IMMERSION CORP
Form 10-Q
August 03, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(MARK ONE)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-38334
IMMERSION CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 94-3180138 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

50 Rio Robles, San Jose, California 95134
(Address of principal executive offices) (Zip Code)
(408) 467-1900
(Registrant’s telephone number, including area code)
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer ý |
| Non-accelerated filer ¨(Do not check if a smaller reporting company) | Smaller Reporting Company ¨ |
| | Emerging Growth Company ¨ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Number of shares of common stock outstanding at July 27, 2018: 30,770,452.

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PART I
FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $116,437 | $24,622 |
| Short-term investments | 20,245 | 21,916 |
| Accounts and other receivables | 1,026 | 806 |
| Prepaid expenses and other current assets | 5,821 | 736 |
| Total current assets | 143,529 | 48,080 |
| Property and equipment, net | 2,716 | 3,150 |
| Deferred income tax assets | 371 | 401 |
| Other assets | 4,421 | 344 |
| Total assets | $151,037 | $51,975 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $3,359 | $6,647 |
| Accrued compensation | 3,180 | 4,133 |
| Other current liabilities | 4,046 | 3,896 |
| Deferred revenue | 4,769 | 4,424 |
| Total current liabilities | 15,354 | 19,100 |
| Long-term deferred revenue | 32,536 | 22,303 |
| Other long-term liabilities | 1,190 | 915 |
| Total liabilities | 49,080 | 42,318 |
| Contingencies (Note 12) | | |
| Stockholders' equity: | | |
| Common stock and additional paid-in capital — $0.001 par value; 100,000,000 shares authorized; 37,488,535 and 35,950,518 shares issued, respectively; 30,762,150 and 29,263,828 shares outstanding, respectively | 240,445 | 228,046 |
| Accumulated other comprehensive income | 109 | 99 |
| Accumulated deficit | (91,156) | (171,616) |
| Treasury stock at cost: 6,726,385 shares | (47,441) | (46,872) |
| Total stockholders' equity | 101,957 | 9,657 |
| Total liabilities and stockholders' equity | $151,037 | $51,975 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Royalty and license | $5,992 | $6,785 | $91,327 | $15,791 |
| Development, services, and other | 152 | 245 | 233 | 463 |
| Total revenues | 6,144 | 7,030 | 91,560 | 16,254 |
| Costs and expenses: | | | | |
| Cost of revenues | 94 | 54 | 129 | 97 |
| Sales and marketing | 1,570 | 3,461 | 2,790 | 6,766 |
| Research and development | 2,222 | 2,826 | 5,042 | 6,022 |
| General and administrative | 10,553 | 15,600 | 21,789 | 31,132 |
| Total costs and expenses | 14,439 | 21,941 | 29,750 | 44,017 |
| Operating income (loss) | (8,295) | (14,911) | 61,810 | (27,763) |
| Interest and other income | 375 | 165 | 606 | 304 |
| Income (loss) before benefit (provision) for income taxes | (7,920) | (14,746) | 62,416 | (27,459) |
| Benefit (provision) for income taxes | 162 | (99) | (291) | (251) |
| Net income (loss) | $(7,758) | $(14,845) | $62,125 | $(27,710) |
| Basic net income (loss) per share | $(0.25) | $(0.51) | $2.06 | $(0.95) |
| Shares used in calculating basic net income (loss) per share | 30,527 | 29,193 | 30,116 | 29,109 |
| Diluted net income (loss) per share | $(0.25) | $(0.51) | $2.00 | $(0.95) |
| Shares used in calculating diluted net income (loss) per share | 30,527 | 29,193 | 31,074 | 29,109 |
| Other comprehensive income (loss), net of tax | | | | |
| Change in unrealized gains (losses) on short-term investments | 5 | (2) | 10 | (24) |
| Total other comprehensive income (loss) | 5 | (2) | 10 | (24) |
| Total comprehensive income (loss) | $(7,753) | $(14,847) | $62,135 | $(27,734) |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Six Months Ended June 30, 2018 | 2017 |
|---|---|---|
| Cash flows provided by (used in) operating activities: | | |
| Net income (loss) | $62,125 | $(27,710) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization of property and equipment | 439 | 469 |
| Stock-based compensation | 3,752 | 2,735 |
| Deferred income taxes | 66 | (77) |
| Allowance for doubtful accounts | — | 6 |
| Loss on disposal of equipment | 26 | — |
| Changes in operating assets and liabilities: | | |
| Accounts and other receivables | (220) | (1,959) |
| Prepaid expenses and other current assets | (215) | (112) |
| Other assets | (4,077) | (99) |
| Accounts payable | (3,288) | 4,286 |
| Accrued compensation and other current liabilities | (656) | (2,902) |
| Income tax payable | (147) | — |
| Deferred revenue | 23,917 | (2,929) |
| Other long-term liabilities | 239 | (50) |
| Net cash provided by (used in) operating activities | 81,961 | (28,342) |
| Cash flows provided by investing activities: | | |
| Purchases of short-term investments | (17,693) | (15,879) |
| Proceeds from maturities of short-term investments | 19,500 | 20,000 |
| Purchases of property and equipment | (31) | (110) |
| Net cash provided by investing activities | 1,776 | 4,011 |
| Cash flows provided by financing activities: | | |
| Issuance of common stock under employee stock purchase plan | 98 | 175 |
| Exercise of stock options | 7,980 | 443 |
| Net cash provided by financing activities | 8,078 | 618 |
| Net increase (decrease) in cash and cash equivalents | 91,815 | (23,713) |
| Cash and cash equivalents: | | |
| Beginning of period | 24,622 | 56,865 |
| End of period | $116,437 | $33,152 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for taxes | $81 | $111 |
| Supplemental disclosure of noncash operating, investing, and financing activities | | |
| Amounts accrued for property and equipment | $— | $3 |
| Amounts accrued for treasury stocks | $569 | $— |
| Release of Restricted Stock Units and Awards under company stock plan | $2,546 | $2,451 |

