

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

FORM 10-Q

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

For the quarterly period ended **September 30, 2023**
or

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

For the transition period from _____ to _____
Commission File Number **000-38334**

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.)*

2999 N.E. 191st Street, Suite 610, Aventura, FL, 33180
(Address of principal executive offices, zip code)

(408) 467-1900
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, 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	NASDAQ Global Market
Series B Junior Participating Preferred Stock Purchase Rights	IMMR	NASDAQ Global 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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	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 Act). Yes No

Number of shares of common stock outstanding at November 8, 2023 was 31,839,986.

IMMERSION CORPORATION

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PART I**FINANCIAL INFORMATION****Item 1. Financial Statements****IMMERSION CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)**

	September 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 28,701	\$ 48,820
Investments - current	121,997	100,918
Accounts and other receivables	2,558	1,235
Prepaid expenses and other current assets	7,589	9,347
Total current assets	<u>160,845</u>	<u>160,320</u>
Property and equipment, net	231	293
Investments - noncurrent	29,855	17,040
Long-term deposits	6,230	4,324
Deferred tax assets	7,217	7,217
Other assets	303	916
Total assets	<u>\$ 204,681</u>	<u>\$ 190,110</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 44	\$ 86
Accrued compensation	616	2,029
Deferred revenue - current	4,731	4,766
Other current liabilities	20,424	12,465
Total current liabilities	<u>25,815</u>	<u>19,346</u>
Deferred revenue - noncurrent	9,088	12,629
Other long-term liabilities	345	435
Total liabilities	<u>35,248</u>	<u>32,410</u>
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock and additional paid-in capital	322,747	322,714
Accumulated other comprehensive income	1,195	202
Accumulated deficit	(52,030)	(70,016)
Treasury stock	(102,479)	(95,200)
Total stockholders' equity	<u>169,433</u>	<u>157,700</u>
Total liabilities and stockholders' equity	<u>\$ 204,681</u>	<u>\$ 190,110</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September		Nine Months Ended September	
	30,	30,	30,	30,
	2023	2022	2023	2022
Revenues:				
Royalty and license	\$ 9,474	\$ 13,931	\$ 23,401	\$ 29,079
Development, services, and other	8	75	138	218
Total revenues	9,482	14,006	23,539	29,297
Operating expenses:				
Sales and marketing	367	282	861	990
Research and development	30	254	259	1,118
General and administrative	2,566	2,540	9,528	8,550
Total operating expenses	2,963	3,076	10,648	10,658
Operating income	6,519	10,930	12,891	18,639
Interest and other income (loss), net	(2,554)	(2,348)	10,731	(6,413)
Income before provision for income taxes	3,965	8,582	23,622	12,226
Provision for income taxes	(1,285)	(877)	(5,636)	(1,264)
Net income	\$ 2,680	\$ 7,705	\$ 17,986	\$ 10,962
Basic net income per share	\$ 0.08	\$ 0.23	\$ 0.56	\$ 0.33
Shares used in calculating basic net income per share	32,523	33,201	32,254	33,601
Diluted net income per share	\$ 0.08	\$ 0.23	\$ 0.55	\$ 0.32
Shares used in calculating diluted net income per share	32,750	33,682	32,586	34,035
Other comprehensive income, net of tax				
Deferred gains on available-for-sale marketable debt securities	320	156	776	(1,025)
Realized losses on available-for-sale marketable debt securities reclassified to net income	—	188	217	556
Total other comprehensive income	320	344	993	(469)
Total comprehensive income	\$ 3,000	\$ 8,049	\$ 18,979	\$ 10,493

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 September 30, 2023						
	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balances at June 30, 2023	47,519,064	\$ 322,870	\$ 875	\$ (54,710)	15,260,452	\$ (98,999)	\$ 170,036
Net income	—	—	—	2,680	—	—	2,680
Unrealized gain on available-for-sale securities, net of taxes	—	—	320	—	—	—	320
Release of restricted stock units and awards, net of shares withheld	51,875	—	—	—	21,527	(152)	(152)
Stock option exercises	—	—	—	—	—	—	—
Shares issued to an employee in lieu of cash compensation	7,326	48	—	—	—	—	48
Stock repurchases	—	—	—	—	485,061	(3,328)	(3,328)
Dividends declared	—	(991)	—	—	—	—	(991)
Stock-based compensation	—	820	—	—	—	—	820
Balances at September 30, 2023	<u>47,578,265</u>	<u>\$ 322,747</u>	<u>\$ 1,195</u>	<u>\$ (52,030)</u>	<u>15,767,040</u>	<u>\$ (102,479)</u>	<u>\$ 169,433</u>

	Three Months Ended September 30, 2022						
	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balances at June 30, 2022	46,851,509	\$ 325,351	\$ (401)	\$ (97,423)	13,378,528	\$ (87,790)	\$ 139,737
Net income	—	—	—	7,705	—	—	7,705
Unrealized gains on available-for-sale securities, net of taxes	—	—	344	—	—	—	344
Stock repurchases	—	—	—	—	954,247	(5,304)	(5,304)
Release of restricted stock units and awards, net of shares withheld	51,875	—	—	—	13,768	(74)	(74)
Issuance of stock for ESPP purchase	3,691	16	—	—	—	—	16
Stock-based compensation	—	730	—	—	—	—	730
Balances at September 30, 2022	<u>46,907,075</u>	<u>\$ 326,097</u>	<u>\$ (57)</u>	<u>\$ (89,718)</u>	<u>14,346,543</u>	<u>\$ (93,168)</u>	<u>\$ 143,154</u>

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

Nine Months Ended September 30, 2023

	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, 2022	46,974,598	\$ 322,714	\$ 202	\$ (70,016)	14,727,582	\$ (95,200)	\$ 157,700
Net income	—	—	—	17,986	—	—	17,986
Unrealized gain on available-for-sale securities, net of taxes	—	—	993	—	—	—	993
Stock repurchases	—	—	—	—	898,757	(6,180)	(6,180)
Release of restricted stock units and awards, net of shares withheld	508,344	—	—	—	140,701	(1,099)	(1,099)
Proceeds from stock options exercises	21,222	160	—	—	—	—	160
Issuance of stock for ESPP purchase	1,298	6	—	—	—	—	6
Shares issued to an employee in lieu of cash compensation	72,803	538	—	—	—	—	538
Dividends declared	—	(3,197)	—	—	—	—	(3,197)
Stock-based compensation	—	2,526	—	—	—	—	2,526
Balances at September 30, 2023	<u>47,578,265</u>	<u>\$ 322,747</u>	<u>\$ 1,195</u>	<u>\$ (52,030)</u>	<u>15,767,040</u>	<u>\$ (102,479)</u>	<u>\$ 169,433</u>

Nine Months Ended September 30, 2022

	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balances at December 31, 2021	46,534,198	\$ 323,296	\$ 412	\$ (100,680)	12,143,433	\$ (81,733)	\$ 141,295
Net income	—	—	—	10,962	—	—	10,962
Unrealized loss on available-for-sale securities, net of taxes	—	—	(469)	—	—	—	(469)
Stock repurchases	—	—	—	—	2,174,793	(11,281)	(11,281)
Issuance of stock for ESPP purchase	11,416	51	—	—	—	—	51
Release of restricted stock units and awards, net of shares withheld	344,944	—	—	—	28,317	(154)	(154)
Shares issued to an employee in lieu of cash compensation	16,517	84	—	—	—	—	84
Shares issued in connection with public offering, net of issuance costs	—	5	—	—	—	—	5
Stock-based compensation	—	2,661	—	—	—	—	2,661
Balances at September 30, 2022	<u>46,907,075</u>	<u>\$ 326,097</u>	<u>\$ (57)</u>	<u>\$ (89,718)</u>	<u>14,346,543</u>	<u>\$ (93,168)</u>	<u>\$ 143,154</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2023	2022
Cash flows provided by (used in) operating activities:		
Net income	\$ 17,986	\$ 10,962
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation of property and equipment	56	95
Reduction in carrying value of right of use assets	277	524
Stock-based compensation	2,526	2,661
Net (gains) losses on investment in marketable securities	(4,330)	13,288
Net loss on derivative instruments	(341)	(3,393)
Foreign currency remeasurement gains	68	161
Shares issued to an employee in lieu of cash compensation	538	84
Other noncash	(86)	(29)
Changes in operating assets and liabilities:		
Accounts and other receivables	(1,323)	(1,373)
Prepaid expenses and other current assets	1,024	5,702
Long-term deposits	(1,967)	1,114
Other assets	337	5,084
Accounts payable	(44)	16
Accrued compensation	(1,413)	715
Other current liabilities	3,080	527
Deferred revenue	(3,576)	(2,954)
Other long-term liabilities	(33)	(950)
Net cash and cash equivalents provided by operating activities	<u>12,779</u>	<u>32,234</u>
Cash flows provided by (used in) investing activities:		
Purchases of marketable securities and other investments	(158,347)	(131,100)
Proceeds from sale or maturities of marketable securities and other investments	130,602	95,225
Proceeds from sale of derivative instruments	17,888	11,170
Payments for settlement of derivative instruments	(9,508)	(10,844)
Purchases of property and equipment	(1)	(29)
Net cash and cash equivalents used in investing activities	<u>(19,366)</u>	<u>(35,578)</u>
Cash flows provided by (used in) financing activities:		
Dividend payments to stockholders	(6,419)	—
Payment for purchases of treasury stock	(6,180)	(11,281)
Proceeds from issuance of common stock under employee stock purchase plan	6	51
Proceeds from stock options exercises	160	—
Shares withheld to cover payroll taxes	(1,099)	(154)
Other financing activities	—	5
Net cash and cash equivalents used in financing activities	<u>(13,532)</u>	<u>(11,379)</u>
Net decrease in cash and cash equivalents	(20,119)	(14,723)
Cash and cash equivalents:		
Beginning of period	48,820	51,490
End of period	<u>\$ 28,701</u>	<u>\$ 36,767</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

IMMERSION CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September	
	30,	
	2023	2022
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 883	\$ 662
Supplemental disclosure of non-cash investing, and financing activities:		
Dividends declared but not yet paid	\$ 991	\$ —
Leased assets obtained in exchange for new operating lease liabilities	\$ —	\$ 120

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 offer licenses for our patented technology to our customers.

