

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2021

OR

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

Commission File Number: 001-39304

**XPERI HOLDING CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

3025 Orchard Parkway, San Jose, California  
(Address of Principal Executive Offices)

**84-4734590**  
(I.R.S. Employer  
Identification No.)

95134  
(Zip Code)

**(408) 321-6000**  
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock (par value \$0.001 per share)	XPER	Nasdaq Global Select Market

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See 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 checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

The number of shares outstanding of the registrant's common stock as of April 23, 2021 was 104,906,671.

XPERI HOLDING CORPORATION  
FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2021  
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

**XPERI HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts)  
(unaudited)

	Three Months Ended	
	March 31, 2021	March 31, 2020
Revenue:		
Licensing, services and software	\$ 218,405	\$ 117,487
Hardware	3,191	178
Total revenue	<u>221,596</u>	<u>117,665</u>
Operating expenses:		
Cost of licensing, services and software revenue, excluding depreciation and amortization of intangible assets	21,416	1,540
Cost of hardware revenue, excluding depreciation and amortization of intangible assets	6,716	44
Research, development and other related costs	55,223	28,607
Selling, general and administrative	67,430	36,606
Depreciation expense	5,684	1,729
Amortization expense	52,195	22,509
Litigation expense	2,533	2,103
Total operating expenses	<u>211,197</u>	<u>93,138</u>
Operating income	10,399	24,527
Interest expense	(11,313)	(4,251)
Other income and expense, net	1,425	565
Income before taxes	511	20,841
Provision for (benefit from) income taxes	(4,015)	2,056
Net income	<u>\$ 4,526</u>	<u>\$ 18,785</u>
Less: net loss attributable to noncontrolling interest	(761)	(551)
Net income attributable to the Company	<u>\$ 5,287</u>	<u>\$ 19,336</u>
Income per share attributable to the Company:		
Basic	<u>\$ 0.05</u>	<u>\$ 0.39</u>
Diluted	<u>\$ 0.05</u>	<u>\$ 0.39</u>
Weighted average number of shares used in per share calculations-basic	<u>104,940</u>	<u>49,945</u>
Weighted average number of shares used in per share calculations-diluted	<u>107,776</u>	<u>50,199</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**XPERI HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in thousands)  
(unaudited)

	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
Net income	\$ 4,526	\$ 18,785
Other comprehensive loss, net of tax:		
Change in foreign currency translation adjustment	(1,045)	—
Net unrealized loss on available-for-sale debt securities	(34)	(274)
Other comprehensive loss, net of tax	(1,079)	(274)
Comprehensive income	3,447	18,511
Less: comprehensive loss attributable to noncontrolling interest	(761)	(551)
Comprehensive income attributable to the Company	\$ 4,208	\$ 19,062

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**XPERI HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except for par value)  
(unaudited)

	March 31, 2021	December 31, 2020
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 134,759	\$ 170,188
Available-for-sale debt securities	102,145	86,947
Accounts receivable, net of allowance for credit losses of \$4,038 and \$7,336, respectively	122,465	115,975
Unbilled contracts receivable, net of allowance for credit losses of \$2,884 and \$2,231, respectively	128,758	132,431
Other current assets	57,526	40,763
Total current assets	545,653	546,304
Long-term unbilled contracts receivable	8,016	6,761
Property and equipment, net	59,211	63,207
Operating lease right-of-use assets	75,429	80,226
Intangible assets, net	951,996	1,004,379
Goodwill	847,029	847,029
Other long-term assets	147,578	153,270
Total assets	\$ 2,634,912	\$ 2,701,176
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 24,474	\$ 13,045
Accrued legal fees	3,618	5,783
Accrued liabilities	83,447	129,035
Current portion of long-term debt, net	43,825	43,689
Deferred revenue	32,528	33,119
Total current liabilities	187,892	224,671
Deferred revenue, less current portion	37,880	39,775
Long-term deferred tax liabilities	25,794	24,754
Long-term debt, net	784,666	795,661
Noncurrent operating lease liabilities	61,467	66,243
Other long-term liabilities	100,336	98,953
Total liabilities	1,198,035	1,250,057
Commitments and contingencies (Note 15)		
Company stockholders' equity:		
Preferred stock: \$0.001 par value; (2021: authorized 15,000 shares; 2020: authorized 15,000 shares; and no shares issued and outstanding)	—	—
Common stock: \$0.001 par value; (2021: authorized 350,000 shares, issued 111,700 shares, outstanding 104,875 shares; 2020: authorized 350,000 shares, issued 110,182, outstanding 104,775 shares)	112	110
Additional paid-in capital	1,288,400	1,268,471
Treasury stock at cost (2021: 6,825 shares; 2020: 5,407 shares)	(109,577)	(77,218)
Accumulated other comprehensive income	185	1,264
Retained earnings	264,273	264,250
Total Company stockholders' equity	1,443,393	1,456,877
Noncontrolling interest	(6,516)	(5,758)
Total equity	1,436,877	1,451,119
Total liabilities and equity	\$ 2,634,912	\$ 2,701,176

