

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2021

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
(State or other jurisdiction of
incorporation or organization)

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

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

(Address of principal executive offices) (Zip Code)

(408) 467-1900

(Registrant's telephone number, including area code)

Not Applicable

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

Securities Registered Pursuant to Section 12(b) of the Act:

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company	<input checked="" type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock outstanding at April 30, 2021 was 30,885,541.

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, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 102,624	\$ 59,522
Accounts and other receivables	2,034	2,218
Prepaid expenses and other current assets	11,213	12,610
Total current assets	115,871	74,350
Property and equipment, net	254	209
Long-term deposits	12,296	12,571
Other assets	7,987	9,000
Total assets	<u>\$ 136,408</u>	<u>\$ 96,130</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 469	\$ 149
Accrued compensation	933	1,001
Other current liabilities	2,718	2,457
Deferred revenue	5,098	5,173
Total current liabilities	9,218	8,780
Long-term deferred revenue	20,183	21,334
Other long-term liabilities	1,709	2,035
Total liabilities	31,110	32,149
Contingencies (Note 5)		
Stockholders' equity:		
Common stock and additional paid-in capital — \$0.001 par value; 100,000,000 shares authorized; 43,020,610 and 39,161,214 shares issued, respectively; 30,877,177 and 27,017,781 shares outstanding, respectively	298,037	258,756
Accumulated other comprehensive income	122	122
Accumulated deficit	(111,128)	(113,164)
Treasury stock at cost: 12,143,433 and 12,143,433 shares, respectively	(81,733)	(81,733)
Total stockholders' equity	105,298	63,981
Total liabilities and stockholders' equity	<u>\$ 136,408</u>	<u>\$ 96,130</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2021	2020
Revenues:		
Royalty and license	\$ 7,068	\$ 6,182
Development, services, and other	91	75
Total revenues	7,159	6,257
Costs and expenses:		
Cost of revenues	29	44
Sales and marketing	1,106	1,716
Research and development	1,307	1,689
General and administrative	2,224	7,356
Total costs and expenses	4,666	10,805
Operating income (loss)	2,493	(4,548)
Interest and other income (loss), net	(316)	(228)
Income (loss) before provision for income taxes	2,177	(4,776)
Provision for income taxes	(141)	(52)
Net income (loss)	\$ 2,036	\$ (4,828)
Basic net income (loss) per share	\$ 0.07	\$ (0.16)
Shares used in calculating basic net income (loss) per share	28,579	31,006
Diluted net income (loss) per share	\$ 0.07	\$ (0.16)
Shares used in calculating diluted net income (loss) per share	29,180	31,006
Other comprehensive income (loss)		
Change in unrealized gains (loss) on short-term investments	—	(2)
Total other comprehensive income (loss)	—	(2)
Total comprehensive income (loss)	\$ 2,036	\$ (4,830)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31, 2021						
	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balances at December 31, 2020	39,161,214	\$ 258,756	\$ 122	\$ (113,164)	12,143,433	\$ (81,733)	\$ 63,981
Net income				2,036			2,036
Issuance of stock for ESPP purchases	15,543	89					89
Exercise of stock options, net of shares withheld for employee taxes	306,987	2,724					2,724
Release of restricted stock units and awards	227,055						—
Shares issued in connection with public offering, net of offering costs	3,309,811	35,937					35,937
Stock-based compensation		531					531
Balances at March 31, 2021	<u>43,020,610</u>	<u>\$ 298,037</u>	<u>\$ 122</u>	<u>\$ (111,128)</u>	<u>12,143,433</u>	<u>\$ (81,733)</u>	<u>\$ 105,298</u>

	Three Months Ended March 31, 2020						
	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balances at December 31, 2019	38,624,784	\$ 253,289	\$ 124	\$ (118,565)	7,210,456	\$ (51,091)	\$ 83,757
Net loss				(4,828)			(4,828)
Unrealized gain on available-for-sale securities, net of taxes			(2)				(2)
Repurchase of stock					2,012,766	(11,975)	(11,975)
Issuance of stock for ESPP purchases	10,162	63					63
Release of restricted stock units and awards	189,735						—
Stock-based compensation		729					729
Balances at March 31, 2020	<u>38,824,681</u>	<u>\$ 254,081</u>	<u>\$ 122</u>	<u>\$ (123,393)</u>	<u>9,223,222</u>	<u>\$ (63,066)</u>	<u>\$ 67,744</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2021	2020
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$ 2,036	\$ (4,828)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	192	1,178
Stock-based compensation	531	729
Foreign currency remeasurement losses	280	361
Other	24	34
Changes in operating assets and liabilities:		
Accounts and other receivables	184	(2,202)
Prepaid expenses and other current assets	1,396	4,820
Long-term deposits	—	(361)
Other assets	843	339
Accounts payable	305	122
Accrued compensation	(68)	(855)
Other current liabilities	280	422
Deferred revenue	(1,226)	(1,302)
Other long-term liabilities	(367)	227
Net cash provided by (used in) operating activities	4,410	(1,316)
Cash flows provided by (used in) investing activities:		
Proceeds from maturities of short-term investments	—	3,000
Purchases of property and equipment	(57)	(21)
Net cash provided by (used in) investing activities	(57)	2,979
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of common stock, net	35,937	—
Cash paid for purchases of treasury shares	—	(11,975)
Proceeds from issuance of common stock under employee stock purchase plan	89	63
Proceeds from stock options exercises	2,723	—
Net cash provided by (used in) financing activities	38,749	(11,912)
Net increase (decrease) in cash and cash equivalents	43,102	(10,249)
Cash and cash equivalents:		
Beginning of period	59,522	86,478
End of period	\$ 102,624	\$ 76,229
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 13	\$ 19
Supplemental disclosure of non-cash operating, investing, and financing activities:		
Release of restricted stock units and awards under company stock plan	\$ 2,367	\$ 1,356
Leased assets obtained in exchange for new operating lease liabilities	\$ —	\$ 577

See accompanying Notes to Condensed Consolidated Financial Statements.

IMMERSION CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021
(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

Impact of COVID-19

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

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

In response to certain anticipated impacts from the COVID-19 pandemic, we implemented a series of cost reduction initiatives in the first half of 2020 to further preserve financial flexibility. These actions include: reductions of the base salaries and cash compensation of company executives and board members; cancellation and reduction in the 2020 executive and employee bonus plans; renegotiated professional services fees from third-party services providers; relocation of certain positions to lower-cost regions; temporarily suspended company matching of our employee retirement savings plan and taking advantage of the broad-based employer relief provided by the governments.

In April 2020, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") for Canadian employers whose businesses were affected by the COVID-19 pandemic. The CEWS provides a subsidy of up to 75% of eligible employees' employment insurable remuneration, subject to certain criteria. We applied for the CEWS to the extent we met the requirements to receive the subsidy. During the three months ended March 31, 2021, we recorded \$0.1 million in government subsidies as a reduction to operating expenses in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Principles of Consolidation and Basis of Presentation

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

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these condensed consolidated financial statements 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 U.S. GAAP and should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020. 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.

Use of Estimates

The preparation of condensed consolidated financial statements and related disclosures requires management to make estimates and assumptions that affect the reported amounts of the condensed consolidated financial statements. Significant estimates include revenue recognition, useful lives of property and equipment, valuation of income taxes including uncertain tax provisions, stock-based compensation and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The results of operations for the three months ended March 31, 2021 are not necessarily indicative of the results to be expected for the full year.

Segment Information

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

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

Recently Adopted Accounting Pronouncements

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

2. REVENUE RECOGNITION

Disaggregated Revenue

The following table presents the disaggregation of our revenue for the three months ended March 31, 2021 and 2020 (in thousands).

