

IMMERSION CORP
Form 10-K
February 26, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2015 or

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

For the transition period from _____ to _____

Commission File Number 000-27969

Immersion Corporation

(Exact name of registrant as specified in its charter)

Delaware

94-3180138

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

50 Rio Robles

San Jose, California 95134

(Address of principal executive offices, zip code)

(408) 467-1900

(Registrant's telephone number, including area code)

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

Title of Each Class

Name of Each Exchange on which Registered

Common Stock, \$0.001 par value

The Nasdaq Stock Market LLC

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

None

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

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

Large accelerated filer

Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was \$229,858,038 (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer and director and each person whom owns 5% or more of the outstanding common stock of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. Number of shares of common stock outstanding at February 18, 2016: 28,359,860.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2016 Annual Meeting are incorporated by reference into Part III hereof.

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 2015 FORM 10-K ANNUAL REPORT
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Forward-looking Statements

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

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PART I

Item 1. Business

Overview

Immersion Corporation (“Immersion”) is a premier licensing company focused on the creation, design, development, and licensing of innovative haptic technologies that allow people to use their sense of touch more fully as they engage with cutting-edge products and experience the digital world around them. Our mission is to innovate touch technology that informs, humanizes, and excites while working with customers and partners to bring these tactile experiences to consumers. Our technologies are designed to facilitate the creation of high-quality haptic experiences, enable their widespread distribution, and ensure that their playback is optimized for end users. Our primary business is currently in the mobility, gaming, automotive and medical markets, but we believe our technology is broadly applicable and see opportunities in evolving new markets, including entertainment, social and advertising content, virtual and augmented reality, and wearables.

We have adopted a “hybrid” business model, under which we provide advanced tactile software, related tools and technical assistance to certain customers, and offer licenses to our patented intellectual property (“IP”) to other 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 2,100 issued or pending patents worldwide, covering a wide range of digital technologies and including many of the ways in which touch-related technology can be incorporated into and between hardware products and components, systems software, application software, and digital content.

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

Our Business Strategy

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

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

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

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

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.

We rely on the skills and talent of our employees to successfully execute our strategy through ongoing innovation, licensing activities, and collaboration with customers and partners to ensure that high quality tactile experiences are brought to market. Accordingly, we seek to hire and retain employees with world class haptic expertise, as well as the executive management and operating personnel required to successfully execute our business strategies. In order to attract these high caliber employees, we have created an environment and culture that fosters and supports research, development, and innovation in breakthrough technologies with significant opportunities for broad industry adoption through licensing. We believe we have created a compelling company for inventive and entrepreneurial technology professionals who are able to work within our supportive corporate environment to innovate, execute on our opportunities and drive strong growth.

We derive substantially all of our revenue from licensing of our software and patents. Parties licensed to our IP regard that act as an investment-one which is devalued when unlicensed parties use our IP. Litigation is the primary method by which we ensure that the value licensed parties have placed on our IP is honored and protected. Litigation against unlicensed third parties as a strategy is a last step after all other avenues for resolution have been exhausted. If

unlicensed parties continue to ship products without fairly remunerating us, litigation is the proper public step to protect our property as well as inform existing licensees that we are protecting their investment. As haptics gains wider acceptance in the market. the likelihood of unlicensed use of our IP increases. This could result in ongoing litigation as we seek to protect the investment that we and our valid licensees have made in the technology.

Haptics and Its Benefits

While the digital world offers many advanced technologies and capabilities, it often fails to provide us with the meaningful touch experiences that inform and enrich our real-world interactions. As we experience the physical world in our everyday lives,

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we rely on our sense of touch to provide us with reassuring context and confirmation, to bring us closer to one another through rich communications, and to enjoy entertainment, sports and other activities through realistic engagement. Without these tactile qualities, our digital experiences can feel flat and ineffective, pale reflections of the real world. Immersion haptic technologies breathe life back into digital experiences, restoring the missing elements of confirmation, realism and rich communication to the digital world:

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

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

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

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

Our Offering

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

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

Software Offerings

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

TouchSense Haptic Enabling Kits: Targeted to the mobile device, wearables, and consumer electronics markets, TouchSense Haptic Enabling Kits consist of solutions enabling the design of tactile effects used in device interfaces and applications, and enhancing the playback of haptic content. Our toolkits enable original equipment manufacturers ("OEMs") and their suppliers to easily add customized haptic experiences to their own branded devices and other products. Our offerings include TouchSense Haptic Enabling Kit for Mobile OEMs and TouchSense Haptic Enabling Kit for Wearable OEMs.

