IMMERSION CORP
Form 10-Q
May 07, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

[**X**] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013

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)	*(I.R.S. Employer Identification No.)*

30 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 [X] 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 [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]		Accelerated filer [X]
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 Exchange Act).

Yes [ ] No [X]

Number of shares of common stock outstanding at April 26, 2013: 27,897,649.

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IMMERSION CORPORATION

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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)

	March 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 30,223	$ 4,558
Short-term investments	33,994	38,988
Accounts and other receivables (net of allowances for doubtful accounts of: $150 and $134, respectively)	3,342	1,878
Inventories	76	141
Deferred income taxes	165	165
Prepaid expenses and other current assets	523	706
Total current assets	68,323	46,436
Property and equipment, net	1,193	1,281
Intangibles and other assets, net	16,271	15,725
Total assets	$ 85,787	$ 63,442
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,599	$ 338
Accrued compensation	1,756	2,502
Other current liabilities	3,246	1,022
Deferred revenue and customer advances	19,139	3,934
Total current liabilities	25,740	7,796
Long-term deferred revenue	9,581	10,221
Deferred income tax liabilities	165	165
Other long-term liabilities	598	619
Total liabilities	36,084	18,801
Contingencies (Note 12)		
Stockholders equity:		
Common stock and additional paid-in capital $0.001 par value; 100,000,000 shares authorized; 32,761,512 and 32,278,330 shares issued, respectively; 27,778,768 and 27,295,586 shares outstanding, respectively	189,634	186,822
Accumulated other comprehensive income	106	109
Accumulated deficit	(109,468)	(111,721)
Treasury stock at cost: 4,982,744 shares	(30,569)	(30,569)

Total stockholders equity		49,703		44,641
Total liabilities and stockholders equity	$	85,787	$	63,442

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 March 31 2013	2012
Revenues:		
Royalty and license	$ 13,649	$ 9,085
Product sales	19	272
Development contracts and other	192	334
Total revenues	13,860	9,691
Costs and expenses:		
Cost of revenues (exclusive of amortization, abandonment, and impairment of intangibles shown separately below)	148	315
Sales and marketing	2,247	1,746
Research and development	2,573	2,194
General and administrative	6,138	4,771
Amortization, abandonment, and impairment of intangibles	494	341
Total costs and expenses	11,600	9,367
Operating income	2,260	324
Interest and other income	10	10
Income before provison for income taxes	2,270	334
Provision for income taxes	(17)	(553)
Net income (loss)	$ 2,253	$ (219)
Basic net income (loss) per share	$ 0.08	$ (0.01)
Shares used in calculating basic net income (loss) per share	27,424	27,941
Diluted net income (loss) per share	$ 0.08	$ (0.01)
Shares used in calculating diluted net income (loss) per share	28,294	27,941
Other comprehensive loss		
Change in unrealized gains (losses) on short-term investments	(3)	(19)
Total other comprehensive loss	(3)	(19)

Total comprehensive income (loss)	$	2,250	$	(238)

See accompanying Notes to Condensed Consolidated Financial Statements.

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IMMERSION CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net income (loss)	$ 2,253	$ (219)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	164	166
Amortization, abandonment, and impairment of intangibles	494	341
Stock-based compensation	1,037	720
Allowance (recovery) for doubtful accounts	16	0
Changes in operating assets and liabilities:		
Accounts and other receivables	(1,480)	(1,475)
Inventories	65	(108)
Prepaid expenses and other current assets	183	56
Other assets	(13)	(20)
Accounts payable	1,113	1,303
Accrued compensation and other current liabilities	1,280	(415)
Deferred revenue and customer advances	14,565	1,097
Other long-term liabilities	(21)	343
Net cash provided by operating activities	19,656	1,789
Cash flows provided by (used in) used in investing activities:		
Purchases of available-for-sale investments	(9,996)	(14,979)
Proceeds from maturities of available-for-sale investments	15,000	15,000
Additions to intangibles	(694)	(596)
Purchases of property and equipment	(76)	(828)
Net cash provided by (used in) investing activities	4,234	(1,403)
Cash flows provided by financing activities:		
Issuance of common stock under employee stock purchase plan	72	51
Exercise of stock options	1,703	852
Net cash provided by financing activities	1,775	903
Net increase in cash and cash equivalents	25,665	1,289
Cash and cash equivalents:		
Beginning of the period	4,558	7,298
End of the period	$ 30,223	$ 8,587
Supplemental disclosure of cash flow information:		
Cash paid for taxes	$ 14	$ 6
Supplemental disclosure of non-cash operating, investing, and financing activities:		

Amounts accrued for property and equipment, and intangibles	$	788	$	644
Release of Restricted Stock Units and Awards under company stock plan	$	1,491	$	780

See accompanying Notes to Condensed Consolidated Financial Statements.