Principles of Consolidation and Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Immersion 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 the applicable articles 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, 2022. 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. Certain prior year amounts have been reclassified to conform with the current year presentation.

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, fair value of financial instruments, valuation of income taxes including uncertain tax provisions, stock-based compensation and long-term deposits for withholding 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 nine months ended September 30, 2023 are not necessarily indicative of the results to be expected for the full year.

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation.

Segment Information

We develop, license, and support a wide range of intellectual property (“IP”) that more fully engage users’ sense 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.

Recent Account Pronouncements

We do not expect recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2023, to have significant impact on our financial positions and results of operations.

2. REVENUE RECOGNITION

Disaggregated Revenue

The following table presents the disaggregation of our revenue for the three and nine months ended September 30, 2023, and 2022 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Fixed fee license revenue	\$ 1,191	\$ 7,662	\$ 3,594	\$ 10,653
Per-unit royalty revenue	8,283	6,269	19,807	18,426
Total royalty and license revenue	9,474	13,931	23,401	29,079
Development, services, and other revenue	8	75	138	218
Total revenues	\$ 9,482	\$ 14,006	\$ 23,539	\$ 29,297

Per-unit Royalty Revenue

We record per-unit royalty revenue in the same period in which the licensee’s underlying sales occur. When we 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 our licensees. In the three months ended September 30, 2023, we recorded adjustments of \$0.5 million to increase royalty revenue. We recorded adjustments of \$0.2 million to decrease royalty revenue during the three months ended September 30, 2022.

Contract Assets

As of September 30, 2023, we had contract assets of \$6.3 million included within *Prepaid expenses and other current assets*, and \$0.2 million included within *Other assets* on the *Condensed Consolidated Balance Sheets*. As of December 31, 2022, we had contract assets of \$7.7 million included within *Prepaid expenses and other current assets*, and \$0.5 million included within *Other assets* on the *Condensed Consolidated Balance Sheets*.

Contract assets decreased by \$1.7 million from January 1, 2023, to September 30, 2023, primarily due to actual royalties billed during the nine months ended September 30, 2023.

Deferred 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: Transfer of rights to our patent portfolio as it exists when the contract is executed; and
- Performance Obligation B: Transfer of 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 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 which best represents the ongoing and continuous nature of the patent prosecution process. 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 September 30, 2023, we expect to recognize \$13.8 million in revenue related to Performance Obligation B under our fixed fee license agreements, which are satisfied over time, including \$8.1 million over one to three years and \$5.7 million over more than three years.

As of December 31, 2022, total deferred revenue was \$17.4 million. We recognized \$3.6 million of deferred revenue during the nine months ended September 30, 2023.

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Marketable Securities

We invest surplus funds in excess of operational requirements in a diversified portfolio of marketable securities, with the objectives of delivering competitive returns, maintaining a high degree of liquidity, and seeking to avoid the permanent impairment of principal.

We regularly review our investment portfolio to identify and evaluate investments that have indicators of possible impairment. Investments are considered impaired when a decline in fair value is judged to be other-than-temporary. If the cost of an individual investment exceeds its fair value, we evaluate, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and our intent and ability to hold the investment. Once a decline in fair value is determined to be other-than-temporary, we will record an impairment charge and establish a new cost basis for the investment.

Marketable securities as of September 30, 2023 and December 31, 2022 consisted of the following (in thousands):

	September 30, 2023			
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Marketable equity securities				
Mutual funds	\$ 13,009	\$ —	\$ (1,381)	\$ 11,628
Equity securities	69,253	3,087	(7,437)	64,903
Total marketable equity securities	82,262	3,087	(8,818)	76,531
Marketable debt securities				
U.S. treasury securities	58,237	808	(87)	58,958
Corporate bonds	16,123	273	(33)	16,363
Total marketable debt securities	74,360	1,081	(120)	75,321
	<u>\$ 156,622</u>	<u>\$ 4,168</u>	<u>\$ (8,938)</u>	<u>\$ 151,852</u>
	December 31, 2022			
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Marketable equity securities				
Mutual funds	\$ 26,352	\$ —	\$ (3,143)	\$ 23,209
Equity securities	53,273	2,776	(5,836)	50,213
Total marketable equity securities	79,625	2,776	(8,979)	73,422
Marketable debt securities				
U.S. treasury securities	25,640	182	(24)	25,798
Corporate bonds	13,496	48	(106)	13,438
Total marketable debt securities	39,136	230	(130)	39,236
	<u>\$ 118,761</u>	<u>\$ 3,006</u>	<u>\$ (9,109)</u>	<u>\$ 112,658</u>

The amortized costs and fair value of our marketable debt securities, by contractual maturity, as of September 30, 2023 (in thousands) are as follows:

	September 30, 2023	
	Amortized Cost	Fair Value
Less than 1 year	\$ 44,691	\$ 45,466
1 to 5 years	29,669	29,855
Total	<u>\$ 74,360</u>	<u>\$ 75,321</u>

Derivative Financial Instruments

Our derivative instruments consisted of call and put options sold at their fair value as of the balance sheet date. These derivative instruments are reported as *Other current liabilities* on our *Condensed Consolidated Balance Sheets* as of September 30, 2023 and December 31, 2022 (in thousands):

	September 30, 2023		
	Cost	Unrealized	
			Losses
Derivative instruments	\$ 9,306	\$ 2,383	\$ 11,689
	<u>\$ 9,306</u>	<u>\$ 2,383</u>	<u>\$ 11,689</u>

	December 31, 2022		
	Cost	Unrealized	
			Losses
Derivative instruments	\$ 2,987	\$ 662	\$ 3,649
	<u>\$ 2,987</u>	<u>\$ 662</u>	<u>\$ 3,649</u>

A summary of realized and unrealized gains and losses from our equity securities and derivative instruments are as follows (in thousands):

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2023	2022	2023	2022
Net unrealized gains (losses) recognized on marketable equity securities	\$ (287)	\$ (9,278)	\$ 472	\$ (14,062)
Net realized gains (losses) recognized on marketable equity securities	(2,588)	(555)	3,643	218
Net unrealized gains (losses) recognized on derivative instruments	(1,631)	3,907	(1,825)	(696)
Net realized gains recognized on derivative instruments	(72)	2,214	2,165	4,089
Net realized gains recognized on marketable debt securities	—	188	217	556
Total net gains (losses) recognized in interest and other income (loss), net	<u>\$ (4,578)</u>	<u>\$ (3,524)</u>	<u>\$ 4,672</u>	<u>\$ (9,895)</u>

Fair Value Measurements

Our financial instruments measured at fair value on a recurring basis consisted of money-market funds, mutual funds, equity securities, corporate debt securities and derivatives. Equity securities are classified within Level 1 of the fair value hierarchy as they are valued based on quoted market price in an active market. Corporate debt securities and derivative instruments are 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.

Financial 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. We did not hold Level 3 financial instruments as of September 30, 2023, and December 31, 2022.

Financial instruments measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022 are classified based on the valuation technique in the table below (in thousands):

	September 30, 2023			
	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:				
U.S. treasury securities	\$ 58,958	\$ —	\$ —	\$ 58,958
Mutual funds	11,628	—	—	11,628
Equity securities	64,903	—	—	64,903
Corporate bonds	—	16,363	—	16,363
Total assets at fair value	<u>\$ 135,489</u>	<u>\$ 16,363</u>	<u>\$ —</u>	<u>\$ 151,852</u>
Liabilities				
Derivative instruments	\$ —	\$ 11,689	\$ —	\$ 11,689
Total liabilities at fair value	<u>\$ —</u>	<u>\$ 11,689</u>	<u>\$ —</u>	<u>\$ 11,689</u>
	December 31, 2022			
	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:				
Certificate of deposit	\$ —	\$ 5,300	\$ —	\$ 5,300
U.S. treasury securities	25,798	—	—	25,798
Mutual funds	23,209	—	—	23,209
Equity securities	50,213	—	—	50,213
Corporate bonds	—	13,438	—	13,438
Total assets at fair value	<u>\$ 99,220</u>	<u>\$ 18,738</u>	<u>\$ —</u>	<u>\$ 117,958</u>
Liabilities				
Derivative instruments	\$ —	\$ 3,649	\$ —	\$ 3,649
Total liabilities at fair value	<u>\$ —</u>	<u>\$ 3,649</u>	<u>\$ —</u>	<u>\$ 3,649</u>

4. BALANCE SHEETS DETAILS***Cash and Cash Equivalents***

Cash and cash equivalents were as follows (in thousands):

	September 30, 2023	December 31, 2022
Cash	\$ 5,818	\$ 9,630
Money market funds	22,883	13,586
Certificates of deposit ⁽¹⁾	—	25,604
Cash and cash equivalents	<u>\$ 28,701</u>	<u>\$ 48,820</u>

⁽¹⁾ Represents certificates of deposit with initial maturity days of 90 days or less.

Investments - Current

Investments - current were as follows (in thousands):

	September 30, 2023	December 31, 2022
Certificates of deposit ⁽²⁾	\$ —	\$ 5,300
Marketable securities	76,531	73,422
U.S. treasury securities	45,466	22,196
Short-term investments	<u>\$ 121,997</u>	<u>\$ 100,918</u>

⁽²⁾ Represents investments with initial maturity days between 91 days and one year.