TouchSense Haptic Development Kits: Targeted to mobile developers, platform providers, advertisers and content creators, TouchSense Haptic Development Kits consist of design tools, integration software and effect libraries that allow for the design, encoding and playback of tactile effects in mobile content, including games, ads and video. TouchSense Haptic Development Kits offer high fidelity tactile effects to augment and enhance mobile content, while ensuring quality playback within consumer devices. Our offerings include TouchSense Haptic Development Kit for Mobile Games and TouchSense Haptic Development Kit for Mobile Videos. TouchSense Haptic Development Kit offerings have not yet generated revenue for us as of December 31, 2015.

Patent Licenses

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Through more than twenty years of innovative research, development and business activity, we have built a far-reaching and deep portfolio of patents covering many of the foundational aspects and commercial applications of haptic technology. We have implemented formal policies and procedures governing how we create, protect and maintain our IP assets, and devote substantial resources to ensure that our IP coverage of the haptic landscape is as comprehensive as possible. Our growing portfolio now includes more than 2,100 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 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, related to virtual and augmented reality experiences, and in connection with advanced actuation technologies and techniques, to name a few.

Haptic Expertise

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

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

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

Authoring Tools: In addition to TouchSense Haptic Development Kits, we license authoring tools that enable haptic designers and software developers in other markets, such as console gaming, to quickly design and incorporate customized touch feedback into their applications. Authoring tools allow designers to create, modify, experience, and save or restore haptic effects for a haptically-enabled device.

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

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

Markets

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

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

In addition to working with device manufacturers, we provide our TouchSense Haptic Development Kits to application developers, advertising networks and other content ecosystem participants to enable them to easily incorporate tactile effects into mobile games, advertisements and other content. Our licensees have included Bandai Namco, iDreamSky, LeTV, Opera Mediaworks, Rovio Entertainment, Slate, Showtime, and Ubisoft.

For the years ended December 31, 2015, 2014, and 2013, respectively, 62%, 60%, and 66% of our total revenues were generated from OEMs and integrated circuit customers in the mobile communications market.

Console and PC Gaming: We have licensed our patents directly to Microsoft and Sony Computer Entertainment for use in their console gaming products. Additionally, we have licensed our patents to third party gaming peripheral manufacturers and distributors for use in spinning mass and force feedback devices such as controllers, steering wheels and joysticks, to be used with PC platforms running on Microsoft Windows and other operating systems, as well as in connection with video game consoles

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made by Microsoft, Sony, Nintendo and others. Our gaming licensees include Bensussen Deutsch & Associates, Guillemot, Logitech, Mad Catz, Microsoft, Performance Designed Products, Razer, and Sony.

For the years ended December 31, 2015, 2014, and 2013, respectively, 24%, 27%, and 21% of our total revenues were generated from customers in the PC and console gaming markets.

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

For the years ended December 31, 2015, 2014, and 2013, respectively, 7%, 5%, and 5% of our total revenues were from automotive customers.

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

For the years ended December 31, 2015, 2014, and 2013, respectively, 7%, 8%, and 8% of our total revenues were from medical customers.

Manufactured Products

As of December 2013, we ceased selling manufactured products and only license our patents and software. Our 2013 product solutions, which did not represent a material part of our business, were limited to components used for design kits. All products produced were from contracted manufacturing services.

Sales

Our sales are somewhat seasonal, with holiday shipments of our customers' mobility and gaming products in the fourth quarter typically generating per unit royalties in our first quarter. Seasonal fluctuations have not been extremely significant to our overall revenue trends in the past. As we are increasingly entering into license agreements that include recurring fixed payments to us, we anticipate that our sales may become less seasonal over time.

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 15 of our consolidated financial statements and related financial information in Item 8. Financial Statements and Supplementary Data.

Competition

Our biggest source of competition derives from decisions made by internal design groups at our OEM and other customers, as well as potential customers. We expect that these internal design groups will continue to make choices regarding whether to implement haptics or not, as well as whether to develop their own haptic solutions.

In the event we have granted or grant a license to our patent portfolio to a customer, its internal design group may design technology that is less expensive to implement or that enables products with higher performance or additional features. In some cases, the customer may elect not to include haptics in its products or other offerings due to the higher costs associated with incorporating haptics.

In addition to licensing customers directly, we have also licensed semiconductor manufacturers to incorporate certain of our less fully-featured software into their integrated circuits for use in certain electronic devices.

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

Our competitive position is also impacted by the competitive positions of our licensees' products and other offerings.

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

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Research and Development

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

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

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

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

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

For the years ended December 31, 2015, 2014, and 2013, research and development expenses were \$14.8 million, \$11.8 million, and \$10.9 million respectively.

Intellectual Property

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

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

At the end of 2015, we and our wholly owned subsidiaries had over 2,100 currently issued or pending patents worldwide that cover various aspects of our technologies. The duration of our issued patents is determined by the laws of the country of issuance and for the United States is typically 17 years from the date of issuance of the patent or 20 years from the date of filing of the patent application resulting in the patent. Some of our U.S. patents began expiring in 2007.