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**XPERI HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 4,526	\$ 18,785
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation of property and equipment	5,684	1,729
Amortization of intangible assets	52,195	22,509
Stock-based compensation expense	13,219	7,987
Deferred income taxes	666	(2,064)
Other	3,217	3,298
Changes in operating assets and liabilities:		
Accounts receivable	(7,632)	(8,318)
Unbilled contracts receivable	2,295	(6,022)
Other assets	(10,697)	(739)
Accounts payable	11,429	(760)
Accrued and other liabilities	(45,687)	(5,212)
Deferred revenue	(2,486)	1,451
Net cash from operating activities	<u>26,729</u>	<u>32,644</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(1,772)	(688)
Proceeds from sale of property and equipment	5	—
Purchases of intangible assets	(36)	—
Purchases of short-term investments	(42,505)	—
Proceeds from sales of investments	16,921	3,345
Proceeds from maturities of investments	10,000	8,500
Net cash from investing activities	<u>(17,387)</u>	<u>11,157</u>
<b>Cash flows from financing activities:</b>		
Dividend paid	(5,264)	(10,036)
Repayment of debt	(13,125)	—
Proceeds from employee stock purchase program and exercise of stock options	6,715	3,233
Repurchases of common stock	(32,359)	(3,144)
Net cash from financing activities	<u>(44,033)</u>	<u>(9,947)</u>
Effect of exchange rate changes on cash and cash equivalents	(738)	—
Net increase (decrease) in cash and cash equivalents	(35,429)	33,854
Cash and cash equivalents at beginning of period	170,188	74,551
Cash and cash equivalents at end of period	<u>\$ 134,759</u>	<u>\$ 108,405</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 9,015	\$ 3,637
Income taxes paid, net of refunds	<u>\$ 5,921</u>	<u>\$ 5,637</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**XPERI HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**  
(in thousands)  
(unaudited)

<b>Three Months Ended March 31, 2021</b>	<b>Total Company Stockholders' Equity</b>								
	Common Stock		Additional Paid-In	Treasury Stock		Accumulated Other Comprehensive	Retained	Noncontrolling	Total Equity
	Shares	Amount	Capital	Shares	Amount	Income (Loss)	Earnings	Interest	
<b>Balance at January 1, 2021</b>	104,775	\$ 110	\$ 1,268,471	5,407	\$ (77,218)	\$ 1,264	\$ 264,250	\$ (5,758)	\$ 1,451,119
Issuance of subsidiary shares to noncontrolling interest	—	—	(3)	—	—	—	—	3	—
Net income (loss)	—	—	—	—	—	—	5,287	(761)	4,526
Other comprehensive loss	—	—	—	—	—	(1,079)	—	—	(1,079)
Cash dividends paid on common stock (\$0.05 per share)	—	—	—	—	—	—	(5,264)	—	(5,264)
Issuance of common stock in connection with exercise of stock options	12	—	228	—	—	—	—	—	228
Issuance of common stock in connection with employee stock purchase plan	633	1	6,485	—	—	—	—	—	6,486
Issuance of restricted stock, net of shares canceled	873	1	—	—	—	—	—	—	1
Repurchases of common stock, shares exchanged	(347)	—	—	347	(7,352)	—	—	—	(7,352)
Repurchases of common stock	(1,071)	—	—	1,071	(25,007)	—	—	—	(25,007)
Stock-based compensation expense	—	—	13,219	—	—	—	—	—	13,219
<b>Balance at March 31, 2021</b>	<u>104,875</u>	<u>\$ 112</u>	<u>\$ 1,288,400</u>	<u>6,825</u>	<u>\$ (109,577)</u>	<u>\$ 185</u>	<u>\$ 264,273</u>	<u>\$ (6,516)</u>	<u>\$ 1,436,877</u>