Accounts and Other Receivables

Accounts and other receivables were as follows (in thousands):

	September 30, 2023	December 31, 2022
Trade accounts receivables, net	\$ 1,960	\$ 1,003
Other receivables	598	232
Accounts and other receivables	<u>\$ 2,558</u>	<u>\$ 1,235</u>

Allowance for credit losses as of September 30, 2023 and December 31, 2022 were not material.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets were as follows (in thousands):

	September 30, 2023	December 31, 2022
Prepaid expenses	\$ 1,238	\$ 1,576
Contract assets - current	6,303	7,671
Other current assets	48	100
Prepaid expenses and other current assets	<u>\$ 7,589</u>	<u>\$ 9,347</u>

Investments - noncurrent

Investments- noncurrent were as follows (in thousands):

	September 30, 2023	December 31, 2022
U.S. treasury securities	\$ 13,492	\$ 3,602
Marketable debt securities	16,363	13,438
Investments- noncurrent	<u>\$ 29,855</u>	<u>\$ 17,040</u>

Other Assets

Other assets were as follows (in thousands):

	September 30, 2023	December 31, 2022
Contract assets - long-term	220	545
Lease right-of-use assets	83	360
Other assets	—	11
Total other assets	<u>\$ 303</u>	<u>\$ 916</u>

Other Current Liabilities

Other current liabilities were as follows (in thousands):

	September 30, 2023	December 31, 2022
Derivative instruments	\$ 11,689	\$ 3,649
Lease liabilities - current	88	486
Income taxes payable	6,963	2,700
Dividends payable	991	4,212
Other current liabilities	693	1,418
Total other current liabilities	<u>\$ 20,424</u>	<u>\$ 12,465</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 our future results of operations.

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, a subsidiary of the Company, 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 Korean courts. In the second quarter of 2020, we recorded this deposit in *Long-term deposits* on our *Condensed Consolidated Balance Sheets*. In the fourth quarter of 2021, we recorded an impairment charge of \$0.8 million related to the long-term deposits paid to LGE.

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 related to the 2012 to 2014 period. 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. We have had numerous hearings before the Korea Administrative Court in the years 2019 through 2022. We had a hearing on April 27, 2023, and the Korea Administrative Court rendered a decision on this matter on June 8, 2023, in which it ruled that the withholding taxes and penalties which were imposed by the Korean tax authorities on LGE should be cancelled with litigation costs to be borne by the Korean tax authorities. In connection with the Korea Administrative Court’s decision, the Korean tax authorities filed an appeal on June 28, 2023 with the Korea High Court to seek the cancellation of the lower court’s decision. The appellate case is in progress at the Seoul High Court and the first hearing has been scheduled for November 30, 2023.

On April 25, 2023, we received notice from LGE requesting us to reimburse LGE with respect to withholding tax imposed on LGE by the Korean tax authorities following a recent tax audit of LGE for the years 2018 through 2022. Pursuant to an agreement reached with LGE, on June 2, 2023, we provided a provisional deposit to LGE in the amount of KRW 3,024,877,044 (approximately \$2.3 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 Korean courts. In the second quarter of 2023, we recorded this deposit in *Long-term deposits* on our *Condensed Consolidated Balance Sheets*. On June 29, 2023, on behalf of LGE, we filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes related to the 2018 to 2022 period. On August 7, 2023, the Assessment Authority submitted its answer against the tax appeal. On September 8, 2023, the Appellant submitted its rebuttal brief in response thereto. As of September 30, 2023, we have accrued \$0.3 million of withholding taxes, interest and penalties related to the 2018 to 2022 period for which the Korean tax authorities have recently assessed LGE. These withholding taxes have been reclassified and reported as an impairment reduction to the *Long-term deposit* made in the third quarter of 2023 in order to present the deposit at its estimated recoverable value.

Based on the developments in these cases, we regularly reassess the likelihood that we will prevail in the claims from the Korean tax authorities with respect to the LGE case. To the extent that we determine that it is more likely than not that we will prevail against the claims from the Korean tax authorities, then no additional tax expense is provided for in our *Condensed Consolidated Statements of Income and Comprehensive Income*. In the event that we determine that it is more likely than not that we will not prevail against the claims from the Korean tax authorities, or a portion thereof, then we would estimate the anticipated additional tax expense associated with that outcome and record it as additional income tax expense in our *Condensed Consolidated Statements of Income and Comprehensive Income* in the period of the new determination. If the additional income tax expense was related to the periods assessed by Korean tax authorities and for which we recorded a *Long-term deposits* on our *Condensed Consolidated Balance Sheets*, then the additional income tax expense would be recorded as an impairment to the *Long-term deposits*. If the additional income tax expense was not related to the periods assessed by Korean tax authorities and for which we recorded in *Long-term deposits* on our *Condensed Consolidated Balance Sheets*, then the additional income tax expense would be accrued as an *Other current liabilities*.

In the event that we do not ultimately prevail in our appeal in the Korean courts with respect to this case, the applicable deposits included in *Long-term deposits* would be recorded as additional income tax expense on our *Condensed Consolidated Statements of Income and Comprehensive Income*, in the period in which we do not ultimately prevail.

Immersion Corporation vs. Meta Platforms, Inc., f/k/a Facebook, Inc.

On May 26, 2022, we filed a complaint against Meta Platforms, Inc. (formerly known as Facebook, Inc.) (“Meta”) in the United States District Court for the Western District of Texas. The complaint alleges that Meta’s augmented and virtual reality (“AR/VR”) systems, including the Meta Quest 2, infringe six of our patents that cover various uses of haptic effects in connection with such AR/VR systems. We are seeking to enjoin Meta from further infringement and to recover a reasonable royalty for such infringement.

The complaint against Meta asserts infringement of the following patents:

- U.S. Patent No. 8,469,806: “System and method for providing complex haptic stimulation during input of control gestures, and relating to control of virtual equipment”
- U.S. Patent No. 8,896,524: “Context-dependent haptic confirmation system”
- U.S. Patent No. 9,727,217: “Haptically enhanced interactivity with interactive content”
- U.S. Patent No. 10,248,298: “Haptically enhanced interactivity with interactive content”
- U.S. Patent No. 10,269,222: “System with wearable device and haptic output device”
- U.S. Patent No. 10,664,143: “Haptically enhanced interactivity with interactive content”

Meta responded to the Company’s complaint on August 1, 2022. On September 12, 2022, Meta filed a motion to transfer the lawsuit to the Northern District of California or, in the alternative, to the Austin Division of the Western District of Texas. The Court denied Meta’s motion on May 30, 2023, and held the claim construction hearing on the same day. The Court adopted certain claim constructions during the hearing, and issued a formal claim construction order consistent with those constructions on July 7, 2023. On August 2, 2023, Meta filed a mandamus petition asking the Federal Circuit to reverse the district court’s order on Meta’s transfer motion. Immersion responded on August 11, 2023, and Meta filed its reply brief on August 14, 2023. Meta’s petition remains pending. Fact discovery closed on October 6, 2023.

In addition, Meta filed *inter partes* reviews (“IPRs”), IPR2023-00942; IPR2023-00943; and IPR2023-00944 on May 25, 2023. These are directed to U.S. Patent Nos. 8,469,806; 8,896,524; and 10,269,222, respectively. The Company filed its response to IPR2023-00942 and IPR2023-0094 on September 8, 2023, and to IPR2023-00944 on September 12, 2023. Meta filed IPR2023-00945; IPR2023-00946; and IPR2023-00947 on May 26, 2023. These IPRs are directed to United States Patent Nos. 10,664,143; 9,727,217; and 10,248,298, respectively. The Company filed its response to IPR2023-00945 on September 8, 2023, and our response to IPR2023-00946 and IPR2023-00947 on September 12, 2023.

Immersion Corporation vs. Xiaomi Group

On or about March 3, 2023, we initiated patent infringement lawsuits against several companies of the Xiaomi-Group (the “Xiaomi-Group”) in Germany, France and India. We initiated lawsuits against Xiaomi-Group companies and their agents in the Düsseldorf Regional Court in Germany, the *Tribunal judiciaire de Paris* (Paris First Instance Civil Court) in France, and the High Court of Delhi, at New Delhi, in India.

The complaints allege that the Xiaomi-Group’s devices, including the Xiaomi 12, infringe our patents that cover various uses of haptic effects in connection with such devices. We are seeking injunctions that would allow us to prohibit Xiaomi-Group from selling the infringing devices in Germany, France and India, as well as costs and damages as compensation for such infringement.

The complaints against the Xiaomi-Group assert infringement of the following patents:

- EP 2 463 752 B1 (German part) titled “*Haptisches Feedback-System mit gespeicherten Effekten*”
- EP 2 463 752 B1 (French part) titled “*Système de rendu haptique avec stockage d’effets*”
- IN 304 396 (India) titled “*Haptic Feedback System With Stored Effects*”

On June 19, 2023, Xiaomi filed an initial response to the Company’s lawsuit in India. On July 7, 2023, the Indian litigation was listed before the Learned Joint Registrar (“JR”), Mr. Siddharth Mathur.

On July 11, 2023, in the German proceeding Xiaomi filed its nullity action in the German Federal Patent Court, which was served on Immersion on July 27, 2023. Immersion has until October 27, 2023 to respond. In the German infringement proceeding, Xiaomi’s statement of defense is due on October 25, 2023.

Xiaomi has until December 21, 2023 to reply to Immersion’s writ of summons in the French proceeding.

The Court will hear Immersion’s application for a preliminary injunction on January 4, 2024 in the Indian proceeding.

Immersion Corporation vs. Valve Corporation

On May 15, 2023, we filed a complaint against Valve Corporation (“Valve”) in the United States District Court for the Western District of Washington. The complaint alleges that Valve’s AR/VR systems, including the Valve Index, and handheld Steam Deck, infringe seven of our patents that cover various uses of haptic effects in connection with such AR/VR systems and other video game systems. We are seeking to enjoin Valve from further infringement and to recover a reasonable royalty for such infringement.