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IMMERSION CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Immersion Corporation (the Company) was incorporated in 1993 in California and reincorporated in Delaware in 1999. It is an intellectual property (IP) and technology licensing company that creates, designs, develops, and licenses patented haptic innovations and technologies that allow people to use their sense of touch more fully when operating a wide variety of digital devices.

Principles of Consolidation and Basis of Presentation

The condensed consolidated financial statements include the accounts of Immersion Corporation and its wholly-owned subsidiaries: Immersion Canada Inc.; Immersion International, LLC; Immersion Medical, Inc.; Immersion Japan K.K.; Immersion Ltd.; Immersion Software Ireland Ltd.; and Haptify, Inc. 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. These 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, 2012. 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 interim period ended March 31, 2013 are not necessarily indicative of the results to be expected for the full year.

Revenue Recognition

The Company recognizes revenues in accordance with applicable accounting standards, including Accounting Standards Codification (ASC) 605-10-S99, Revenue Recognition (ASC 605-10-S99); ASC 605-25, Multiple Element Arrangements (ASC 605-25); and ASC 985-60 Software-Revenue Recognition (ASC 985-605). The Company derives its revenues from three principal sources: royalty and license fees, product sales, and development contracts. As described below, management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period. Material differences may result in the amount and timing of revenue for any period based on the judgments and estimates made by management. Specifically, in connection with each transaction, the Company must evaluate whether: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable, and (iv) collectibility is probable. The Company applies these criteria as discussed below.

Persuasive evidence of an arrangement exists. For a license arrangement, the Company requires a written contract, signed by both the customer and the Company. For a stand-alone product sale, the Company requires a purchase order or other form of written agreement with the customer.

Delivery has occurred. The Company delivers software and product to customers physically and also delivers software electronically. For physical deliveries not related to software, the transfer terms typically include transfer of title and risk of loss at the Company s shipping location. For electronic deliveries, delivery occurs when the Company provides the customer access codes or keys that allow the customer to take immediate possession of the software.

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

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

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

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

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

Product sales The Company recognizes revenue from the sale of products and the license of associated software, if any, and expenses all related costs of products sold, once delivery has occurred and

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customer acceptance, if required, has been achieved. The Company typically grants to customers a warranty that guarantees the products will substantially conform to the Company s current specifications for generally three to twelve months from the delivery date pursuant to the terms of the arrangement. Historically, warranty-related costs have not been significant.

Comprehensive Loss

Comprehensive loss includes net loss as well as other items of comprehensive income or loss. The Company s other comprehensive loss consists of foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities, net of tax. The changes in accumulated other comprehensive income (loss) are as below.

	Three Months Ended March 31, 2013		
	Unrealized Gains and Losses on Available-for Sale Securities	**Foreign Currency Items (In thousands)**	**Total**
Beginning balance	$ 8	$ 101	$ 109
Other comprehensive income (loss) before reclassifications	(3)	0	(3)
Amounts reclassified from accumulated other comprehensive income (loss)	0	0	0
Net current period other comprehensive income (loss)	(3)	0	(3)
Ending Balance	$ 5	$ 101	$ 106

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ratified Accounting Standards Update (ASU) 2013-02 Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Comprehensive Income (ASU 2013-02). ASU 2013-02 requires entities to disclose additional information about items reclassified out of accumulated other comprehensive income (AOCI) including AOCI balances by component and significant items reclassified out of AOCI. This ASU is effective for reporting periods beginning after December 15, 2012, and is being applied prospectively. These amendments will change the manner in which the Company presents comprehensive income by reporting these additional disclosure items in the condensed consolidated statements of operations and comprehensive loss or footnotes when they occur.

2. 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.

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

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

The types of instruments valued based on unobservable inputs which reflect the reporting entity s own assumptions or data that market participants would use in valuing an instrument are generally classified within Level 3 of the fair value hierarchy.