<b>Three Months Ended March 31, 2020</b>	<b>Total Company Stockholders' Equity</b>								
	Common Stock		Additional Paid-In	Treasury Stock		Accumulated Other Comprehensive	Retained	Noncontrolling	Total Equity
	Shares	Amount	Capital	Shares	Amount	Loss	Earnings	Interest	
<b>Balance at January 1, 2020</b>	49,620	\$ 64	\$ 768,284	14,002	\$ (368,701)	\$ (53)	\$ 148,317	\$ (2,811)	\$ 545,100
Issuance of subsidiary shares to noncontrolling interest	—	—	(3)	—	—	—	—	3	—
Net income (loss)	—	—	—	—	—	—	19,336	(551)	18,785
Other comprehensive loss	—	—	—	—	—	(274)	—	—	(274)
Cash dividends paid on common stock (\$0.20 per share)	—	—	—	—	—	—	(10,036)	—	(10,036)
Issuance of common stock in connection with employee stock purchase plan	236	—	3,232	—	—	—	—	—	3,232
Issuance of restricted stock, net of shares canceled	858	1	—	—	—	—	—	—	1
Repurchases of common stock, shares exchanged	(184)	—	—	184	(3,144)	—	—	—	(3,144)
Stock-based compensation expense	—	—	7,987	—	—	—	—	—	7,987
<b>Balance at March 31, 2020</b>	<u>50,530</u>	<u>\$ 65</u>	<u>\$ 779,500</u>	<u>14,186</u>	<u>\$ (371,845)</u>	<u>\$ (327)</u>	<u>\$ 157,617</u>	<u>\$ (3,359)</u>	<u>\$ 561,651</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**XPERI HOLDING CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**NOTE 1 – THE COMPANY AND BASIS OF PRESENTATION**

On December 18, 2019, Xperi Corporation (“Xperi”) entered into an Agreement and Plan of Merger and Reorganization with TiVo Corporation (“TiVo”) to combine in an all-stock merger of equals transaction (the “Mergers”). Immediately following the consummation of the Mergers on June 1, 2020, (the “Merger Date”), Xperi Holding Corporation (the “Company”), a Delaware corporation founded in December 2019 under the name “XRAY-TWOLF HoldCo Corporation,” became the parent company of both Xperi and TiVo. The common stock of Xperi and TiVo were de-registered after completion of the Mergers. On June 2, 2020, Xperi Holding Corporation’s common stock, par value \$0.001 per share, commenced trading on the Nasdaq Global Select Market (“Nasdaq”) under the ticker symbol “XPER.”

Xperi was determined to be the accounting acquirer in the Mergers. As a result, the historical financial statements of Xperi for periods prior to the Mergers are considered to be the historical financial statements of Xperi Holding Corporation. As used herein, the “Company” refers to Xperi when referring to periods prior to June 1, 2020 and to Xperi Holding Corporation when referring to periods subsequent to June 1, 2020. The Company’s results of operations include the operations of TiVo after June 1, 2020, and TiVo’s assets and liabilities were recorded at their estimated fair values in the Company’s Condensed Consolidated Balance Sheets as of June 1, 2020.

Xperi Holding Corporation is a leading consumer and entertainment product/solutions licensing company and one of the industry’s largest intellectual property (IP) licensing platforms, with a diverse portfolio of media and semiconductor intellectual property and more than 11,000 patents and patent applications worldwide. The Company invents, develops, and delivers technologies that enable extraordinary experiences. The Company’s technologies, delivered via its brands (DTS, HD Radio, IMAX Enhanced, Invensas, and TiVo), and by its subsidiary, Perceive Corporation, make entertainment more entertaining, and smart devices smarter. The Company’s technologies are integrated into billions of consumer devices, media platforms, and semiconductors worldwide, driving increased value for customers, partners and consumers. The Company shapes how millions of consumers access and experience entertainment content, and the Company’s innovations are found in billions of devices and hundreds of millions of interfaces around the globe.