The complaint against Valve asserts infringement of the following patents:

- U.S. Patent No. 7,336,260: “Method and Apparatus for Providing Tactile Sensations”
- U.S. Patent No. 8,749,507: “Systems and Methods for Adaptive Interpretation of Input from a Touch-Sensitive Input Device”
- U.S. Patent No. 9,430,042: “Virtual Detents Through Vibrotactile Feedback”
- U.S. Patent No. 9,116,546: “System for Haptically Representing Sensor Input”
- U.S. Patent No. 10,627,907: “Position Control of a User Input Element Associated With a Haptic Output Device”
- U.S. Patent No. 10,665,067: “Systems and Methods for Integrating Haptics Overlay in Augmented Reality”
- U.S. Patent No. 11,175,738: “Systems and Methods for Proximity-Based Haptic Feedback”

Valve responded to the Complaint on July 24, 2023 with a motion to dismiss. Valve re-noted its motion, which changed the Company’s response deadline from August 14, 2023 to August 21, 2023. The Company timely filed its response and Valve filed its reply on August 25, 2023. The motion remains pending, and although the parties have agreed to a case schedule, the Court has not yet entered such case schedule.

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 awards (“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.

On January 18, 2022, our stockholders approved the 2021 Equity Incentive Plan (the “2021 Plan”), which provides for a total number of shares reserved and available for grant and issuance equal to 3,525,119 shares plus up to an additional 855,351 shares that are subject to stock options or other awards granted under the 2011 Equity Incentive Plan. On March 30, 2023, our stockholders approved an amendment to the 2021 Plan to increase the number of shares reserved for issuance under the 2021 Plan by 4,621,488 shares.

Under our equity incentive plans, stock options may be granted at prices not less than the fair market value on the date of grant for such stock options. Stock options generally vest over four years and expire seven years from the applicable grant date. Market condition-based stock awards 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 awards will be canceled before expiration. RSAs generally vests over one year. RSUs generally vest over three years. Awards granted other than a stock option or a 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 as of September 30, 2023 is as follows (in thousands):

Common stock shares available for grant	5,028
Stock options outstanding	102
RSUs outstanding	728
RSAs outstanding	75
PSUs outstanding	400

Time-Based Stock Options

The following summarizes time-based stock options activities for the nine months ended September 30, 2023:

	Number of Shares Underlying Stock Options (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2022	140	\$ 7.57	4.03	\$ —
Granted	—	—		
Exercised	(21)	7.57		
Canceled or expired	(17)	7.57		
Outstanding as of September 30, 2023	102	\$ 7.57	0.12	\$ —
Vested and expected to vest at September 30, 2023	102	\$ 7.57	0.12	\$ —
Exercisable at September 30, 2023	102	\$ 7.57	0.12	\$ —

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

We did not grant stock options in the nine months ended September 30, 2023.

Restricted Stock Units

The following summarizes RSU activities for the nine months ended September 30, 2023:

	Number of Restricted Stock Units (in thousands)	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Recognition Period (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2022	887	\$ 5.85	1.31	\$ 6,226
Granted	77	7.60		
Released	(184)	5.19		
Forfeited	(52)	6.91		
Outstanding at September 30, 2023	728	\$ 6.12	0.98	\$ 4,812

The aggregate intrinsic value is calculated as the market value as of the end of the reporting period.

Restricted Stock Awards

The following summarizes RSA activities for the nine months ended September 30, 2023:

	Number of Restricted Stock Awards (in thousands)	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Recognition Period (Years)
Outstanding at December 31, 2022	119	\$ 5.47	0.39
Granted	75	8.31	
Released	(119)	5.47	
Forfeited	—	—	
Outstanding at September 30, 2023	75	\$ 8.31	0.50

Market Condition-Based Performance Stock Units

The following summarizes PSU activities for the nine months ended September 30, 2023:

	Number of Market Condition-Based Performance Stock Units (in thousands)	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Recognition Period (Years)
Outstanding at December 31, 2022	615	\$ 3.69	1.12
Granted	—	—	
Released	(206)	3.70	
Forfeited	(9)	6.20	
Outstanding at September 30, 2023	400	\$ 3.63	0.75

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-month offering period or purchase stock having a value greater than \$25,000 in any calendar year as measured at the beginning of the offering period. A total of 1.0 million shares of common stock have been reserved for issuance under the ESPP. During the nine months ended September 30, 2023, no shares were purchased under the ESPP. Effective February 1, 2023, our ESPP was discontinued and 193,134 shares expired following the ESPP termination.

Stock-based Compensation Expense*Valuation and amortization methods*

Stock-based compensation is based on the estimated fair value of awards, net of estimated forfeitures, and recognized over the requisite service period. Estimated forfeitures are based on historical experience at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The stock-based compensation related to all of our stock-based awards and ESPP for the three and nine months ended September 30, 2023, and 2022 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Stock options	\$ 10	\$ 53	\$ (31)	\$ 67
RSUs, RSAs and PSUs	810	678	2,557	2,593
ESPP	—	(1)	—	1
Total	\$ 820	\$ 730	\$ 2,526	\$ 2,661
Sales and marketing	\$ 113	\$ 19	\$ 110	\$ 20
Research and development	1	18	(72)	96
General and administrative	706	693	2,488	2,545
Total	\$ 820	\$ 730	\$ 2,526	\$ 2,661

As of September 30, 2023, there was \$3.3 million of unrecognized compensation cost adjusted for estimated forfeitures related to non-vested stock options, RSUs, RSAs and PSUs granted to our employees and directors. This unrecognized compensation cost will be recognized over an estimated weighted-average period of approximately 1.6 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

7. STOCKHOLDERS’ EQUITY**Stock Repurchase Program**

On February 23, 2022, our Board of Directors (the “Board”) approved a stock repurchase program of up to \$30.0 million of our common stock for a period of up to twelve months (the “February 2022 Stock Repurchase Program”). Any stock repurchases were made through open market or privately negotiated transactions, at such times and in such amounts as management deemed appropriate, including pursuant to one or more Rule 10b5-1 trading plans adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934. Additionally, the Board authorized the use of derivative or similar instrument to effect stock repurchase transactions, including without limitation, accelerated share repurchase contracts, equity forward transactions, equity option transactions, equity swap transactions, cap transactions, collar transactions, naked put options, floor transactions or other similar transactions or any combination of the foregoing transactions. The stock repurchase program was implemented as a method to return value to our stockholders. The timing, pricing and sizes of any repurchases depended on a number of factors, including the market price of our common stock and general market and economic conditions. The stock repurchase program did not obligate us to repurchase any dollar amount or number of shares, and the program could be suspended or discontinued at any time.

In the year ended December 31, 2022, we repurchased 1,637,566 shares of our common stock for \$8.9 million at an average purchase price of \$5.46 per share. The February 2022 Stock Repurchase Program was terminated on December 29, 2022.

On December 29, 2022, the Board approved a stock repurchase program of up to \$50.0 million of our common stock for a period of up to twelve months (the “December 2022 Stock Repurchase Program”), which terminated and superseded the stock repurchase program that had been approved by the Board on February 23, 2022. Any stock repurchases may be made through open market and privately negotiated transactions, at such times and in such amounts as management deems appropriate, including pursuant to one or more Rule 10b5-1 trading plans adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. Additionally, the Board authorized the use of any derivative or similar instrument to effect stock repurchase transactions, including without limitation, accelerated share repurchase contracts, equity forward transactions, equity option transactions, equity swap transactions, cap transactions, collar transactions, naked put options, floor transactions or other similar transactions or any combination of the foregoing transactions. The stock repurchase program was implemented as a method to return value to our stockholders. The timing, pricing and sizes of any repurchases will depend on a number of factors, including the market price of our common stock and general market and economic conditions. The stock repurchase program does not obligate us to repurchase any dollar amount or number of shares, and the program may be suspended or discontinued at any time. On August 8, 2023, the Board approved an amendment to extend the expiration date of the December 2022 Stock Repurchase Program that was set to expire on December 29, 2023 to December 29, 2024.

We repurchased 898,757 shares of our common stock for \$6.2 million at average purchase price of \$6.8602 per share during the nine months ended September 30, 2023. As of September 30, 2023, we had \$43.8 million available for repurchase under the December 2022 Stock Repurchase Program.

Dividends Payment

On November 14, 2022, our Board declared a quarterly dividend in the amount of \$0.03 per share, which was paid on January 30, 2023, to stockholders of record on January 15, 2023. In addition, on December 29, 2022, the Board declared a special dividend in the amount of \$0.10 per share, which was paid on January 30, 2023 to stockholders of record on January 15, 2023.

On February 21, 2023, the Board declared a second quarterly dividend, in the amount of \$0.03 per share, which was paid on April 28, 2023 to stockholders of record on April 13, 2023.

On May 10, 2023, the Board declared a third quarterly dividend in the amount of \$0.03 per share which was paid on July 28, 2023, to shareholders of record on July 13, 2023.

On August 11, 2023, the Board declared a quarterly dividend in the amount of \$0.03 per share, which was paid on October 27, 2023 to shareholders of record on October 16, 2023.

On November 13, 2023, our Board declared a quarterly dividend in the amount of \$0.045 per share, will be payable, subject to any prior revocation, on January 25, 2024 to shareholders of record on January 14, 2024. Future dividends will be subject to further review and approval by the Board in accordance with applicable law. The Board reserves the right to adjust or withdraw the quarterly dividend in future periods as it reviews our capital allocation strategy from time-to-time.

In the first nine months of 2023, the total dividends paid was \$6.4 million.

