in short- and intermediate-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.



***If we determine to purchase digital or alternative currencies as part of our capital allocation and investment strategy, our financial results and the market price of our common stock may be affected by the price of these digital or alternative currencies.***

In the future, as part of our capital allocation and investment strategy, we may elect to purchase digital or alternative currencies such as bitcoin or other cryptocurrencies. The price of bitcoin and other cryptocurrencies has historically been subject to dramatic price fluctuations and is highly volatile. For example, the price of these digital or alternative currencies may be influenced by regulatory, commercial and technical factors that are highly uncertain and unrelated to our business. Any decrease in the fair value of bitcoin or other cryptocurrencies we may purchase below our carrying value for such assets at any time would require us to incur an impairment charge, and such charge could be material to our financial results for the applicable reporting period, which may create significant volatility in our reported earnings and decrease the carrying value of our assets. Any decrease in reported earnings or increased volatility of such earnings due to impairment charges related to bitcoin or other cryptocurrency holdings could have a material adverse effect on the market price of our common stock. Any future changes in GAAP that require us to change the manner in which we account for any bitcoins or other cryptocurrencies that we may purchase could have a material adverse effect on our financial results and the market price of our common stock.

***If we determine to purchase digital or alternative currencies, including bitcoin and other cryptocurrencies, as part of our capital allocation and investment strategy, these investments would be less liquid than our existing cash and cash equivalents and may not be able to serve as a source of liquidity for us to the same extent as cash and cash equivalents.***

Historically, the bitcoin market has been characterized by more price volatility, less liquidity, and lower trading volumes compared to sovereign currencies markets, as well as relative anonymity, a developing regulatory landscape, susceptibility to market abuse and manipulation, and various other risks inherent in its entirely electronic, virtual form and decentralized network. During times of market instability, we may not be able to sell any bitcoins that we hold at reasonable prices or at all. As a result, any bitcoins that we may purchase may not be able to serve as a source of liquidity for us to the same extent as cash and cash equivalents. If we are unable to sell any bitcoins that we hold, or if we are forced to sell any bitcoins that we may hold at a significant loss, in order to meet our working capital requirements, our business and financial condition could be negatively impacted.

***We may engage in the acquisition of other companies, investments, joint ventures and strategic alliances outside of our current line of business, which may have an adverse material effect on our existing business.***

We may engage in the acquisition of other companies, investments, joint ventures and strategic alliances outside of our current line of business to design and develop new technologies and products, to strengthen competitiveness by scaling up expanding our operations. Such transactions, especially in new lines of business, inherently involve risk due to the difficulties in integrating operations, technologies, products and personnel. Integration issues are complex, time-consuming and expensive and, without proper planning and implementation, may adversely affect our existing business. Furthermore, we may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to integration or restructuring of acquired businesses. In addition, we may make investments in companies outside our current line of business in an attempt to broaden our business opportunities. If we determine to make these investments, they may not provide a return or lead to an increase in our operating results, and we may not obtain the benefits of these investments that we intend to recognize when making them. There can be no assurance that these transactions, if pursued or made, will be beneficial to our business or financial condition.

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

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

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

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

For example, on January 1, 2018, we adopted Accounting Standard Codification 606, *Revenue from Contracts with Customers*, (“ASC 606”). The adoption has affected our revenue recognition model for both fixed fee license revenue and per-unit royalty revenue derived from our new and existing contracts with licensees. Under ASC 606, if a fixed fee license agreement contains both performance obligations to transfer rights to our patent portfolio as it exists when the contract is executed as well as rights to our patent portfolio as it evolves throughout the contract term, we are required to allocate the fixed fee between the two performance obligations which could result in the recognition of a substantial majority of the fixed fee as revenue upon the execution of the license agreement. Prior to the adoption, as a historical practice applied by many licensing companies, we recognized fixed license fees ratably over the contract term. In addition, our previous accounting practice was to recognize revenue from per-unit royalty agreements in the period in which the related royalty report was received from our licensees, generally one quarter in arrears from the period in which the underlying sales occurred (i.e., on a “quarter-lag”). Under ASC 606, we are required to record per-unit royalty revenue in the same period in which the licensee’s underlying sales occur. As we generally do not receive the per-unit licensee royalty reports for sales during a given quarter within the time frame that allows us to adequately review the reports and include the actual amounts in our quarterly results for such quarter, we accrue the related revenue based on estimates of our licensees’ underlying sales, subject to certain contractual terms on our ability to estimate such amounts. As a result of accruing per-unit royalty revenue for the quarter based on estimates, adjustments will be required in the following quarter to true up revenue to the actual amounts reported by our licensees. Such changes have significantly affected our reported financial condition and/or results of operations, causing the amount of revenue we recognize to vary dramatically from quarter to quarter, and even year to year, depending on the timing of entry into license agreements and whether such agreements have fixed-fee or per-unit royalty terms. In addition, these reporting practices and the resulting fluctuations in our reported revenue could cause a decline and/or fluctuation in the price of our common stock.

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

As a public company, we are subject to the laws, regulations and reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, the rules and regulations of the Nasdaq Stock Market, and other regulations that may be enacted from time-to-time. The requirements of these and other rules and regulations have increased, and we expect will continue to increase our legal, accounting and financial compliance costs, will make some activities more difficult, time-consuming and costly, and may also place undue strain on our personnel, systems and resources. In addition, as laws, regulations and standards continue to change, often with varying degrees of specificity and clarity, we could face uncertainty regarding best practices and compliance with such evolving regimes, which could result in higher costs from increased attention paid to disclosure and governance practices and controls.

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

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

- only a majority of our board of directors or stockholders of not less than 10% of all of the shares entitled to cast votes at such meeting are authorized to call a special meeting of stockholders;
- our stockholders can only take action at a meeting of stockholders and not by written consent;
- subject to the rights of a holder of any series of preferred stock, vacancies on our board of directors can be filled only by our board of directors and not by our stockholders;

- our restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

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

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

We lease a facility in Montreal, Quebec, Canada of approximately 10,000 square feet, for our subsidiary, Immersion Canada Corporation. During 2019, we transitioned the majority of our research functions to our existing office in Montreal, Quebec. In 2020, we transitioned our Accounting, Human Resources Finance and IT functions from San Jose, California to Montreal, Canada. The lease for this property expires in February 2024.

We lease a facility in San Jose, California of approximately 42,000 square feet, which we vacated in the first quarter of 2020. On March 12, 2020, we entered into a sublease agreement with Neato Robotics, Inc. (“Neato”) for the San Jose facility. This sublease commenced in June 2020 and ends on April 30, 2023 which is the lease termination date of the original lease.

On January 31, 2020, we entered into an agreement to lease approximately 5,000 square feet of office space in San Francisco, California. This lease expires in 2022. As a result of COVID-19, our San Francisco office has been closed since the first quarter of 2020 and we expect our San Francisco-based employees to continue to work-from-home in the foreseeable future. We have been actively seeking a sublease tenant for the SF Facility.

We also lease office space in Tokyo, Japan and Dublin, Ireland.

See Note 10. *Leases of the Notes to Consolidated Financial Statements* in Part II Item 8. *Financial Statements and Supplementary Data* of this annual report on Form 10-K for more information on our lease obligations.

#### **Item 3. Legal Proceedings**

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

On April 28, 2017, we received a letter from Samsung requesting that we reimburse Samsung with respect to withholding tax and penalties imposed on Samsung by the Korean tax authorities following an investigation where the tax authority determined that Samsung failed to withhold taxes on Samsung’s royalty payments to Immersion Software Ireland from 2012 to 2016. On July 12, 2017, on behalf of Samsung, we filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes and penalties. On October 18, 2018, the Korea Tax Tribunal held a hearing and on November 19, 2018, the Korea Tax Tribunal issued its ruling in which it decided not to accept Immersion’s arguments with respect to the Korean tax authorities’ assessment of withholding tax and penalties imposed on Samsung. On behalf of Samsung, we filed an appeal with the Korea Administrative Court on February 15, 2019. On July 16, 2020, the Korea Administrative Court issued its ruling in which it ruled that the withholding taxes and penalties which were imposed by the Korean tax authorities on Samsung should be cancelled with some litigation costs to be borne by the Korean tax authorities. On August 1, 2020, the Korean tax authorities filed an appeal with the Korea High Court. The first hearing in the Korea High Court occurred on November 11, 2020. A second hearing occurred on January 13, 2021. A third hearing is scheduled for March 21, 2021.

On September 29, 2017, Samsung filed an arbitration demand with the International Chamber of Commerce against us demanding that we reimburse Samsung for the imposed tax and penalties that Samsung paid to the Korean tax authorities. Samsung is requesting that we pay Samsung the amount of KRW 7,841,324,165 (approximately \$6.9 million) plus interest from and after May 2, 2017, plus the cost of the arbitration including legal fees. On March 27, 2019, we received the final award. The award ordered Immersion to pay Samsung KRW 7,841,324,165 (approximately \$6.9 million as of March 31, 2019), which we paid on April 22, 2019, denied Samsung’s claim for interest from and after May 2, 2017; and ordered Immersion to pay Samsung’s cost of the arbitration in the amount of approximately \$871,454, which was paid in 2019.

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

Korean courts, the deposit included in Long-term deposits would be recorded as additional income tax expense on our Consolidated Statement of Operations and Comprehensive Income (Loss), in the period in which we do not ultimately prevail.

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

On March 8, 2018, we filed a complaint against Samsung (China) Investment Co., Ltd. (“Samsung China”), Huizhou Samsung Electronics Co., Ltd. (“Samsung Huizhou”) (together with Samsung China, “Samsung”), and Fujian Province Min Xin Household Electrical Appliances Technology Service Co., Ltd. in the Fuzhou Intermediate Court in Fuzhou, China alleging that certain Samsung touchscreen phones, including the Galaxy S8, S8+, and Note8, infringe three Immersion Chinese patents. The three patents at issue, covering haptic feedback systems and methods in electronic devices, are Chinese Patent No. ZL02821854.X, entitled “Method and Apparatus for Providing Tactile Feedback Sensations”; Chinese Patent No. ZL201210005785.2, entitled “Method and Apparatus for Providing Tactile Feedback Sensations”; and Chinese Patent No. ZL201310253562.2, entitled “Method and Apparatus for Providing Tactile Feedback Sensations”. Immersion’s complaint seeks to stop defendants from using patented methods during manufacturing; to stop defendants from manufacturing, offering to sell, selling, or jointly selling infringing products; as well as the recovery of damages. The Fuzhou Intellectual Property Court accepted the case on March 8, 2018. Samsung China filed a jurisdictional objection on April 10, 2018 in which it asked the court to move the case to Beijing IP court. Samsung Huizhou filed a jurisdictional objection on April 10, 2018 in which it asked the court to move the case to Guangzhou IP court. On May 8, 2018, the court rejected both jurisdictional objections. Samsung Huizhou and Samsung China appealed and the pretrial conference originally scheduled for June 14-15, 2018 was postponed pending a ruling from the Fujian High Court. On September 20, 2018, the Fujian High Court rejected the jurisdictional objection appeals. Samsung China and Samsung Huizhou filed Petitions for Invalidation on April 16, 2018 with the Chinese Patent Office (“SIPO”) for all three patents. Samsung China and Samsung Huizhou supplemented their petitions in May, and we responded on June 1, 2018. A hearing on the petition for Chinese Patent No. ZL02821854.X occurred on July 18, 2018. Hearings on the petitions for Chinese Patent No. ZL201210005785.2 and Chinese Patent No. ZL201310253562.2 occurred on September 28, 2018. Trial was originally scheduled for November 12, and 14, 2018; the Fuzhou Intellectual Property Court granted Immersion’s request to postpone trial but did not set revised dates. The Company and Samsung each submitted evidence for use at trial on or before October 26, 2018. The Patent Reexamination Board of SIPO issued invalidation decisions against Chinese Patent No. ZL02821854.X on November 21, 2018, against Chinese Patent No. ZL201310253562.2 on November 14, 2018, and against Chinese Patent No. ZL201210005785.2 on November 15, 2018, declaring all three Chinese patents invalid. We filed an application to withdraw our complaint from the Fuzhou Intermediate Court on December 10, 2018 and received the ruling that allows Immersion to withdraw the case from the Fuzhou Intermediate Court on December 29, 2018. We pre-registered the appeals against the invalidation decisions with the Beijing IP Court on February 14, 2019. On April 28, 2019, we filed the appeal against the invalidation decisions with the Beijing IP court. On June 6, 2019, SIPO responded to our filing of the appeal with its counterarguments to the arguments set forth in our appeal filing. A hearing has been scheduled for March 11, 2021.

#### *LGE Korean Withholding Tax Matter*

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

On November 3, 2017, on behalf of LGE, we filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes. The Korea Tax Tribunal hearing took place on March 5, 2019. On March 19, 2019, the Korea Tax Tribunal issued its ruling in which it decided not to accept our arguments with respect to the Korean tax authorities’ assessment of withholding tax and penalties imposed on LGE. On behalf of LGE, we filed an appeal with the Korea Administrative Court on June 10, 2019. The first hearing occurred on October 15, 2019. A second hearing occurred on December 19, 2019. A third hearing occurred on February 13, 2020. A fourth hearing occurred on June 9, 2020. A fifth hearing occurred on July 16, 2020. We anticipated a decision to be rendered on or about October 8, 2020, but the Korea Administrative Court scheduled and held a sixth hearing for November 12, 2020. A seventh hearing occurred on January 14, 2021. An eighth hearing is scheduled for April 8, 2021.

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

We cannot predict the ultimate outcome of the above-mentioned actions, and we are unable to estimate any potential liability we may incur. Please also refer to our disclosures in Note 5. *Contingencies of the Note to the Condensed Consolidated Financial Statements.*

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II**

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

**Market Information, Holders of Record and Dividends**

Our common stock is traded on the Nasdaq Global Market under the symbol "IMMR".

As of February 26, 2021, there were 67 holders of record of our common stock.

We do not anticipate paying cash dividends in the foreseeable future.

**Unregistered Sales of Securities**

During the period covered by this Annual Report on Form 10-K, we have not sold any equity securities that were not registered under the Securities Act of 1933, as amended.

**Purchases of Equity Securities**

On November 1, 2007, our Board of Directors (the "Board") authorized the repurchase of up to \$50 million of our common stock (the "Stock Repurchase Program"). In addition, on October 22, 2014, the Board authorized another \$30 million under the Stock Repurchase Program. We may repurchase our common stock for cash in the open market in accordance with applicable securities laws. The timing and amount of any stock repurchase will depend on share price, corporate and regulatory requirements, economic and market conditions, and other factors. The stock repurchase authorization has no expiration date, does not require us to repurchase a specific number of shares, and may be modified, suspended, or discontinued at any time.

As of June 30, 2020, we have no amount available for repurchase under the Stock Repurchase Program. There were no stock repurchases during the second half of 2020.

**Item 6. Selected Financial Data**

Not applicable.

