IMMERSION CORP
Form 10-Q
November 06, 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 September 30, 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	**(I.R.S. Employer**
incorporation or organization)	**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 October 29, 2013: 28,598,664.

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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)

	September 30 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,664	$ 4,558
Short-term investments	47,990	38,988
Accounts and other receivables (net of allowances for doubtful accounts of: $139 and $134, respectively)	294	1,878
Inventories	0	141
Deferred income taxes	165	165
Prepaid expenses and other current assets	870	706
Total current assets	65,983	46,436
Property and equipment, net	984	1,281
Intangibles and other assets, net	17,165	15,725
Total assets	$ 84,132	$ 63,442
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 618	$ 338
Accrued compensation	3,353	2,502
Other current liabilities	1,379	1,022
Deferred revenue and customer advances	11,186	3,934
Total current liabilities	16,536	7,796
Long-term deferred revenue	8,045	10,221
Deferred income tax liabilities	165	165
Other long-term liabilities	551	619
Total liabilities	25,297	18,801
Contingencies (Note 13)		

Stockholders equity:		
Common stock and additional paid-in capital $0.001 par value; 100,000,000 shares authorized; 33,581,408 and 32,278,330 shares issued, respectively; 28,598,664 and 27,295,586 shares outstanding, respectively	196,776	186,822
Accumulated other comprehensive income	115	109
Accumulated deficit	(107,487)	(111,721)
Treasury stock at cost: 4,982,744 shares	(30,569)	(30,569)
Total stockholders equity	58,835	44,641
Total liabilities and stockholders equity	$ 84,132	$ 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 September 30		Nine Months Ended September 30	
	2013	**2012**	**2013**	**2012**
Revenues:				
Royalty and license	$ 10,951	$ 6,371	$ 34,580	$ 21,386
Product sales	12	529	44	1,145
Development contracts and other	379	242	779	778
Total revenues	11,342	7,142	35,403	23,309
Costs and expenses:				
Cost of revenues (exclusive of amortization, abandonment, and impairment of intangibles shown separately below)	111	273	386	802
Sales and marketing	2,151	1,632	6,692	5,072
Research and development	2,640	2,088	7,876	6,406
General and administrative	4,533	5,750	14,647	14,882
Amortization, abandonment, and impairment of intangibles	487	337	1,364	1,071
Total costs and expenses	9,922	10,080	30,965	28,233
Operating income (loss)	1,420	(2,938)	4,438	(4,924)
Interest and other income	42	66	80	144
Income (loss) from continuing operations before provision for income taxes	1,462	(2,872)	4,518	(4,780)
Provision for income taxes	(257)	(118)	(284)	(737)
Income (loss) from continuing operations	1,205	(2,990)	4,234	(5,517)
Discontinued operations (Note 10) :				
Gain on sales of discontinued operations net of provision for income taxes of $0, $0, $0, and $97	0	0	0	153
Net income (loss)	$ 1,205	$ (2,990)	$ 4,234	$ (5,364)
Basic net income (loss) per share				

Continuing operations	0.04	(0.11)	0.15	(0.20)
Discontinued operations	0.00	0.00	0.00	0.01
Total	$ 0.04	$ (0.11)	$ 0.15	$ (0.19)
Shares used in calculating basic net income (loss) per share	28,558	27,658	28,047	27,885
Diluted net income (loss) per share				
Continuing operations	0.04	(0.11)	0.14	(0.20)
Discontinued operations	0.00	0.00	0.00	0.01
Total	$ 0.04	$ (0.11)	$ 0.14	$ (0.19)
Shares used in calculating diluted net income (loss) per share	29,653	27,658	29,205	27,885
Other Comprehensive Income (loss)				
Change in unrealized gains (losses) on short-term investments	10	6	6	(11)
Total Other Comprehensive Income (loss)	10	6	6	(11)
Total Comprehensive Income (loss)	$ 1,215	$ (2,984)	$ 4,240	$ (5,375)

See accompanying Notes to Condensed Consolidated Financial Statements.