8. INCOME TAXES

Provision for income taxes the three and nine months ended September 30, 2023 and 2022 consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Income before provision for income taxes	\$ 3,965	\$ 8,582	\$ 23,622	\$ 12,226
Provision for income taxes	(1,285)	(877)	(5,636)	(1,264)
Effective tax rate	<u>32.4%</u>	<u>10.2%</u>	<u>23.9%</u>	<u>10.3%</u>

Provision for income taxes for the three and nine months ended September 30, 2023 resulted primarily from estimated domestic and foreign taxes included in the calculation of the effective tax rate. Provision for income taxes for the three months ended September 30, 2022 resulted primarily from estimated foreign taxes included in the calculation of the effective tax rate. Provision for income taxes for the nine months ended September 30, 2022 resulted primarily from estimated foreign taxes included in the calculation of the effective tax rate. We maintain a partial valuation allowance against our U.S. federal deferred tax assets and maintain a full valuation allowance against our U.S. state and Canadian federal deferred tax assets. The change in the estimated effective tax rate was mainly driven by higher U.S. taxable income which was a result of higher U.S. passive income.

As of September 30, 2023, we had unrecognized tax benefits under Accounting Standards Certification (“ASC”) 740 *Income Taxes* of approximately \$7.3 million and applicable interest of \$0.1 million. The total amount of unrecognized tax benefits that would affect our effective tax rate, if recognized, is \$3.5 million. 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 September 30, 2023, we had net deferred income tax assets of \$7.0 million and deferred income tax liabilities of \$0.1 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 2005 through the current period.

We maintain a valuation allowance against certain of our deferred tax assets, including certain federal, all 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, stock awards and ESPP.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Denominator:				
Weighted-average shares outstanding, basic	32,523	33,201	32,254	33,601
Shares related to outstanding options, unvested RSUs, RSAs, and PSUs	227	481	332	434
Weighted average shares outstanding, diluted	32,750	33,682	32,586	34,035

We include PSUs in the calculation of diluted earnings per share if the applicable 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 and nine months ended September 30, 2023 and 2022, 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 per share because their effect would have been anti-dilutive. These outstanding securities consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Stock options	110	145	128	197
RSUs, RSAs and PSUs	64	15	20	27
Total	174	160	148	224

10. LEASES

We lease our office space under lease arrangements with expiration dates on or before March 31, 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 and lease liabilities (in thousands):

	Balance Sheets Classification	September 30,	December 31,
		2023	2022
Assets			
Right-of-use assets	Other assets	\$ 83	\$ 360
Liabilities			
Operating lease liabilities - current	Other current liabilities	88	486
Operating lease liabilities - long-term	Other long-term liabilities	—	56
Total lease liabilities		\$ 88	\$ 542

The table below provides supplemental information related to operating leases during the nine months ended September 30, 2023 and 2022 (in thousands except for lease term):

	Nine Months Ended September 30,	
	2023	2022
Cash paid within operating cash flow	\$ 105	\$ 982
Weighted average lease terms (in years)	0.45	0.88
Weighted average discount rates	N/A	3.93%

On June 6, 2022, we entered into a sublease agreement with Innovobot Fund LLP for our facility located in Montreal Canada (the “Montreal Facility”). This sublease commenced on June 8, 2022, and ends on February 27, 2024 which approximates the lease termination date of the original Montreal Facility lease.

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 (the “SJ Facility”). The lease commenced in May 2015 and expired as of April 2023. We vacated the SJ Facility in the first quarter of 2020. 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 ended on April 30, 2023, which is the lease termination date of the San Jose Facility. Both SJ Facility lease and related sublease expired in April 2023.

In accordance with provisions of ASC 842, we treated each sublease as a separate lease as we were not relieved of the primary obligation under each original lease. We continue to account for each original lease as a lessee, in the same manner as prior to the commencement date of the sublease. We accounted for each sublease as a lessor of such lease. We classified each sublease as an operating lease as it did not meet the criteria of a Sale-Type or Direct Financing lease.

We recognize operating lease expense and lease payments from the sublease, on a straight-line basis, in our *Condensed Consolidated Statements of Income and Comprehensive Income* over the lease terms. During the three and nine months ended September 30, 2023 and 2022, our net operating lease expenses were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating lease cost	\$ 97	\$ 138	\$ 314	\$ 343
Variable lease payments	1	98	170	329
Sublease income	(49)	(306)	(489)	(837)
Total lease cost	\$ 49	\$ (70)	\$ (5)	\$ (165)

Minimum future lease payments obligations as of September 30, 2023 were as follows (in thousands):

For the Years Ending December 31,

2023	\$ 50
2024	39
Total lease payments	89
Less: Interest	(1)
Total lease liability	\$ 88

Future cash receipts from our sublease agreements as of September 30, 2023 were as follows (in thousands):

For the Years Ending December 31,

2023	50
2024	33
Total	\$ 83

11. Subsequent Event

On November 10, 2023, we filed an additional complaint against Meta in the United States District Court for the Western District of Texas, alleging that Meta's AR/VR systems, including the Meta Quest 3, infringe five of our patents that cover various uses of haptic effects in connection with such AR/VR systems. We are seeking to enjoin Meta from further infringement and to recover a reasonable royalty for such infringement.

The complaint against Meta asserts infringement of the following patents:

1. U.S. Patent No. 8,469,806: "System and method for providing complex haptic stimulation during input of control gestures, and relating to control of virtual equipment"
2. U.S. Patent No. 9,727,217: "Haptically enhanced interactivity with interactive content"
3. U.S. Patent No. 10,248,298: "Haptically enhanced interactivity with interactive content"
4. U.S. Patent No. 10,269,222: "System with wearable device and haptic output device"
5. U.S. Patent No. 10,664,143: "Haptically enhanced interactivity with interactive content"

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 of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The forward-looking statements involve risks and uncertainties. Forward-looking statements are frequently identified by words such as "anticipates", "believes", "expects", "intends", "may", "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 among other things, any expectations, projections, or other characterizations of future events, or circumstances, and include statements regarding: the continued impact of COVID-19 on our business, including as to revenue, and potential cost reduction measures, and the continued 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 trends related thereto, and the recognition and components thereof; our costs and expenses, including capital expenditures; our investment of surplus funds and sales of marketable debt securities; 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 and estimates related to and the impact of current and future litigation and arbitration; our leases, sublease and the timing and income related thereto; and our dividend, 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 risk factors contained under Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC on February 22, 2023 and below under Part II, Item 1A, "Risk 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 or regulation. 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 invention, acceleration, and scaling, through 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 virtual and augmented reality, 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 offer licenses to our patented technology to our customers to integrate our patented technology into our customers' products or enhance the functionality of our patented technology. 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 1,000 issued or pending patents worldwide as of September 30, 2023. 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. Our portfolio includes numerous patents and patent applications that we believe may become essential to emerging standards in development by Standards Development Organizations ("SDOs") including media standards in development by ISO/IEC Moving Picture Expert Group (MPEG) and software and system standards in development at IEEE-SA.

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

Results of Operations

Overview

Total revenues for the three months ended September 30, 2023 was \$9.5 million, a decrease of \$4.5 million, or 32%, compared to the same period in 2022. Total revenues for the nine months ended September 30, 2023 was \$23.5 million, a decrease of \$5.8 million, or 20%, compared to the same period in 2022.

Total operating expenses were \$3.0 million in each of the three months ended September 30, 2023 and 2022. Total operating expenses were \$10.6 million in the nine months ended September 30, 2023 flat compared to \$10.7 million total operating expense in the same period in 2022.

Net income was \$2.7 million in the three months ended September 30, 2023 compared to a net income of \$7.7 million in the same period in 2022. Net income was \$18.0 million and \$11.0 million in the nine months ended September 30, 2023 and 2022, respectively.

The following table sets forth our *Condensed Consolidated Statements of Income and Comprehensive Income* data as a percentage of total revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues:				
Fixed fee license revenue	13%	55%	15%	36%
Per-unit royalty revenue	87	45	84	63
Total royalty and license revenue	100	100	99	99
Development, services, and other	—	—	1	1
Total revenues	100	100	100	100
Operating expenses:				
Sales and marketing	4	2	4	3
Research and development	—	2	1	4
General and administrative	27	18	40	29
Total operating expenses	31	22	45	36
Operating income	69	78	55	64
Interest and other income (loss), net	(27)	(17)	46	(22)
Income before provision for income taxes	42	61	101	42
Provision for income taxes	(14)	(6)	(24)	(4)
Net income	28%	55%	77%	38%

Revenues

Our revenue is primarily derived from fixed fee license agreements and per-unit royalty agreements. Royalty and license revenue is 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.

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

A revenue summary for the three months ended September 30, 2023 and 2022 is as follows (in thousands, except for percentages):

	Three Months Ended September 30,			
	2023	2022	\$ Change	% Change
Revenues:				
Fixed fee license revenue	\$ 1,191	\$ 7,662	\$ (6,471)	(84)%
Per-unit royalty revenue	8,283	6,269	2,014	32%
Total royalty and license revenue	9,474	13,931	(4,457)	(32)%
Development, services, and other revenue	8	75	(67)	(89)%
Total revenues	<u>\$ 9,482</u>	<u>\$ 14,006</u>	<u>\$ (4,905)</u>	<u>(35)%</u>

Royalty and license revenue

Fixed fee license revenue decreased by \$6.5 million, or 84%, in the third quarter of 2023 compared to the same period in 2022 primarily due to a \$6.5 million decrease in mobility license revenue.

Per-unit royalty revenue increased by \$2.0 million, or 32%, in the third quarter of 2023 compared to the same period in 2022, primarily due to an \$1.9 million increase in royalties from automotive licensees and a \$0.8 million increase in royalties from gaming licensees partially offset by a \$0.5 million decrease in royalties from mobility licensees.

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.