	Three Months Ended March 31,	
	2021	2020
Fixed fee license revenue	\$ 1,275	\$ 1,287
Per-unit royalty revenue	5,793	4,895
Total royalty and license revenue	7,068	6,182
Development, services, and other revenue	91	75
Total revenue	<u>\$ 7,159</u>	<u>\$ 6,257</u>

Per-unit Royalty Revenue

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

As a result of accruing per-unit royalty revenue for the quarter based on such estimates, adjustments will be required in the following quarter to true up revenue to the actual amounts reported by its licensees. We recorded \$0.5 million and \$0.1 million adjustments to decrease royalty revenue during the three months ended March 31, 2021 and 2020, respectively.

Contract Assets

As of March 31, 2021, we had contract assets of \$10.2 million included within *Prepaid expenses and other current assets*, and \$3.8 million included within *Other assets* on the Condensed Consolidated Balance Sheets. As of December 31, 2020, we had contract assets of \$11.6 million included within *Prepaid expenses and other current assets*, and \$4.6 million included within *Other assets*, on the *Condensed Consolidated Balance Sheets*.

Contract assets decreased by \$2.3 million from December 31, 2020 to March 31, 2021, primarily due to actual royalties billed during the three months ended March 31, 2021.

Contract Revenue

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

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

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

Based on contracts signed and payments received as of March 31, 2021, we expect to recognize \$25.2 million in revenue related to Performance Obligation B under our fixed fee license agreements, which is satisfied over time, including \$13.2 million over one to three years and \$12.0 million over more than three years.

Capitalized Contract Costs

During the three months ended March 31, 2021, we capitalized \$0.1 million of incremental costs incurred to obtain new contracts with customers.

3. FAIR VALUE MEASUREMENTS

Cash and Cash Equivalents

Our financial instruments measured at fair value on a recurring basis consisted of money market funds. We value these securities based quoted prices in active markets for identical assets.

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

Instruments 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. We had no Level 2 instruments at March 31, 2021 and December 31, 2020.

Instruments valued based on unobservable inputs which reflect the reporting entity's own assumptions or data that market participants would use in valuing an instrument are generally classified within Level 3 of the fair value hierarchy. As of March 31, 2021 and December 31, 2020, we did not hold any Level 3 instruments.

Our financial instruments consisted of money market accounts as of March 31, 2021 and December 31, 2020 are classified as cash equivalents.

Financial instruments measured at fair value on a recurring basis as of March 31, 2021 and December 31, 2020 are classified based on the valuation technique in the table below (in thousands):

	March 31, 2021			
	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
Assets:				
Money market accounts	\$ 70,616	\$ —	\$ —	\$ 70,616
Total assets at fair value ⁽¹⁾	<u>\$ 70,616</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 70,616</u>

(1) The above table excludes \$32.0 million of cash held in banks.

	December 31, 2020			
	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
Assets:				
Money market accounts	45,614	\$ —	\$ —	\$ 45,614
Total assets at fair value ⁽²⁾	<u>\$ 45,614</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 45,614</u>

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

4. BALANCE SHEETS DETAILS

Cash and Cash Equivalents

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

	March 31, 2021	December 31, 2020
Cash	\$ 32,008	\$ 13,908
Money market funds	70,616	45,614
Cash and cash equivalents	<u>\$ 102,624</u>	<u>\$ 59,522</u>

Accounts and Other Receivables

Accounts and other receivables consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Trade accounts receivable	\$ 1,402	\$ 1,618
Other receivables	632	600
Accounts and other receivables	<u>\$ 2,034</u>	<u>\$ 2,218</u>

Allowance for credit losses as of March 31, 2021 and December 31, 2020 were not material.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Prepaid expenses	846	816
Contract assets - current	10,172	11,623
Other current assets	195	171
Prepaid expenses and other current assets	<u>11,213</u>	<u>12,610</u>

Other Assets

Other assets consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Contract assets - long-term	\$ 3,776	\$ 4,596
Right-of-use ("ROU") assets	1,439	1,607
Deferred tax assets	2,659	2,659
Other assets	113	138
Total other assets	<u>\$ 7,987</u>	<u>\$ 9,000</u>

Other Current Liabilities

Other current liabilities are as follows (in thousands):

	March 31, 2021	December 31, 2020
Lease liabilities - current	1,365	1,382
Other current liabilities	1,353	1,075
Total other current liabilities	<u>\$ 2,718</u>	<u>\$ 2,457</u>

5. CONTINGENCIES

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

In the normal course of business, we provide indemnification of varying scope to customers, most commonly to licensees in connection with licensing arrangements that include our IP, although these provisions can cover additional matters. Historically, costs related to these guarantees have not been significant, and we are unable to estimate the maximum potential impact of these guarantees on its future results of operations.

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

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

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

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

LGE Korean Withholding Tax Matter

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

On November 3, 2017, on behalf of LGE, we filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes. The Korea Tax Tribunal hearing took place on March 5, 2019. On March 19, 2019, the Korea Tax Tribunal issued its ruling in which it decided not to accept our arguments with respect to the Korean tax authorities' assessment of withholding tax and penalties imposed on LGE. On behalf of LGE, we filed an appeal with the Korea Administrative Court on June 10, 2019. The first hearing occurred on October 15, 2019. A second hearing occurred on December 19, 2019. A third hearing occurred on February 13, 2020. A fourth hearing occurred on June 9, 2020. A fifth hearing occurred on July 16, 2020. We anticipated a decision to be rendered on or about October 8, 2020, but the Korea Administrative Court scheduled and held a sixth hearing for November 12, 2020. A seventh hearing occurred on January 14, 2021. An eighth hearing occurred on April 8, 2021. A ninth hearing is scheduled for June 24, 2021.

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

6. STOCK-BASED COMPENSATION

Stock Options and Awards

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

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

	March 31, 2021
Common stock shares available for grant	3,271
Stock options outstanding	521
PSUs outstanding	250
RSUs outstanding	565
RSAs outstanding	130

Time-Based Stock Options

The following summarizes activities for the time-based stock options for the three months ended March 31, 2021 (in thousands except for weighted average exercise price per share and weighted average remaining contractual life data):

	Number of Shares Underlying Stock Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2020	828	\$ 8.16	4.36	\$ 2,628
Granted	—	\$ —		
Exercised	(307)	\$ 8.87		
Canceled or expired	—	\$ —		
Outstanding at March 31, 2021	521	\$ 7.74	5.21	\$ 1,020
Vested and expected to vest at March 31, 2021	447	\$ 7.76	5.18	\$ 866
Exercisable at March 31, 2021	129	\$ 8.32	4.69	\$ 212

Aggregate intrinsic value is the difference between the closing price on the last trading day in March 2021 and the exercise price, multiplied by the number of in-the-money stock options.

Restricted Stock Units

The following summarizes RSU activities for the three months ended March 31, 2021 (in thousands except for weighted average grant date fair value and weighted average remaining contractual life data):

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2020	802	\$ 6.98	1.00	\$ 9,057
Granted	—	\$ —		
Released	(227)	\$ 7.49		
Forfeited	(10)	\$ 6.74		
Outstanding at March 31, 2021	565	\$ 6.78	1.08	\$ 5,415

Restricted Stock Awards

The following summarizes RSA activities for the three months ended March 31, 2021 (in thousands except for weighted average grant date fair value and weighted average remaining recognition period):

	Number of Restricted Stock Awards	Weighted Average Grant Date Fair Value	Weighted Average Remaining Recognition Period (Years)
Outstanding at December 31, 2020	130	\$ 6.53	0.45
Granted	—	\$ —	
Released	—	\$ —	
Forfeited	—	\$ —	
Outstanding at March 31, 2021	130	\$ 6.53	0.20

Market Condition-Based Restricted Stock Units

In the fourth quarter of 2020, we granted 250,000 shares of PSUs to our executives. Each PSU represents the right to one share of our common stock. These equity awards will vest if the volume-weighted closing price of our common stock exceeds certain levels for a number of trading days within a specified time frame. These awards vest over four years, with 25% eligible for vesting on the first anniversary of the grant date and remaining shares vesting on quarterly basis over the following three years. We have 250,000 shares of PSUs outstanding as of March 31, 2021.