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IMMERSION CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cash flows from operating activities:		
Net income (loss)	$ 4,234	$ (5,364)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	459	490
Amortization, abandonment, and impairment of intangibles	1,364	1,071
Stock-based compensation	3,438	2,346
Allowance (recovery) for doubtful accounts	7	113
Loss on disposal of equipment	12	27
Gain on sales of discontinued operations	0	(153)
Changes in operating assets and liabilities:		
Accounts and other receivables	1,577	(28)
Inventories	141	64
Prepaid expenses and other current assets	(164)	(294)
Other assets	(58)	(45)
Accounts payable	142	1,214
Accrued compensation and other current liabilities	1,079	622
Deferred revenue and customer advances	5,076	(1,699)
Other long-term liabilities	(68)	339
Net cash provided by (used in) operating activities	17,239	(1,297)
Cash flows provided by (used in) used in investing activities:		
Purchases of available-for-sale investments	(71,955)	(29,956)
Proceeds from maturities of available-for-sale investments	63,000	45,000
Additions to intangibles	(2,520)	(2,323)
Purchases of property and equipment	(174)	(931)
Proceeds from sales of discontinued operations	0	250
Net cash provided by (used in) investing activities	(11,649)	12,040
Cash flows provided by (used in) financing activities:		
Issuance of common stock under employee stock purchase plan	198	122
Exercise of stock options	6,318	974
Purchase of treasury stock	0	(5,248)

Net cash provided by (used in) financing activities	6,516	(4,152)
Net increase in cash and cash equivalents	12,106	6,591
Cash and cash equivalents:		
Beginning of the period	4,558	7,298
End of the period	$ 16,664	$ 13,889
Supplemental disclosure of cash flow information:		
Cash paid for taxes, net of refunds	$ 13	$ 21
Supplemental disclosure of non-cash operating, investing, and financing activities:		
Amounts accrued for property and equipment, and intangibles	$ 709	$ 647
Release of Restricted Stock Units and Awards under company stock plan	$ 3,183	$ 1,298

See accompanying Notes to Condensed Consolidated Financial Statements.

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IMMERSION CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 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 September 30, 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 Elemen Arrangements (ASC 605-25); and ASC 985-605, 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 reliably 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 the 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.

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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 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.

	Nine Months Ended September 30, 2013		
	Unrealized Gains and Losses on Available-for Sale Securities	Foreign Currency Items	Total
		(In thousands)	
Beginning balance	$ 8	$ 101	$ 109
Other comprehensive income (loss) before reclassifications	6	0	6
Amounts reclassified from accumulated other comprehensive income (loss)	0	0	0
Net current period other comprehensive income (loss)	6	0	6
Ending Balance	$ 14	$ 101	$ 115

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) 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.

In July 2013, the FASB ratified ASU 2013-11 Presenting an Unrecognized Tax Benefit (UTB) When a Net Operating Loss Carryforward Exists (ASU 2013-11). ASU 2013-02 provides that an UTB, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. This ASU is effective for reporting periods beginning after December 15, 2013, and may be applied retrospectively. The Company is required to adopt ASU 2013-11 as of January 1, 2014, and is currently evaluating the potential impact, if any, of the adoption on its consolidated results of operations and financial condition.

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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.

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 September 30, 2013 and December 31, 2012 are classified based on the valuation technique in the table below:

	September 30, 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	$ 56,990	$ 0	$ 56,990
Money market accounts	3,064	0	0	3,064
Total assets at fair value	$ 3,064	$ 56,990	$ 0	$ 60,054

The above table excludes $4.6 million of cash held in banks.

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	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.

Short-term Investments

	September 30, 2013			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	$ 47,976	$ 14	$ 0	$ 47,990
Total	$ 47,976	$ 14	$ 0	$ 47,990

	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 September 30, 2013 and December 31, 2012 were all due within one year.