Geographically, revenues generated in Asia, North America and Europe for the three months ended September 30, 2023 represented 68%, 8%, and 24%, respectively, of our total revenue as compared to 43%, 54%, and 3%, respectively, for the three months ended September 30, 2022.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

A revenue summary for the nine months ended September 30, 2023 and 2022 are as follows (in thousands, except for percentages):

	Nine Months Ended September 30,			
	2023	2022	\$ Change	% Change
Revenues:				
Fixed fee license revenue	\$ 3,594	\$ 10,653	\$ (7,059)	(66)%
Per-unit royalty revenue	19,807	18,426	1,381	7%
Total royalty and license revenue	23,401	29,079	(5,678)	(20)%
Development, services, and other revenue	138	218	(80)	(37)%
Total revenues	\$ 23,539	\$ 29,297	\$ (5,758)	(20)%

Royalty and license revenue

Fixed fee license revenue decreased \$7.1 million, or 66%, in the first nine months of 2023 compared to the same period in 2022 primarily attributable to a \$6.4 million decrease in mobility license revenue and a \$0.5 million decrease in automotive license revenue.

Per-unit royalty revenue increased by \$1.4 million, or 7%, in the first nine months of 2023 compared to the same period in 2022, primarily caused by a \$2.0 million increase in royalties from gaming licensees and a \$2.0 million increase in royalties from automotive licensees partially offset by a \$2.3 million decrease in royalties from mobility licensees and \$0.4 million decrease from other licensees.

Geographically, revenues generated in Asia, North America and Europe for the nine months ended September 30, 2023 represented 77%, 12%, and 11%, respectively, of our total revenue as compared to 61%, 33%, and 6%, respectively, for the nine months ended September 30, 2022.

Operating Expenses

A summary of operating expenses for the three and nine months ended September 30, 2023, and 2022 is as follows (in thousands, except for percentages):

	Three Months Ended September 30,			
	2023	2022	\$ Change	% Change
Sales and marketing	\$ 367	282	\$ 85	30%
Research and development	30	254	(224)	(88)%
General and administrative	2,566	2,540	26	1 %

	Nine Months Ended September 30,			
	2023	2022	\$ Change	% Change
Sales and marketing	\$ 861	\$ 990	\$ (129)	(13)%
Research and development	259	1,118	(859)	(77)%
General and administrative	9,528	8,550	978	11 %

Sales and Marketing - Our sales and marketing expenses primarily consisted of employee compensation and benefits, including stock-based compensation; marketing costs and allocated facilities costs.

Sales and marketing expenses increased \$0.1 million, or 30%, in the three months ended September 30, 2023 compared to the same period in 2022 primarily attributable to a \$0.1 million increase in compensation, benefits and other personnel-related costs due to an increase in stock-based compensation. Sales and marketing expenses decreased \$0.1 million, or 13 %, in the nine months ended September 30, 2023 compared to the same period in 2022 primarily attributable to a decrease in compensation, benefits and other personnel-related costs due to lower headcount partially offset by an increase in stock-based compensation expense.

Research and Development - Our research and development expenses primarily consisted of employee compensation and benefits, including stock-based compensation; office expense and allocated facilities costs.

Research and development expenses decreased \$0.2 million, or 88%, and \$0.9 million, or 77%, in the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022. This decrease was primarily attributable to decreases in compensation, benefits and other personnel-related costs due to lower headcount.

General and Administrative - Our general and administrative expenses primarily consisted of employee compensation and benefits including stock-based compensation; legal other professional fees; external legal costs for patents; office expense; travel; and allocated facilities costs.

General and administrative expense was flat in the three months ended September 30, 2023 compared to the same period in 2022. General and administrative expenses increased \$1.0 million, or 11%, in the first nine months of 2023 as compared to the same period in 2022 primarily due to a \$0.7 million increase in compensation, benefits and other personnel related costs and a \$0.3 million increase in legal costs. The increase in compensation, benefits and other personnel related costs in the nine months ended September 30, 2023 compared to the same period in 2022 were largely driven by increases in variable compensation and severance costs. The increase in legal expenses in the three and nine months ended September 30, 2023 compared to the same period in 2022 was largely attributable to an increase in legal consulting costs.

We are engaged in, and may be required to engage in further, litigation to protect our IP, which may cause our general and administrative expenses to substantially increase reflecting such litigation costs.

Interest and Other Income (Loss)

Interest and Other Income (loss) - Interest and other income consists primarily of interest and dividend income from cash and cash equivalents and marketable debt and equity securities, short-term investments realized and unrealized gains (losses) on our marketable equity securities and derivative instruments and realized gains (losses) on our marketable debt securities.

	Three Months Ended September 30,			
	2023	2022	\$ Change	% Change
Interest and other income (loss), net	\$ (2,382)	\$ (2,185)	\$ (197)	9%
Other income (expense), net	(172)	(163)	(9)	6%
Interest and other income (loss), net	\$ (2,554)	\$ (2,348)	\$ (206)	9%

	Nine Months Ended September 30,			
	2023	2022	\$ Change	% Change
Interest and other income (loss), net	\$ 10,876	\$ (5,865)	\$ 16,741	(285)%
Other income (expense), net	(145)	(548)	403	(74)%
Interest and other income (loss), net	\$ 10,731	\$ (6,413)	\$ 17,144	(267)%

Interest and other income (loss) decreased \$0.2 million during the three months ended September 30, 2023 compared to the same period in 2022, primarily driven by a \$1.1 million decrease in net gains from investments in marketable equity securities and derivative instruments partially offset by a \$0.9 million increase in interest income.

Interest and other income (loss) increase \$16.7 million during the nine months ended September 30, 2023, compared to the same period in 2022, primarily driven by a \$14.6 million increase in net gains from investments in marketable equity securities and derivative instruments and a 2.2 million increase in interest income.

Other income (expense), net increased \$0.4 million during the nine months ended September 30, 2023 compared to the same period in 2022, primarily driven by a \$0.4 million decrease in net foreign currency translation losses.

Income Taxes

A summary of provision for income taxes and effective tax rates for the three and nine months ended September 30, 2023 and 2022 is as follows (in thousands):

	Three Months Ended September 30,			
	2023	2022	\$ Change	% Change
Income before provision for income taxes	\$ 3,965	\$ 8,582		
Provision for income taxes	(1,285)	(877)	(408)	47%
Effective tax rate	32.4%	10.2%		

	Nine Months Ended September 30,			
	2023	2022	\$ Change	% Change
Income before provision for income taxes	\$ 23,622	\$ 12,226		
Provision for income taxes	(5,636)	(1,264)	(4,372)	346%
Effective tax rate	23.9%	10.3%		

Provision for income taxes for the three and nine months ended September 30, 2023 resulted primarily from estimated domestic and foreign taxes included in the calculation of the effective tax rate. Provision for income taxes for the three months ended September 30, 2022 resulted primarily from estimated foreign taxes included in the calculation of the effective tax rate. Provision for income taxes for the nine months ended September 30, 2022 resulted primarily from estimated foreign taxes included in the calculation of the effective tax rate. We maintain a partial valuation allowance against our U.S. federal deferred tax assets and maintain a full valuation allowance against our U.S. state and Canadian federal deferred tax assets. The change in the estimated effective tax rate was mainly driven by higher U.S. taxable income which was a result of higher U.S. passive income.

We provided a partial valuation allowance for certain U.S. federal assets, whose future realization is not more likely than not and continue to maintain full valuation allowance for state and certain foreign deferred tax assets in Canada 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 the underlying net operating loss carryforwards.

We also maintain liabilities for uncertain tax positions. As of September 30, 2023, we had unrecognized tax benefits under Accounting Standards Certification (“ASC”) 740 *Income Taxes* of approximately \$7.3 million and applicable interest of \$0.1 million. The total amount of unrecognized tax benefits that would affect our effective tax rate, if recognized, is \$3.5 million. We 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.

Liquidity and Capital Resources

Our cash equivalents, investments - current and investments - noncurrent consist primarily of money-market funds, investments in marketable equity and debt securities (including mutual funds), investments in U.S. treasury securities and certificates of deposit. All marketable securities are stated at market value. Realized gains and losses on marketable equity securities and marketable debt securities are recorded in *Other income (expense), net* on the *Condensed Consolidated Statements of Income and Comprehensive Income*. Unrealized gains and losses on marketable equity securities (including mutual funds) are reported as *Other income (expense), net* on our *Condensed Consolidated Statement of Income and Comprehensive Income*. Unrealized gains and losses on marketable debt securities reported as a component of *Accumulated other comprehensive income* on our *Condensed Consolidated Balance Sheets*. Certificates of deposit are report as *Investment - current* or *Investment -noncurrent* based on their remaining maturity days. Interest income from certificates of deposit are reported as *Interest and other income (loss), net* on the *Condensed Consolidated Statement of Income and Comprehensive Income*.

Cash, cash equivalents and investments-current - As of September 30, 2023, our cash, cash equivalents, and investments- current totaled \$150.7 million, an increase of \$1.0 million from \$149.7 million on December 31, 2022.

A summary of select cash flow information for the nine months ended September 30, 2023 and 2022 are as follows (in thousands):

	Nine Months Ended September	
	30,	
	2023	2022
Net cash provided by operating activities	\$ 12,779	\$ 32,234
Net cash used in investing activities	\$ (19,366)	\$ (35,578)
Net cash used in financing activities	\$ (13,532)	\$ (11,379)

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

Net cash provided by operating activities was \$12.8 million in the nine months ended September 30, 2023, a \$19.5 million decrease compared to the same period in 2022. This cash decrease was primarily attributable to a \$14.7 million decrease from changes in non-cash items and \$11.8 million decrease from changes in net operating assets partially offset by a \$7.0 million increase in net income.