Employee Stock Purchase Plan

Under our 1999 Employee Stock Purchase Plan ("ESPP"), eligible employees may purchase common stock through payroll deductions at a purchase price of 85% of the lower of the fair market value of our common stock at the beginning of the offering period or the purchase date. Participants may not purchase more than 2,000 shares in a six months offering period or purchase stock having a value greater than \$25,000 in any calendar year as measured at the beginning of the offering period. A total of 1.0 million shares of common stock has been reserved for issuance under the ESPP. During the three months ended March 31, 2021, 15,543 shares were purchased under the ESPP. As of March 31, 2021, 215,338 shares were available for future purchase under the ESPP.

Stock-based Compensation Expense

The following table summarizes stock-based compensation expenses recognized for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,	
	2021	2020
Stock options	\$ 15	\$ 255
RSUs and RSAs	497	462
Employee stock purchase plan	19	12
Total	\$ 531	\$ 729
Sales and marketing	\$ 224	\$ 45
Research and development	318	168
General and administrative	(11)	516
Total	\$ 531	\$ 729

We use the Black-Scholes-Merton option pricing model for our time-based options, single-option approach to determine the fair value of standard stock options. All share-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

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

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

	Three Months Ended March 31,	
	2021 ⁽¹⁾	2020
Expected life (in years)	N/A	4.2
Volatility	N/A	52 %
Interest rate	N/A	1.0 %
Dividend yield	N/A	— %

(1) There were no stock option grants in the three months ended March 31, 2021

As of March 31, 2021, there were \$5.3 million of unrecognized compensation costs, adjusted for estimated forfeitures, related to non-vested stock options, RSAs and RSUs. This unrecognized compensation cost will be recognized over an estimated weighted-average period of approximately 1.8 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

7. STOCKHOLDERS' EQUITY

Stock Offering

On February 3, 2021, we filed an universal shelf registration statement on Form S-3 with the Securities and Exchange Commission which provided us with the financial flexibility to raise up to \$250 million of capital. We intend to use the net proceeds from the sale of the securities offered by this prospectus for working capital and other general corporate purposes, and we may use a portion of any net proceeds for investment in complementary businesses or alternative currencies.

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

During the first quarter of 2021, we sold 3.3 million shares of our common stock pursuant to the Distribution Agreement and we received net proceeds of \$35.9 million from the offering net of \$1.2 million of commissions and other offering costs. We terminated the Distribution Agreement on March 5, 2021.

Stock Repurchase Program

On November 1, 2007, our Board of Directors (the "Board") authorized the repurchase of up to \$50.0 million of our common stock (the "Stock Repurchase Program"). In addition, on October 22, 2014, the Board authorized another \$30.0 million under the Stock Repurchase Program. As of June 30, 2020, we repurchased the maximum amount of shares of common stock available under the Stock Repurchase Program and no longer have any amount available for repurchase under the Stock Repurchase Plan.

During the first quarter of 2020, we repurchased approximately 2.0 million shares for approximately \$12.0 million at an average cost of \$5.95 per share.

8. INCOME TAXES

Income tax provision consisted of the following (in thousands, except for effective tax rate percentage):

	Three Months Ended March 31,	
	2021	2020
Income (loss) before provision for income taxes	2,177	(4,776)
Provision for income taxes	141	52
Effective tax rate	6.5 %	(1.1)%

The provision for income tax for the three months ended March 31, 2021 and 2020, respectively, resulted primarily from estimated foreign taxes included in the calculation of the effective tax rate. We continue to carry a full valuation allowance on our U.S. federal and State as well as Canada federal deferred tax assets. The effective tax rate is lower than statutory tax rate is mainly due to the benefit recorded on deferred tax assets utilized in current year for the U.S. federal and state jurisdictions.

As of March 31, 2021, we had unrecognized tax benefits under ASC 740 *Income Taxes* of approximately \$4.5 million and applicable interest of \$0. The total amount of unrecognized tax benefits that would affect our effective tax rate, if recognized, is \$0. Our policy is to account for interest and penalties related to uncertain tax positions as a component of income tax provision. We do not expect to have any significant changes to unrecognized tax benefits during the next twelve months.

As of March 31, 2021, we had net deferred income tax assets of \$2.7 million and deferred income tax liabilities of \$0.4 million. Because we have net operating loss and credit carryforwards, there are open statutes of limitations in which federal, state, and foreign taxing authorities may examine our tax returns for all years from 2001 through the current period. Currently we are under examination by the Internal Revenue Services for tax year 2018 and California Franchise Tax Board for tax years 2017 to 2019.

We maintain a valuation allowance of \$28.5 million against certain of our deferred tax assets, including all federal, state, and certain foreign deferred tax assets because 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. If we determine the deferred tax assets are realizable based on our assessment of relevant factors, an adjustment to the valuation allowance may increase income in the period such determination is made.

9. NET INCOME (LOSS) PER SHARE

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

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

	Three Months Ended March 31,	
	2021	2020
Numerator:		
Net income (loss)	\$ 2,036	\$ (4,828)
Denominator:		
Weighted-average common stock outstanding, basic	28,579	31,006
Dilutive effect of potential common shares:		
Stock options, stock awards and ESPP	601	—
Total shares, diluted	29,180	31,006
Basic net income (loss) per share	\$ 0.07	\$ (0.16)
Diluted net income (loss) per share	\$ 0.07	\$ (0.16)

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

For the three months ended March 31, 2021, we had stock options, RSUs, PSUs and RSAs outstanding that could potentially dilute basic earnings per share in the future, but these were excluded from the computation of diluted net income (loss) per share because their effect would have been anti-dilutive. These outstanding securities consisted of the following (in thousands):

	Three Months Ended March 31,	
	2021	2020
Stock options	14	1,370
RSUs and RSAs	—	1,263
	14	2,633

10. LEASES

We lease our office space under lease arrangements with expiration dates on or before February 29, 2024. We recognize lease expense on a straight-line basis over the lease term. Leases with an initial term of 12 months or less are not recorded on the *Condensed Consolidated Balance Sheets*. We combine lease and non-lease components for new and reassessed leases. We apply discount rates to operating leases using a portfolio approach.

Below is a summary of our right-of-use assets (“ROU”) assets and lease liabilities as of March 31, 2021 and December 31, 2020, respectively (in thousands):

	Balance Sheets Classification	March 31, 2021	December 31, 2020
Assets			
Right-of-use assets	Other assets	\$ 1,439	\$ 1,607
Liabilities			
Operating lease liabilities - current	Other current liabilities	1,365	1,382
Operating lease liabilities - long-term	Other long-term liabilities	1,351	1,677
Total lease liabilities		<u>\$ 2,716</u>	<u>\$ 3,059</u>

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

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

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

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

At the commencement date of the sublease, we recognized initial direct costs of \$0.3 million. These deferred costs will be amortized over the terms of the sublease payments. As of March 31, 2021, \$0.1 million was reported in *Prepaid expenses and other current assets* and \$0.1 million was reported in *Other assets* on our *Condensed Consolidated Balance Sheets*.