Financial instruments measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012 are classified based on the valuation technique in the table below:

	March 31, 2013 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)	Total
	(In thousands)			
Assets:				
U.S. Treasury securities	$ 0	$ 33,994	$ 0	$ 33,994
Money market accounts	8,047	0	0	8,047
Total assets at fair value	$ 8,047	$ 33,994	$ 0	$ 42,041

The above table excludes $22.2 million of cash held in banks.

	December 31, 2012 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)	Total
	(In thousands)			
Assets:				
U.S. Treasury securities	$ 0	$ 38,988	$ 0	$ 38,988
Money market accounts	52	0	0	52
Total assets at fair value	$ 52	$ 38,988	$ 0	$ 39,040

The above table excludes $4.5 million of cash held in banks.

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Short-term Investments

	March 31, 2013			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	$ 33,990	$ 4	$ 0	$ 33,994
Total	$ 33,990	$ 4	$ 0	$ 33,994

	December 31, 2012			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	$ 38,980	$ 8	$ 0	$ 38,988
Total	$ 38,980	$ 8	$ 0	$ 38,988

The contractual maturities of the Company s available-for-sale securities on March 31, 2013 and December 31, 2012 were all due within one year.

3. ACCOUNTS AND OTHER RECEIVABLES

	March 31, 2013	December 31, 2012
	(In thousands)	
Trade accounts receivable	$ 2,844	$ 1,528
Receivables from vendors and other	498	350
Accounts and other receivables	$ 3,342	$ 1,878

4. INVENTORIES

	March 31, 2013	December 31, 2012
	(In thousands)	
Raw materials and subassemblies	$ 69	$ 138
Finished goods	7	3

Inventories	$ 76	$ 141

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5. PROPERTY AND EQUIPMENT

	March 31, 2013	December 31, 2012
	(In thousands)	
Computer equipment and purchased software	$ 3,779	$ 3,748
Machinery and equipment	654	654
Furniture and fixtures	575	546
Leasehold improvements	899	884
Total	5,907	5,832
Less accumulated depreciation	(4,714)	(4,551)
Property and equipment, net	$ 1,193	$ 1,281

6. INTANGIBLES AND OTHER ASSETS

	March 31, 2013	December 31, 2012
	(In thousands)	
Patents and trademarks	$ 27,057	$ 26,206
Other assets	192	192
Gross intangibles and other assets	27,249	26,398
Accumulated amortization of patents and trademarks	(10,978)	(10,673)
Intangibles and other assets, net	$ 16,271	$ 15,725

The Company amortizes its intangible assets related to patents and trademarks, over their estimated useful lives, generally 10 years from the date of issuance of the patents and trademarks. Amortization of intangibles excluding abandonments or impairments was as follows:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Amortization of Intangibles - excluding abandonments or impairments	$ 298	$ 242

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The table below includes estimated remaining annual amortization expense for issued patents and trademarks as of March 31, 2013.

	Estimated Amortization Expense (In thousands)
Remainder of 2013	$ 885
2014	1,075
2015	968
2016	882
2017	756
Thereafter	2,102
Total	$ 6,668

Patents in process included in patents and trademarks were as follows:

	March 31, 2013	December 31, 2012
	(In thousands)	
Patents in process	$ 9,411	$ 9,270

Upon issuance, in process patents will be amortized over their estimated useful lives, generally 10 years.

7. COMPONENTS OF OTHER CURRENT LIABILITIES AND DEFERRED REVENUE AND CUSTOMER ADVANCES

	March 31, 2013	December 31, 2012
	(In thousands)	
Accrued legal	$ 2,603	$ 410
Income taxes payable	11	30
Other current liabilities	632	582
Total other current liabilities	$ 3,246	$ 1,022

Deferred revenue	$ 19,139	$ 3,920
Customer advances	0	14
Total deferred revenue and customer advances	$ 19,139	$ 3,934

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8. LONG-TERM DEFERRED REVENUE

Long-term deferred revenue consisted of the following:

	March 31, 2013	December 31, 2012
	(In thousands)	
Deferred revenue for Sony Computer Entertainment	$ 8,887	$ 9,636
Other deferred revenue	694	585
Long-term deferred revenue	$ 9,581	$ 10,221

9. STOCK-BASED COMPENSATION

Stock Options and Awards

The Company s equity incentive program is a long-term retention program that is intended to attract, retain, and provide incentives for talented employees, consultants, officers, and directors and to align stockholder and employee interests. The Company may grant options, stock appreciation rights, restricted stock, restricted stock units (RSUs), performance shares, performance units, and other stock-based or cash-based awards to employees, officers, directors, and consultants. Under these programs, stock options may be granted at prices not less than the fair market value on the date of grant for stock options. These options generally vest over 4 years and expire from 5 to 10 years from the date of grant. Restricted stock generally vests over one year. RSUs generally vest over 3 years. Awards granted other than an option or stock appreciation right shall reduce the common stock shares available for grant by 1.75 shares for every share issued.