Cash provided by (used in) investing activities - Our investing activities primarily consist of purchases of marketable securities and other investments and proceeds from disposal of marketable securities and other investments; proceeds from issuance of derivative instruments; payments made to settle derivative instruments and purchases of property and equipment.

Net cash used in investing activities during the nine months ended September 30, 2023 was \$19.4 million primarily consisting of \$167.9 million in cash used to purchase marketable securities and in the settlement of derivative instruments partially offset by \$148.5 million in proceeds from selling marketable securities and derivatives.

Net cash used in investing activities during the first nine months of 2022 was \$35.6 million primarily consisting of \$141.9 million in cash used to purchase marketable securities and in the settlement of derivative instrument partially offset by \$106.4 million in proceeds from selling marketable securities and derivatives.

Cash provided by (used in) financing activities — Our financing activities primarily consist of cash proceeds 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 used in financing activities during the nine months September 30, 2023 was \$13.5 million primarily consisting of \$6.4 million in dividend payments, \$6.2 million stock repurchases and \$1.1 million in shares withheld to cover payroll taxes.

Net cash used in financing activities during the nine months ended September 30, 2022 was \$11.4 million primarily consisting of cash paid for stock repurchases.

Total cash, cash equivalents, and short-term investments were \$150.7 million as of September 30, 2023 of which approximately 19%, or \$33.9 million, was held by our foreign subsidiaries and subject to repatriation tax effects. Our intent is to permanently reinvest a majority 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.

On November 14, 2022, our Board of Directors (“Board”) declared a quarterly dividend in the amount of \$0.03 per share, which was paid on January 30, 2023, to stockholders of record on January 15, 2023. In addition, on December 29, 2022, our Board declared a special dividend in the amount of \$0.10 per share, which was paid on January 30, 2023, to stockholders of record on January 15, 2023.

On February 21, 2023, our Board declared a second quarterly dividend, in the amount of \$0.03 per share, which was paid on April 28, 2023, to stockholders of record on April 13, 2023.

On May 10, 2023, the Board declared a third quarterly dividend in the amount of \$0.03 per share which was paid on July 28, 2023, to shareholders of record on July 13, 2023.

On August 11, 2023, the Board declared a quarterly dividend in the amount of \$0.03 per share, which was paid on October 27, 2023 to shareholders of record on October 16, 2023.

On November 13, 2023, our Board declared a quarterly dividend in the amount of \$0.045 per share, will be payable, subject to any prior revocation, on January 25, 2024 to shareholders of record on January 14, 2024. Future dividends will be subject to further review and approval by the Board in accordance with applicable law. The Board reserves the right to adjust or withdraw the quarterly dividend in future periods as it reviews our capital allocation strategy from time-to-time.

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 December 29, 2022, the Board approved a stock repurchase program of up to \$50.0 million of our common stock for a period of up to twelve months (the “December 2022 Stock Repurchase Program”), which terminated and superseded the stock repurchase program that had been approved by our Board on February 23, 2022. Any stock repurchases may be made through open market and privately negotiated transactions, at such times and in such amounts as management deems appropriate, including pursuant to one or more Rule 10b5-1 trading plans adopted in accordance with Rule 10b5-1 of the Exchange Act. Additionally, the Board authorized the use of any derivative or similar instrument to effect stock repurchase transactions, including without limitation, accelerated share repurchase contracts, equity forward transactions, equity option transactions, equity swap transactions, cap transactions, collar transactions, naked put options, floor transactions or other similar transactions or any combination of the foregoing transactions. The December 2022 Stock Repurchase Program was implemented as a method to return value to our stockholders. The timing, pricing and sizes of any repurchases will depend on a number of factors, including the market price of our common stock and general market and economic conditions. The December 2022 Stock Repurchase Program does not obligate us to repurchase any dollar amount or number of shares, and the program may be suspended or discontinued at any time. On August 8, 2023, the Board approved an amendment to extend the expiration date of the December 2022 Stock Repurchase Program that was set to expire on December 29, 2023 to December 29, 2024.

We repurchased 898,757 shares of our common stock for \$6.2 million at an average purchase price of \$6.8602 per share during the nine months ended September 30, 2023. As of September 30, 2023, we had \$43.8 million available for repurchase under the December 2022 Stock Repurchase Program.

We did not have any other significant non-cancellable purchase commitments as of September 30, 2023.

We anticipate that capital expenditures for property and equipment for the remainder of 2023 will be less than \$1.0 million.

As of 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 and beyond.

Critical Accounting 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 accounting principles generally accepted in the United States of America ("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, marketable securities and derivative instruments, 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.

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, 2022, filed with the SEC on February 22, 2023, for a complete discussion of our critical accounting policies and estimates. The preparation of financial statements and related disclosures in conformity with U.S. GAAP and our discussion and analysis of our financial condition and operating results require the management to make judgments, assumptions and estimates that affect the amounts reported. See *Note 1. Significant Accounting Policies* of the *Notes to Condensed Consolidated Financial Statements* in Part I, Item 1 herein, which describes the significant accounting policies and methods used in the preparation of our condensed consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

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 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Control and Procedures

Based on their evaluation as of September 30, 2023, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has 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 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 September 30, 2023, that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

Our management, including our 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

Item 1. *Legal Proceedings*

Immersion Corporation vs. Meta Platforms, Inc., f/k/a Facebook, Inc. (“Meta”)

On May 26, 2022, we filed a complaint against Meta in the United States District Court for the Western District of Texas. The complaint alleges that Meta’s augmented and virtual reality (“AR/VR”) systems, including the Meta Quest 2, infringe six of our patents that cover various uses of haptic effects in connection with such AR/VR systems. We are seeking to enjoin Meta from further infringement and to recover a reasonable royalty for such infringement.

The complaint against Meta asserts infringement of the following patents:

- U.S. Patent No. 8,469,806: “System and method for providing complex haptic stimulation during input of control gestures, and relating to control of virtual equipment”
- U.S. Patent No. 8,896,524: “Context-dependent haptic confirmation system”
- U.S. Patent No. 9,727,217: “Haptically enhanced interactivity with interactive content”
- U.S. Patent No. 10,248,298: “Haptically enhanced interactivity with interactive content”
- U.S. Patent No. 10,269,222: “System with wearable device and haptic output device”
- U.S. Patent No. 10,664,143: “Haptically enhanced interactivity with interactive content”

Meta responded to the Company’s complaint on August 1, 2022. On September 12, 2022, Meta filed a motion to transfer the lawsuit to the Northern District of California or, in the alternative, to the Austin Division of the Western District of Texas. The Court denied Meta’s motion on May 30, 2023, and held the claim construction hearing on the same day. The Court adopted certain claim constructions during the hearing, and issued a formal claim construction order consistent with those constructions on July 7, 2023. On August 2, 2023, Meta filed a mandamus petition asking the Federal Circuit to reverse the district court’s order on Meta’s transfer motion. Immersion responded on August 11, 2023, and Meta filed its reply brief on August 14, 2023. Meta’s petition remains pending. Fact discovery closed on [October 6, 2023].

In addition, Meta filed *inter partes* reviews (“IPRs”), IPR2023-00942; IPR2023-00943; and IPR2023-00944, on May 25, 2023. These are directed to U.S. Patent Nos. 8,469,806; 8,896,524; and 10,269,222, respectively. The Company filed its response to IPR2023-00942 and IPR2023-0094 on September 8, 2023, and to IPR2023-00944 on September 12, 2023. Meta filed IPR2023-00945; IPR2023-00946; and IPR2023-00947 on May 26, 2023. These IPRs are directed to United States Patent Nos. 10,664,143; 9,727,217; and 10,248,298, respectively. The Company filed its response to IPR2023-00945 on September 8, 2023, and to IPR2023-00946 and IPR2023-00947 is due on September 12, 2023.

On August 2, 2023, Meta filed a mandamus petition asking the Federal Circuit to vacate Judge Albright’s May 30, 2023 order denying transfer of the litigation from the Waco Division of the Western District of Texas to the Northern District of California and instead transferring the case to the Austin Division of the Western District of Texas. The Federal Circuit has set a response deadline of August 11, 2023 for us, and a reply deadline of August 14, 2023 for Meta.

On November 10, 2023, we filed an additional complaint against Meta in the United States District Court for the Western District of Texas, alleging that Meta’s AR/VR systems, including the Meta Quest 3, infringe five of our patents that cover various uses of haptic effects in connection with such AR/VR systems. We are seeking to enjoin Meta from further infringement and to recover a reasonable royalty for such infringement.

The complaint against Meta asserts infringement of the following patents:

1. U.S. Patent No. 8,469,806: “System and method for providing complex haptic stimulation during input of control gestures, and relating to control of virtual equipment”
2. U.S. Patent No. 9,727,217: “Haptically enhanced interactivity with interactive content”
3. U.S. Patent No. 10,248,298: “Haptically enhanced interactivity with interactive content”
4. U.S. Patent No. 10,269,222: “System with wearable device and haptic output device”
5. U.S. Patent No. 10,664,143: “Haptically enhanced interactivity with interactive content”

Immersion Corporation vs. Xiaomi Group

On or about March 3, 2023, the Company filed patent infringement lawsuits against several companies of the Xiaomi-Group in Germany, France and India. Immersion filed complaints against Xiaomi-Group companies and their agents in the Düsseldorf Regional Court in Germany, the *Tribunal judiciaire de Paris* (Paris First Instance Civil Court) in France, and the High Court of Delhi, at New Delhi, in India.

The complaints allege that Xiaomi’s smartphones, including the Xiaomi 12, infringe Immersion’s patents that cover various uses of haptic effects in connection with such smartphones. Immersion is seeking injunctions that would allow Immersion to prohibit Xiaomi from selling the infringing smartphones in Germany, France and India, as well as costs and damages as compensation for such infringement.