The accompanying interim unaudited condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles (“GAAP”) in the United States (“U.S.”) for interim financial information. The amounts as of December 31, 2020 have been derived from the Company’s annual audited financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2020, filed on February 26, 2021 (the “Form 10-K”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary (consisting of normal recurring adjustments) to state fairly the financial position of the Company and its results of operations and cash flows as of and for the periods presented. These financial statements should be read in conjunction with the annual audited financial statements and notes thereto as of and for the year ended December 31, 2020, included in the Form 10-K.

The results of operations for the three months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2021 or any future period and the Company makes no representations related thereto.

In the fourth quarter of 2018, the Company funded a new subsidiary, Perceive Corporation (“Perceive”), which was created to focus on delivering edge inference solutions. As of March 31, 2021, the Company’s ownership interest in Perceive was approximately 81%. The operating results of Perceive have been consolidated in the Company’s condensed consolidated financial statements for all periods presented.

***Reclassification***

As a result of the Mergers, certain reclassifications of prior period amounts have been made to improve comparability and conform to the current period presentation. Presentation changes were made to the Condensed Consolidated Statements of Operations. In addition, certain reclassifications of prior period data have been made in the Notes to Condensed Consolidated Financial Statements to conform to the current period presentation.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes in the Company’s significant accounting policies during the three months ended March 31, 2021, as compared to the significant accounting policies described in the Form 10-K.

### *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The accounting estimates and assumptions that require management’s most significant, challenging, and subjective judgment include the estimation of licensees’ quarterly royalties prior to receiving the royalty reports, the determination of stand-alone selling price and the transaction price in an arrangement with multiple performance obligations, the estimation of variable consideration, judgment used to estimate the progress toward completion in the Company’s engineering services, the collectability of accounts receivable, other intangible assets and investments, the assessment of the recoverability of goodwill, the assessment of useful lives and recoverability of other intangible assets and long-lived assets, recognition and measurement of current and deferred income tax assets and liabilities, the assessment of unrecognized tax benefits, and purchase accounting resulting from business combinations, among others. Actual results experienced by the Company may differ from management’s estimates.

The COVID-19 pandemic has resulted in a global slowdown of economic activity which is likely to reduce the future demand for a broad variety of goods and services, while also disrupting sales channels, marketing activities and supply chains for an unknown period of time until the virus is fully contained. The Company’s business operations have been negatively impacted by the COVID-19 pandemic and related events and the Company expects this disruption to continue to have a negative impact on its revenue and results of operations, the size and duration of which is currently difficult to predict. Although the Company is unable to predict the full impact and duration of COVID-19 on its business, the Company is actively managing its financial expenditures in response to the current uncertainty.

The impact of the COVID-19 pandemic and related events, including actions taken by various government authorities in response, have increased market volatility and make the estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes more difficult. As of the date of issuance of the financial statements, the Company is not aware of any specific event or circumstance that would require it to update its estimates, judgments or revise the carrying value of its assets or liabilities. These estimates may change, as new events occur and additional information is obtained, and are recognized in the consolidated financial statements as soon as they become known.

### *Recently Adopted Accounting Pronouncements*

In December 2019, the Financial Accounting Standards Board (“FASB”) issued ASU 2019-12, “Simplifying the Accounting for Income Taxes” (“ASU 2019-12”). The purpose of the update is to reduce the complexity pertaining to certain areas in accounting for income taxes. Key amendments from ASU 2019-12 include, but are not limited to, the accounting for hybrid tax regimes, step-up in tax basis for goodwill in non-business combination transactions, intraperiod tax allocation exception to the incremental approach, and interim period accounting for enacted changes in tax law. The Company adopted the new standard prospectively on January 1, 2021. The adoption did not have an impact on the Company’s consolidated financial statements.

### *Recent Accounting Pronouncements*

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (“ASU 2020-04”). ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in ASU 2020-04 apply only to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued because of reference rate reform. In January 2021, the FASB issued ASU 2021-01, Reference Rate Reform (Topic 848), which provides further clarification on the scope of Topic 848 so that derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions in Topic 848. ASU 2020-04 became effective upon issuance and may be applied prospectively to contract modifications made on or before December 31, 2022. ASU 2021-01 became effective upon issuance and may be applied on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020 or prospectively for contract modifications made on or before December 31, 2022. The Company currently has debt agreements that reference LIBOR and will apply the amendments prospectively through December 31, 2022 as these contracts are modified to reference other rates.