## **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 (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The forward-looking statements involve risks and uncertainties. Forward-looking statements are identified by words such as "anticipates", "believes", "expects", "intends", "may", "can", "will", "places", "estimates", and other similar expressions. However, these words are not the only way we identify forward-looking statements. Examples of forward-looking statements include any expectations, projections, or other characterizations of future events, or circumstances, and include statements regarding: the impact of COVID-19 on our business, including as to revenue, and potential cost reduction measures, and the impact of COVID-19 on our customers, suppliers, and on the economy in general; our strategy and our ability to execute our business plan; our competition and the market in which we operate; our customers and suppliers; our revenue and the recognition and components thereof; our costs and expenses; including capital expenditures; seasonality and demand; our investment in research and technology development; changes to general and administrative expenses; our foreign operations and the reinvestment of our earnings related thereto; our investment in and protection of our IP; our employees; capital expenditures and the sufficiency of our capital resources; unrecognized tax benefit and tax liabilities; the impact of changes in interest rates and foreign exchange rates, as well as our plans with respect to foreign currency hedging in general; changes in laws and regulations; including with respect to taxes; our plans related to and the impact of current and future litigation; our sublease and the timing and income related thereto; and our stock repurchase program.*

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

*Any forward-looking statements made by us in this report speak only as of the date of this report, and we do not intend to update these forward-looking statements after the filing of this report, unless required to do so by applicable law. 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.*

### **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 U.S. 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, leases, income taxes and contingencies. We base our estimates and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions.

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**

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

#### *Fixed fee license revenue*

In certain contracts, we grant a fixed fee license to our existing patent portfolio at the inception of the license agreement as well as rights to the portfolio as it evolves throughout the contract term. For such arrangements, we have two separate performance obligations:

- Performance Obligation A - Transfer rights to our patent portfolio as it exists when the contract is executed;
- Performance Obligation B - Transfer rights to our patent portfolio as it evolves over the term of the contract, including access to new patent applications that the licensee can benefit from over the term of the contract.

For fixed fee license agreements that contain both Performance Obligation A and B, we will allocate the transaction price based on the standalone price for each of the two performance obligations. We use a number of factors primarily related to the attributes of our patent portfolio to estimate standalone prices related to Performance Obligation A and B to perform this allocation.

#### *Per-unit Royalty revenue*

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

As a result of accruing per-unit royalty revenue for the quarter based on such estimates, adjustments will be required in the following quarter to true up revenue to the actual amounts reported by our licensees. The true-ups represent the difference between per-unit royalty based on actual sales reported by our licensees in a quarter-lag, and the estimate of per-unit royalty that was reported in the same quarter the underlying sales occurred.

### **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, 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 other business assumptions. 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 and RSUs 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.

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.



### 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 we 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 including the 2017 Tax Cuts and Jobs Act (the “Tax Act”), 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.

As disclosed in Note 5, *Contingencies of the Notes to the Consolidated Financial Statements*, we have made deposit payments to reimburse both Samsung and LGE for withholding taxes and related penalties paid by them as a result of assessments they have received from the South Korean tax authorities. These payments are recorded as *Long-term deposits* on our Consolidated Balance Sheets. We believe that it is more likely than not that we will be reimbursed by both Samsung and LGE to the extent we ultimately prevail in the appeal in the Korean courts. We regularly assess the likelihood that we will prevail in these cases against the South Korean tax authorities and consequently the likelihood that these deposits will be recoverable. In the event that we do not ultimately prevail in our appeal in the Korean courts, the deposits included in Long-term deposits would be recorded as additional income tax expense on our Consolidated Statements of Operations and Comprehensive Income (Loss), in the period in which we do not ultimately prevail.

We are a U.S.-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 United States, we provide for U.S. income taxes on the earnings of foreign subsidiaries unless the subsidiaries’ earnings are considered permanently reinvested outside the United States. Our income tax rate depends in part on the extent to which our foreign earnings may be taxed by the U.S. through new provisions under the Tax Act such as the new Global Intangible Low-Taxed Income (“GILTI”) tax or as a result of our indefinite reinvestment assertion. Indefinite reinvestment is determined by management’s judgment about and intentions concerning our future operations.

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. 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. We began a reorganization of our corporate organization in 2019 in order to address changing international tax laws.

See Note 8 *Income Taxes* of the *Notes to Consolidated Financial Statements* for further information concerning income taxes.

**Results of Operations****Overview of 2020**

Total revenues for 2020 were \$30.5 million, a decrease of \$5.5 million, or 15%, versus 2019. The decrease was primarily driven by a \$7.2 million decrease in fixed fee license revenue partially offset by a \$1.7 million increase in per-unit royalty revenue.

In 2020, we had net income of \$5.4 million compared to a net loss of \$20.0 million in 2019. The \$25.4 million increase in net income was mainly related to a \$29.2 million, or 51%, decrease in cost and operating expenses partially offset by a \$5.5 million decrease in total revenue.

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

	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Revenues:</b>		
Per-Unit royalty revenue	99.1 %	99.1 %
Fixed fee license revenue	0.9	0.9
Royalty and license	100.0	100.0
Development, services, and other	—	—
Total revenues	100.0	100.0
<b>Costs and expenses:</b>		
Cost of revenues	0.6	0.5
Sales and marketing	16.4	17.9
Research and development	16.4	21.8
General and administrative	59.3	119.4
Total costs and expenses	92.7	159.6
Operating income (loss)	7.3	(59.6)
Interest and other income	0.9	5.0
Other income (expense), net	2.2	0.2
Income (loss) from operations before benefits from (provision for) income taxes	10.4	(54.4)
Benefit from (provision for) income taxes	7.3	(1.3)
Net income (loss)	17.7 %	(55.7)%

**Revenues**

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

A revenue summary for the years ended December 31, 2020 and 2019 are as follows (in thousands, except for percentages):

	Years Ended December 31,			
	2020	2019	\$ Change	% Change
Revenues:				
Fixed fee license revenue	\$ 5,472	\$ 12,627	\$ (7,155)	(57)%
Per-Unit royalty revenue	24,704	23,016	1,688	7%
Total royalty and license revenue	30,176	35,643	(5,467)	(15)%
Development, services, and other revenue	280	310	(30)	(10)%
Total revenues	\$ 30,456	\$ 35,953	\$ (5,497)	(15)%

*Royalty and license revenue* - Total royalty and license revenue for 2020 was \$30.2 million, a \$5.5 million, or 15%, decrease compared to \$35.6 million for 2019.

Per-unit royalty revenue increased by \$1.7 million, or 7%, in 2020 compared to 2019, primarily caused by a \$3.5 million increase in royalties from our mobility licensees and a \$0.8 million increase in royalties from our gaming licensees partially offset by a \$2.7 million decrease in royalties obtained from our automotive licensees. The increase in mobility royalty revenue was due mainly to per-unit royalty agreements entered into during the second and third quarters of 2019. The increase in gaming revenue was primarily due to a volume increase resulting from a major product release by one of our customers partially offset by the impact of the end of contract adjustment of another licensee in 2019. The decrease in automotive royalty revenue was primarily due to lower shipment volume largely attributable to the impact of COVID-19.

Fixed fee license revenue decreased \$7.2 million or 57% in 2020 compared to 2019 primarily due to a \$5.0 million decrease in mobility license revenue and a \$2.0 million decrease in gaming license revenue.

We expect royalty and license revenue to continue to be a major component of our future revenue as our technology is included in products and we succeed in our efforts to monetize our IP. Our fixed fee license revenue could fluctuate depending upon the timing of execution of new fixed license fee arrangements. We also anticipate that our royalty revenue will fluctuate relative to our customers' unit shipments.

*Development, services and other revenue* - Development, services, and other revenue was \$0.3 million for each of the years ended December 31, 2020 and 2019.

Geographically, revenues generated in Asia, North America and Europe for the year ended December 31, 2020 represented 76%, 16%, and 8%, respectively, of our total revenue as compared to 65%, 28%, and 7%, respectively, for the year ended December 31, 2019.

**Operating Expenses**

A summary of operating expenses for the years ended December 31, 2020 and 2019 are as follows:

	Years Ended December 31,					
	2020		2019		\$ Change	% Change
Sales and marketing	\$	4,999	\$	6,426	\$ (1,427)	(22)%
Research and development		5,014		7,840	(2,826)	(36)%
General and administrative		18,055		42,968	(24,913)	(58)%

*Sales and Marketing* - Our sales and marketing expenses primarily consisted of employee compensation and benefits, sales commissions, advertising, trade shows, collateral marketing materials, market development funds, travel, and allocated facilities costs. Sales and marketing expenses decreased \$1.4 million, or 22%, in 2020 as compared to 2019 primarily attributable to a \$0.7 million decrease in compensation, benefits, and other related costs, \$0.2 million decrease in marketing and advertising costs and a \$0.2 million decrease in travel expenses. The decreases in compensation, benefits and other personnel related costs were primarily due to a lower headcount and decreases in variable compensation largely attributable to the cost reduction initiatives implemented during 2020 and delays in execution of some new license agreements due to COVID-19. The decreases in travel costs and marketing and advertising expenses were mainly attributable to reduced business activities as a result of the COVID-19 pandemic.

*Research and Development* - Our research and development expenses primarily consisted of employee compensation and benefits, outside services and consulting fees, tooling and supplies, and allocated facilities costs. Research and development expenses decreased \$2.8 million, or 36%, during 2020 as compared to 2019 primarily due to a \$1.9 million decrease in compensation, benefits, and other related costs, a \$0.3 million decrease in facilities related costs, a 0.2 million decrease in travel costs and a \$0.2 million decrease in outside services costs.

The decrease in compensation, benefits and other personnel related costs was primarily attributable to lower base salaries, a decrease in headcount and a decrease in variable compensation primarily attributable to the completed transition of our research and development function from San Jose, California to Montreal, Canada and the impact of cost reduction initiatives we implemented during 2020. In addition, we received the Canada Emergency Wage Subsidy ("CEWS") and recorded this subsidy as a reduction to compensation expense in the amount of \$0.5 million in 2020. The reduction in facilities costs were attributable to lower rent expense following the sublease of the SJ Facility in the second quarter of 2020. The decrease in travel costs were primarily due to reduced business activities during 2020 compared to the same period in 2019 due to the impact of COVID-19 pandemic.

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

*General and Administrative* - Our general and administrative expenses primarily consisted 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 decreased \$24.9 million, or 58%, in 2020 as compared to 2019 primarily due to a \$18.8 million decrease in legal expenses, a \$2.6 million decrease in compensation, benefits and other personnel related costs, a \$2.3 million decrease in consulting and professional services.

The decrease in legal expense was primarily attributable to reduced activities following litigation settlements in 2019, as well as a decrease in patent maintenance and prosecution costs. The decrease in compensation, benefits and other personnel related costs was primarily due to lower salaries, variable compensation driven by the transition of our Accounting, Human Resources, Finance and IT functions from San Jose, California to Montreal, Canada and the impact of the COVID-19 related cost reduction initiatives implemented in 2020, partially offset by an increase in severance costs. The decrease in consulting and professional services fees was due to decreases in recruitment fees, accounting and audit fees and consulting and other professional fees in 2020 compared to 2019.

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

### Interest and Other Income, Other Expense

A summary of interest and other income, other expense for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	Years Ended December 31,			
	2020	2019	\$ Change	% Change
Interest and other income	\$ 271	\$ 1,787	\$ (1,516)	(85)%
Other income (expense), net	\$ 668	\$ 91	\$ 577	634 %

*Interest and Other Income* - Interest and other income consists primarily of interest income from cash and cash equivalents and short-term investments. Interest and other income decreased \$1.5 million during 2020 compared to 2019. This decrease was primarily driven by a \$1.5 million decrease in investment income from cash equivalents and short-term investments due to lower cash equivalents and short-term investments and a decrease in interest rates in 2020 compared to 2019.

*Other Income (Expense), Net* - Other income (expense), net consists primarily of foreign currency translation gain (loss) due to exchange rate fluctuations. Other income (expense), net increased \$0.6 million in 2020 compared to 2019 primarily due to a \$0.4 million increase in net foreign currency translation gains.

### Benefit From (Provision For) Income Taxes

A summary of benefit from (provision for) income taxes and effective tax rates for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	Years Ended December 31,			
	2020	2019	\$ Change	% Change
Income (loss) before benefit from (provision for) income taxes	\$ 3,159	\$ (19,573)		
Benefit from (provision for) income taxes	2,242	(471)	\$ 2,713	(576)%
Effective tax rate	(71.0)%	(2.4)%		

In 2020, we recorded a \$2.2 million benefit from income taxes yielding an effective tax rate of (71.0)%. The 2020 income tax benefit reflects a one-time deferred tax benefit from the release of valuation allowance against the deferred tax assets of one of our foreign subsidiaries partially offset by estimated foreign income and foreign withholding taxes. Based upon our assessment of the realizability of our deferred tax assets in the United States as of December 31, 2020, we continue to maintain a full valuation allowance against all of our federal and state deferred tax assets. As of December 31, 2020, we had deferred tax assets totaling \$31.1 million and a valuation allowance of \$28.5 million, resulting in a net deferred tax asset of \$2.6 million.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was passed into law. The CARES Act includes several significant business tax provisions including modification to the taxable income limitation for utilization of net operating losses ("NOLs") incurred in 2019 and 2020 and the ability to carry back NOLs from those years for a period of up to five years, an increase to the limitation on deductibility of certain business interest expense, bonus depreciation for purchases of qualified improvement property and special deductions on certain corporate charitable contributions. We analyzed the provisions of the CARES Act and determined there was no net effect on our provision for the year ended December 31, 2020.

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

Act, including final regulations on a broad range of topics, is expected to be issued. In accordance with ASC 740, we will recognize any effects of the guidance in the period that such guidance is issued.

In 2019, we recorded a provision for income taxes of \$0.5 million yielding an effective tax rate of (2.4)%. The 2019 provision reflects estimated foreign taxes and foreign withholding tax expense. Based upon our assessment of the realizability of our deferred tax assets as of December 31, 2019, we reported a full valuation allowance against all of our federal and state, and certain of our foreign net deferred tax assets. As of December 31, 2019, the aggregated balance of our deferred tax assets totaled \$28.5 million with a valuation allowance of \$28.1 million, resulting in a net deferred tax asset balance of \$0.5 million.

As described above, we continue to maintain a valuation allowance of \$28.5 million against certain of our deferred tax assets, including all federal, state, and certain foreign deferred tax assets as a result of uncertainties regarding the realization of the asset balance due to historical losses, the variability of operating results, and uncertainty regarding near term projected results. In the event that we determine the deferred tax assets are realizable based on an assessment of relevant factors, an adjustment to the valuation allowance may increase income in the period such determination is made. The valuation allowance does not impact our ability to utilize the underlying net operating loss carryforwards.

We also maintain liabilities for uncertain tax positions. As of December 31, 2020, we had unrecognized tax benefits under ASC 740 of approximately \$4.5 million with no applicable interest. We had no unrecognized tax benefits that would affect our effective tax rate, if recognized. Our policy is to account for interest and penalties related to uncertain tax positions as a component of income tax provision. We do not expect to have any significant changes to unrecognized tax benefits during the next twelve months.

### Liquidity and Capital Resources

Our cash equivalents, and short-term investments consist primarily of money market funds and U.S. treasury bills. 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, 2020, our cash, cash equivalents, and short-term investments totaled \$59.5 million, a decrease of \$30.0 million from \$89.5 million on December 31, 2019.

A summary of select cash flow information for the years ended December 31, 2020 and 2019 (in thousands):

	Years Ended December 31,	
	2020	2019
Net cash provided by (used in) by operating activities	\$ 22	\$ (34,099)
Net cash provided by investing activities	\$ 2,953	\$ 10,920
Net cash used in financing activities	\$ (29,931)	\$ (1,331)

*Cash provided by (used in) operating activities* - Our operating activities primarily consists of net income (loss), adjusted for certain non-cash items including depreciation and amortization; stock-based compensation expense, deferred income taxes and the effect of changes in operating assets and liabilities.