See accompanying Notes to Condensed Consolidated Financial Statements.

IMMERSION CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

Principles of Consolidation and Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Immersion Corporation and its wholly-owned subsidiaries: Immersion Canada Corporation; Immersion International, LLC; Immersion Medical, Inc.; Immersion Japan K.K.; Immersion Ltd.; Immersion Software Ireland Ltd.; Haptify, Inc.; Immersion (Shanghai) Science & Technology Company, Ltd.; and Immersion Technology International Ltd. All intercompany accounts, transactions, and balances have been eliminated in consolidation.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all information and footnotes necessary for a complete presentation of the financial position, results of operations, and cash flows, in conformity with GAAP. The accompanying condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements included in the Company’s Annual Report on Form 10-K, for the fiscal year ended December 31, 2017. In the opinion of management, all adjustments consisting of only normal and recurring items necessary for the fair presentation of the financial position and results of operations for the interim periods presented have been included.

The results of operations for the six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year.

Segment Information

The Company develops, licenses, and supports a wide range of software and IP that more fully engage users’ sense of touch as they engage with products and experience the digital world around them. The Company currently focuses on the following target application areas: mobility, automotive, gaming, medical and wearables. The Company’s chief operating decision maker (“CODM”) is the Chief Executive Officer. The CODM allocates resources to and assesses the performance of the Company using information about its financial results as one operating and reporting segment.

Revenue Recognition

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

The Company adopted the new revenue standard effective January 1, 2018 using the modified retrospective transition method where the cumulative effect of the initial application is recognized as an adjustment to the opening balance of the accumulated deficit at January 1, 2018, the date of adoption. Therefore, comparative prior periods have not been adjusted and continue to be presented under ASC 605. Refer to Note 2 to the condensed consolidated financial statements for the Company's revised revenue recognition accounting policy and a summary of the impact of adoption of ASC 606.

Recent Accounting Pronouncements

Adopted

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

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

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

Not yet adopted

In July 2018, the FASB issued ASU 2018-09 "Codification Improvement" ("ASU 2018-09"). This ASU amends a wide variety of Topics in the Codification issued by FASB with technical corrections, clarifications, and other minor improvements, and should eliminate the need for periodic agenda requests for narrow and incremental items. Many of the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018 for public entities. The Company is currently assessing when it will adopt this ASU, but does not expect material impact on its condensed consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07 "Compensation-- Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting" ("ASU 2018-07"). The amendments in this ASU expand the scope of Topic 718 to include share-based payment transaction for acquiring goods and services from nonemployees and supersede subtopic 505-50. For public entities, the guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years, and early adoption is permitted but no earlier than adoption of Topic 606. The Company is currently in the process of evaluating the impact of this standard on its condensed consolidated financial statements, and expects to adopt this ASU as of January 1, 2019.