We recognize operating lease expense and lease payments from the sublease, on a straight-line basis, in our Condensed *Consolidated Statements of Operations and Comprehensive Income (Loss)* over the lease terms. During the three months ended March 31, 2021, and 2020, our net operating lease expenses are as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Operating lease cost	\$ 215	\$ 273
Sublease income	(257)	—
Net lease cost (income)	\$ (42)	\$ 273

The table below provides supplemental information related to operating leases for the three months ended March 31, 2021 and 2020 (in thousands except for lease term):

	Three Months Ended March 31,	
	2021	2020
Cash paid within operating cash flow	\$ 367	\$ 349
Weighted average lease terms	2.2	2.9
Weighted average discount rate	N/A	3.5 %

Minimum future lease payment obligations for our operating leases as of March 31, 2021 are as follows (in thousands):

For the Years Ending December 31,	
Remainder of 2021	\$ 1,131
2022	1,225
2023	462
2024	25
Total	\$ 2,843

Future lease payments as of March 31, 2021 from our sublease agreement are as follows (in thousands):

For the Years Ending December 31,	
Remainder of 2021	\$ 789
2022	1,077
2023	351
Total	\$ 2,217

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management’s Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements within the meaning of Section 27A of the Securities Act, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The forward-looking statements involve risks and uncertainties. Forward-looking statements are identified by words such as “anticipates”, “believes”, “expects”, “intends”, “may”, “can”, “will”, “places”, “estimates”, and other similar expressions. However, these words are not the only way we identify forward-looking statements. Examples of forward-looking statements include any expectations, projections, or other characterizations of future events, or circumstances, and include statements regarding: the impact of COVID-19 on our business, including as to revenue, and potential cost reduction measures, and the impact of COVID-19 on our customers, suppliers, and on the economy in general; our strategy and our ability to execute our business plan; our competition and the market in which we operate; our customers and suppliers; our revenue and the recognition and components thereof; our costs and expenses; including capital expenditures; seasonality and demand; our investment in research and technology development; changes to general and administrative expenses; our foreign operations and the reinvestment of our earnings related thereto; our investment in and protection of our IP; our employees; capital expenditures and the sufficiency of our capital resources; unrecognized tax benefit and tax liabilities; the impact of changes in interest rates and foreign exchange rates, as well as our plans with respect to foreign currency hedging in general; changes in laws and regulations; including with respect to taxes; our plans related to and the impact of current and future litigation; our sublease and the timing and income related thereto; our shelf S-3 registration statement and our plans with respect thereto, including anticipated use of proceeds; and our stock repurchase and equity distribution programs.

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

Any forward-looking statements made by us in this report speak only as of the date of this report, and we do not intend to update these forward-looking statements after the filing of this report, unless required to do so by applicable law. You are urged to review carefully and consider our various disclosures in this report and in our other reports publicly disclosed or filed with the SEC that attempt to advise you of the risks and factors that may affect our business.

OVERVIEW

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

We have adopted a business model under which we provide advanced tactile software, related tools and technical assistance designed to integrate our patented technology into our customers' products or enhance the functionality of our patented technology, and offer licenses to our patented technology to our customers. Our licenses enable our customers to deploy haptically-enabled devices, content and other offerings, which they typically sell under their own brand names. We and our wholly-owned subsidiaries hold more than 1,800 issued or pending patents worldwide as of March 31, 2021. Our patents cover a wide range of digital technologies and ways in which touch-related technology can be incorporated into and between hardware products and components, systems software, application software, and digital content. We believe that our IP is relevant to many of the most important and cutting-edge ways in which haptic technology is and can be deployed, including in connection with mobile interfaces and user interactions, in association with pressure and other sensing technologies, as part of video and interactive content offerings, as related to virtual and augmented reality experiences, and in connection with advanced actuation technologies and techniques.

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

CRITICAL ACCOUNTING POLICES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including those related to revenue recognition, stock-based compensation, short-term investments, leases, income taxes and contingencies. We base our estimates and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions.

Due to the COVID-19 pandemic, there has been uncertainty and disruption in the global economy and financial markets. We are not aware of any specific event or circumstance that would require updates to our estimates or judgments or require us to revise the carrying value of our assets or liabilities as of May 6, 2021, the date of issuance of this Quarterly Report on Form 10-Q. These estimates may change as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions.

Please refer to *Management's Discussion and Analysis of Financial Condition and Results of Operations* contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on March 5, 2021, for a complete discussion of our other critical accounting policies and estimates.

RESULTS OF OPERATIONS

OVERVIEW

Total revenue for the three months ended March 31, 2021 was \$7.2 million, an increase of \$0.9 million, or 14%, compared to \$6.3 million for the three months ended March 31, 2020 primarily driven by a \$0.9 million or 18%, increase in per-unit royalty revenue.

Net income for the three months ended March 31, 2021 was \$2.0 million, an increase of \$6.9 million, or 142%, as compared to a net loss of \$4.8 million for the three months ended March 31, 2020. The increase in net income was mainly attributable to a \$0.9 million increase in total revenue and a \$6.1 million decrease in total operating expenses.

The following table sets forth our Condensed Consolidated Statements of Operations data as a percentage of total revenue:

	Three Months Ended March 31,	
	2021	2020
Revenues:		
Fixed fee license revenue	18 %	21 %
Per-unit royalty revenue	81	78
Total royalty and license revenue	99	99
Development, services, and other revenue	1	1
Total revenues	100	100
Costs and expenses:		
Cost of revenues	—	1
Sales and marketing	15	27
Research and development	18	27
General and administrative	32	118
Total costs and expenses	65	173
Operating income (loss)	35	(73)
Interest and other income	(5)	(4)
Income (loss) before provision for income taxes	30	(76)
Provision for income taxes	(2)	(1)
Net income (loss)	28 %	(77)%

REVENUES

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

A revenue summary for the three months ended March 31, 2021 and 2020 are as follows (in thousands, except for percentages):

	Three Months Ended March 31,			
	2021	2020	\$ Change	% Change
Revenues:				
Fixed fee license revenue	\$ 1,275	\$ 1,287	\$ (12)	(1)%
Per-unit royalty revenue	5,793	4,895	898	18 %
Total royalty and license revenue	7,068	6,182	886	14 %
Development, services, and other revenue	91	75	16	21 %
Total revenues	\$ 7,159	\$ 6,257	\$ 902	14 %

Royalty and license revenue — Royalty and license revenue for the three months ended March 31, 2021 increased \$0.9 million, or 14%, from \$6.2 million for the three months ended March 31, 2020 to \$7.1 million for the three months ended March 31, 2021.

Per-unit royalty revenue increased by \$0.9 million, or 18%, in the three months ended March 31, 2021 compared to the three months ended March 31, 2020, primarily caused by a \$0.7 million increase in royalties from our gaming licensees.

Fixed fee license revenue was relatively flat in the three months ended March 31, 2021 compared to the same period in 2020.

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

Development, services and other revenue — Development, services, and other revenue was \$91,000 for the three months ended March 31, 2021 as compared to the \$75,000 the three months ended March 31, 2020.

Geographically, revenues generated in Asia, North America, and Europe for the three months ended March 31, 2021 represented 74%, 19%, and 7%, respectively, of our total revenue as compared to 79%, 17%, and 4%, respectively, for the three months ended March 31, 2020.

OPERATING EXPENSES

The following tables set forth a summary of our operating expenses for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,		Change	% Change
	2021	2020		
Sales and marketing	\$ 1,106	\$ 1,716	\$ (610)	(36)%
% of total revenue	15 %	27 %		
Research and development	\$ 1,307	\$ 1,689	\$ (382)	(23)%
% of total revenue	18 %	27 %		
General and administrative	\$ 2,224	\$ 7,356	\$ (5,132)	(70)%
% of total revenue	31 %	118 %		

Sales and Marketing - Our sales and marketing expenses primarily consisted of employee compensation and benefits, sales commissions, advertising, trade shows, collateral marketing materials, market development funds, travel, and allocated facilities costs.