## NOTE 3 – REVENUE

### Revenue Recognition

#### *General*

Revenue is recognized when control of the promised goods or services is transferred to a customer in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services, which may include various combinations of goods and services which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of sales taxes collected from customers which are subsequently remitted to governmental authorities. In situations where foreign withholding taxes are withheld by the Company's licensee, revenue is recognized gross of withholding taxes that are remitted directly by the licensee to a local tax authority.

#### *Arrangements with Multiple Performance Obligations*

Some of the Company's contracts with customers contain multiple performance obligations. For these contracts, the individual performance obligations are separately accounted for if they are distinct. In an arrangement with multiple performance obligations, the transaction price is allocated among the separate performance obligations on a relative stand-alone selling price basis. The determination of stand-alone selling price considers market conditions, the size and scope of the contract, customer and geographic information, and other factors. When observable prices are not available, stand-alone selling price for separate performance obligations is based on the cost-plus-margin approach, considering overall pricing objectives. The allocation of transaction price among performance obligations in a contract may impact the amount and timing of revenue recognized in the Consolidated Statements of Operations during a given period.

#### *Contract Modifications*

Contracts may be modified due to changes in contract specifications or customer requirements. Contract modifications occur when the change in terms either creates new enforceable rights and obligations or changes existing enforceable rights and obligations. The effect of a contract modification for goods and services that are not distinct in the context of the contract on the transaction price is recognized as an adjustment to revenue on a cumulative catch-up basis. Contract modifications that result in goods or services that are distinct from the existing goods or services are accounted for as separate contracts if they are sold at their stand-alone selling price, or otherwise prospectively.

#### *Variable Consideration*

When a contract with a customer includes a variable transaction price, an estimate of the consideration which the Company expects to be entitled to for transferring the promised goods or services is made at contract inception. Depending on the terms of the contract, variable consideration is estimated using either the expected value approach or the most likely value approach. Under either approach to estimating variable consideration, the estimate considers all information (historical, current and forecast) that is reasonably available at contract inception. The amount of variable consideration is estimated at contract inception and updated as additional information becomes available. The estimate of variable consideration is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Subsequent changes in the transaction price resulting from changes in the estimate of variable consideration are allocated to the performance obligations in the contract on the same basis as at contract inception. Certain payments to licensees, retailers and distributors, such as market development funds and revenue shares, are treated as a reduction of the transaction price, and therefore a reduction to revenue, unless the payment is in exchange for a distinct good or service that the licensee, retailer or distributor transfers to the Company.

When variable consideration is in the form of a sales-based or usage-based royalty in exchange for a license of IP, or when a license of IP is the predominant item to which the variable consideration relates, revenue is recognized at the later of when the subsequent sale or usage occurs or the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied or partially satisfied.

#### *Nature of Goods and Services*

The following is a discussion of the principal activities from which the Company generates its revenue.

## License Agreements

The Company operates in two business segments. In its Product segment, the Company licenses its audio, digital radio, imaging, edge-based machine learning and multi-channel video user experience (“UX”) solutions. Within this segment, the Company groups its business into three categories based on the products delivered and customers served: Consumer Experience, Connected Car, and Pay-TV. In its IP Licensing segment, the Company licenses (i) its media patent portfolios (“Media IP licensing”) to multichannel video programming distributors, over-the-top video service providers, consumer electronics manufacturers, social media, and other new media companies and (ii) its semiconductor technologies and associated patent portfolios (“Semiconductor IP licensing”) to memory, sensors, radio frequency (“RF”) component, and foundry companies.

The Company licenses its technologies and portfolios under three revenue models: (i) fixed-fee Media IP licensing, (ii) fixed-fee or minimum guarantee Product or Semiconductor IP licensing, and (iii) per-unit or per-subscriber royalty licenses.

### Fixed-fee Media IP licensing

The Company's long-term fixed-fee Media IP licensing agreements, which are related to the TiVo businesses following the Mergers, provide its customers with rights to future patented technologies over the term of the agreement that are highly interdependent or highly interrelated to the patented technologies provided at the inception of the agreement. The Company treats these rights as a single performance obligation with revenue recognized on a straight-line basis over the term of the fixed-fee license agreement.