Net cash provided by operating activities was \$22,000 during 2020 compared to \$34.1 million cash used in operating activities during 2019. The decrease in net cash used in operating activities was primarily attributable to a \$25.4 million decrease in net loss and a \$11.8 million change in net operating assets and liabilities partially offset by \$4.0 million decrease in noncash items.

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

Net cash provided by investing activities during 2020 was \$3.0 million primarily consisting of proceeds from maturities of short-term investments.

Net cash provided by investing activities during 2019 was \$10.9 million primarily consisting of \$20.0 million in proceeds from maturities of short-term investments partially offset by \$8.9 million purchases of short-term investments.

*Cash provided by (used in) financing activities* — Our financing activities primarily consist of cash proceeds from stock option exercises and stock purchases under our employee stock purchase plan and cash paid for repurchases of our common stock.

Net cash used in financing activities during 2020 was \$29.9 million primarily consisting of \$30.6 million in cash paid for stock repurchases partially offset by \$0.7 million cash proceeds from stock option exercises and stock purchases under our employee stock purchase plan.

Net cash used in financing activities during 2019 was \$1.3 million primarily consisting of \$2.7 million in cash paid for stock repurchases partially offset by \$1.4 million cash proceeds from stock option exercises and stock purchases under our employee stock purchase plan.

Our total cash, cash equivalents, and short-term investments were \$59.5 million as of December 31, 2020, of which approximately 12% (\$7.3 million) was held by our foreign subsidiaries and subject to repatriation tax effects. Our intent is to permanently reinvest a majority of our earnings from foreign operations, and current plans do not anticipate that we will need funds generated from foreign operations to fund our domestic operations.

We may continue to invest in, protect, and defend our extensive IP portfolio, which can result in the use of cash in the event of litigation.

In 2020, we repurchased approximately 4.9 million shares of our common stock for approximately \$30.6 million at an average cost of \$6.21 per share. As of December 31, 2020, there were no amounts available under our previously approved share repurchase program.

We anticipate that capital expenditures for property and equipment in 2021 will be less than \$1.0 million.

While the unprecedented public health and governmental efforts to contain the spread of COVID-19 have created significant uncertainty as to general economic and capital market conditions for the first half of 2021 and beyond, as of March 5, 2021, the date of this Annual Report on Form 10-K, we believe we have sufficient capital resources to meet our working capital needs for the next twelve months.

Cash from operations could also be affected by various risks and uncertainties, including, but not limited to the risks detailed in Part I, Item 1A, *Risk Factors* of this Annual Report on Form 10-K.

#### *Subsequent Events*

On February 3, 2021, we filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission which became effective on February 9, 2021. The shelf registration statement is intended to provide us with financial flexibility to raise capital from the offering of up to \$250 million of common stock, preferred stock, warrants, depository shares, units and/or debt securities, conducted in one or multiple offerings while the shelf registration statement is effective.

We intend to use the net proceeds from the sale of the securities offered by this prospectus for general corporate purposes.

On February 11, 2021, we entered into the Distribution Agreement with an investment banking firm to issue and sell shares up to \$50 million in aggregated offering price of our common stock. In accordance with the terms of the Distribution Agreement, we will pay 2.25% commission on the gross sales proceeds from common stock sold, and we will also provide customary indemnification rights and reimburse legal fees and disbursements. The Distribution Agreement may be terminated by either party upon prior written notice to the other party, or at any time under certain circumstances. We are not obligated to sell any shares under the Distribution Agreement.

As of March 3, 2021, we sold 3.3 million shares of our common stock pursuant to the terms of the Distribution Agreement. We received net proceeds of approximately \$36.3 million from the sales after deducting commissions and other estimated offering expense.

#### **Recent Accounting Pronouncements**

See Note 1 *Significant Accounting Policies* of the *Notes to 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**

Not applicable



**Item 8. Financial Statements and Supplementary Data**

**IMMERSION CORPORATION**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

Immersion Corporation  
San Francisco, California

***Opinion on the Consolidated Financial Statements***

We have audited the accompanying consolidated balance sheets of Immersion Corporation and its subsidiaries (the Company) as of December 31, 2020, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for the year ended December 31, 2020, and the related notes (collectively referred to as the consolidated financial statements).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on the Company's consolidated financial statements. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

***Critical Audit Matters***

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

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**Revenue Recognition — Refer to Note 1 to the Consolidated Financial Statements**

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**Critical Audit Matter Description**

As disclosed in the consolidated financial statements, the Company recognizes revenue upon transfer of control of promised services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those services. The Company grants licenses or otherwise provides rights to use portions of its intellectual property portfolio as well as rights to the portfolio as it evolves throughout the contract term. Licensees pay a fee upon the transfer of rights to the patent portfolio. The Company also enters into sales-based royalty contracts with customers and recognizes revenue based on estimates in the period which the associated sales by the licensee occur. For royalty arrangements revenue is recognized when a contract exists and to the extent it is probable that a significant reversal of cumulative revenues will not occur based on their sales incorporating or using the licensed intellectual property. These arrangements are generally based upon fixed per-unit prices stated in the contract. If a contract is determined to exist, management estimates and recognizes sales-based royalties on such licensed products in the period in which the associated sales by the licensee occur, subject to certain constraints on management's ability to estimate such royalties. Management analyzes the risk of a significant revenue reversal considering both the likelihood and magnitude of the reversal and, if necessary, constrains the amount of estimated revenue recognized, which may result in recognizing revenues less than amounts contractually owed to the Company.

Significant judgment is exercised by the Company in determining revenue recognition for these customer agreements, and includes the following:

- Determination of whether license arrangements are considered distinct performance obligations that should be accounted for separately versus together.
- Determination of stand-alone selling prices for each distinct performance obligation.
- The pattern of delivery (i.e., timing of when revenue is recognized) for each distinct performance obligation.
- Estimation of the amount to recognize for sales-based royalty arrangements.

Given these factors, the related audit effort in evaluating management's judgments in determining revenue recognition for these customer agreements was extensive and required a high degree of auditor judgment.

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**How the Critical Audit Matter Was Addressed in the Audit**

Our principal audit procedures related to the Company's revenue recognition for these customer agreements included the following:

- We selected a sample of customer agreements and performed the following procedures:
  - Obtained and read contract source documents for each selection, including master agreements, and other documents that were part of the agreement to identify significant terms.
  - Tested management's identification of significant terms for completeness, including the identification of distinct performance obligations and variable consideration.
  - Assessed the terms in the customer agreement and evaluated the appropriateness of management's application of their accounting policies, along with their use of estimates, in the determination of revenue recognition conclusions.
- We evaluated the reasonableness of management's estimate of stand-alone selling prices for each performance obligation.
- We evaluated the reasonableness and accuracy of management's judgements and estimates used in accounting for its sales-based royalty arrangements. This included testing management's estimate of calculating sales as they occur and verifying future sales forecast with the operations team.
- We tested the mathematical accuracy of management's calculations of revenue and the associated timing of recognizing the related revenue subject to any constraints in the consolidated financial statements.

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**Contingencies — Refer to Note 5 to the Consolidated Financial Statements**

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The Company is currently involved in certain legal and regulatory proceedings. As disclosed in the consolidated financial statements, the Company is currently involved in certain legal and regulatory proceedings with Samsung Electronics Co. (“Samsung”) and LG Electronics Inc. (“LGE”) with respect to withholdings taxes imposed on Samsung and LGE by the Korean tax authorities for failing to withhold taxes on royalty payments. Pursuant to legal requirements, the Company provided deposits representing the amount of such withholding tax that was imposed on Samsung and LGE, respectively, of approximately \$12.1 million.

As disclosed in the consolidated financial statements, the Company is currently involved in certain legal and regulatory proceedings with Samsung Electronics Co. (“Samsung”) and LG Electronics Inc. (“LGE”) with respect to withholdings taxes imposed on Samsung and LGE by the Korean tax authorities for failing to withhold taxes on royalty payments. Pursuant to legal requirements, the Company provided deposits representing the amount of such withholding tax that was imposed on Samsung and LGE, respectively, of approximately \$12.1 million.

Significant judgment is exercised by the Company in determining contingencies and includes the following:

- Assessing the valuation of deposits for withholding taxes related to legal and regulatory proceedings.
- Assessing the likelihood of an unfavorable legal decision.

Given these factors, the related audit effort in evaluating management’s judgments in determining contingencies was extensive and required a high degree of auditor judgment.

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**How the Critical Audit Matter Was Addressed in the Audit**

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Our principal audit procedures related to the Company’s contingencies included the following:

- Obtained and evaluated the letters of audit inquiry with external and internal counsel.
- Read relevant correspondence the Company received from taxing authorities.
- Read relevant documents the Company has filed with the courts and related counterparty filings.
- Evaluated the reasonableness of management’s process for identifying and assessing a potential unfavorable outcome.
- Involved tax subject matter resources in considering the applicable tax laws, the pending appeal and the current status of legal precedent relevant to the appeals.
- Evaluated the sufficiency of the Company’s legal and regulatory proceedings disclosures in the consolidated financial statements.

/s/ Armanino<sup>LLP</sup>

San Jose, California

March 5, 2021

We have served as the Company's auditor since 2020.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of Immersion Corporation

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of Immersion Corporation and subsidiaries (the "Company") as of December 31, 2019, the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flow, for the year ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

**Change in Accounting Principle**

As discussed in Note 10 to the financial statements, the Company has changed its method of accounting for leases in 2019 due to the adoption of ASC Topic 842, Leases.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

San Jose, California

March 6, 2020

We began serving as the Company's auditor in 1997. In 2020, we became the predecessor auditor.

**IMMERSION CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except number of shares and per share amounts)

	December 31,	
	2020	2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 59,522	\$ 86,478
Short-term investments	—	3,019
Accounts and other receivables	2,218	3,385
Prepaid expenses and other current assets	12,610	14,078
Total current assets	74,350	106,960
Property and equipment, net	209	1,226
Long-term deposits	12,571	7,062
Other assets, net	9,000	9,600
Total assets	\$ 96,130	\$ 124,848
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 149	\$ 809
Accrued compensation	1,001	2,844
Other current liabilities	2,457	3,478
Deferred revenue	5,173	4,692
Total current liabilities	8,780	11,823
Long-term deferred revenue	21,334	25,952
Other long-term liabilities	2,035	3,316
Total liabilities	32,149	41,091
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock and additional paid-in capital – \$0.001 par value; 100,000,000 shares authorized; 39,161,214 and 38,624,784 shares issued, respectively; 27,017,781 and 31,414,328 shares outstanding, respectively	258,756	253,289
Accumulated other comprehensive income	122	124
Accumulated deficit	(113,164)	(118,565)
Treasury stock at cost: 12,143,433 and 7,210,456 shares, respectively	(81,733)	(51,091)
Total stockholders' equity	63,981	83,757
Total liabilities and stockholders' equity	\$ 96,130	\$ 124,848

See Notes to Consolidated Financial Statements.

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

	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Revenues:</b>		
Royalty and license	\$ 30,176	\$ 35,643
Development, services, and other	280	310
Total revenues	<u>30,456</u>	<u>35,953</u>
<b>Costs and expenses:</b>		
Cost of revenues	168	170
Sales and marketing	4,999	6,426
Research and development	5,014	7,840
General and administrative	18,055	42,968
Total costs and expenses	<u>28,236</u>	<u>57,404</u>
Operating income (loss)	2,220	(21,451)
Interest and other income	271	1,787
Other income (expense), net	668	91
Income (loss) before benefit from (provision for) income taxes	3,159	(19,573)
Benefit from (provision for) income taxes	2,242	(471)
Net income (loss)	<u>\$ 5,401</u>	<u>\$ (20,044)</u>
Basic net income (loss) per share	<u>\$ 0.19</u>	<u>\$ (0.64)</u>
Shares used in calculating basic net income (loss) per share	<u>28,117</u>	<u>31,529</u>
Diluted net income (loss) per share:	<u>\$ 0.19</u>	<u>\$ (0.64)</u>
Shares used in calculating diluted net income (loss) per share	<u>28,477</u>	<u>31,529</u>
Other comprehensive income (loss), net of tax		
Change in unrealized gains (losses) on short-term investments	\$ (2)	\$ 8
Total other comprehensive income (loss)	<u>(2)</u>	<u>8</u>
Total comprehensive income (loss)	<u>\$ 5,399</u>	<u>\$ (20,036)</u>

See Notes to Consolidated Financial Statements.

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

	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balances at December 31, 2018	37,652,498	\$ 246,415	\$ 116	\$ (98,521)	6,823,147	\$ (48,350)	\$ 99,660
Net loss				(20,044)			(20,044)
Unrealized gain on available-for-sale securities, net of taxes			8				8
Stock repurchases					387,309	(2,741)	(2,741)
Exercise of stock options	173,993	1,245					1,245
Release of restricted stock units and awards	776,552						—
Issuance of stock for ESPP purchase	21,741	165					165
Stock based compensation		5,464					5,464
Balances at December 31, 2019	38,624,784	\$ 253,289	\$ 124	\$ (118,565)	7,210,456	\$ (51,091)	\$ 83,757
Net income				5,401			5,401
Unrealized loss on available-for-sale securities, net of taxes			(2)				(2)
Stock repurchases					4,932,977	(30,642)	(30,642)
Exercise of stock options	75,675	577					577
Release of restricted stock units and awards	438,199						—
Issuance of stock for ESPP purchase	22,556	134					134
Stock based compensation		4,756					4,756
Balances at December 31, 2020	39,161,214	\$ 258,756	\$ 122	\$ (113,164)	12,143,433	\$ (81,733)	\$ 63,981

See Notes to Consolidated Financial Statements.



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

	Years Ended December 31,	
	2020	2019
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 5,401	\$ (20,044)
<b>Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:</b>		
Depreciation and amortization	1,931	2,197
Stock-based compensation	4,756	5,464
Impairment of right-of-use lease asset	271	939
Foreign currency remeasurement gains (losses)	(427)	102
Deferred income taxes	(2,483)	431
Other	127	(3)
<b>Changes in operating assets and liabilities:</b>		
Accounts and other receivables	1,167	(2,334)
Prepaid expenses and other current assets	1,486	(4,374)
Long-term deposits	(5,077)	(6,870)
Other assets	2,194	(4,509)
Accounts payable	(660)	(2,815)
Accrued compensation	(1,843)	(1,104)
Other current liabilities	(1,253)	(728)
Deferred revenue	(4,137)	(4,150)
Other long-term liabilities	(1,431)	3,699
Net cash (used in) provided by operating activities	22	(34,099)
<b>Cash flows provided by (used in) investing activities:</b>		
Proceeds from maturities of short-term investments	3,000	20,000
Purchases of short-term investments	—	(8,930)
Purchases of property and equipment	(47)	(150)
Net cash provided by investing activities	2,953	10,920
<b>Cash flows provided by (used in) financing activities:</b>		
Proceeds from issuance of common stock under employee stock purchase plan	134	165
Proceeds from stock options exercise	577	1,245
Cash paid for purchases of treasury stock	(30,642)	(2,741)
Net cash used in financing activities	(29,931)	(1,331)
Net decrease in cash and cash equivalents	(26,956)	(24,510)
<b>Cash and cash equivalents:</b>		
Beginning of year	86,478	110,988
End of year	\$ 59,522	\$ 86,478
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for taxes	\$ 65	\$ 160
<b>Disclosure of non-cash operating, investing, and financing activities:</b>		
Release of Restricted Stock Units and Awards under company stock plan	\$ 3,016	\$ 7,190
Leased assets obtained in exchange for new operating lease liabilities	\$ 577	\$ —

See Notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### *Description of Business*

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

#### *Impact of COVID-19*

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

Our compliance with these containment measures has impacted our day-to-day operations and could disrupt our business and operations, as well as that of our customers and suppliers for an extended period of time. To support the health and well-being of our employees, customers and communities, we implemented work-from-home and restricted travel policies in the first quarter of 2020, which are expected to remain in place for the first half of 2021 and beyond. In addition, many of our customers are working remotely, which may delay the timing of some orders due to their and our compliance with frequently changing government-mandated or recommended shelter-in-place orders in jurisdictions in which we, our customers and our suppliers operate.