Sales and marketing expenses decreased \$0.6 million, or 36%, in the first quarter of 2021 as compared to the first quarter of 2020 primarily attributable to a \$0.3 million decrease in depreciation expense, a \$0.1 million decrease in facility costs and a \$0.1 million decrease in travel costs. The decrease in depreciation expense in the first quarter of 2021 compared to the same period in 2020 was primarily attributable to the accelerated depreciation in the first quarter of 2020 resulting from the shortening in estimated useful life of the leasehold improvements of the San Jose, California ("SJ Facility") to March 31, 2020 following our decision to exit this facility. The decrease in facilities expense was largely attributable to the decrease in rent expense following the sublease of the SJ Facility in the second quarter of 2020. The decrease in travel costs were mainly attributable to reduced business activities as a result of the COVID-19 pandemic.

Research and Development — Our research and development expenses are comprised of employee compensation and benefits, outside services and consulting fees, tooling and supplies, and an allocation of facilities costs.

Research and development expenses decreased \$0.4 million, or 23%, for the three months ended March 31, 2021 compared to three months ended March 31, 2020. This decrease was primarily due to a \$0.2 million decrease in depreciation expense and \$0.1 million decrease in facilities expense primarily attributable to the reasons discussed above.

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

General and Administrative - Our general and administrative expenses primarily consisted of employee compensation and benefits, legal and professional fees, external legal costs for patents, office supplies, travel, and allocated facilities costs.

General and administrative expenses decreased \$5.1 million, or 70%, in the three months ended March 31, 2021 as compared to the same period in 2020 primarily due to a \$2.0 million decrease in compensation, benefits and other personnel related costs, a \$1.3 million decrease in legal expenses, a \$0.9 million decrease in professional services and outside services, \$0.5 million decrease in depreciation expense and a \$0.2 million decrease in facilities costs.

The decrease in compensation, benefits and other personnel related costs was primarily due to reduced headcount, lower salaries, variable compensation driven by the transition of our Accounting, Human Resources, Finance and IT functions from San Jose, California to Montreal, Canada and the impact of the COVID-19 related cost reduction initiatives implemented during 2020. The decrease in legal expense was primarily attributable to reduced activities, as well as a decrease in patent maintenance and prosecution costs. The decrease in consulting and professional services fees was due to decreases in accounting and audit fees and consulting and other professional fees in the first quarter of 2021 compared to the same period in 2020. The decrease in depreciation expense and facilities costs were primarily attributable to the reasons discussed above.

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

INTEREST AND OTHER INCOME (LOSS), NET

Interest and Other Income (Loss), Net — Interest and other income (loss), net consists of interest income from cash equivalents and short-term investments, translation exchange rate gains (losses) and other income.

Interest and other income (loss), net decreased \$0.1 million during the three months ended March 31, 2021 compared to the same period in 2020 primarily driven by a \$0.2 million decrease in investment earnings on cash and cash equivalents partially offset by a \$0.2 million decrease in foreign currency exchange losses.

The decrease in investment earnings was primarily due to lower interest rates during the three months ended March 31, 2021 compared to the same periods in 2020. The decrease in the foreign exchange losses was primarily driven by the fluctuation in South Korean Won exchanges rates against the U.S. Dollar.

PROVISION FOR INCOME TAXES

The following table sets forth a summary of our provision for income taxes for the three months ended March 31, 2021 and 2020 (in thousands except for percentages):

	Three Months Ended March 31,		Change	% Change
	2021	2020		
Income (loss) before provision for income taxes	\$ 2,177	\$ (4,776)		
Provision for income taxes	141	52	\$ 89	171 %
Effective tax rate	6.5 %	(1.1)%		

Provision for income tax for the three months ended March 31, 2021 and 2020 resulted primarily from estimated foreign taxes included in the calculation of the effective tax rate. We continue to carry a full valuation allowance on our U.S. federal and State as well as Canada federal deferred tax assets. The effective tax rate is lower than statutory tax rate is primarily due to the benefit recorded on deferred tax assets utilized in current year for the federal and state jurisdictions. The year-over-year change in provision for income taxes resulted primarily from the change in income from continuing operations across various tax jurisdictions.

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

We also maintain liabilities for uncertain tax positions. As of March 31, 2021, we had unrecognized tax benefits under ASC 740 of approximately \$4.5 million and applicable interest of \$0. The total amount of unrecognized tax benefits that would affect our effective tax rate, if recognized, is \$0.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents consist primarily of cash and money market funds. The securities are stated at market value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) within stockholders' equity.

On March 31, 2021, our cash and cash equivalents totaled \$102.6 million, an increase of \$43.1 million from \$59.5 million on December 31, 2020.

	Three Months Ended March 31,		Change	% Change
	2021	2020		
Net cash provided by (used in) operating activities	\$ 4,410	\$ (1,316)	\$ 5,726	(435)%
Net cash provided by (used in) investing activities	\$ (57)	\$ 2,979	\$ (3,036)	(102)%
Net cash provided by (used in) financing activities	\$ 38,749	\$ (11,912)	\$ 50,661	NM ¹

(1) Not meaningful.

Operating Activities

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

Net cash provided by operating activities was \$4.4 million during the three months ended March 31, 2021, a \$5.7 million increase compared the same period in 2020. This increase in net cash provided by operating activities was primarily attributable to a \$6.9 million increase in net income which was partially offset by a \$1.3 million decrease in noncash items.

Investing Activities

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

Net cash used in investing activities during the three months ended March 31, 2021 was \$0.1 million consisting purchases of property and equipment.

Net cash provided by investing activities during the three months ended March 31, 2020 was \$3.0 million primarily consisting of \$3.0 million proceeds from maturities of short-term investments.

Financing Activities

Our financing activities primarily consist of cash from issuance of common stock, proceeds from stock option exercises and stock purchases under our employee stock purchase plan and cash paid for repurchases of our common stock.

Net cash provided by financing activities during the three months ended March 31, 2021 was \$38.7 million primarily consisting of \$35.9 million net proceeds from common stock issuances and \$2.7 million proceeds from stock option exercises.

Net cash used in financing activities during the three months ended March 31, 2020 was \$11.9 million, and primarily consisted of \$12.0 million in cash paid for stock repurchases.

Our total cash and cash equivalents were \$102.6 million as of March 31, 2021, of which approximately 11% (\$11.0 million) was held by our foreign subsidiaries and subject to repatriation tax effects. Our intent is to permanently reinvest all of our earnings from foreign operations, and current plans do not anticipate that we will need funds generated from foreign operations to fund our domestic operations.

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

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

During the first quarter of 2021, we sold 3.3 million shares of our common stock pursuant to the Distribution Agreement and we received net proceeds of approximately \$35.9 million from the offering net of \$1.2 million of commissions and other offering costs. We terminated the Distribution Agreement on March 5, 2021.

During the first quarter of 2020, we repurchased approximately 2.0 million shares of our common stock for approximately \$12.0 million at an average cost of \$5.95 per share.

We anticipate that capital expenditures for property and equipment for the year ending December 31, 2021 will be less than \$1 million.

While the unprecedented public health and governmental efforts to contain the spread of COVID-19 have created significant uncertainty as to general economic and capital market conditions for the first half of 2021 and beyond, as of May 6, 2021, the date of this Quarterly Report on Form 10-Q, we believe we have sufficient capital resources to meet our working capital needs for the next twelve months.

Cash from operations could also be affected by various risks and uncertainties, including but not limited to the risks detailed in Part II, Item 1A Risk Factors.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1. *Significant Accounting Policies* of the Notes to Condensed Consolidated Financial Statements for information regarding the effect of new accounting pronouncements on our financial statements.