Financial Information about Industry Segments and Geographic Areas

We manage our operations and allocate resources as a single reporting segment. Additional information about our business segments and geographic areas is incorporated herein by reference to Note 15 of our consolidated financial statements and related financial information in Item 8. Financial Statements and Supplementary Data.

Investor Information

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You can access financial and other information in the Investor Relations section of our web site at www.immersion.com. We make available, on our Web site, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current

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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, and 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) and our Corporate Governance Principles are also available at our web site under "Corporate Governance." These items are also available to any stockholder who requests them by calling +1 408.467.1900.

The SEC maintains an Internet site that contains reports, proxy, and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Employees

As of December 31, 2015, we had 156 full-time and part-time employees, including 75 in research and development, 44 in sales and marketing, and 37 in legal, finance, and administration. We also use independent contractors. None of our employees are represented by a labor union, and we consider our employee relations to be positive.

Executive Officers

The following table sets forth information regarding our executive officers as of February 18, 2016.

Name	Position with the Company	Age
Victor Viegas	Chief Executive Officer and Member of the Board of Directors	58
Paul Norris	Chief Financial Officer	53
Mahesh Sundaram	Vice President, Worldwide Sales and Customer Support	45

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

Paul Norris joined Immersion as Chief Financial Officer in May 2012. Prior to joining Immersion, Mr. Norris served as a partner at Accanto Partners, LLC, an investment fund focusing on technology and digital media companies from July 2011 to May 2012. Prior to that, from June 2005 to February 2011, Mr. Norris served in various executive positions at Sonic Solutions, a digital media software and entertainment solutions provider, acting as its Senior Vice President and General Counsel from June 2005 to February 2008, and its Executive Vice President, Chief Financial Officer and General Counsel February 2008 until its acquisition by Rovi Corporation, a digital entertainment technology solutions provider in February 2011. From February 2011 through June 2011, Mr. Norris assisted Rovi in its integration activities as an Executive Advisor. Mr. Norris holds a Bachelor of Arts from Yale University and a Juris Doctor degree from Harvard Law School.

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

technologies to market in the Asia Pacific region. Mr. Sundaram holds a Bachelor of Engineering in electrical engineering from University of Mumbai.

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Item 1A. Risk Factors

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

Company Risks

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

- the competition we may face from third parties and/or the internal design teams of existing and potential licensees;
- difficulties in persuading third parties to work with us, to rely on us for critical technology, and to disclose to us proprietary product development and other strategies;
- difficulties in persuading existing licensees who compensate us for including our software in certain of their touch-enabled products to also license and compensate us for our patents that cover other touch-enabled products of theirs that do not include our software;
- challenges in demonstrating the compelling value of our technologies and challenges associated with customers' ability to easily implement our technologies;
- difficulties in obtaining new licensees for yet-to-be commercialized technology because their suppliers may not be ready to meet stringent price, quality and parts availability requirements;
- difficulties in entering into or renewing gaming licenses if video console makers choose not to license third parties to make peripherals for their new consoles, if video console makers no longer require peripherals to play video games, if video console makers no longer utilize technology in the peripherals that are covered by our patents or if the overall market for video consoles deteriorates substantially;
- reluctance of content developers or distributors, mobile device manufacturers, and service providers to sign license agreements without a critical mass of other such inter-dependent supporters of the mobile device industry also having a license, or without enough similar devices in the market that incorporate our technologies; and
- inability of current or prospective licensees to ship certain devices if they are involved in IP infringement claims by third parties that ultimately prevent them from shipping products or that impose substantial royalties on their products.

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

Samsung Electronics accounted for approximately 32%, 38%, and 47% of our total revenues for the years ended December 31, 2015, 2014, and 2013, respectively. Two other customers each accounted for 18% and 14% of our revenues in 2015 and for 17% and 12% of our revenues in 2014. We cannot be certain that 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, including Samsung whose agreement with us expired on December 31, 2015. If we fail to renew or lose a major customer or group of customers, our revenue could decline if we are unable to replace the lost revenue with revenue from other sources. In addition, if potential customers or customers with expiring agreements view the loss of one of our major customers as an indicator of the value of our software and/or the strength of our intellectual property, they may choose not to take or renew a license which could adversely affect our operating results.

Our current or any future litigation is expensive, disruptive, and time consuming, and will continue to be, until resolved, and regardless of whether we are ultimately successful, could adversely affect our business.