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

In April 2020, the Government of Canada announced the Canada Emergency Wage Subsidy (“CEWS”) for Canadian employers whose businesses were affected by the COVID-19 pandemic. The CEWS provides a subsidy of up to 75% of eligible employees’ employment insurable remuneration, subject to certain criteria. We applied for the CEWS to the extent we met the requirements to receive the subsidy. During 2020, we recorded \$0.5 million in government subsidies as a reduction to operating expenses in the Consolidated Statements of Operations and Comprehensive Income (Loss).

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

The accompanying consolidated financial statements include the accounts of Immersion Corporation and our wholly-owned subsidiaries. All intercompany accounts, transactions, and balances have been eliminated in consolidation.

#### *Use of Estimates*

The preparation of consolidated financial statements and related disclosures in accordance with U.S. GAAP (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Actual results may differ materially from those estimates which were made based on the best information known to management at that time. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, useful lives of property and equipment, valuation of income taxes including uncertain tax provisions, stock-based compensation and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

### **Foreign Currency Translation**

The functional currency of our foreign subsidiaries is U.S. dollars. Accordingly, gains and losses from the remeasurement financial statements of the foreign subsidiaries into the U.S. dollars and from foreign currency transaction are included in our Consolidated Statements of Operations and Other Comprehensive Income (Loss).

### **Significant Accounting Policies**

#### *Cash Equivalents*

We consider all highly liquid instruments with an original or remaining maturity of 90 days or less at the date of purchase to be cash equivalents.

#### *Short-term Investments*

Our short-term investments consist of U.S treasury bills with an original or remaining maturity of greater than 90 days on the date of purchase. These investments are classified as available-for-sale and carried at fair market value. Even though the stated maturity dates of these debt securities may be one year or more beyond the balance sheet date, we classified all debt securities as short-term investments as they are reasonably expected to be realized in cash or sold within one year. Unrealized gains or losses on such securities are included in accumulated other comprehensive income (loss) in stockholders' equity. Realized gains and losses from maturities of all such securities are reported in earnings and computed using the specific identification cost method. Realized gains or losses and charges for other-than-temporary declines in value, if any, on available-for-sale securities are reported in other income (expense), net, as incurred. We periodically evaluate these investments for other-than-temporary impairment.

#### *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.

#### *Property and Equipment*

Property and equipment are 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.

Total depreciation expense for property and equipment for years ended December 31, 2020 and 2019 were \$1.1 million and \$0.9 million, respectively.

#### *Long-lived Assets*

We evaluate our 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.

#### *Leases*

We lease our office space under lease arrangements with expiration dates on or before February 29, 2024. We determine if an arrangement is a lease at inception under ASC 842 *Leases*. Our operating leases are accounted for as right-of-use ("ROU") assets and lease liability obligations in our Consolidated Balance Sheets under *Other assets, net*, *Other current liabilities* and *Other long-term liabilities*, respectively. ROU assets represent our right to use an underlying asset for the lease term, and lease liability represent our obligation to make lease payments arising from the lease arrangements. ROU assets and lease liabilities are recognized at lease commencement date based on the present value of lease payments over the lease term. We elect to

combine lease and non-lease components and account for them as a single lease component. As our leases typically do not provide an implicit rate, we estimate our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. ROU assets also include any lease payments made and exclude lease incentives and direct costs. Lease expense is recognized on a straight-line basis over the lease term. We elected to not present leases with an initial term of 12 months or less on our Consolidated Balance Sheets.

#### *Revenue Recognition*

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

##### *Fixed fee license revenue*

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

- Performance Obligation A: Transfer of rights to our patent portfolio as it exists when the contract is executed;
- Performance Obligation B: Transfer of rights to our patent portfolio as it evolves over the term of the contract, including access to new patent applications that the licensee can benefit from over the term of the contract.

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

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

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

##### *Per-unit Royalty revenue*

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

As a result of accruing per-unit royalty revenue for the quarter based on such estimates, adjustments will be required in the following quarter to true up revenue to the actual amounts reported by its licensees. We recorded \$0.1 million and \$20,000 adjustments to decrease royalty revenue during the three months ended March 31, and June 30, 2020, respectively. We recorded \$0.3 million and \$0.6 million adjustments to increase royalty revenue during the three months ended September 30, and December 31, 2020, respectively. During the three months ended December 31, 2019 and September 30, 2019, we recorded \$0.2 million and \$0.1 million adjustments to decrease royalty revenue, respectively. During the three months ended June 30 and March 31, 2019, we recorded adjustments to increase royalty revenue by \$0.2 million and \$0.1 million, respectively. These adjustments represent the difference between the estimated per-unit royalty revenue we reported during the quarter and actual per-unit royalty revenue reported by our licensees after the quarterly reporting.

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

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

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

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

#### *Deferred Revenue*

Deferred revenue consists of amounts that have been invoiced or paid, but have not been recognized as revenue. The amounts are primarily derived from our fixed license fee agreements under which we are obliged to transfer both rights to our patent portfolio that exists when the contract is executed and rights to its patent portfolio as it evolves over the contract term.

Deferred revenue that will be recognizable during the succeeding 12-month period is recorded as *Deferred Revenue*, and the remaining deferred revenue is recorded as *Long-term deferred revenue* on the Consolidated Balance Sheets.

#### *Capitalized Contract Costs*

We capitalize certain incremental costs incurred, such as commissions, in order to obtain new contracts with our customers if we expect to recover these costs. The capitalized contract costs are amortized on a straight-line basis over the term of the contract.

#### *Advertising*

Advertising costs (including obligations under cooperative marketing programs) are expensed as incurred and included in Sales and Marketing expense on Consolidated Statement of Operations and Comprehensive Income (Loss). Advertising expense was as follows (in thousands):

	Year ended December 31,	
	2020	2019
Advertising expense	\$ 180	\$ 173

#### *Research and Development*

Research and development expenses primarily consisted of personnel-related costs, including payroll and stock-based compensation, outside consulting expenses and allocations of corporate overhead expenses. Research and development costs are expensed as incurred.

#### *Income Taxes*

We use 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 associated with the development of products for sale are expensed to research and development expense until technological feasibility has been established, at which time any additional costs would be capitalized. We consider technological feasibility to be established upon completion of a working model of the software. Because we believe our 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*

We recognize stock-based compensation cost for shares, net of estimated forfeiture over the requisite service period of the award, which is the vesting period. We use the Black-Scholes Merton option pricing model to determine the fair value of stock options and employee stock purchase plan shares. We estimate the fair value of market-performance based stock options and restricted stock units using a Monte Carlo simulation model which requires the input of assumptions, including expected term, stock price volatility and the risk-free rate of return. In addition, judgment is also required in estimating the number of stock-based awards that are expected to be forfeited. Forfeitures are estimated based on historical experience at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

#### *Concentration of Credit Risks*

Financial instruments that potentially subject to a concentration of credit risk principally consist of cash, cash equivalents, short term investments, and accounts receivable. We are also subject to a concentration of revenues given certain key licensees that contributed a significant portion of our total revenue. See Note 12. *Segment Reporting, Geographic Information and Significant Customers* of the *Notes to Consolidated Financial Statements* for more details on customer revenue concentration.

We invest 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. We license technology primarily to companies in North America, Europe, and Asia. To reduce credit risk, management performs periodic credit evaluations of the financial conditions of our customer. We periodically evaluate potential credit losses to ensure adequate reserves are maintained, but historically we have not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area. As such, our reserves for credit losses for the years ended December 31, 2020 and December 31, 2019 were not material due to our low credit risk.

#### *Certain Significant Risks and Uncertainties*

We operate in multiple industries and our 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 our future financial position and results of operations: the mix of revenues; the loss of significant customers; fundamental changes in the technologies and our licensees' products; market acceptance of our and our licensees' products under development; development of sales channels; litigation or other claims in which we are 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.

#### *Segment Information*

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

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

#### **Recently Adopted Accounting Pronouncements**

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

In December 2019, the FASB issued Accounting Standard Update No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (ASU 2019-12), which enhances and simplifies various aspects of the income tax accounting guidance, including requirements such as tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. The amendment is effective for public companies with fiscal years beginning after December 15, 2020; early adoption is permitted. We adopted ASU 2019-12 as of January 1, 2021. The adoption of this new accounting standard did not have a material impact on our consolidated financial statements.

## **2. REVENUE RECOGNITION**

#### **Disaggregated Revenue**

The following table presents the disaggregation of our revenue for the years ended December 31, 2020 and 2019 (in thousands):

	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Fixed fee license revenue	\$ 5,472	\$ 12,627
Per-Unit royalty revenue	24,704	23,016
<b>Total royalty and license revenue</b>	<b>30,176</b>	<b>35,643</b>
Development, services, and other	280	310
<b>Total revenues</b>	<b>\$ 30,456</b>	<b>\$ 35,953</b>

As of December 31, 2020, we had contract assets of \$11.6 million included within *Prepaid expenses and other current assets*, and \$4.6 million included within *Other assets, net* on the Consolidated Balance Sheets. As of December 31, 2019, we had contract assets of \$13.1 million included within *Prepaid expenses and other current assets*, and \$6.9 million included within *Other assets* on the Consolidated Balance Sheets.

Contract assets decreased by \$3.8 million from January 1, 2020 to December 31, 2020, primarily due to actual royalties billed during the year.

#### **Contracted Revenue**

Based on contracts signed and payments received as of December 31, 2020, we expect to recognize \$26.4 million revenue related to Performance Obligation B under our fixed fee license agreements, which are satisfied over time, including \$14.4 million over one to three years and \$12.0 million over more than three years.

#### **Capitalized Contract Costs**

During 2020, we capitalized \$0.2 million of incremental costs incurred to obtain new contracts with customers.

### 3. FAIR VALUE DISCLOSURES

#### Cash Equivalents and Short-term Investments

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

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

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

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

Instruments valued based on unobservable inputs which reflect the reporting entity's own assumptions or data that market participants would use in valuing an instrument are generally classified within Level 3 of the fair value hierarchy. As of December 31, 2020, and 2019, we did not hold any Level 3 instruments.

We had no other-than-temporary impairment charges recorded in the years ended December 31, 2020 and 2019.

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

	December 31, 2020			Total
	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Money market accounts	\$ 45,614	\$ —	\$ —	\$ 45,614
Total assets at fair value <sup>1</sup>	\$ 45,614	\$ —	\$ —	\$ 45,614

(1) The above table excludes \$13.9 million of cash held in banks.

	December 31, 2019			Total
	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Money market accounts	\$ 63,351	\$ —	\$ —	\$ 63,351
U.S. Treasury securities	—	3,019	—	3,019
Total assets at fair value <sup>2</sup>	\$ 63,351	\$ 3,019	\$ —	\$ 66,370

(2) The above table excludes \$23.1 million of cash held in banks as of December 31, 2019.

The contractual maturity dates of our available-for-sale securities on December 31, 2019 and 2020 were all due within one year. There were no transfers of instruments between Level 1 and 2 during the years ended December 31, 2019 and 2020.

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



**Short-term Investments**

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

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

**4. BALANCE SHEETS DETAILS**

**Cash and Cash Equivalents**

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

	December 31,	
	2020	2019
Cash	\$ 13,908	\$ 23,127
Money market funds	45,614	63,351
Cash and cash equivalents	\$ 59,522	\$ 86,478

**Accounts and Other Receivables**

Accounts and other receivables were as follows (in thousands):

	December 31,	
	2020	2019
Trade accounts receivable	\$ 1,618	\$ 2,972
Other receivables	600	413
Accounts and other receivables	\$ 2,218	\$ 3,385

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

**Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets were as follows (in thousands)

	December 31,	
	2020	2019
Prepaid expenses	\$ 816	\$ 933
Contract assets - current	11,623	13,128
Other current assets	171	17
	\$ 12,610	\$ 14,078

### Property and Equipment, Net

Property and equipment, net are as follows (in thousands):

	December 31,	
	2020	2019
Computer equipment and purchased software	\$ 2,548	\$ 3,011
Machinery and equipment	423	699
Furniture and fixtures	1,104	1,115
Leasehold improvements <sup>1</sup>	3,892	3,897
Total	7,967	8,722
Less accumulated depreciation and amortization <sup>1</sup>	(7,758)	(7,496)
Property and equipment, net	<u>\$ 209</u>	<u>\$ 1,226</u>

<sup>1</sup> In the fourth quarter 2019, we announced our decision to exit the San Jose California facility ("SJ Facility") by March 31, 2020. We accelerated the amortization of our SJ Facility leasehold improvements over the remaining estimated life to March 31, 2020. As of December 31, 2019, the net book value of the SJ Facility leasehold improvements was \$0.9 million and it was fully amortized by March 31, 2020.

### Other Assets, Net

Other assets, net are as follows (in thousands):

	December 31,	
	2020	2019
Contract assets - Long-term	\$ 4,596	\$ 6,928
Lease right-of-use assets	1,607	2,202
Deferred tax assets	2,659	470
Other assets	138	—
Total other assets, net	<u>\$ 9,000</u>	<u>\$ 9,600</u>

### Other Current Liabilities

Other current liabilities are as follows (in thousands):

	December 31,	
	2020	2019
Accrued legal	\$ 202	\$ 1,077
Lease liabilities - current	1,382	1,150
Other current liabilities	873	1,251
Total other current liabilities	<u>\$ 2,457</u>	<u>\$ 3,478</u>

## 5. CONTINGENCIES

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

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

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

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

On April 28, 2017, Immersion and Immersion Software Ireland Limited (collectively, “Immersion”) received a letter from Samsung Electronics Co. (“Samsung”) requesting that we reimburse Samsung with respect to withholding tax and penalties imposed on Samsung by the Korean tax authorities following an investigation where the tax authority determined that Samsung failed to withhold taxes on Samsung’s royalty payments to Immersion Software Ireland from 2012 to 2016. On July 12, 2017, on behalf of Samsung, Immersion filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes and penalties. On October 18, 2018, the Korea Tax Tribunal held a hearing and on November 19, 2018, the Korea Tax Tribunal issued its ruling in which it decided not to accept our arguments with respect to the Korean tax authorities’ assessment of withholding tax and penalties imposed on Samsung. On behalf of Samsung, we filed an appeal with the Korea Administrative Court on February 15, 2019. On July 16, 2020, the Korea Administrative Court issued its ruling in which it ruled that the withholding taxes and penalties which were imposed by the Korean tax authorities on Samsung should be cancelled with some litigation costs to be borne by the Korean tax authorities. On August 1, 2020, the Korean tax authorities filed an appeal with the Korea High Court. The first hearing in the Korea High Court occurred on November 11, 2020. A second hearing occurred on January 13, 2021. A third hearing is scheduled for March 21, 2021.