ITEM 4. CONTROLS AND PROCEDURES

Based on their evaluation as of March 31, 2021, our management, with the participation of our Interim Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective to ensure that the information required to be disclosed by us in this quarterly report on Form 10-Q was (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and (ii) accumulated and communicated to our management, including our Interim Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes to internal controls over financial reporting that occurred during the quarter ended March 31, 2021 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

Our management, including our Interim Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Immersion, have been detected.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

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

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

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

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

and received the ruling that allows Immersion to withdraw the case from the Fuzhou Intermediate Court on December 29, 2018. We pre-registered the appeals against the invalidation decisions with the Beijing IP Court on February 14, 2019. On April 28, 2019, we filed the appeal against the invalidation decisions with the Beijing IP court. On June 6, 2019, SIPO responded to our filing of the appeal with its counterarguments to the arguments set forth in our appeal filing. A hearing occurred on March 11, 2021. We currently anticipate no additional hearings. The Court did not indicate when a judgment would be determined.

LGE Korean Withholding Tax Matter

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

On November 3, 2017, on behalf of LGE, we filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes. The Korea Tax Tribunal hearing took place on March 5, 2019. On March 19, 2019, the Korea Tax Tribunal issued its ruling in which it decided not to accept our arguments with respect to the Korean tax authorities’ assessment of withholding tax and penalties imposed on LGE. On behalf of LGE, we filed an appeal with the Korea Administrative Court on June 10, 2019. The first hearing occurred on October 15, 2019. A second hearing occurred on December 19, 2019. A third hearing occurred on February 13, 2020. A fourth hearing occurred on June 9, 2020. A fifth hearing occurred on July 16, 2020. We anticipated a decision to be rendered on or about October 8, 2020, but the Korea Administrative Court scheduled and held a sixth hearing for November 12, 2020. A seventh hearing occurred on January 14, 2021. An eighth hearing occurred on April 8, 2021. A ninth hearing is scheduled for June 24, 2021.

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

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

ITEM 1A. RISK FACTORS

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

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

Risk Factor Summary

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

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

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

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

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

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

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

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

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

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

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

- difficulties caused by the effects of COVID-19 on our existing licensees’ businesses;
- difficulties in persuading existing customers to renew a license to our patents or other technologies (including delays associated with existing customers questioning the scope, validity, or enforceability) without the expenditure of significant resources;

- difficulties in persuading existing customers that they need a license to our patents as individual patents expire or become limited in scope, declared unenforceable or invalidated;
- reluctance of existing customers to renew their license to our patents or other technologies because other companies are not licensed;
- difficulties in renewing gaming licenses if video game console makers choose not to license third parties to make peripherals for their new consoles, if video game console makers no longer require peripherals to play video games, if video game console makers no longer utilize technology in the peripherals that are covered by our patents or if the overall market for video game consoles deteriorates substantially;
- the competition we may face from third parties, including the internal design and development teams of existing licensees;
- difficulties in persuading existing licensees who compensate us for including our software in certain of their touch-enabled products to also license and compensate us for our patents that cover other touch-enabled products of theirs that do not include our software; and
- inability of current licensees to ship certain devices if they are involved in IP infringement claims by third parties that ultimately prevent them from shipping products or that impose substantial royalties on their products.

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

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

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

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

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

A significant amount of our revenue is derived from a limited number of customers, and we expect that this will continue to be the case in the future. For example, for the three months ended March 31, 2021, Samsung accounted for a significant amount of our total revenues.

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

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

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

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

Shortages of electronic components (such as integrated circuits) that may be integral to the manufacturing of our customers' products may cause a decrease in production and sales of our customers' products which could result in lower royalties payable to us.

Many of our customers report and pay royalties to us based on the number of products in their shipments that incorporate our patented technology or other technology. Our customers' products may incorporate various electronic components, such as integrated circuits. A significant disruption in the supply of these electronic components (such as integrated circuits) could decrease the number of products that our customers sell which could reduce the amount of royalties that are payable to us.

For instance, the semiconductor industry has recently faced significant global supply chain issues as a result of the impact of the COVID-19 pandemic and the related imposition of government restrictions on staffing and facility operations, supply chain shortages, and other disruptions. Even though government restrictions have loosened, integrated circuit manufacturers continued to struggle to meet the new surge in demand. This is due to changing consumer habits fueled by the COVID-19 pandemic. If our customers experience significant shortages of electronic components that result in a reduction in our revenues, then our business, results of operations, financial condition, cash flows, and stock price may be adversely affected.

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

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

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

Rulings of courts and administrative bodies may affect our strategies for patent prosecution, licensing and enforcement. For example, in recent years, the USITC and U.S. courts, including the U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit, have taken actions that have been viewed as unfavorable to patentees. Decisions that occur in U.S. or in international forums may change the law applicable to various patent law issues, such as with respect to, patentability, validity, patent exhaustion, patent misuse, remedies, permissible licensing practices, claim construction, and damages in ways that could be detrimental to our ability to enforce patents in our IP portfolio and to obtain damages awards.

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

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

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

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

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

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

If we believe that a third party is required, but has declined, to license our intellectual property in order to manufacture, sell, offer for sale, import or use products, we have in the past and may in the future commence legal or administrative action against such third party. In some cases, we have and may become party to legal proceedings in which we are adverse to companies that have significantly greater financial resources than us. For example, we had previously initiated patent infringement litigation against Samsung and Motorola. We anticipate that currently pending and any future legal proceedings will continue to be costly, especially in cases where our adverse parties have access to relatively more significant resources. Since there can be no assurance that we will be successful or be able to recover the costs we incur in connection with the legal proceedings (including outside counsel fees), as we incur additional legal costs, the cash available for other parts of our business may decrease. In addition, litigation could lead to counterclaims, adverse rulings affecting our patents, and could harm our relationship with our customers and potential customers, who may postpone licensing decisions pending the outcome of the litigation or dispute, or who may choose not to adopt our technologies. Although protecting our intellectual property is a fundamental part of our business, at times, our legal proceedings have diverted, and could continue to divert, the efforts and attention of some of our key management and personnel away from our licensing transactions and other aspects of our business. As a result, until such time as it is resolved or concluded, litigation, arbitration and administrative proceedings could cause our technology to be perceived as less valuable in the marketplace, which could reduce our sales and adversely affect our business. Further, any unfavorable outcome could adversely affect our business. For additional background on our litigation, please see *Part II Item 1 Legal Proceedings*.

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

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

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

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

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

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

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

We had an accumulated deficit of \$111.1 million as of March 31, 2021, and we may not maintain consistent profitability in the future.

As of March 31, 2021, we had an accumulated deficit of \$111.1 million. We need to generate significant ongoing revenues to maintain consistent profitability. Among other ongoing expenses, we may continue to incur expenses related to:

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

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

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

We began a reorganization of our corporate organization in 2019 in order to address changing international tax laws and to re-align our corporate structure with the evolving nature of our international business activities. As a result of this reorganization, we have maintained our overall effective tax rate through changes in how we develop and use our intellectual property and changes in the structure of our international sales operations, including by entering into intercompany arrangements. There can be no assurance that the taxing authorities of the jurisdictions in which we operate or to which we are otherwise deemed to have sufficient tax nexus will not challenge the restructuring or the tax position that we take. Our tax rate is dependent on our ability to operate our business in a manner consistent with the reorganization of our corporate organization and applicable tax provisions, as well as on our achieving our forecasted revenue growth rates. If the intended tax treatment is not accepted by the applicable taxing authorities, changes in tax law negatively impact the structure, or we do not operate our business consistent with the intended reorganization and applicable tax provisions, we may fail to achieve the financial efficiencies that we anticipate as a result of the reorganization and our future operating results and financial condition may be negatively impacted. In addition, future changes to U.S. or non-U.S. tax laws, including legislation to reform U.S. or other countries' taxation of the organization.