In February 2018, the FASB issued ASU 2018-02 "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"). The amendments in this ASU allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. The guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years, and early adoption is permitted. The Company is currently assessing when it will adopt this ASU and its potential impact on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 "Leases: Topic 842" ("ASU 2016-02" "Topic 842"), which supersedes the existing guidance for lease accounting in Topic 840, Leases. The FASB issued the ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 requires lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting remains largely unchanged. This ASU is effective for periods beginning after December 15, 2018 for public entities with early adoption permitted. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, the FASB issued ASU 2018-10 "Codification Improvement to Topic 842, Leases" ("ASU 2018-10"). The FASB issued this separate ASU for the improvements related to ASC 2016-02 to increase stakeholders' awareness of the amendments and to expedite the improvements. The effective date and transition requirements will be the same as the effective date and transition requirements in Topic 842. The Company is currently in the process of evaluating the impact of this standard on its condensed consolidated financial statements, but has not elected to early adopt the standard and would plan to implement the standard on January 1, 2019.

2. REVENUE RECOGNITION

Revised Revenue Recognition Accounting Policy

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

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The Company's revenue is primarily derived from fixed fee license agreements and per-unit royalty agreements, along with less significant revenue earned from development, services and other revenue. The adoption of ASC 606 affected the Company's revenue recognition model for both fixed fee license revenue and per-unit royalty revenue presented as “royalty and license revenue” on the Company’s condensed consolidated statements of operations and comprehensive income (loss). All of the Company’s revenue in the periods presented have been derived from contracts with customers and consequently have been recognized under ASC 606.

Fixed fee license revenue

In applying ASC 606, the Company is required to recognize revenue from a fixed fee license agreement when it has satisfied its performance obligations, which typically occurs upon the transfer of rights to the Company's technology upon the execution of the license agreement. However, in certain contracts, the Company grants a license to its existing patent portfolio at the inception of the license agreement as well as rights to the portfolio as it evolves throughout the contract term. For such arrangements, the Company has concluded that it has two separate performance obligations:

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

•Performance Obligation B: to transfer rights to the Company's patent portfolio as it evolves over the term of the contract, including access to new patent applications that the licensee can benefit from over the term of the contract.

Under the Company's previous accounting practices under ASC 605, fixed license fees were generally recognized on a straight-line basis over the contract term. As a result of the adoption of ASC 606, if a fixed fee license agreement contains only Performance Obligation A, the Company will recognize most or all of the revenue from the agreement at the inception of the contract. For fixed fee license agreements that contain both Performance Obligation A and B, the Company will be required to allocate the transaction price based on the standalone price for each of the two performance obligations. The Company has developed a process, and established internal controls around such process, to estimate standalone prices related to Performance Obligation A and B using a number of factors primarily related to the attributes of its patent portfolio. Once the transaction price is allocated, the portion of the transaction price allocable to Performance Obligation A will be recognized in the quarter the license agreement is signed and the customer can benefit from rights provided in the contract, and the portion allocable to Performance Obligation B will be recognized on a straight-line basis over the contract term. For such contracts, a contract liability account will be established and included within "deferred revenue" on the condensed consolidated balance sheet. As the rights and obligations in a contract are interdependent, contract assets and contract liabilities that arise in the same contract have been presented on a net basis.

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

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

Per-unit Royalty revenue

Under the Company's previous accounting practices under ASC 605, it recognized revenue from per-unit royalty agreements in the period in which the related royalty report was received from its licensees, generally one quarter in arrears from the period in which the underlying sales occurred (i.e. on a "quarter-lag"). ASC 606 requires an entity to record per-unit royalty revenue in the same period in which the licensee’s underlying sales occur. As the Company generally does not receive the per-unit licensee royalty reports for sales during a given quarter within the time frame that allows the Company to adequately review the reports and include the actual amounts in its quarterly results for such quarter, the Company accrues the related revenue based on estimates of its licensees’ underlying sales, subject to certain constraints on its ability to estimate such amounts. The Company’s estimates are developed based on a combination of available data including, but not limited to, approved customer forecasts, a lookback at historical royalty reporting for each of its 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. During the three months ended June 30, 2018, the Company trued up approximately $(326,000) royalty revenue based on its licensees' reports for sales occurred in the previous quarter. The Company had no true-ups for the three months ended March 31, 2018.