On September 29, 2017, Samsung filed an arbitration demand with the International Chamber of Commerce against us demanding that we reimburse Samsung for the imposed tax and penalties that Samsung paid to the Korean tax authorities. Samsung is requesting that we pay Samsung the amount of KRW 7,841,324,165 (approximately \$6.9 million) plus interest from and after May 2, 2017, plus the cost of the arbitration including legal fees. On March 27, 2019, we received the final award. The award ordered Immersion to pay Samsung KRW 7,841,324,165 (approximately \$6.9 million as of March 31, 2019) which we paid on April 22, 2019 and recorded in *Long-term deposit* on our Consolidated Balance Sheets. The award also denied Samsung’s claim for interest from and after May 2, 2017 and ordered Immersion to pay Samsung’s cost of the arbitration in the amount of approximately \$871,454, which was paid in 2019.

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

*LGE Korean Withholding Tax Matter*

On October 16, 2017, we received a letter from LG Electronics Inc. (“LGE”) requesting that we reimburse LGE with respect to withholding tax imposed on LGE by the Korean tax authorities following an investigation where the tax authority determined that LGE failed to withhold on LGE’s royalty payments to Immersion Software Ireland from 2012 to 2014. Pursuant to an agreement reached with LGE, on April 8, 2020, we provided a provisional deposit to LGE in the amount of KRW 5,916,845,454 (approximately \$5.0 million) representing the amount of such withholding tax that was imposed on LGE, which provisional deposit would be returned to us to the extent we ultimately prevail in the appeal in the Korea courts. In the second quarter of 2020, we recorded this deposit in *Long-term deposits* on our Condensed Consolidated Balance Sheets. In the event that we do not ultimately prevail in our appeal in the Korean courts, the deposit included in *Long-term deposits* would be recorded as additional income tax expense on our Condensed Consolidated Statement of Operations and Comprehensive Loss, in the period in which we do not ultimately prevail.

On November 3, 2017, on behalf of LGE, we filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes. The Korea Tax Tribunal hearing took place on March 5, 2019. On March 19, 2019, the Korea Tax Tribunal issued its ruling in which it decided not to accept our arguments with respect to the Korean tax authorities’ assessment of withholding tax and penalties imposed on LGE. On behalf of LGE, we filed an appeal with the Korea Administrative Court on June 10, 2019. The first hearing occurred on October 15, 2019. A second hearing occurred on December 19, 2019. A third hearing occurred on February 13, 2020. A fourth hearing occurred on June 9, 2020. A fifth hearing occurred on July 16, 2020. We anticipated a decision to be rendered on or about October 8, 2020, but the Korea Administrative Court scheduled and held a sixth hearing for November 12, 2020. A seventh hearing occurred on January 14, 2021. An eighth hearing is scheduled for April 8, 2021.

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

## 6. STOCK-BASED COMPENSATION

### Stock Options and Awards

Our equity incentive program is a long-term retention program that is intended to attract, retain, and provide incentives for employees, consultants, officers, and directors and to align stockholder and employee interests. We may grant time-based options, market condition-based options, stock appreciation rights, restricted stock ("RSAs"), restricted stock units ("RSUs"), performance shares, market condition-based performance restricted stock units ("PSUs"), and other stock-based equity awards to employees, officers, directors, and consultants. Under this program, stock options may be granted at prices not less than the fair market value on the date of grant for stock options. Stock options generally vest over four years and expire seven years from the grant date. Market condition-based stock awards are subject to a market condition whereby the closing price of our common stock must exceed a certain level for a number of trading days within a specified time frame or the awards will be canceled before expiration. RSAs generally vests over one year. RSUs generally vest over three years. Awards granted other than a stock option or a stock appreciation right shall reduce the common stock shares available for grant by 1.75 shares for every share issued.

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

	December 31, 2020
Common stock shares available for grant	3,254
Stock options outstanding	828
RSAs outstanding	130
RSUs outstanding	802
PSUs outstanding	250

### Time-Based Stock Options

The following summarizes activities for the time-based stock options for the year ended December 31, 2020:

	Number of Shares Underlying Stock Options (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2019	967	\$ 8.55	5.63	\$ 16
Granted	456	7.58		
Exercised	(76)	7.62		
Canceled or expired	(519)	8.46		
Outstanding as of December 31, 2020	828	\$ 8.16	4.36	\$ 2,628
Vested and expected to vest at December 31, 2020	734	\$ 8.24	4.20	\$ 2,273
Exercisable at December 31, 2020	362	\$ 8.26	2.71	\$ 887

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

For the year ended December 31, 2020 and 2019, the weighted average grant date fair value was \$2.21 and \$3.69, respectively. For the years ended December 31, 2020 and 2019, the aggregate intrinsic value of stock options exercised was \$0.1 million and \$0.2 million, respectively.

### Restricted Stock Units

The following summarizes RSUs activities for the year ended December 31, 2020:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2019	945	\$ 8.81	1.25	\$ 7,020
Granted	515	5.95		
Released	(367)	9.01		
Forfeited	(291)	8.53		
Outstanding at December 31, 2020	802	\$ 6.98	1.00	\$ 9,057

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

### Restricted Stock Awards

The following summarizes RSA activities for the year ended December 31, 2020:

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

### Market Condition-Based Restricted Stock Units

In 2020, we granted 250,000 shares of PSUs to our executives. Each PSU represents the right to one share of our common stock. These equity awards will vest if the volume-weighted closing price of our common stock exceeds certain levels for a number of trading days within a specified time frame. These awards vest over four years, with 25% eligible for vesting on the first anniversary of the grant date and remaining shares vesting on quarterly basis over the following three years. We have 250,000 shares of PSUs outstanding as of December 31, 2020.

### Employee Stock Purchase Plan

Under the 1999 Employee Stock Purchase Plan ("ESPP"), eligible employees may purchase common stock through payroll deductions at a purchase price of 85% of the lower of the fair market value of our common stock at the beginning of the offering period or the purchase date. Participants may not purchase more than 2,000 shares in a six-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 1.0 million shares of common stock has been reserved for issuance under the ESPP. During the year ended December 31, 2020, 22,556 shares were purchased under the ESPP with average purchase price of \$5.96. As of December 31, 2020, 230,881 shares were available for future purchase under the ESPP.

**Stock-based Compensation Expense***Valuation and amortization methods*

Stock-based compensation is based on the estimated fair value of awards, net of estimated forfeitures, and recognized over the requisite service period. Estimated forfeitures are based on historical experience at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The stock-based compensation related to all of our stock-based awards and ESPP for the years ended December 31, 2020 and 2019 is as follows (in thousands):

	<b>For the Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Stock options	\$ 1,062	\$ 701
RSUs, RSAs and PSUs	3,638	4,692
ESPP	56	71
<b>Total</b>	<b>\$ 4,756</b>	<b>\$ 5,464</b>
Sales and marketing	\$ 846	\$ 947
Research and development	870	1,304
General and administrative	3,040	3,213
<b>Total</b>	<b>\$ 4,756</b>	<b>\$ 5,464</b>

We use the Black-Scholes-Merton option pricing model to determine the fair value of our time-based 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.

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

We use the Monte Carlo Simulation model to value the stock options and restricted stock units 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 our future stock prices.

*Expected term* — We estimate the expected term of options granted by calculating the average term from our historical stock option exercise experience. The expected term of ESPP shares is the length of the offering period.

*Expected volatility* — We estimate the volatility of our common stock taking into consideration our historical stock price movement and our expected future stock price trends based on known or anticipated events.

*Risk-free interest rate* — We base the risk-free interest rate that is used 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* — We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option-pricing model.

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

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

**Time-based stock options:**

	For the Year Ended December 31,	
	2020	2019
Expected life (in years)	4.2	4.4
Volatility	52%	55%
Interest rate	1.0%	2.0%
Dividend yield	—	—

**Market condition based restricted stock units:**

	For the Year Ended December 31,	
	2020	2019 <sup>1</sup>
Expected life (in years)	1.2	N/A
Volatility	52%	N/A
Interest rate	1.0%	N/A
Dividend yield	—	N/A

(1) No market condition based restricted stock units were granted during the year ended December 31, 2019.

As of December 31, 2020, there was \$6.6 million of unrecognized compensation cost adjusted for estimated forfeitures related to non-vested stock options, RSUs, RSAs and PSUs granted to our employees and directors. This unrecognized compensation cost will be recognized over an estimated weighted-average period of approximately 1.9 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

## 7. STOCKHOLDERS' EQUITY

### Stock Repurchase Program

On November 1, 2007, our Board of Directors (the "Board") authorized the repurchase of up to \$50 million of our common stock (the "Stock Repurchase Program"). In addition, on October 22, 2014, the Board authorized another \$30 million under the Stock Repurchase Program. We may repurchase our common stock for cash in the open market in accordance with applicable securities laws. The timing and amount of any stock repurchase will depend on share price, corporate and regulatory requirements, economic and market conditions, and other factors. The stock repurchase authorization has no expiration date, does not require us to repurchase a specific number of shares, and may be modified, suspended, or discontinued at any time.

In 2020, we repurchased approximately 4.9 million shares of our common stock for \$30.6 million at an average cost of \$6.21 per share. In December 2019, we repurchased 0.4 million shares of our common stock for \$2.7 million at the average cost of \$7.08 per share. As of December 31, 2020, we have no amount available for repurchase under the Stock Repurchase Program.

## 8. INCOME TAXES

Income tax benefit from (provisions for) the years ended December 31, 2020 and 2019 consisted of the following (in thousands):

	For the Year Ended December 31,	
	2020	2019
Income (loss) before provision for income taxes	\$ 3,159	\$ (19,573)
Benefit from (provision for) income taxes	2,242	(471)
Effective tax rate	(71.0)%	(2.4)%

The 2020 and 2019 benefit from (provision for) income taxes resulted primarily from estimated foreign taxes, foreign withholding tax expense and the release of a \$2.2 million valuation allowance from one of our foreign entities in 2020.

The components of our income (loss) before benefit from (provision for) income taxes were as follows (in thousands):

	For the Year Ended December 31,	
	2020	2019
Domestic	\$ (4,602)	\$ (17,970)
Foreign	7,761	(1,603)
Total	<u>\$ 3,159</u>	<u>\$ (19,573)</u>

The benefit from (provisions for) income taxes consisted of the following (in thousands):

	For the Year Ended December 31,	
	2020	2019
Current:		
U.S. federal	—	\$ —
States and local	(3)	(3)
Foreign	(114)	(190)
Total current	<u>\$ (117)</u>	<u>\$ (193)</u>
Deferred:		
U.S. federal	—	—
States and local	—	—
Foreign	2,359	(278)
Total deferred	<u>2,359</u>	<u>(278)</u>
Total benefit from (provision for) income taxes	<u>\$ 2,242</u>	<u>\$ (471)</u>

On July 27, 2015, a U.S. Tax Court opinion (Altera Corporation et. al v. Commissioner) concerning the treatment of stock-based compensation expense in an intercompany cost sharing arrangement was issued. In its opinion, the U.S. Tax Court accepted Altera's position of excluding stock-based compensation from its intercompany cost sharing arrangement. On February 19, 2016, the IRS appealed the ruling to the U.S. Court of Appeals for the Ninth Circuit (the "Ninth Circuit"). On July 24, 2018, the Ninth Circuit reversed the 2015 decision of the U.S. Tax Court that had found certain Treasury regulations related to stock-based compensation to be invalid. On August 7, 2018, the Ninth Circuit withdrew its July 24, 2018 opinion to allow a reconstituted panel to confer on the decision. This reconstituted panel reconsidered the validity of the cost sharing regulations at issue. The regulations at issue require related entities to share the cost of employee stock compensation in order for their cost-sharing arrangements to be classified as "qualified cost-sharing arrangements" and to avoid potential IRS adjustment. On June 7, 2019, the reconstituted panel of the Ninth Circuit upheld the 2018 decision of the Ninth Circuit, concluding stock-based compensation must be included in intercompany cost sharing agreements for the agreements to be classified as "qualified cost-sharing arrangements". On July 22, 2019, Altera filed a petition for an en banc rehearing with the Ninth Circuit which was denied. On February 10, 2020, Altera filed an appeal with the United States Supreme Court (the "Supreme Court") for review. We will continue to monitor ongoing developments and potential impacts to our consolidated financial statements. On June 22, 2020, the Supreme Court announced that it was denying the petition for certiorari for Altera Corporation & Subsidiaries v. Commissioner, 926 F.3d. 1061 (2019). The denial to hear the case puts an end to the Altera's Ninth Circuit stock-based compensation challenge. As such, we have made corresponding provisions.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was passed into law. The CARES Act includes several significant business tax provisions including modification to the taxable income limitation for utilization of net operating losses ("NOLs") incurred in 2018, 2019 and 2020 and the ability to carry back NOLs from those years for a period of up to five years, an increase to the limitation on deductibility of certain business interest expense, bonus depreciation for purchases of qualified improvement property and special deductions on certain corporate charitable contributions. We analyzed the provisions of the CARES Act and determined there was no net effect on our provision for the year ended December 31, 2020.



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

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 (in thousands):

	December 31,	
	2020	2019
Deferred tax assets:		
Net operating loss carryforwards	\$ 9,239	\$ 4,936
State income taxes	1	1
Deferred revenue	5,426	6,291
Research and development and other credits	8,638	8,282
Reserve and accruals recognized in different periods	1,027	1,128
Capitalized research and development expenses	3,318	3,447
Depreciation and amortization	3,134	3,636
Lease liability	351	806
Total deferred tax assets	31,134	28,527
Valuation allowance	(28,475)	(28,057)
Net deferred tax assets	2,659	470
Deferred tax liabilities:		
Right of use lease assets	(344)	(466)
Foreign credits	(14)	(23)
Other deferred tax liabilities	—	(40)
Total deferred tax liabilities	(358)	(529)
Net deferred taxes	\$ 2,301	\$ (59)

We account for deferred taxes under 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 we 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. As of December 31, 2020, based on our assessment of the realizability of our deferred tax assets, we continued to maintain a full valuation allowance against all of our U.S. federal and state net deferred tax assets. The valuation allowance for Ireland

subsidiary was released based on the profitability analysis of the cumulative 12-quarter actual period and the projection for the next 3-year period.

As of December 31, 2020, the net operating loss carryforwards for federal and state income tax purposes were approximately \$21.7 million and \$53.0 million, respectively. The state net operating losses begin to expire in 2029. The federal net operating losses for tax years after 2017 can be carried forward indefinitely. As of December 31, 2020, we had federal and state tax credit carryforwards of approximately \$6.4 million and \$2.6 million, respectively, available to offset future tax liabilities. The federal credit carryforwards will expire between 2020 and 2039 and the California tax credits will carryforward indefinitely. In addition, as of December 31, 2020, we have Canadian research and development credit carryforwards of \$1.7 million, which will expire at various dates through 2040. 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 our 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, 2020, we conducted an IRC Section 382 analysis with respect to our net operating loss and credit carryforwards and determined there was no limitation. There can be no assurance that future issuances of our securities will not trigger limitations under IRC Section 382 which could limit utilization of these tax attributes.