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3. ACCOUNTS AND OTHER RECEIVABLES

	September 30, 2013	December 31, 2012
	(In thousands)	
Trade accounts receivable	$ 38	$ 1,528
Receivables from vendors and other	256	350
Accounts and other receivables	$ 294	$ 1,878

4. INVENTORIES

	September 30, 2013	December 31, 2012
	(In thousands)	
Raw materials and subassemblies	$ 0	$ 138
Finished goods	0	3
Inventories	$ 0	$ 141

5. PROPERTY AND EQUIPMENT

	September 30, 2013	December 31, 2012
	(In thousands)	
Computer equipment and purchased software	$ 3,573	$ 3,748
Machinery and equipment	704	654
Furniture and fixtures	578	546
Leasehold improvements	905	884
Total	5,760	5,832
Less accumulated depreciation	(4,776)	(4,551)
Property and equipment, net	$ 984	$ 1,281

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6. INTANGIBLES AND OTHER ASSETS

	September 30, 2013	December 31, 2012
	(In thousands)	
Patents and trademarks	$ 28,357	$ 26,206
Other assets	208	192
Gross intangibles and other assets	28,565	26,398
Accumulated amortization of patents and trademarks	(11,400)	(10,673)
Intangibles and other assets, net	$ 17,165	$ 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
Amortization of Intangibles - excluding impairments or abandonments	$ 318	$ 264	$ 935	$ 777

The table below includes estimated remaining annual amortization expense for issued patents and trademarks as of September 30, 2013.

	Estimated Amortization Expense (In thousands)
Remainder of 2013	$ 323
2014	1,198
2015	1,093
2016	999
2017	870
Thereafter	2,739
Total	$ 7,222

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

	September 30, 2013	December 31, 2012
	(In thousands)	
Patents in process	$ 9,735	$ 9,270

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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

	September 30, 2013	December 31, 2012
	(In thousands)	
Accrued legal	$ 723	$ 410
Income taxes payable	26	30
Other current liabilities	630	582
Total other current liabilities	$ 1,379	$ 1,022
Deferred revenue	$ 11,186	$ 3,920
Customer advances	0	14
Total deferred revenue and customer advances	$ 11,186	$ 3,934

8. LONG-TERM DEFERRED REVENUE

Long-term deferred revenue consisted of the following:

	September 30, 2013	December 31, 2012
	(In thousands)	
Deferred revenue for Sony Computer Entertainment	$ 7,388	$ 9,636
Other deferred revenue	657	585
Long-term deferred revenue	$ 8,045	$ 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.

	September 30, 2013
Common stock shares available for grant	1,800,151
Common stock options outstanding	3,225,204
Restricted stock awards outstanding	44,000
Restricted stock units outstanding	710,723

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 September 30, 2013, 519,440 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 nine months ended September 30, 2013 are listed below. Shares purchased under the ESPP for the nine months ended September 30, 2012 are 25,628. 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.

	Nine Months Ended September 30, 2013
Shares purchased under ESPP	36,921
Average price of shares purchased under ESPP	$ 5.36
Intrinsic value of shares purchased under ESPP	$ 210,984

Summary of Stock Options

The following table sets forth the summary of option activity under the Company s stock option plans for the nine months ended September 30, 2013 and year ended December 31, 2012:

	Nine Months Ended September 30, 2013	Year Ended December 31, 2012
Beginning outstanding balance	3,155,631	3,267,838
Granted	1,036,900	425,150
Exercised	(943,609)	(231,403)
Forfeited and cancelled	(23,718)	(305,954)
Ending outstanding balance	3,225,204	3,155,631
Aggregate intrinsic value of options exercised	$ 5,694,000	$ 443,000

Weighted average fair value of options granted	5.61	3.35

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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 September 30, 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
September 30, 2013				
Options outstanding	3,225,204	$ 7.74	5.70	$ 18.2
Options vested and expected to vest using estimated forfeiture rates	2,953,946	7.56	5.64	17.2
Options exercisable	1,692,770	6.70	5.13	11.4

Summary of Restricted Stock Units

RSU activity for the nine months ended September 30, 2013 and year ended December 31, 2012 was as follows:

	Nine Months Ended September 30, 2013	Year Ended December 31, 2012
Beginning outstanding balance	708,651	407,765
Awarded	294,150	555,911
Released	(278,548)	(203,519)
Forfeited	(13,530)	(51,506)
Ending outstanding balance	710,723	708,651
Weighted average grant date fair value of RSUs granted	$ 7.12	$ 6.64
Total fair value of RSUs released	2,507,000	1,128,000
Total fair value of RSUs remaining unvested	9,382,000	4,868,000

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Information regarding RSUs outstanding at September 30, 2013 and December 31, 2012 is summarized below:

	Number of Shares	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (In millions)