	March 31, 2013
Common stock shares available for grant	2,037,130
Common stock options outstanding	3,738,174
Restricted stock awards outstanding	44,000
Restricted stock units outstanding	794,165

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan (ESPP). Under the ESPP, eligible employees may purchase common stock through payroll deductions at a purchase price of 85% of the lower of the fair market value of the Company s stock at the beginning of the offering period or the purchase date. Participants may not purchase more than 2,000 shares in a six-month offering period or purchase stock having a value greater than $25,000 in any calendar year as measured at the beginning of the offering period. A total of 1,000,000 shares of common stock have been reserved for issuance under the ESPP. As of March 31, 2013, 498,522 shares had been purchased since the inception of the ESPP in 1999. Under ASC 718-10, the ESPP is considered a compensatory plan and the Company is required to recognize compensation cost related to the fair value of the award purchased under the ESPP. Shares purchased under the ESPP for the three months ended March 31, 2013 are listed below. Shares purchased under the ESPP for the three months ended March 31, 2012 are 10,656. The intrinsic value listed below is calculated as the difference between the market value on the date of purchase and the purchase price of the shares.

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	Three Months Ended March 31, 2013
Shares purchased under ESPP	16,003
Average price of shares purchased under ESPP	$ 4.51
Intrinsic value of shares purchased under ESPP	$ 36,727

Summary of Stock Options

The following table sets forth the summary of option activity under the Company s stock option plans for the three months ended March 31, 2013 and year ended December 31, 2012:

	Three Months Ended March 31, 2013	Year Ended December 31, 2012
Beginning outstanding balance	3,155,631	3,267,838
Granted	877,500	425,150
Exercised	(273,957)	(231,403)
Forfeited and cancelled	(21,000)	(305,954)
Ending outstanding balance	3,738,174	3,155,631
Aggregate intrinsic value of options exercised	$ 872,353	$ 443,000
Weighted average fair value of options granted	5.31	3.35

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

Information regarding stock options outstanding at March 31, 2013 and December 31, 2012 is summarized below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (In millions)
December 31, 2012				
Options outstanding	3,155,631	$ 6.65	5.24	$ 3.5
Options vested and expected to vest using estimated forfeiture rates	3,019,979	6.67	5.17	3.4
Options exercisable	2,329,987	6.91	4.69	2.5
March 31, 2013				
Options outstanding	3,738,174	$ 7.33	5.59	$ 17.2
Options vested and expected to vest using estimated forfeiture rates	3,445,934	7.24	5.49	16.2
Options exercisable	2,123,986	6.90	4.71	11.0

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Summary of Restricted Stock Units

RSU activity for the three months ended March 31, 2013 and year ended December 31, 2012 was as follows:

	Three Months Ended March 31, 2013	Year Ended December 31, 2012
Beginning outstanding balance	708,651	407,765
Awarded	290,150	555,911
Released	(193,222)	(203,519)
Forfeited	(11,414)	(51,506)
Ending outstanding balance	794,165	708,651
Weighted average grant date fair value of RSUs granted	$ 7.02	$ 6.64
Total fair value of RSUs released	1,491,038	1,128,000
Total fair value of RSUs remaining unvested	9,323,497	4,868,000

Information regarding RSUs outstanding at March 31, 2013 and December 31, 2012 is summarized below:

	Number of Shares	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (In millions)	Fair Value (In millions)
December 31, 2012				
RSUs outstanding	708,651	1.09	$ 4.9	$ 4.9
RSUs vested and expected to vest using estimated forfeiture rates	588,170	1.05	4.0	
March 31, 2013				
RSUs outstanding	794,165	1.59	$ 9.3	$ 9.3
RSUs vested and expected to vest using estimated forfeiture rates	638,628	1.38	7.5	

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Summary of Restricted Stock Awards

Restricted stock award activity for the three months ended March 31, 2013 and year ended December 31, 2012 was as follows:

	Three Months Ended March 31, 2013	Year Ended December 31, 2012
Beginning outstanding balance	44,000	18,000
Awarded	0	57,750
Released	0	(31,750)
Forfeited	0	0
Ending outstanding balance	44,000	44,000
Weighted average grant date fair value of restricted stock awarded	$ 0.00	$ 5.70
Total fair value of restricted stock awards released	0	171,000

Stock Plan Assumptions

The assumptions used to value option grants under the Company s Stock Plans were as follows:

	Three Months Ended March 31,	
Options	**2013**	**2012**
Expected life (in years)	4.7	4.5
Volatility	69%	71%
Interest rate	0.8%	0.8%
Dividend yield	N/A	N/A

Employee Stock Purchase Plan	**2013**	**2012**
Expected life (in years)	0.5	0.5
Volatility	66%	72%
Interest rate	0.1%	0.1%
Dividend yield	N/A	N/A

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Compensation Costs

Total stock-based compensation recognized in the condensed consolidated statements of operations and comprehensive income (loss) is as follows:

	Three Months Ended March 31,	
	2013	**2012**
	(In thousands)	
Statement of Operations Classifications		
Sales and marketing	$ 163	$ 115
Research and development	314	209
General and administrative	560	396
Total	$ 1,037	$ 720

As of March 31, 2013, there was $8.9 million related to stock options, restricted stock awards, and RSUs of unrecognized compensation cost, adjusted for estimated forfeitures, granted to the Company s employees and directors. This cost will be recognized over an estimated weighted-average period of approximately 3.65 years for options, 2.31 years for RSUs, and 0.17 years for restricted stock awards. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

Stock Repurchase Program

On November 1, 2007, the Company announced its Board of Directors authorized the repurchase of up to $50 million of the Company s common stock. The Company may repurchase its stock for cash in the open market in accordance with applicable securities laws. The timing of and amount of any stock repurchase will depend on share price, corporate and regulatory requirements, economic and market conditions, and other factors. The stock repurchase authorization has no expiration date, does not require the Company to repurchase a specific number of shares, and may be modified, suspended, or discontinued at any time. During the three months ended March 31, 2013 and 2012, there were no stock repurchases under this program, but the program currently remains available.

10. INCOME TAXES

Income tax provisions from continuing operations consisted of the following:

	Three Months Ended March 31,	
	2013	**2012**
	(In thousands)	
Income before provision for income taxes	$ 2,270	$ 334
Provision for income taxes	(17)	(553)
Effective tax rate	0.7 %	165.6 %

The effective tax rates differ from the statutory rate primarily due to the valuation allowance, foreign withholding taxes, and unrecognized tax benefits. The income tax provision for the three months ended March 31, 2013 is primarily as a result of estimated state taxes. The income tax provision for the three months ended March 31, 2012 is primarily as a result of foreign withholding tax expense.

As of March 31, 2013, the Company had unrecognized tax benefits under ASC 740 Income Taxes of approximately $685,000, including interest of $58,000. The total amount of unrecognized tax benefits that would affect the Company s effective tax rate, if recognized, was $257,000. There were no material changes in the amount of unrecognized tax benefits during the three months ended March 31, 2013. The Company expects to release reserves and record a tax benefit due to the expiration of the statute of limitations during the next nine months. The Company s policy is to account for interest and penalties related to uncertain tax positions as a component of income tax provision.

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Because the Company had net operating loss and credit carryforwards, there are open statutes of limitations in which federal, state, and foreign taxing authorities may examine the Company s tax returns for all years from 1998 through the current period.

The Company maintains a valuation allowance for its entire deferred tax assets at March 31, 2013 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. The Company expects to have better visibility into its near term projected results in the second half of the current year. In the event that the Company determines the deferred tax assets are realizable based on its 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 the Company s ability to utilize the underlying net operating loss carryforwards.

11. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding for the period, excluding unvested restricted stock and RSUs. Diluted net income (loss) per share is based upon the weighted average common shares outstanding for the period plus dilutive potential shares including unvested restricted stock, RSUs, and stock options using the treasury stock method. The following is a reconciliation of the numerators and denominators used in computing basic and diluted net income (loss) per share (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2013	**2012**
Numerator:		
Net income (loss) used in computing basic and diluted net income (loss) per share	$ 2,253	$ (219)
Denominator:		
Shares used in computation of basic net income (loss) per share		
(weighted average common shares outstanding)	27,424	27,941
Dilutive potential common shares:		
Restricted Stock and RSUs	303	