Additionally, from time to time, we enter into license agreements with our licensees pursuant to which we may agree to indemnify a customer for certain taxes imposed on the customer by an applicable tax authority and related expense. We have received requests from certain licensees requesting that we reimburse them for certain tax liabilities. For example, on April 28, 2017, we received a letter from Samsung requesting that we reimburse Samsung with respect to withholding tax and penalties imposed on Samsung by the Korean tax authorities as a result of its determination that withholding taxes should have been withheld from certain payments made from Samsung to Immersion Software Ireland Limited, a request that was arbitrated by

a panel of the International Chamber of Commerce. On March 27, 2019, the panel issued a final award. The award ordered us to pay Samsung KRW 7,841,324,165 (approximately \$6.9 million as of March 31, 2019), which we paid on April 22, 2019, denied Samsung's claim for interest from and after May 2, 2017; and ordered us to pay Samsung's cost of the arbitration in the amount of approximately \$871,454. In the first quarter of 2019, \$6.9 million was recorded as a deposit included in Long-term deposits on our Condensed Consolidated Balance Sheets. We are currently appealing in the Korean courts, on behalf of Samsung, the imposition of such withholding taxes and penalties. In the event that we do not ultimately prevail in our appeal in the Korean courts, the deposit included in Long-term deposits would be recorded as additional income tax expense on our Consolidated Statements of Operations and Comprehensive Income (Loss), in the period in which we do not ultimately prevail. For additional background on this matter, please see Part I, Item 3 Legal Proceedings.

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

On November 3, 2017, on behalf of LGE, we filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes. The Korea Tax Tribunal hearing took place on March 5, 2019. On March 19, 2019, the Korea Tax Tribunal issued its ruling in which it decided not to accept our arguments with respect to the Korean tax authorities' assessment of withholding tax and penalties imposed on LGE. On behalf of LGE, we filed an appeal with the Korea Administrative Court on June 10, 2019. For additional background on this matter, please see Part I, Item 3 Legal Proceedings. In the event that we do not ultimately prevail in our appeal in the Korean courts, any payments to LGE with respect to withholding tax imposed on LGE by the Korean tax authorities as described in the previous paragraph would be recorded as additional income tax expense on our Consolidated Statements of Operations and Comprehensive Income (Loss), in the period in which we do not ultimately prevail.

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

Our international operations subject us to additional risks and costs.

We currently have sales personnel and other personnel in Canada, the United Kingdom and Japan who may engage in various activities, including engaging our customers and prospective customers outside of the United States. International revenues accounted for approximately 85% of our total revenues in the first three months of 2021. International operations are subject to a number of difficulties, risks, and special costs, including:

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

- the possibility of volatility in financial markets as certain market participants transition away from the London Inter-bank Offered Rate (LIBOR).

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

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

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

Our international operations could also increase our exposure to foreign and international laws and regulations. If we cannot comply with foreign laws and regulations, which are often complex and subject to variation, differing or inconsistent government interpretation, and unexpected changes, we could incur unexpected costs and potential litigation. For example, the governments of foreign countries might attempt to regulate our products or levy sales or other taxes relating to our activities. In addition, foreign countries may impose tariffs, duties, price controls, or other restrictions on foreign currencies or trade barriers, any of which could make it more difficult for us to conduct our business internationally. Our international operations could also increase our exposure to complex international tax rules and regulations. Changes in, or interpretations of, tax rules and regulations may adversely affect our income tax provision. In addition, our operations outside the United States may be affected by changes in trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment, including the U.S. Foreign Corrupt Practices Act and local laws prohibiting corrupt payments by our employees, vendors, or agents.

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

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

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

In addition, while Microsoft, Sony, and Nintendo are among our licensees in the gaming market, a significant portion of our gaming royalty revenues comes from third-party peripheral makers who make licensed gaming products designed for use with popular video game console systems from such video game console makers. Video game console systems are closed,

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

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

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

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

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

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

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

A key part of our business strategy is to license our software and patents (and other IP) to companies that manufacture and sell products incorporating our touch-enabling technologies. For the year ended December 31, 2020, 99% of our total revenues were royalty and license revenues, as compared to 99% for the year ended December 31, 2019. We do not control or influence the design, manufacture, quality control, promotion, distribution or pricing of products that are manufactured and sold by our

licensees, nor can we control consolidation within an industry which could either reduce the number of licensable products available or reduce royalty rates for the combined licensees. In addition, we generally do not have commitments from our licensees that they will continue to use our technologies in current or future products. As a result, products incorporating our technologies may not be brought to market, achieve commercial acceptance or otherwise generate meaningful royalty revenue for us. For us to generate royalty and license revenue, licensees that pay us per-unit royalties must manufacture and distribute products incorporating our touch-enabling technologies in a timely fashion and generate consumer demand through marketing and other promotional activities. If our licensees' products fail to achieve commercial success, or if their products are recalled because of quality control problems or if they do not timely ship products incorporating our touch-enabling technologies or fail to achieve strong sales, our revenues could decline.

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

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

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

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

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

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

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

We might be unaware of any actual or potential security breach or be delayed in detecting a security breach, or, even if we are able to identify a breach, we may be unaware of its magnitude and effects. Actual or perceived security breaches could

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Any failure to provide high quality and reliable technologies, whether caused by our own failure or failures of our suppliers or customers, could damage our reputation and reduce demand for our technologies. Our technologies have in the past contained, and may in the future contain, undetected errors or defects. These errors or defects may increase as our technologies are introduced into new devices, markets and applications, including the automotive market and the sexual wellness market, or as new versions are released. Some errors in our technologies may only be discovered after a customer's product incorporating our technologies has been shipped to customers. Undiscovered vulnerabilities in our technologies or products could expose our customers to hackers or other unscrupulous third parties who develop and deploy viruses, worms and other malicious software programs that could attach to our products or technologies. Any errors or defects discovered in our technologies after commercial release could result in product recalls, loss of revenue, loss of customers, and increased service and warranty costs, any of which could adversely affect our business.

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

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

For example, the EU General Data Protection Regulation ("GDPR"), which became fully effective on May 25, 2018, imposes more stringent data protection requirements than previously effective EU data protection law and provides for penalties for noncompliance of up to the greater of €20 million or four percent of worldwide annual revenues. The GDPR requires, among other things, that personal data only be transferred outside of the European Economic Area ("EEA") to certain jurisdictions, including the United States, if steps are taken to legitimize those data transfers. We rely on the Swiss-U.S. Privacy Shield programs, and the use of Standard Contractual Clauses ("SCCs") approved by the EU Commission, to

legitimize these transfers. Previously, we relied on the EU-U.S. Privacy Shield framework to legitimize transfers of personal data from the EEA to the United States. However, on July 16, 2020, the Court of Justice of the European Union (“CJEU”) invalidated Decision 2016/1250 on the adequacy of the protection provided by the EU-U.S. Privacy Shield Framework. This decision may increase our costs and limit our ability to process personal data from the European Union. The same decision also cast doubt on the ability to use one of the primary alternatives to the Privacy Shield, namely, SCCs, to lawfully transfer personal data from Europe to the United States and most other countries. At present, there are few if any viable alternatives to the Privacy Shield and the SCCs. This CJEU decision or other legal challenges relating to cross-border data transfer may serve as a basis for our personal data handling practices to be challenged and may otherwise adversely impact our business, financial condition and operating results.

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

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

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

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

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

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

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

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

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

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

General Risk Factors: Investment Risks

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

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

These factors include:

- the impact of COVID-19
- the establishment or loss of licensing relationships;
- the timing and recognition of payments under fixed and/or up-front fee license agreements, as well as other multi-element arrangements;
- seasonality in the demand for our technologies or products or our licensees' products;
- the timing of our expenses, including costs related to litigation, stock-based awards, acquisitions of technologies, or businesses;
- developments in and costs of pursuing or settling any pending litigation;
- the timing of introductions and market acceptance of new technologies and products and product enhancements by us, our licensees, our competitors, or their competitors;
- the timing of work performed under development agreements; and
- errors in our licensees' royalty reports, and corrections and true-ups to royalty payments and royalty rates from prior periods.