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Certain of the Company's per-unit royalty agreements contains a minimum royalty provision which sets forth minimum amounts to be received by the Company during the contract term. Per the Company's previous accounting policy under ASC 605, such minimum royalties were recognized as revenue at the end of each reporting period (usually a calendar year) if the actual royalties reported by the customer for that reporting period were below the minimum threshold set forth in the contract. Under ASC 606, minimum royalties are considered a fixed transaction price to which the Company will have an unconditional right once all other performance obligations, if any, are satisfied. Therefore, the Company recognizes all minimum royalties as revenue at the inception of the license agreement, or in the period in which all remaining revenue recognition criteria have been met. The Company will establish contract assets for the unbilled minimum royalties on a contract basis. Such contract asset balance will be reduced by the actual royalties reported by the licensee during the contract term until fully utilized, after which point any excess per-unit royalties reported will be recognized as revenue. As the rights and obligations in a contract are interdependent, contract assets and contract liabilities that arise in the same contract have been presented on a net basis.

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

Development, services, and other revenue

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

Adjustments upon Adoption of ASC 606

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

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

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

Disaggregated Revenue

The following table presents the disaggregation of the Company's revenue for the three and six months ended June 30, 2018 under ASC 606. Revenues for the three and six months ended June 30, 2017 are presented in accordance with ASC 605.

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| (in thousands) | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Increase (Decrease) | |
| Fixed fee license revenue | $1,881 | $1,765 | $116 | 7 % |
| Per-Unit royalty revenue | 4,111 | 5,020 | (909 ) | (18 )% |
| Total royalty and license revenue | 5,992 | 6,785 | (793 ) | (12 )% |
| Development, services, and other revenue | 152 | 245 | (93 ) | (38 )% |
| Total revenues | $6,144 | $7,030 | $(886 ) | (13 )% |

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Increase (Decrease) | |
| Fixed fee license revenue | $77,637 | $4,275 | $73,362 | 1,716 % |
| Per-Unit royalty revenue | 13,690 | 11,516 | 2,174 | 19 % |
| Total royalty and license revenue | 91,327 | 15,791 | 75,536 | 478 % |
| Development, services, and other revenue | 233 | 463 | (230 ) | (50 )% |
| Total revenues | $91,560 | $16,254 | $75,306 | 463 % |

For the three and six months ended June 30, 2018, the Company recognized $1.2 million and 1.8 million, respectively, as revenue that had been included in deferred revenue as of the beginning of the period. As of June 30, 2018, the Company had contract assets of $5.1 million and $4.1 million included within prepaid expenses and other current assets and other non-current assets on the condensed consolidated balance sheet, respectively. During the three-month period ended June 30, 2018, the balance of contract assets decreased by $0.1 million caused by the net change in the Company's estimates for its per-unit royalty revenues. During the six-month period ended June 30, 2018, the balance of contract assets increased by $4.3 million mainly driven by certain contracts entered into during the period which included a minimum royalty arrangement, partially offset by a decrease in the Company's estimate for its per-unit royalty revenues. During the three months ended June 30, 2018, there was no impairment of the contract assets.

Impact of Adoption of ASC 606

Presented in the tables below is disclosure of the impact of adoption on the Company's condensed consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2018, as well as balance sheet as of June 30, 2018, in accordance with the requirements of ASC 606. The Company believes that this additional information is vital during the transition year to allow readers of its financial statements to compare financial results from the preceding financial year given the use of the modified retrospective method of adoption. The adoption of ASC 606 did not affect the Company's reported total amounts of cash flows from operating, investing and financing activities. Therefore, tables for this separate financial statement have not been provided.