The complaints against Xiaomi assert infringement of the following patents:

- EP 2 463 752 B1 (German part) titled “*Haptisches Feedback-System mit gespeicherten Effekten*”
- EP 2 463 752 B1 (French part) titled “*Système de rendu haptique avec stockage d’effets*”
- IN 304 396 (India) titled “*Haptic Feedback System With Stored Effects*”

On June 19, 2023, Xiaomi filed an initial response to the Company’s lawsuit in India. On July 7, 2023, the Indian litigation was listed before the Learned Joint Registrar (“JR”), Mr. Siddharth Mathur.

On July 11, 2023, in the German proceeding Xiaomi filed its nullity action in the German Federal Patent Court, which was served on Immersion on July 27, 2023. Immersion has until October 27, 2023, to respond. In the German infringement proceeding, Xiaomi's statement of defense is due on October 25, 2023.

Xiaomi has until December 21, 2023 to reply to Immersion's writ of summons in the French proceeding.

The Court will hear Immersion's application for a preliminary injunction on January 24, 2024 in the Indian proceeding.

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 Limited from 2012 to 2014. Pursuant to an agreement reached with LGE, on April 8, 2020, the Company 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.

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 related to the 2012 to 2014 period. 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, the Company filed an appeal with the Korea Administrative Court on June 10, 2019. The Company has had numerous hearings before the Korea Administrative Court in the years 2019 through 2022. The Company had a hearing on April 27, 2023, and the Korea Administrative Court rendered a decision on this matter on June 8, 2023, in which it ruled that the withholding taxes and penalties which were imposed by the Korean tax authorities on LGE should be cancelled with litigation costs to be borne by the Korean tax authorities. In connection with the Korea Administrative Court's decision, the Korean tax authorities filed an appeal on June 28, 2023 with the Korea High Court to seek the cancellation of the lower court's decision. The appellate case is in progress at the Seoul High Court and the first hearing has been scheduled for November 30, 2023.

On April 25, 2023, the Company received notice from LGE requesting the Company to reimburse LGE with respect to withholding tax imposed on LGE by the Korean tax authorities following a recent tax audit of LGE for the years 2018 through 2022. Pursuant to an agreement reached with LGE, on June 2, 2023, the Company provided a provisional deposit to LGE in the amount of KRW 3,024,877,044 (approximately \$2.3 million) representing the amount of such withholding tax that was imposed on LGE, which provisional deposit would be returned to the Company to the extent the Company ultimately prevails in the appeal in the Korean courts. On June 29, 2023, on behalf of LGE, the Company filed an appeal with the Korea Tax Tribunal regarding their findings with respect to the withholding taxes related to the 2018 to 2022 period. On August 7, 2023, the Assessment Authority submitted its answer against the tax appeal. On September 8, 2023, the Appellant submitted its rebuttal brief in response thereto.

Immersion Corporation vs. Valve Corporation

On May 15, 2023, we filed a complaint against Valve Corporation (“**Valve**”) in the United States District Court for the Western District of Washington. The complaint alleges that Valve’s AR/VR systems, including the Valve Index, and handheld Steam Deck, infringe seven of our patents that cover various uses of haptic effects in connection with such AR/VR systems and other video game systems. We are seeking to enjoin Valve from further infringement and to recover a reasonable royalty for such infringement.

The complaint against Valve asserts infringement of the following patents:

- U.S. Patent No. 7,336,260: “Method and Apparatus for Providing Tactile Sensations”
- U.S. Patent No. 8,749,507: “Systems and Methods for Adaptive Interpretation of Input from a Touch-Sensitive Input Device”
- U.S. Patent No. 9,430,042: “Virtual Detents Through Vibrotactile Feedback”
- U.S. Patent No. 9,116,546: “System for Haptically Representing Sensor Input”
- U.S. Patent No. 10,627,907: “Position Control of a User Input Element Associated With a Haptic Output Device”
- U.S. Patent No. 10,665,067: “Systems and Methods for Integrating Haptics Overlay in Augmented Reality”
- U.S. Patent No. 11,175,738: “Systems and Methods for Proximity-Based Haptic Feedback”

Valve responded to the Complaint on July 24, 2023 with a motion to dismiss. Valve re-noted its motion, which changed Immersion’s response deadline from August 14, 2023 to August 21, 2023. Immersion timely filed its response, and Valve filed its reply on August 25, 2023. The motion remains pending. Although the parties have agreed to a case schedule, the Court has not yet entered such case schedule.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on February 22, 2023, except as set forth below. The risk factor set forth below supplements, and should be read together with, that section for disclosures regarding what we believe are the more significant risks and uncertainties related to our businesses

Our business strategy includes acquisitions, and acquisitions entail numerous risks, including the risk of management diversion and increased costs and expenses, all of which could negatively affect the Company’s profitability.

Our business strategy includes, among other things, strategic acquisitions, as well as potential opportunistic acquisitions and strategic actions with respect to our existing investments, such as restructurings, strategic partnerships and collaborations and activist activity. This overall acquisition and investment strategy entails several risks, including the diversion of management’s attention from other business concerns, the incurrence of substantial legal and other advisory fees (including, in the case of activist activity, proxy solicitation fees) and the potential need to finance such acquisitions with additional equity and/or debt. Additionally, to the extent that we are already invested in the entities that are the subject of our acquisitions and other activities, our actions may be temporarily disruptive to the value of the investments, which could adversely affect our financial condition.

In addition, once completed, acquisitions may entail further risks, including: unanticipated costs and liabilities of the acquired businesses, including environmental liabilities, that could materially adversely affect our results of operations; increased regulatory compliance relating to the acquired business; difficulties in assimilating acquired businesses, their personnel and their financial reporting systems, which would prevent the expected benefits from the transaction from being realized within the anticipated timeframe; negative effects on existing business relationships with suppliers and customers; and loss of key employees of the acquired businesses. In addition, any future acquisitions could result in the incurrence of additional debt and related interest expense, contingent liabilities and amortization expense related to intangible assets, which could have a material adverse effect on our business, financial condition, operating results and cash flows, or the issuance of additional equity, which could dilute our stockholder's equity interests.

There can be no assurance that we will be able to negotiate any pending acquisition successfully, receive the required approvals for any acquisition or otherwise conclude any acquisition successfully, or that any acquisition will achieve the anticipated synergies or other positive results. Overall, if our acquisition strategy is not successful or if acquisitions are not well integrated into our existing operations, the Company's profitability, business, and financial condition could be negatively affected.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Stock Repurchase Program

On December 29, 2022, the Board approved the December 2022 Stock Repurchase Program, which terminated and superseded the stock repurchase program that had been approved by our Board on February 23, 2022. Any stock repurchases may be made through open market and privately negotiated transactions, at such times and in such amounts as management deems appropriate, including pursuant to one or more Rule 10b5-1 trading plans adopted in accordance with Rule 10b5-1 of the Exchange Act. Additionally, the Board authorized the use of any derivative or similar instrument to effect stock repurchase transactions, including without limitation, accelerated share repurchase contracts, equity forward transactions, equity option transactions, equity swap transactions, cap transactions, collar transactions, naked put options, floor transactions or other similar transactions or any combination of the foregoing transactions. The December 2022 Stock Repurchase Program was implemented as a method to return value to our stockholders. The timing, pricing and sizes of any repurchases will depend on a number of factors, including the market price our common stock and general market and economic conditions. The stock repurchase program does not obligate us to repurchase any dollar amount or number of shares, and the program may be suspended or discontinued at any time. On August 8, 2023, the Board approved an amendment to extend the expiration date of the December 2022 Stock Repurchase Program that was set to expire on December 29, 2023 to December 29, 2024.

We repurchased 898,757 shares of our common stock for \$6.2 million at average purchase price of \$6.86 per share during the nine months ended September 30, 2023. As of September 30, 2023, we had \$43.8 million available for repurchase under the December 2022 Stock Repurchase Program.

Periods	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
July 1 to July 31	6,476	6.9045	6,476	47,100,000
August 1 to August 31, 2023	97,272	6.9969	97,272	47,100,000
September 1 to September 30, 2023	381,313	6.8073	3,328,287	43,800,000

(1) The amounts represent the amount available to repurchase shares under the authorized repurchase program as of September 30, 2023. Our stock repurchase program does not obligate it to acquire any specific number of 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 Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Bylaws of Immersion Corporation, effective as of August 12, 2022	8-K	000-38334	3.1	August 15, 2022
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	Amended and Restated Certificate of Designations of Series B Participating Preferred Stock of Immersion Corporation	8-K	000-27969	3.1	November 17, 2021
31.1	* Certification of Eric Singer, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	* Certification of J. Michael Dodson, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1	+ Certification of Eric Singer, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
32.2	+ Certification of J. Michael Dodson, 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				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				

* Filed herewith

+ This certification is deemed not filed for purposes of section 18 of the Exchange Act, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act, as amended, or the Exchange Act, as amended.

SIGNATURES

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

Date: November 13, 2023

IMMERSION CORPORATION

By /s/ J. MICHAEL DODSON
 J. Michael Dodson
 Chief Financial Officer
 (Principal Financial Officer and Principal
 Accounting Officer)

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

I, Eric Singer, certify that:

I have reviewed this quarterly 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: November 13, 2023

/s/ ERIC SINGER

Eric Singer

Chief Executive Officer

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

I, J. Michael Dodson, certify that:

I have reviewed this quarterly 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: November 13, 2023

/s/ J. MICHAEL DODSON

J. Michael Dodson

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 Quarterly Report of Immersion Corporation (the “Company”) on Form 10-Q for the three months ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Eric Singer, 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/ ERIC SINGER

Eric Singer

Chief Executive Officer

November 13, 2023

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 Quarterly Report of Immersion Corporation (the “Company”) on Form 10-Q for the three months ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, J. Michael Dodson, 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/J. MICHAEL DODSON

J. Michael Dodson

Chief Financial Officer

November 13, 2023

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.