Our stock price may fluctuate regardless of our performance.

Our stock price has experienced substantial price volatility in the past and may continue to do so in the future. Further, our business, the technology industry and the stock market as a whole have experienced extreme stock price and volume fluctuations that have affected stock prices in ways that may have been unrelated to corporate operating performance. For example, in 2020 as a result of macroeconomic conditions and the related impact of COVID-19, the stock market experienced wide fluctuations. In the past twelve months, our stock price has fluctuated from as low as \$5.67 per share in June 2020 to a high of \$16.64 in February 2021. This significant volatility may continue to occur in the future for reasons that are unrelated to our business or if our business experiences unexpected results. The market price of our common stock has been, and in the

future could be, significantly affected by our operations as well such as: actual or anticipated fluctuations in operating results; announcements of technical innovations; announcements regarding litigation in which we are involved; the acquisition or loss of customers; changes by game console manufacturers to not include touch-enabling capabilities in their products; new products or new contracts; sales or the perception in the market of possible sales of large number of shares of our common stock by insiders or others; stock repurchase activity; sale of stock by the company, changes in securities analysts' recommendations; personnel changes; changing circumstances regarding competitors or their customers; governmental regulatory action or inaction; developments with respect to patents or proprietary rights; inclusion in or exclusion from various stock indices; increased tariffs and international trade disputes; and general market conditions. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has been initiated against that company, which could lead to increased litigation costs and could adversely affect our operating results and our stock price.

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

It is likely that we will need to seek additional capital in the future and from time to time. If this financing is obtained through the issuance of equity securities, debt convertible into equity securities, options or warrants to acquire equity securities or similar instruments or securities, our existing stockholders will experience dilution in their ownership percentage upon the issuance, conversion or exercise of such securities and such dilution could be significant. Additionally, any new equity securities issued by us could have rights, preferences or privileges senior to those of our common stock. For example, on February 11, 2021, we entered into an Equity Distribution Agreement with Craig-Hallum Capital Group LLC ("Craig-Hallum"), pursuant to which we were able to issue and sell shares of our common stock having an aggregate offering price of up to \$50 million, from time to time, through an "at the market" equity offering program under which Craig-Hallum acted as sales agent. While we terminated the Equity Distribution Agreement on March 5, 2021, the issuance and sale of shares of our common stock pursuant to that "at the market" equity offering program has had a dilutive impact on our existing stockholders. Further, the issuance and sale of, or the perception that we may issue and sell, additional shares of common stock pursuant to future "at the market" equity offering programs or an additional private placement could have the effect of depressing the market price of our common stock or increasing the volatility thereof. Any issuance by us or sales of our securities by our security holders, including by any of our affiliates, or the perception that such issuances or sales could occur, could negatively impact the market price of our securities.

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

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

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

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

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

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

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

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

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

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

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

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

For example, on January 1, 2018, we adopted Accounting Standard Codification 606, *Revenue from Contracts with Customers*, ("ASC 606"). The adoption has affected our revenue recognition model for both fixed fee license revenue and per-unit royalty revenue derived from our new and existing contracts with licensees. Under ASC 606, if a fixed fee license agreement contains both performance obligations to transfer rights to our patent portfolio as it exists when the contract is executed as well as rights to our patent portfolio as it evolves throughout the contract term, we are required to allocate the fixed fee between the two performance obligations which could result in the recognition of a substantial majority of the fixed fee as revenue upon the execution of the license agreement. Prior to the adoption, as a historical practice applied by many

licensing companies, we recognized fixed license fees ratably over the contract term. In addition, our previous accounting practice was to recognize revenue from per-unit royalty agreements in the period in which the related royalty report was received from our licensees, generally one quarter in arrears from the period in which the underlying sales occurred (i.e. on a “quarter-lag”). Under ASC 606, we are required to record per-unit royalty revenue in the same period in which the licensee’s underlying sales occur. As we generally do not receive the per-unit licensee royalty reports for sales during a given quarter within the time frame that allows us to adequately review the reports and include the actual amounts in our quarterly results for such quarter, we accrue the related revenue based on estimates of our licensees’ underlying sales, subject to certain contractual terms on our ability to estimate such amounts. As a result of accruing per-unit royalty revenue for the quarter based on estimates, adjustments will be required in the following quarter to true up revenue to the actual amounts reported by our licensees. Such changes have significantly affected our reported financial condition and/or results of operations, causing the amount of revenue we recognize to vary dramatically from quarter to quarter, and even year to year, depending on the timing of entry into license agreements and whether such agreements have fixed-fee or per-unit royalty terms. In addition, these reporting practices and the resulting fluctuations in our reported revenue could cause a decline and/or fluctuation in the price of our common stock.

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

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

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

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

- only a majority of our board of directors or stockholders of not less than 10% of all of the shares entitled to cast votes at such meeting are authorized to call a special meeting of stockholders;
- our stockholders can only take action at a meeting of stockholders and not by written consent;
- subject to the rights of a holder of any series of preferred stock, vacancies on our board of directors can be filled only by our board of directors and not by our stockholders;
- our restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

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

ITEM 6. EXHIBITS

The exhibits listed in the accompanying “Exhibit Index” are filed or incorporated by reference as part of this Form 10-Q.

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Bylaws of Immersion Corporation, as adopted on October 31, 2016	8-K	000-27969	3.1	November 4, 2016
3.2	Amended and Restated Certificate of Incorporation of Immersion Corporation	8-K	000-27969	3.1	June 7, 2017
3.3	Certificate of Designation of the Powers, Preferences and Rights of Series A Redeemable Convertible Preferred Stock	8-K	000-27969	3.1	July 29, 2003
3.4	Certificate of Designations of Series B Participating Preferred Stock of Immersion Corporation	8-K	000-27969	3.1	December 27, 2017
10.1	Equity Distribution Agreement, dated as of February 11, 2021, by and between Immersion Corporation and Craig-Hallum Capital Group LLC	8-K	001-38334	1.1	February 11, 2021
31.1	* Certification of Jared Smith, Interim Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	* Certification of Aaron Akerman, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1 *	+ Certification of Jared Smith, Interim Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
32.2 *	+ Certification of Aaron Akerman, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	* XBRL Report Instance Document				
101.SCH	* XBRL Taxonomy Extension Schema Document				
101.CAL	* XBRL Taxonomy Calculation Linkbase Document				
101.DEF	* XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	* XBRL Taxonomy Label Linkbase Document				
101.PRE	* XBRL Presentation Linkbase Document				

* Filed herewith.

+ Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

IMMERSION CORPORATION

Date: May 6, 2021

By: /s/ AARON AKERMAN

Aaron Akerman
Chief Financial Officer and
Principal Accounting Officer

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

I, Jared Smith, certify that:

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

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

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

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

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

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

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

Date: May 6, 2021

/s/ JARED SMITH

Jared Smith

Interim Chief Executive Officer

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

I, Aaron Akerman, certify that:

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

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

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

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

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

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

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

Date: May 6, 2021

/s/ AARON AKERMAN

Aaron Akerman

Chief Financial Officer

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

In connection with the Annual Report of Immersion Corporation (the “Company”) on Form 10-K for the year ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jared Smith, Interim Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ JARED SMITH

Jared Smith

Interim Chief Executive Officer

May 6, 2021

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

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

In connection with the Annual Report of Immersion Corporation (the “Company”) on Form 10-K for the year ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Aaron Akerman, Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/AARON AKERMAN

Aaron Akerman

Chief Financial Officer

May 6, 2021

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