The reconciliation between the effective federal statutory rate and our effective tax rates are as follows:

	<b>For the Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Federal statutory rate	21.0 %	21.0 %
Foreign withholding	2.0 %	(0.3)%
Stock-based compensation expense	12.9 %	(11.3)%
Foreign rate differential	(33.0)%	(2.6)%
Prior year true-up items	1.1 %	0.2 %
Tax reserves	(4.0)%	(2.1)%
Other	0.1 %	(1.3)%
FTC conversion true up	(10.3)%	(5.9)%
State taxes, net of federal benefit	0.1 %	— %
Global intangible low-taxed income	21.0 %	— %
Nondeductible officers compensation	3.5 %	(0.2)%
Irish corporation restructure	(169.2)%	— %
Valuation allowance	83.8 %	0.1 %
Effective tax rate	(71.0)%	(2.4)%

Undistributed earnings of our foreign subsidiaries are considered to be indefinitely reinvested and accordingly, no provision for applicable income taxes has been provided thereon. Upon distribution of those earnings, we are subject to withholding taxes payable to various foreign countries. As of December 31, 2020, any foreign withholding taxes on the undistributed earnings of our foreign subsidiaries were immaterial.

We maintain 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 (in thousands):

	For the Year Ended December 31,	
	2020	2019
Balance at beginning of year	\$ 4,826	\$ 4,611
Gross increases for tax positions of prior years	—	394
Gross increases for tax positions of current year	10	34
Lapse of statute of limitations	(311)	(213)
Balance at end of year	<u>\$ 4,525</u>	<u>\$ 4,826</u>

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 our foreign subsidiaries as part of our tax reorganization completed in 2015. We account for interest and penalties related to uncertain tax positions as a component of income tax expense. As of December 31, 2020, we accrued no interest or penalties related to uncertain tax positions. As of December 31, 2020, we had no unrecognized tax benefits that would affect our effective tax rate.

Because we have net operating loss and credit carryforwards, there are open statutes of limitations in which federal, state and foreign taxing authorities may examine our tax returns for all years from 2001 through the current period.

## 9. NET INCOME (LOSS) PER SHARE

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

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

	For the Year Ended December 31,	
	2020	2019
<b>Numerator:</b>		
Net income (loss)	\$ 5,401	\$ (20,044)
<b>Denominator:</b>		
Weighted-average common stock outstanding, basic	28,117	31,529
<b>Dilutive potential common shares:</b>		
Stock options, stock awards and ESPP	360	—
Total shares, diluted	<u>28,477</u>	<u>31,529</u>
Basic net income (loss) per share	<u>\$ 0.19</u>	<u>\$ (0.64)</u>
Diluted net income (loss) per share	<u>\$ 0.19</u>	<u>\$ (0.64)</u>

We include the underlying market condition stock awards in the calculation of diluted earnings per share if the performance condition has been satisfied as of the end of the reporting period and exclude stock equity awards if the performance condition has not been met.

For the years ended December 31, 2020 and 2019, we had stock options, RSUs and RSAs outstanding that could potentially dilute basic earnings per share in the future, but these were excluded from the computation of diluted net income (loss) per share because their effect would have been anti-dilutive. These outstanding securities consisted of the following (in thousands):

	For the Year Ended December 31,	
	2020	2019
Stock options	1,236	967
Stock awards	—	1,036
	<u>1,236</u>	<u>2,003</u>

## 10. LEASES

We adopted ASC 842, Leases, on January 1, 2019. We lease all of our office space pursuant to operating lease and sublease arrangements, which expire at various dates through February 29, 2024. We recognize lease expense on a straight-line basis over the lease term. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets. We combine lease and non-lease components for new and reassessed leases. We apply discount rates to operating leases using a portfolio approach.

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

	Balance Sheets Classification	December 31,	
		2020	2019
<b>Assets</b>			
Right-of-use assets	Other assets	\$ 1,607	\$ 2,202
<b>Liabilities</b>			
Operating lease liabilities - current	Other current liabilities	1,382	1,150
Operating lease liabilities - long-term	Other long-term liabilities	1,677	2,664
Total lease liabilities		<u>\$ 3,059</u>	<u>\$ 3,814</u>

The table below provides supplemental information related to operating leases during the years ended December 31, 2020 and 2019 (in thousands except for lease term):

	For the Year Ended December 31,	
	2020	2019
Cash paid within operating cash flow	\$ 1,431	\$ 1,178
Weighted average lease terms (in years)	2.25	3.35
Weighted average discount rates	3.50 %	3.25 %

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

As a result of COVID-19, we implemented work-from-home policy in the first quarter of 2020. Our San Francisco office has been closed since the first quarter of 2020 and we expect our San Francisco-based employees to continue to work-from-home in the foreseeable future. We have been actively seeking a sublease tenant for the SF Facility. In the fourth quarter of 2020, we recorded \$0.3 million impairment charge to the SF Facility ROU asset.

On November 12, 2014, we entered into an amendment to the lease of approximately 42,000 square feet office space in San Jose, California facilities (“SJ Facility”). The lease commenced in May 2015 and expires as of April 2023.

During 2019, we began to shift general and administrative, research and development and executive functions and employees from the SJ Facility to our San Francisco, California and Montreal, Canada offices. In the fourth quarter of 2019, we

announced our decision to exit the SJ Facility by March 31, 2020. We accelerated the amortization of our SJ Facility leasehold improvements over their remaining estimated life. The SJ Facility leasehold improvements were fully amortized by March 31, 2020. In the fourth quarter of 2019, we recorded a \$0.9 million impairment charge to the SJ Facility ROU asset.

On March 12, 2020, we entered into a sublease agreement with Neato Robotics, Inc. (“Neato”) for the SJ Facility. This sublease commenced in June 2020 and ends on April 30, 2023 which is the lease termination date of the original SJ Facility lease. In accordance with provisions of ASC 842 *Leases* (“ASC 842”), we treated the sublease as a separate lease as we were not relieved of the primary obligation under the original lease. We continue to account for the original SJ Facility, as a lessee, in the same manner as prior to the commencement date of the sublease. We accounted for the sublease as a lessor of the lease. We classified the sublease as an operating lease as it did not meet the criteria of a Sale-Type or Direct Financing lease.

At the commencement date of the sublease, we recognized initial direct costs of \$0.3 million. These deferred costs will be amortized over the term of the sublease payments. As of December 31, 2020, \$0.1 million was recorded in *Prepaid expenses and other current assets* and \$0.1 million was recorded in *Other assets* on our Consolidated Balance Sheets.

We recognize operating lease expense and lease payments from the sublease, on a straight-line basis, in our Consolidated Statements of Operations and Comprehensive Income (Loss) over the lease terms. During the years ended December 31, 2020 and 2019, our net operating lease expenses are as follows (in thousands):

	<b>For the Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Operating lease cost	\$ 1,139	\$ 1,120
Sublease income	(585)	—
<b>Total lease cost</b>	<b>\$ 554</b>	<b>\$ 1,120</b>

Minimum future lease payments obligations as of December 31, 2020 are as follows (in thousands):

<b>For the Years Ending December 31,</b>	
2021	\$ 1,510
2022	1,231
2023	460
2024	25
<b>Total</b>	<b>\$ 3,226</b>

Future lease payments from our sublease agreement as of December 31, 2020 are as follows (in thousands):

<b>For the Years Ending December 31,</b>	
2021	\$ 1,046
2022	1,077
2023	351
<b>Total</b>	<b>\$ 2,474</b>

**11. EMPLOYEE BENEFITS**

We have 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. Employees' contributions may be matched at our discretion. In 2019, we matched 50% of the employees' contribution up to \$4,000. In the first quarter of 2020, as one of the COVID-19 related cost cutting initiatives, we temporarily suspended the 401 (k) match. A summary of 401(k) contribution for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	For the Year Ended December 31,	
	2020	2019
Contribution to 401(k) plan	\$ 48	\$ 125

In 2020, in conjunction with the transition of certain research and development and administration functions from San Jose, California to Montreal, Canada, we recorded a \$0.5 million one-time charge for termination benefits for the employees impacted by this transition. We paid all the termination benefits during 2020. As of December 31, 2020, we have no accrued termination benefits.

**12. SEGMENT REPORTING, GEOGRAPHIC INFORMATION, AND SIGNIFICANT CUSTOMERS****Revenue by Market Area**

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

	For the Year Ended December 31,	
	2020	2019
Mobile, Wearables, and Consumer	69 %	63 %
Gaming Devices	15 %	16 %
Automotive	15 %	21 %
Other	1 %	— %
Total	100 %	100 %

**Geographic Revenue**

Revenues are broken out geographically by the location of the customer. A summary of revenue by region as a percentage of total revenues are as follows:

	For the Year Ended December 31,	
	2020	2019
Asia	76 %	65 %
North America	16 %	28 %
Europe	8 %	7 %
Total	100 %	100 %

A summary of revenue by country as a percentage of total revenues are as follows:

	<b>For the Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Korea	49 %	45 %
Japan	18 %	17 %
United States of America	16 %	28 %
Other countries with less than 10% in a year	17 %	10 %
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

***Property and Equipment, net by Country***

Property and equipment, net by geographic areas as a percentage of total property and equipment, net are as follows:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Canada	68 %	15 %
United States of America	32 %	85 %
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

***Significant Customers***

During the years ended December 31, 2020 and 2019, one customer accounted for 40% and 27% of our total revenue, respectively.

A summary of customers with 10% or greater of our outstanding accounts and other receivables are as follows:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Customer A	39%	22%
Customer B	33%	*
Customer C	15%	*
Customer D	10%	*

\* Represents less than 10% of our total accounts and other receivables.

**13. Related Party Transaction**

During 2020, we paid \$0.2 million to Viex Capital Advisors, LLC ("Viex") as reimbursement of fees and expenses incurred in connection with the nomination of candidates for membership on the Board, the preparation of proxy materials and other communications, as well as fees and expenses related to a signed letter of agreement at which time Viex owned more than 5% of our common stock. In March 2020, the managing member of Viex joined our Board of Directors.

**14. Subsequent Event**

On February 3, 2021, we filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission which became effective on February 9, 2021. The shelf registration statement is intended to provide us with financial flexibility to raise capital from the offering of up to \$250 million of common stock, preferred stock, warrants, depository shares, units and/or debt securities, conducted in one or multiple offerings while the shelf registration statement is effective.

We intend to use the net proceeds from the sale of the securities offered by this prospectus for general corporate purposes.

On February 11, 2021, we entered into an equity distribution agreement ("Distribution Agreement") with an investment banking firm to issue and sell shares up to \$50 million in aggregated offering price of our common stock. In accordance with the terms of the Distribution Agreement, we will pay 2.25% commission on the gross sales proceeds from common stock sold, and we will also provide customary indemnification rights and reimburse legal fees and disbursements. The Distribution Agreement may be terminated by either party upon prior written notice to the other party, or at any time under certain circumstances. We are not obligated to sell any shares under the Distribution Agreement.

As of March 3, 2021, we sold 3.3 million shares of our common stock and we received net proceeds of approximately \$36.3 million from the offering after deducting commissions and other estimated offering expense.



**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, 2020, our management, with the participation of our Interim 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 Interim Chief Executive Officer and Chief Financial Officer, in order to allow timely decisions regarding 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 Interim 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 Interim 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, 2020. 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, 2020, our internal control over financial reporting is effective based on these criteria.

***Changes in internal control over financial reporting***

There were no changes to internal controls over financial reporting that occurred during the quarter ended December 31, 2020 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

**Item 9B. Other Information**

None.

### 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 incorporated by reference from the sections entitled “Election of Directors”, “Corporate Governance”, “Ownership of Our Equity Securities”, and “Audit Committee Report” in Immersion’s definitive Proxy Statement for its 2021 annual stockholders’ meeting.

Item 405 of Regulation S-K calls for disclosure of any known late filing or failure by an insider to file a report required by Section 16(a) of the Exchange Act. To the extent disclosure for delinquent reports is being made, it can be found under the caption “Delinquent Section 16(a) Reports” in Immersion’s definitive Proxy Statement for its 2021 annual stockholders’ meeting and is incorporated herein by reference.

We have adopted a code of ethics applicable to our employees including our principal executive, financial and accounting officers, and it is available free of charge, on our website’s investor relations page. To view the code of ethics, go to [ir.immersion.com](http://ir.immersion.com), click on “Download Library” and click on “Governance.” Future amendments or waivers relating to the code of ethics will be disclosed on the webpage referenced in this paragraph within 4 business days following the date of such amendment or waiver.

#### **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 2021 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 2021 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 2021 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 2021 annual stockholders’ meeting.

**PART IV****Item 15. Exhibits, Financial Statement Schedules**

The following documents are filed as part of this Form:

1 *Financial Statements*

	<b>Page</b>
<a href="#">Report of Independent Registered Public Accounting Firm (Armanino LLP)</a>	43
<a href="#">Report of Independent Registered Public Accounting Firm (Deloitte &amp; Touche) LLP</a>	46
<a href="#">Consolidated Balance Sheets as of December 31, 2020 and 2019</a>	47
<a href="#">Consolidated Statements of Operations and Comprehensive Income (Loss) for the Years Ended December 31, 2020 and 2019</a>	48
<a href="#">Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2020 and 2019</a>	49
<a href="#">Consolidated Statements of Cash Consolidated Statements of Cash Flows for the Years Ended December 31, 2020 and 2019</a>	50
<a href="#">Notes to Consolidated Financial Statements</a>	51

2 *Financial Statement Schedules*

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:

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
<a href="#">3.1</a>	<a href="#">Amended and Restated Bylaws of Immersion Corporation, as adopted on October 31, 2016</a>	8-K	000-27969	3.1	November 4, 2016	
<a href="#">3.2</a>	<a href="#">Amended and Restated Certificate of Incorporation of Immersion Corporation</a>	8-K	000-27969	3.1	June 7, 2017	
<a href="#">3.3</a>	<a href="#">Certificate of Designation of the Powers, Preferences and Rights of Series A Redeemable Convertible Preferred Stock</a>	8-K	000-27969	3.1	July 29, 2003	
<a href="#">3.4</a>	<a href="#">Certificate of Designations of Series B Participating Preferred Stock of Immersion Corporation</a>	8-K	000-27969	3.1	December 27, 2017	
<a href="#">4.1</a>	<a href="#">Description of Securities</a>					X
<a href="#">10.1</a>	* <a href="#">1999 Employee Stock Purchase Plan and form of subscription agreement thereunder</a>	S-1/A	333-86361	10.21	October 5, 1999	
<a href="#">10.2</a>	# <a href="#">License Agreement dated as of July 25, 2003 by and between Microsoft Corporation and Immersion Corporation</a>	S-3/A	333-108607	10.4	February 13, 2004	
<a href="#">10.3</a>	* <a href="#">Form of Indemnity Agreement</a>	S-3/A	333-108607	10.11	March 25, 2004	
<a href="#">10.4</a>	* <a href="#">2007 Equity Incentive Plan</a>	8-K	000-27969	99.1	June 12, 2007	
<a href="#">10.5</a>	* <a href="#">Form of Stock Option Agreement (U.S. Participant) for 2007 Equity Incentive Plan</a>	8-K	000-27969	99.4	June 12, 2007	
<a href="#">10.6</a>	* <a href="#">Form of Stock Option Agreement (Non-U.S. Participant) for 2007 Equity Incentive Plan</a>	8-K	000-27969	99.5	June 12, 2007	
<a href="#">10.7</a>	* <a href="#">Form of 2020 Executive Incentive Plan</a>					X
<a href="#">10.8</a>	* <a href="#">Description of Compensation Reductions for Directors and Officers as disclosed in the Company's Form 8-K filed with the SEC on April 7, 2020</a>	8-K	000-38334	N/A	April 7, 2020	
<a href="#">10.9</a>	* <a href="#">Description of Cancellation of the Company's 2020 Executive Incentive Plan as disclosed in the Company's Form 8-K filed with the SEC on July 1, 2020</a>	8-K	001-38334	N/A	July 1, 2020	
<a href="#">10.10</a>	* <a href="#">Immersion Corporation 2011 Equity Incentive Plan, as amended April 24, 2019</a>	8-K	001-38334	10.1	June 18, 2019	
<a href="#">10.11</a>	* <a href="#">Form of Stock Option Award Agreement for Immersion Corporation 2011 Equity Incentive Plan</a>	S-8	333-233353	4.4	August 19, 2019	
<a href="#">10.12</a>	* <a href="#">Form of Award Agreement (Restricted Stock Units) to the Immersion Corporation 2011 Equity Incentive Plan</a>	10-Q	000-27969	10.3	August 5, 2011	
<a href="#">10.13</a>	* <a href="#">Form of Restricted Stock Agreement for Immersion Corporation 2011 Equity Incentive Plan</a>	S-8	333-233353	4.6	August 19, 2019	
<a href="#">10.14</a>	* <a href="#">Form of Award Agreement (Performance-Based Restricted Stock Units) to the Immersion Corporation 2011 Equity Incentive Plan</a>					X
<a href="#">10.15</a>	<a href="#">Office Lease between Carr NP Properties, L.L.C., and Immersion Corporation dated September 15, 2011</a>	10-Q	000-27969	10.2	November 7, 2011	