We have been in the past and are currently a party to various legal proceedings, including current litigation we initiated against Apple, AT&T and AT&T Mobility. Due to the inherent uncertainties of litigation, we cannot accurately predict how these cases will ultimately be resolved. We anticipate that currently pending or any future litigation will continue to be costly, given the

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significant resources available to our current adverse parties, and that future litigation will result in additional legal expenses, and there can be no assurance that we will be successful or be able to recover the costs we incur in connection with litigation. We expense litigation costs as incurred, and only accrue for costs that have been incurred but not paid to the vendor as of the financial statement date. Although protecting our intellectual property is a fundamental part of our business, at times, our litigation has diverted, and could continue to divert, the efforts and attention of some of our key management and personnel away from our licensing transactions. As a result, until such time as it is resolved or concluded, litigation could adversely affect our business. Further, any unfavorable outcome could adversely affect our business. For additional background on our litigation, please see Part I, Item 3, "Legal Proceedings".

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

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

- our pending patent applications may not result in the issuance of patents;
- our patents may not be broad enough to protect our proprietary rights; and
- effective patent protection may not be available in every country, particularly in Asia, where we or our licensees do business; and

- our pending litigation against Apple, AT&T and AT&T Mobility LLC may be unsuccessful or may result in one or more of the patents asserted becoming limited in scope, declared unenforceable or invalidated.

In addition, our patents will continue to expire according to their terms, including the expiration of several gaming patents in 2015. We may experience a decrease in gaming royalty and license revenue due to expiration of these patents. Our failure to continuously develop or acquire successful innovations and obtain patents on those innovations could significantly harm our business, financial condition, results of operations, or cash flows. In addition, we also rely on licenses, confidentiality agreements, other contractual agreements, and copyright, trademark, and trade secret laws to establish and protect our proprietary rights. It is possible that:

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

We have in the past initiated legal proceedings to protect our intellectual property and may need to continue to do so in the future, and we are currently in litigation against Apple, AT&T and AT&T Mobility for patent infringement. We may need to continue to initiate legal proceedings in the future. Any legal or administrative proceeding initiated by us to protect or enforce our IP rights may result in substantial legal expenses and risk, could lead to counterclaims and adverse rulings affecting our patents, and may divert our management's time and attention away from our other business operations, which could significantly harm our business.

Future revenue is difficult to predict, and our failure to predict revenue accurately may cause our results to be below our expectations or those of investors and result in our stock price declining.

Our lengthy and costly license negotiation cycle and any IP litigation that we may engage in making the amount and/or timing of future revenue difficult to predict because we may not be successful in entering into or renewing licenses with our customers on our estimated timelines, and we may be reliant on litigation timelines, which are difficult to control, with unpredictable results.

Some of our license agreements provide for per-unit royalty payments and may also be subject to adjustments based on volume. The sales volume and prices of our licensees' products in any given period can be difficult to predict. In addition, in certain product markets, we have entered into licensing agreements pursuant to which customers make

fixed recurring payments to us in exchange for use of our IP and technology. As a result, a portion of the revenue we report each quarter results from the recognition of deferred revenue from fixed payments we have received from these customers during previous quarters. If we were to experience significant decline in our ability to renew these agreements or enter into new agreements that include fixed recurring payments, our reported financial results might not reflect such downturns until future periods. Moreover, to the extent our business model depends on fixed payments that we recognize over time, it may also be difficult for us to rapidly increase our revenues through additional sales in any period, as revenue from new customers will be recognized over multiple quarters. Additionally, if we have agreed that a customer may pay us a fixed amount for use of our IP and technology during a given time period, we may receive lower

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revenues than we would have received under a per unit royalty arrangement if the customer's business grows or it otherwise performs better than we anticipated at the time we entered into our licensing agreement with the customer. In addition, a portion of our revenue comes from development and support services provided to our licensees, or may be part of a contractual arrangement involving multiple elements. Depending upon the nature of the services or elements, all or a portion of the revenue may be recognized ratably over time or may be deferred in part or in whole. All of these factors make it difficult to predict future revenue and may result in our revenue being below our previously announced guidance or analysts' estimates, which would likely cause our stock price to decline.

We are currently involved in appealing a judgment invalidating three of our patents; any final judgment invalidation or limiting of the scope of these patents could harm our business.

As more fully described under Part I, Item 3, "Legal Proceedings," we are currently appealing a judgment invalidating three of our patents. At this time, the briefing for the appeal has been completed and we are awaiting a hearing date with the Federal Circuit. We cannot predict the outcome of the appeal. If there is a final adverse ruling invalidating the patents, we could be prevented from enforcing, or earning future revenues from those patents, and the likelihood that customers will take new licenses and that current licensees will continue to agree to pay under their existing licenses could be reduced. The resulting reduction in license fees and royalties could harm our business, consolidated financial position, results of operations or cash flows, or the trading price of our common stock.

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

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

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

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

Our international expansion efforts subject us to additional risks and costs.

We currently have sales personnel in Japan, Korea, China, and Switzerland. International operations are subject to a number of difficulties and special costs, including:

- compliance with multiple, conflicting and changing governmental laws and regulations;
- laws and business practices favoring local competitors;