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

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| (in thousands) | Three Months Ended June 30, 2018 As Reported (ASC 606) | Adjustments | ASC 605 | 2017 As Reported (ASC 605) |
|---|---|---|---|---|
| Revenues: | | | | |
| Fixed fee license revenue | $1,881 | $ 2,431 | $4,312 | $1,765 |
| Per-unit royalty revenue | 4,111 | 94 | 4,205 | 5,020 |
| Total royalty and license revenue | 5,992 | 2,525 | 8,517 | 6,785 |
| Development, services, and other revenue | 152 | — | 152 | 245 |
| Total revenues | $6,144 | $ 2,525 | $8,669 | $7,030 |
| Operating expenses | 14,439 | | 14,439 | 21,941 |
| Operating income (loss) | (8,295 ) | 2,525 | (5,770 ) | (14,911 ) |
| Interest and other income | 375 | — | 375 | 165 |
| Income (loss) before (provision) benefit for income taxes | (7,920 ) | 2,525 | (5,395 ) | (14,746 ) |
| Income tax (provision) benefit | 162 | — | 162 | (99 ) |
| Net income (loss) | $(7,758 ) | $ 2,525 | $(5,233 ) | $(14,845) |
| Basic net income (loss) per share | $(0.25 ) | $ 0.08 | $(0.17 ) | $(0.51 ) |
| Diluted net income (loss) per share | $(0.25 ) | $ 0.08 | $(0.17 ) | $(0.51 ) |

| | Six Months Ended June 30, 2018 As Reported (ASC 606) | Adjustments | ASC 605 | 2017 As Reported (ASC 605) |
|---|---|---|---|---|
| Revenues: | | | | |
| Fixed fee license revenue | $77,637 | $ (69,909 ) | $7,728 | $4,275 |
| Per-unit royalty revenue | 13,690 | (4,257 ) | 9,433 | 11,516 |
| Total royalty and license revenue | 91,327 | (74,166 ) | 17,161 | 15,791 |
| Development, services, and other revenue | 233 | — | 233 | 463 |
| Total revenues | $91,560 | $ (74,166 ) | $17,394 | $16,254 |
| Operating expenses | 29,750 | | 29,750 | 44,017 |
| Operating income (loss) | 61,810 | (74,166 ) | (12,356 ) | (27,763 ) |
| Interest and other income | 606 | — | 606 | 304 |
| Income (loss) before provision for income taxes | 62,416 | (74,166 ) | (11,750 ) | (27,459 ) |
| Income tax provision | (291 ) | — | (291 ) | (251 ) |
| Net income (loss) | $62,125 | $ (74,166 ) | $(12,041) | $(27,710) |
| Basic net income (loss) per share | $2.06 | $ (2.46 ) | $(0.40 ) | $(0.95 ) |
| Diluted net income (loss) per share | $2.00 | $ (2.46 ) | $(0.40 ) | $(0.95 ) |

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| | June 30, 2018 | | | December 31, 2017 |
|---|---|---|---|---|
| | As Reported (ASC 606) | Adjustments | ASC 605 | As Reported (ASC 605) |
| Prepaid expenses and other current assets | $5,821 | $ (5,123 ) | $698 | $ 736 |
| Other non-current assets | 4,421 | (4,125 ) | 296 | 344 |
| Deferred revenue - current | (4,769 ) | (9,595 ) | (14,364 ) | (4,424 ) |
| Long-term deferred revenue | (32,536 ) | (73,851 ) | (106,387 ) | (22,303 ) |
| Accumulated Deficit | $91,156 | $ 92,501 | $183,657 | $ 171,616 |

Contracted Revenue

Based on contracts signed and payments received as of June 30, 2018, the Company expects to recognize $37.3 million revenue related to Performance Obligation B under its fixed fee license agreements, which is satisfied over time, including $14.1 million over one to three years, and $23.2 million over more than three years, respectively.

3. FAIR VALUE MEASUREMENTS

Cash Equivalents and Short-term Investments

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

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

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

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

The types of instruments valued based on unobservable inputs which reflect the reporting entity’s own assumptions or data that market participants would use in valuing an instrument are generally classified within Level 3 of the fair value hierarchy. The Company had no Level 3 instruments as of June 30, 2018 and December 31, 2017.

Financial instruments measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017 are classified based on the valuation technique in the table below:

| | June 30, 2018 | | | |
|---|---|---|---|---|
| | Fair value measurements using | | | |
| (in thousands) | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets: | | | | |
| U.S. Treasury securities | $— | $ 20,245 | $ — | $20,245 |
| Money market accounts | 86,583 | — | — | 86,583 |
| Total assets at fair value | $86,583 | $ 20,245 | $ — | $106,828 |

The above table excludes $29.9 million of cash held in banks.

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

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

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

Short-term Investments

| | June 30, 2018 | | | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
| U.S. Treasury securities | $20,258 | $ — | $ (13 ) | $20,245 |
| Total | $20,258 | $ — | $ (13 ) | $20,245 |

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