<a href="#">10.16</a>	<a href="#">First Amendment to Office Lease dated November 12, 2014 by and between Immersion Corporation and BSREP Rio Robles LLC</a>	8-K	000-27969	10.1	November 14, 2014
<a href="#">10.17</a>	# <a href="#">Settlement and License Agreement, dated as of January 26, 2018, by and between Immersion Corporation and Apple Inc.</a>	10-Q/A	01-38334	10.2	July 31, 2018
<a href="#">10.18</a>	* <a href="#">Amendment No. 1 to Employment Agreement, dated February 27, 2020, between Immersion Corporation and Ramzi Haidamus</a>	10-Q	001-38334	10.1	November 6, 2020
<a href="#">10.19</a>	* <a href="#">Amendment No. 2 to Employment Agreement, dated June 25, 2020, between Immersion Corporation and Ramzi Haidamus</a>	10-Q	001-38334	10.2	November 6, 2020
<a href="#">10.20</a>	* <a href="#">Separation Agreement and General Release, dated as of November 3, 2020, by and between Immersion Corporation and Ramzi Haidamus</a>	8-K	001-38334	10.1	November 5, 2020
<a href="#">10.21</a>	<a href="#">Settlement and License Agreement, dated as of May 12, 2019, by and between Immersion Corporation and Samsung Electronics Co. Ltd</a>	10-Q	001-38334	10.1	August 14, 2019
<a href="#">10.22</a>	* <a href="#">Offer Letter, dated as of April 29, 2019, by and between Immersion Corporation and Michael Okada</a>	10-Q	001-38334	10.4	August 14, 2019
<a href="#">10.23</a>	* <a href="#">Retention and Ownership Change Event Agreement, effective as of May 6, 2019, by and between Immersion Corporation and Michael Okada</a>	10-Q	001-38334	10.5	August 14, 2019
<a href="#">10.24</a>	<a href="#">Letter Agreement, dated March 5, 2020, by and between Immersion Corporation, a Delaware corporation, on one hand, and VIE X Capital Advisors, LLC, VIE X Opportunities Fund, LP - Series One, VIE X Opportunities Fund, LP - Series Two, VIE X GP, LLC, VIE X Special Opportunities Fund II, LP, VIE X GP, LLC, VIE X Special Opportunities GP II, LLC and Eric Singer Letter Agreement, dated March 5, 2020, by and between Immersion Corporation, a Delaware corporation, on one hand, and VIE X Capital Advisors, LLC, VIE X Opportunities Fund, LP - Series One, VIE X Opportunities Fund, LP - Series Two, VIE X GP, LLC, VIE X Special Opportunities Fund II, LP, VIE X GP, LLC, VIE X Special Opportunities GP II, LLC and Eric Singer</a>	8-K	001-38334	10.1	March 9, 2020
<a href="#">10.25</a>	<a href="#">Sublease, dated March 12, 2020, by and between Immersion Corporation and Neato Robotics, Inc.</a>	10-Q	001-38334	10.3	May 8, 2020
<a href="#">10.26</a>	<a href="#">First Amendment to Sublease, dated May 1, 2020, by and between Immersion Corporation and Neato Robotics, Inc.</a>	10-Q	001-38334	10.4	May 8, 2020
<a href="#">10.27</a>	<a href="#">Office Lease, dated as of February 23, 2020, between 330 Townsend (SF) Owner, LLC and Immersion Corporation</a>	10-Q	001-38334	10.1	May 8, 2020
<a href="#">10.28</a>	* <a href="#">Offer Letter, dated as of December 2, 2019, by and between Immersion Corporation and Aaron Akerman</a>	10-K	001-38334	10.21	March 6, 2020
<a href="#">10.29</a>	* <a href="#">Retention and Ownership Change Event Agreement, effective as of December 11, 2019, by and between Immersion Corporation and Aaron Akerman</a>	10-K	001-38334	10.22	March 6, 2020
<a href="#">10.30</a>	* <a href="#">Description of Compensation for Jared Smith as disclosed in the Company's Form 8-K filed with the SEC on November 16, 2020</a>	8-K	001-38334	N/A	November 16, 2020

10.31	*	<a href="#">Retention and Ownership Change Event Agreement, effective as of September 10, 2019, by and between Immersion Corporation and Jared Smith</a>						X
16.1		<a href="#">Letter from Deloitte &amp; Touche LLP, dated April 9, 2020</a>	8-K	001-38334	16.1	April 13, 2020		
21.1		<a href="#">Subsidiaries of Immersion Corporation.</a>						X
23.1		<a href="#">Consent of Armanino LLP, Independent Registered Public Accounting Firm, with respect to the fiscal year ended December 31, 2020.</a>						X
23.2		<a href="#">Consent of Deloitte &amp; Touche LLP, Independent Registered Public Accounting Firm, with respect to the fiscal year ended December 31, 2019.</a>						X
31.1		<a href="#">Certification of Jared Smith, Interim Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>						X
31.2		<a href="#">Certification of Aaron Akerman, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>						X
32.1	+	<a href="#">Certification of Jared Smith, Interim Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>						X
32.2	+	<a href="#">Certification of Aaron Akerman, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>						X
101.INS		XBRL Report Instance Document						X
101.SCH		XBRL Taxonomy Extension Schema Document						X
101.CAL		XBRL Taxonomy Calculation Linkbase Document						X
101.DEF		XBRL Taxonomy Extension Definition Linkbase Document						X
101.LAB		XBRL Taxonomy Label Linkbase Document						X
101.PRE		XBRL Presentation Linkbase Document						X
140	+	The cover page from the Company's Annual Report on Form 10-K for the year ended December 31, 2020, formatted in Inline XBRL and contained in Exhibit 101.						X

# Confidential treatment has been granted for portions of this exhibit by the SEC.

\* 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.

**Item 16. Form 10-K Summary**

None.





**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2020, Immersion Corporation ("Immersion" or the "Company") had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): Common Stock, \$0.001 par value per share ("Common Stock").

**DESCRIPTION OF COMMON STOCK**

The following is a description of the rights of Common Stock and related provisions of the Company's Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") and Amended and Restated Bylaws (the "Bylaws") and applicable Delaware law. This description is qualified in its entirety by, and should be read in conjunction with, the Articles, Bylaws and applicable Delaware law.

**Authorized Capital Stock**

The Company's authorized capital stock consists of 105,000,000 shares, of which:

- 100,000,000 shares are designated as Common Stock; and
- 5,000,000 shares are designated as preferred stock, \$0.001 par value per share ("Preferred Stock").

**Common Stock**

**Fully Paid and Nonassessable**

All of the outstanding shares of the Company's Common Stock are fully paid and nonassessable.

**Voting Rights**

The holders of the Company's Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Holders of a majority of the shares of Common Stock entitled to vote in any election of directors may elect all of the directors standing for election.

**Dividends**

Subject to preferences applicable to any outstanding Preferred Stock, the holders of shares of Common Stock are entitled to receive such dividends, if any, as may be declared from time to time by the Company's Board of Directors in its discretion from funds legally available therefor.

**Right to Receive Liquidation Distributions**

In the event of a liquidation, dissolution or winding up of Immersion, holders of Common Stock are entitled to share ratably in the assets remaining after payment of liabilities and the liquidation preferences of any outstanding Preferred Stock.

**No Preemptive or Similar Rights**

Holders of the Common Stock have no preemptive, conversion or redemption rights.

## Anti-Takeover Provisions

### *Delaware Law*

Immersion is subject to Section 203 of the Delaware General Corporation Law regulating corporate takeovers, which prohibits a Delaware corporation from engaging in any business combination with an “interested stockholder” for a period of 3 years following the time that such stockholder became an interested stockholder, unless:

- Prior to such time the Board of Directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- Upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) those shares owned (i) by persons who are directors and also officers and (ii) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- At or subsequent to such time the business combination is approved by the Board of Directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

### *Certificate of Incorporation and Bylaws Provisions*

Provisions in the 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:

- Subject to the rights of holders of any class or series of Preferred Stock, if any, to elect additional directors under specified circumstances, directors may be removed at any time with or without cause upon the affirmative vote of the holders of a majority of the combined voting power of the then outstanding stock of the Company entitled to vote for the election of directors.
- The Board has the exclusive right to set the authorized number of directors and to fill vacancies on the Board. Our Certificate of Incorporation requires that any action required or permitted to be taken by stockholders of Immersion must be effected at a duly called annual or special meeting of the stockholders and may not be effected by a consent in writing. In addition, special meetings of the stockholders of Immersion may be called only by the Board or the holders of not less than ten percent of the shares entitled to vote at such a meeting. Advance notice is required for stockholder proposals or director nominations by stockholders.
- In addition, pursuant to our Certificate of Incorporation, the Board has authority to issue shares of Preferred Stock and to fix the rights, preferences, privileges and restrictions, including voting rights, of these shares without any further vote or action by the stockholders. The rights of the holders of the Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of Preferred Stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock of the Company, thereby delaying, deferring or preventing a change in control of the company. Furthermore, such Preferred Stock may have other rights, including economic rights, senior to the Common Stock, and as a result, the issuance of such Preferred Stock could have a material adverse effect on the market price of the Common Stock.

These provisions could discourage potential acquisition proposals and could delay or prevent a change in control of the company. Such provisions could diminish the opportunities for a stockholder to participate in tender offers, including tender offers at a price above the then current market price of the Common Stock. Such provisions also may inhibit fluctuations in the market price of the common stock that could result from takeover attempts.

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

**Listing**

The Company's Common Stock is listed on The NASDAQ Global Select Market on the Nasdaq Stock Market LLC under the trading symbol "IMMR."



2020  
Executive Incentive Plan

[Name of Executive]

## **OBJECTIVES**

The primary aim of the 2020 Executive Incentive Plan (the "Plan") is to focus Immersion's executive management efforts on meeting Immersion's Revenue, Non-GAAP Opex, and business objectives, and to reward the achievement of those goals.

## **ELIGIBILITY**

In addition to your base salary, you are eligible to earn an incentive payment pursuant to the Plan and its Attachment A. In order to be eligible to earn any payment under this Plan, you must sign and date a copy of the Plan on the space provided below and return it to Human Resources. [An executive's eligibility to participate in this Plan will be subject to the review and approval of the CEO of the Company, and before] they become earned, any payments to be made under this Plan are subject to the review and approval of the Company's Compensation Committee[ , with input from the Company's CEO]. Any interpretation of this Plan shall be made by the Company's Compensation Committee in its sole discretion. This Plan supersedes all prior executive bonus, incentive, and/or variable compensation plans of the Company, as well as any such provisions in any employment agreement, which are of no further force or effect.

To earn any payment under the Plan, a participant must be continuously employed by Immersion from January 1, 2020 through the Payment Date and achieve the stated goals as set forth in Attachment A hereto. To be eligible, the participant must be hired no later than October 1<sup>st</sup> of the plan year. A participant who resigns from his or her employment with Immersion prior to the Payment Date for any reason, or whose employment is terminated by Immersion prior to the Payment Date for any reason, will not earn any payment under this Plan.

Employees hired between January 1 and October 1, 2020, who are permitted to participate in the Plan shall be eligible to participate on a pro-rata basis, based upon their employment start date and contingent upon their continued active employment through the Payment Date (defined below) and achievement of stated goals. The proration will be based on the number of work days that the employee was employed by the Company during 2020.

## **PLAN ADMINISTRATION**

This Plan is effective for calendar year 2020 only. The Plan Administrator is the Compensation Committee of the Board of Directors. The Plan Administrator may cancel, suspend, amend, or revise all or any part of the Plan for any reason at any time. In addition, the Plan Administrator reserves full discretion to modify, alter and/or change the actual bonus payout at its sole discretion.

To the extent earned, payments under the Plan will be wages and will be subject to withholding of federal and state income and employment taxes. Earned payments under this Plan will be paid on the next regular payroll date following the later of (a) February 15, 2021, (b) the date on which the Company's Income Statement for 2020 has been finalized, or (c) the date on which the Company's 2020 earnings have been publicly disclosed (the "Payment Date"), but in no event will such payments be made any later than March 15, 2021.

For US employees, nothing in this Plan shall in any way alter the at-will employment relationship between the Company and its executives. All employees of the company are employed on an "at-will" basis, which means that either the employee or the Company may terminate the relationship at any time, with or without cause or notice.

In the event that a participant receives payment under this Plan that is, in the sole determination of the Company, the result of or based in any way upon fraudulent activity and/or misstated financials or otherwise inaccurate financial reporting, the Company shall have the right, at its own discretion, to recover any or all of the bonus paid to the participant.

For purposes of this Plan, a participant's employment with Immersion terminates on the last day on which work duties are actually performed by the participant. Periods of pay in lieu of notice, severance, or any other post-termination benefits or compensation period shall not be deemed periods of employment for purposes of this Plan.

Provided they meet the eligibility requirements described in this Plan and Attachment A, participants who are on an approved leave of absence at any time during calendar year 2020 will earn a pro-rated payment under this Plan based upon the portion of the year that they are actively employed and not on leave status. To the extent that a participant is on an approved leave of absence on the Payment Date, he/she will receive payment under this Plan on the Payment Date (subject to pro-ratio, if applicable, as described in this paragraph). To the extent that a participant is on an unapproved leave of absence on the Payment Date, he/she will not earn any payment under this Plan unless he/she returns to active employment with Immersion, at which time he/she will receive his/her Plan payment (subject to pro-ratio, if applicable, as described in this paragraph); provided that if such participant does not return to active employment by March 15, 2021, he/she shall forfeit his/her right to such incentive payment.

#### PLAN DEFINITIONS

**Revenue** is revenue that is recognized by Immersion for the applicable period in accordance with generally accepted accounting principles and as reported in the Company's audited financial statements.