At times, the Company enters into license agreements in which a licensee is released from past patent infringement claims or is granted a license to ship an unlimited number of units or for an unlimited number of subscribers over a future period for a fixed fee. In these arrangements, the Company allocates the transaction price between the release for past patent infringement claims and the future license. In determining the stand-alone selling price of the release for past patent infringement claims and the future license, the Company considers such factors as the number of units shipped in the past or the number of past subscribers and the relevant geographies of the shipped units or subscribers, the future number of subscribers or units, as well as the licensing rate the Company generally receives for per-subscriber or units shipped in the same geographies. As the release from past patent infringement claims is generally satisfied at execution of the agreement, the transaction price allocated to the release from past patent infringement claims is generally recognized in the period the agreement is executed and the amount of transaction price allocated to the future license is recognized ratably over the future license term.

### Fixed-fee or minimum guarantee Semiconductor IP or Product licensing

The Company enters into Semiconductor IP or Product licenses that have fixed fee or minimum guarantee arrangements, whereby licensees pay a fixed fee for the right to incorporate the Company's technology in the licensee's products over the license term. In arrangements with a minimum guarantee, the fixed fee component corresponds to a minimum number of units or dollars that the customer must produce or pay, with additional per-unit fees for any units or dollars exceeding the minimum. In most cases, the customer pays the fixed license fee in specified installments over the license term. For both fixed fee and minimum guarantee agreements for Semiconductor IP or Product licensing, the Company recognizes the full fixed fee as revenue at the beginning of the license term, when the licensee has the right to use the IP and begins to benefit from the license.

If the contract term of a fixed fee or minimum guarantee arrangement is longer than one year, the Company also considers the scheduled payment arrangements to determine whether a significant financing component exists. In general, if the payment arrangements extend beyond the initial twelve months of the contract, the Company treats a portion of the payments as a significant financing component. The discount rate used for each arrangement reflects the rate that would be used in a separate financing transaction between the Company and the licensee at contract inception and takes into account the credit characteristics of the licensee and market interest rates as of the date of the agreement. As such, the amount of fixed fee revenue recognized at the beginning of the license term will be reduced by the calculated financing component. As payments are received from the licensee, the Company recognizes a portion of the financing component as interest income, reported as other income and expense in the Consolidated Statements of Operations.

### Per-unit or per-subscriber royalty licenses

The Company recognizes revenue from per-unit or per-subscriber royalty licenses in the period in which the licensee's sales or production are estimated to have occurred, which results in an adjustment to revenue when actual sales or production are subsequently reported by the licensee, which is generally in the month or quarter following usage or shipment. The Company generally recognizes revenue from royalty licenses on a per-subscriber per-month model for licenses with service providers and

a per-unit shipped or manufactured model for licenses with CE manufacturers and memory, sensors, RF component, and foundry companies.

### *Compliance Audits*

The Company actively monitors and enforces its IP, including seeking appropriate compensation from customers that have under-reported royalties owed under a license agreement and from third parties that utilize the Company's intellectual property without a license. As a result of these activities, the Company may, from time to time, recognize revenue from payments resulting from periodic compliance audits of licensees for underreporting royalties incurred in prior periods, as part of a settlement of a patent infringement dispute, or from legal judgments in a license dispute. These recoveries and settlements may cause revenue to be higher than expected during a particular reporting period and such recoveries may not occur in subsequent periods. The Company recognizes revenue from recoveries when a binding agreement has been executed and the Company concludes collection under that agreement is likely.

### **Arrangements with Multiple System Operators for the TiVo Service**

The Company's arrangements with multiple system operators ("MSOs") typically include software customization and set-up services, associated maintenance and support, limited training, post-contract support, TiVo-enabled DVRs, non-DVR Set-Top Boxes ("STBs"), and the TiVo service.

The Company has two types of arrangements with MSOs that include technology deployment and engineering services. In instances where the Company hosts the TiVo service, non-refundable payments received for customization and set-up services are deferred and recognized as revenue ratably over the hosting term. The related cost of such services is capitalized to the extent it is deemed recoverable and amortized to cost of revenue over the same period as the related TiVo service revenue is recognized. The Company estimates the stand-alone selling prices for training, DVRs, non-DVR STBs and maintenance and support based on the price charged in stand-alone sales of the promised good or service. The stand-alone selling price for the TiVo service is determined by considering the size of the MSO and expected volume of deployment, market conditions, competitive landscape, internal costs and total gross margin objectives. For a term license to the TiVo service, the Company receives license fees for the hosted TiVo service on either a per-subscriber per-month basis or a fixed fee. The Company recognizes revenue from per-subscriber per-month licenses during the month the TiVo service is provided to the customer and recognizes revenue from fixed fee licenses ratably over the license period.