**Non-GAAP Operating Expenses (Opex)** are operating expenses recognized by Immersion for the applicable period in accordance with generally accepted accounting principles and as reported in the Company's audited financial statements **but** exclude stock-based compensation, litigation, restructuring, depreciation, EIP and GBP annual bonus expenses and other charges as agreed by the Compensation Committee of the Board of Directors.

**Target Incentive** is the "target" payment that a participant would earn under the Plan if all of the Company performance targets and participant's MBO's are met, and the participant's performance is fully satisfactory as determined by the [Compensation Committee][Company's CEO]. The amount of the Target Incentive is a percentage of the participant's annual base salary as of March 2, 2020 (or as of such participant's first day of employment if such participant is hired after March 2, 2020), which percentage is determined by the Compensation Committee [with input from the CEO]. The actual Plan payment earned by a participant will vary depending on (i) the extent to which Company performance targets and participant's MBO's are met, and (ii) the [Compensation Committee's][CEO's] evaluation of the participant's performance.

**MBO's** are specific business milestones which must be completed in a timely manner, in strict accordance with the stated terms and conditions associated with each MBO, to the satisfaction of the [Compensation Committee][CEO].

\_\_\_\_\_  
Executive                                          \_\_\_\_\_  
Date

\_\_\_\_\_  
Head of Human Resources                      Date

\_\_\_\_\_  
CFO                                                      Date

[\_\_\_\_\_]                                                      [\_\_\_\_\_] ]  
[CEO]                                                      [Date]

**Attachment A**

**EXECUTIVE INCENTIVE PLAN STATEMENT OF GOALS FOR YEAR 2020**

**[Name of Executive]**

**Percent of Base Salary Payment at Plan: [ ]%**

The following is a statement of financial, strategic and tactical objectives for 2020 that will serve as a basis for overall performance evaluation and determination of year-end executive incentive award.

**Discretionary Multiplier:** The Company's Compensation Committee will determine a performance "weighting" to be applied to the Executive's incentive calculation as determined by the Compensation Committee [ with input from the CEO.] The weighting factor will typically range from 0.80 to 1.20. This factor is then multiplied by each plan component calculation (Corporate Financial Metrics and MBO's, separately) to determine the Executive's overall incentive payment.

**Plan Components:** The Plan has two independent components: Corporate Financial Metrics and Individual MBO's. Within each component you will be measured against specific goals.

**Plan Payout:** In order to receive payment for the corporate metrics component and the MBO component, the company must meet 80% of Revenue target and no more than 110% of the Non-GAAP Opex target targets. The MBOs are measured independently and will be paid as such.

**A. [ ]% of your target bonus will be based on Corporate performance as follows.**

**Achieve GAAP Revenue of \$35,876,000. Achieve Non-GAAP Opex of \$26,019,380.** Payment amounts will be pro-rated between matrix levels. The metrics are measured separately and paid additively. No payments shall occur from performance below any threshold matrix target: (Min. Revenue: \$28,700,800 or Max. Non-GAAP Opex: \$28,621,317)

Revenue (Weighted 50%)	Threshold		Target		Maximum
Revenue	\$28,700,800	\$32,288,400	\$35,876,000	\$39,463,600	\$43,051,200
% of target achievement	80%	90%	100%	110%	120%
Payout (as % of target)	50%	75%	100%	150%	200%

Non-GAAP Opex (Weighted 50%)	Threshold		Target		Maximum
Non-GAAP Opex	\$28,621,317	\$27,320,348	\$26,019,380	\$24,718,411	\$23,417,442
% of target achievement	110%	105%	100%	95%	90%
Payout (as % of target)	50%	75%	100%	150%	200%

B. [ ]% of your target bonus will be based on Personal MBO's as follows:

- a. Goals and Objectives will be agreed upon between the Plan Participant and the [Compensation Committee][CEO].
- b. Evaluation of the achievement of such goals and objectives shall be made by the Company's Compensation Committee [with input from the CEO].



Exhibit 10.14

IMMERSION CORPORATION  
AWARD AGREEMENT (PERFORMANCE-BASED RESTRICTED STOCK UNITS) TO THE  
IMMERSION CORPORATION 2011 EQUITY INCENTIVE PLAN

Unless otherwise defined in this Award Agreement (Performance-Based Restricted Stock Units) (the "**Agreement**") (including the Appendix), capitalized terms shall have the same meanings as defined in the Immersion Corporation (the "**Company**") 2011 Equity Incentive Plan, as amended (the "**Plan**").

Participant has been granted Performance-Based Restricted Stock Units ("**PSUs**") subject to the terms, restrictions and conditions of the Plan, the Notice of Performance-Based Restricted Stock Unit Award (the "**Notice**") and this Agreement.

1. **Settlement.** Settlement of PSUs shall be made within 30 days following the applicable date of vesting in accordance with the terms set forth in the Notice. Settlement of PSUs shall be in Shares.
2. **No Stockholder Rights.** Unless and until such time as Shares are issued in settlement of vested PSUs, Participant shall have no ownership of the Shares allocated to the PSUs and shall have no right to dividends or to vote such Shares.
3. **Dividend Equivalents.** Dividends, if any (whether in cash or Shares), shall not be credited to Participant.
4. **Non-Transferability of PSUs.** The PSUs and any interest therein shall not be sold, assigned, transferred, pledged, hypothecated, or otherwise disposed of.
5. **Termination.** If Participant's service Terminates for any reason, all unvested PSUs shall be forfeited to the Company forthwith, and all rights of Participant to such PSUs shall immediately terminate. In case of any dispute as to whether Termination has occurred, the Committee shall have sole discretion to determine whether such Termination has occurred and the effective Termination Date.
6. **Beneficial Ownership of Shares; Certificate Registration.** The Participant hereby authorizes the Company, in its sole discretion, to deposit for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice any or all Shares acquired by the Participant pursuant to the settlement of the PSUs. Except as provided by the preceding sentence, a certificate for the Shares as to which the PSUs are settled shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.
7. **U.S. Tax Consequences.** Participant acknowledges that there will be tax consequences upon settlement of the PSUs or disposition of the Shares, if any, received in connection therewith, and Participant should consult a tax adviser regarding Participant's tax obligations

prior to such settlement or disposition. Upon vesting of the PSU, Participant will include in income the Fair Market Value of the Shares subject to the PSU. The included amount will be treated as ordinary income by Participant and will be subject to withholding by the Company when required by applicable law. Upon disposition of the Shares, any subsequent increase or decrease in value will be treated as short-term or long-term capital gain or loss, depending on whether the Shares are held for more than one year from the date of settlement. Further, a PSU may be considered a deferral of compensation that may be subject to Section 409A of the Code. Section 409A of the Code imposes special rules to the timing of making and effecting certain amendments of this PSU with respect to distribution of any deferred compensation. The Participant should consult his or her personal tax advisor for more information on the actual and potential tax consequences of this PSU.

**8. No Rights as Employee, Director or Consultant.** Nothing in this Agreement shall affect in any manner whatsoever the right or power of the Company, or a Parent or Subsidiary of the Company, to terminate Participant's service, for any reason, with or without cause.

By Participant's signature and the signature of the Company's representative on the Notice, Participant and the Company agree that this PSU is granted under and governed by the terms and conditions of the Plan, the Notice and this Agreement. Participant has reviewed the Plan, the Notice and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement, and fully understands all provisions of the Plan, the Notice and this Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions relating to the Plan, the Notice and this Agreement. Participant further agrees to notify the Company upon any change in Participant's residence address.

**9. Entire Agreement; Enforcement of Rights.** This Agreement, the Plan and the Notice constitute the entire agreement and understanding of the parties relating to the subject matter herein and supersede all prior discussions between them. Any prior agreements, commitments or negotiations concerning the purchase of the Shares hereunder are superseded. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing and signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

**10. Compliance with Laws and Regulations.** The issuance of Shares will be subject to and conditioned upon compliance by the Company and Participant with all applicable state and federal laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer.

**11. Governing Law; Severability.** If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provisions in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provisions, then (i) such provision shall be excluded from this Agreement, (ii) the balance of this Agreement shall be interpreted as if such provision were so excluded, and

(iii) the balance of this Agreement shall be enforceable in accordance with its terms. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of California, without giving effect to principles of conflicts of law.

**Acknowledgement**. The Company and Participant agree that the PSUs are granted under and governed by the Notice, this Agreement and the provisions of the Plan. Participant: (i) acknowledges receipt of a copy of the Plan and the Plan prospectus, (ii) represents that Participant has carefully read and is familiar with their provisions, and (iii) hereby accepts the PSUs subject to all of the terms and conditions set forth herein and those set forth in the Plan and the Notice.

## **RETENTION AND OWNERSHIP CHANGE EVENT AGREEMENT**

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

### **RECITALS**

In order to make available compensation pursuant to this Agreement that will not be subject to taxation under Section 409A (as defined below), Executive and the Board of Directors of the Company (the “Board”) have determined that it is in the best interests of the Company and Executive to enter into this Retention and Ownership Change Event Agreement. The Company intends that income provided to Executive pursuant to this Agreement will not be subject to taxation under Section 409A, and the provisions of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A. However, the Company does not guarantee any particular tax effect for income provided to Executive pursuant to this Agreement. In any event, except for the Company’s responsibility to withhold applicable income and employment taxes from compensation paid or provided to Executive, the Company shall not be responsible for the payment of any applicable taxes on compensation paid or provided to Executive pursuant to this Agreement.

The Board has determined that it is in the best interests of the Company to assure that the Company will have the continued dedication and service of the Executive, notwithstanding the possibility or occurrence of a Change in Control (as defined below) of the Company.

### **AGREEMENT**

In recognition thereof, the parties now agree as follows:

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

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

(iii) a liquidation or dissolution of the Company;

provided, however, that a Change in Control shall be deemed not to include a transaction described in subsections (i) or (ii) of this Section 1(a) in which a majority of the members of the Board of Directors of the continuing, surviving or successor entity, or parent thereof, immediately after such transaction is comprised of incumbent members. Notwithstanding the foregoing, to the extent that any amount that constitutes deferred compensation subject to and not exempted from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (“Section 409A”), would become payable under this Agreement by reason of a Change in Control, such amount shall become payable only if the event constituting a Change in Control would also constitute a change in ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company within the meaning of Section 409A.

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

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

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

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

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

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

(d) a termination for “Cause” means Executive’s termination based upon (1) Executive’s theft, dishonesty, misconduct, breach of fiduciary duty, or falsification of any

Company documents or records; (2) Executive's material failure to abide by the Company's code of conduct or other policies (including, without limitation, policies relating to confidentiality and reasonable workplace conduct); (3) Executive's unauthorized use, misappropriation, destruction or diversion of any tangible or intangible asset or corporate opportunity of the Company (including, without limitation, Executive's improper use or disclosure of the Company's confidential or proprietary information); (4) any intentional act by the Executive that has a material detrimental effect on the Company's reputation or business; (5) Executive's repeated failure or inability to perform any reasonable assigned duties after written notice from the Company of, and a reasonable opportunity to cure, such failure or inability; (6) Executive's conviction (including any plea of guilty or nolo contendere) for any criminal act that impairs Executive's ability to perform his duties for the Company.

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

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

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

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

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

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

(b) commencing with the seventh (7th) month following Executive's termination of employment, payment of the premiums necessary to continue Executive's and Executive's dependents group health insurance coverage under COBRA until the earlier of (i) twelve (12) months following Executive's termination date, or (ii) the date on which Executive first becomes eligible to obtain other group health insurance coverage. Thereafter, Executive may elect to purchase continued group health insurance coverage at his own expense in accordance with COBRA. Notwithstanding the foregoing, payment of such premiums shall not commence unless and until Executive has incurred a Separation from Service.

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

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

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

(a) Immediate vesting in one-hundred percent (100%) of his then-unvested Company equity awards.

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

5. Termination for Cause. If Executive's employment is terminated by the Company at any time for Cause as defined above in paragraph 1, Executive will be entitled to no

compensation or benefits from the Company other than those earned through the date of his termination for Cause.

6. Compliance With Section 409A.

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

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

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

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

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



the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Chief Executive Officer.

10. Successors.

(a) Company's Successors. Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or purchase of all or substantially all of the Company's business and/or assets) shall assume the Company's obligations under this Agreement in writing and agree expressly to perform the Company's obligations under this Agreement in the same manner and to the same extent that the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this subsection (a) or which becomes bound by the terms of this Agreement by operation of law.

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

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

12. Miscellaneous Provisions.

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

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

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

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

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

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

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

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

Dated: 8/7/2019

DocuSigned by:  
  
C20E0E93F68A458  
Jared Smith

Immersion Corporation

Dated: 9/10/2019

DocuSigned by:  
  
By: \_\_\_\_\_  
1F16258763EA45A...

Its: President and CEO



## SUBSIDIARIES OF IMMERSION CORPORATION

Name	Jurisdiction of Incorporation
3285118 N.S. Inc.	Nova Scotia, Canada
Immersion Canada Corporation	Nova Scotia, Canada
Immersion Medical, Inc.	Maryland, USA
Immersion International, LLC	Delaware, USA
Haptify, Inc.	Delaware, USA
Immersion Software Ireland Limited	Ireland
Immersion Technology International Limited	Ireland
Immersion Japan, K.K.	Japan
Immersion Limited	Hong Kong
Immersion (Shanghai) Science & Technology Co., Ltd.	Shanghai, China

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-94997, 333-145246, 333-146661, 333-150816, 333-157820, 333-175274, 333-200983, 333-219921, 333-233353) of Immersion Corporation and subsidiaries of our report dated March 5, 2021 relating to the consolidated financial statements appearing in this Form 10-K for the year ended December 31, 2020.

/s/ Armanino<sup>LLP</sup>  
San Jose, California

March 5, 2021

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-94997, 333-145246, 333-146661, 333-150816, 333-157820, 333-175274, 333-200983, 333-219921, 333-233353) of Immersion Corporation and subsidiaries of our report dated March 5, 2021 relating to the consolidated financial statements appearing in this Form 10-K for the year ended December 31, 2020.

/s/ Armanino<sup>LLP</sup>  
San Jose, California

March 5, 2021

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-252684 on Form S-3 and Registration Statement Nos. 333-94997, 333-145246, 333-146661, 333-150816, 333-157820, 333-175274, 333-200983, 333-219921, and 333-233353 on Form S-8 of our report dated March 6, 2020, relating to the financial statements of Immersion Corporation appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2020.

/s/ DELOITTE & TOUCHE LLP

San Jose, California  
March 5, 2021



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

I, Jared Smith, certify that:

I have reviewed this annual report on Form 10-K of Immersion Corporation;

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

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

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

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2021

/s/ JARED SMITH

\_\_\_\_\_  
Jared Smith

*Interim Chief Executive Officer*

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

I, Aaron Akerman, certify that:

I have reviewed this annual report on Form 10-K of Immersion Corporation;

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

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

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

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2021

/s/ AARON AKERMAN

Aaron Akerman

Chief Financial Officer

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

In connection with the Annual Report of Immersion Corporation (the "Company") on Form 10-K for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jared Smith, Interim Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ JARED SMITH

Jared Smith

*Interim Chief Executive Officer*

March 5, 2021

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

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

In connection with the Annual Report of Immersion Corporation (the "Company") on Form 10-K for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Aaron Akerman, Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/AARON AKERMAN

Aaron Akerman  
Chief Financial Officer

March 5, 2021

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