In arrangements where the Company does not host the TiVo service, which includes engineering services that are essential to the functionality of the licensed technology or involve significant customization or modification of the software, the Company recognizes revenue as progress toward completion is made using an input method based on the ratio of costs incurred to date to total estimated costs of the project. Project costs are primarily labor related to specific activities required for the project. Costs related to general infrastructure or uncommitted platform development are not included in the project cost estimates and are expensed as incurred. Estimating project costs requires forecasting costs, tracking progress toward completion and projecting the remaining effort to complete the project. These estimates are reassessed throughout the term of the arrangement, and revisions to estimates are recognized on a cumulative catch-up basis when the changed conditions become known. Provisions for losses are recorded when estimates indicate it is probable that a loss will be incurred for the contract. The Company generally recognizes revenue from license fees for the TiVo service that the Company does not host on a per-subscriber per-month basis due to the recognition constraint on intellectual property usage-based royalties.

### **Subscription Services**

Subscription services revenue primarily consists of fees to provide customers with access to one or more of the Company's hosted products such as its iGuide interactive program guide ("IPG"), advanced search and recommendations, metadata and analytics products, including routine customer support. The Company generally receives per-subscriber per-month fees for its iGuide IPG and search and recommendations service and revenue is recorded in the month the customer uses the service. The Company generally receives a monthly or quarterly fee from its metadata or analytics licenses for the right to use the metadata or access its analytics platform and to receive regular updates. Revenue from the Company's metadata and analytics service is recognized ratably over the subscription period.

### **TiVo-enabled DVRs and non-DVRs, including TiVo Stream 4K, and related TiVo Service**

The Company sells TiVo-enabled DVRs and non-DVRs and the related service directly to customers through sales programs via the TiVo.com website and licenses the sale of TiVo-enabled DVRs and non-DVRs through a limited number of retailers. All customers have the right to cancel their subscription to the TiVo service within 30 days of subscription activation for a full refund. After the initial subscription period for a DVR, all customers have various pricing options when they renew their subscription.

The transaction price allocated to the DVR and non-DVR is recognized as revenue upon shipment to the customer and the transaction price allocated to the TiVo service is recognized as revenue ratably over the service period. Subscription revenue from lifetime subscriptions are recognized ratably over the estimated useful life of the DVR or non-DVR associated with the subscription. The estimated useful life for a DVR and non-DVR depends on a number of assumptions, including but not limited to, customer retention rates, the timing of new product introductions and historical experience. The Company periodically reassesses the estimated useful life of DVRs and non-DVRs. When the actual useful life of a DVR or a non-DVR materially differs from the Company's estimate, the estimated useful life of the DVR or non-DVR is adjusted, which could result in the recognition of revenue over a longer or shorter period of time.

### *Significant Judgments*

Determining whether promises to transfer multiple goods and services in contracts with customers are considered distinct performance obligations that should be accounted for separately requires significant judgment, including related to the level of integration and interdependency between the performance obligations. In addition, judgment is necessary to allocate the transaction price to the distinct performance obligations, including whether there is a discount or significant financing component to be allocated based on the relative stand-alone selling price of the various performance obligations.

Significant judgment is required to determine the stand-alone selling price for each distinct performance obligation when an observable price is not available. In instances where stand-alone selling price is not directly observable, such as when the Company does not sell the good or service separately, the stand-alone selling price is determined using a range of inputs that includes market conditions and other observable inputs. More than one stand-alone selling price may exist for individual goods and services due to the stratification of those goods and services, considering attributes such as the size of the customer and geographic region.

Due to the nature of the work required to be performed on some performance obligations, significant judgment may be required to determine the transaction price. It is common for the Company's license agreements to contain provisions that can either increase or decrease the transaction price. These variable amounts are generally estimated based on usage. In addition to estimating variable consideration, significant judgment is necessary to identify forms of variable consideration, determine whether the variable consideration relates to a sales-based or usage-based royalty of intellectual property and determine whether, and when to include estimates of variable consideration in the transaction price.

For certain licensees, royalty revenue is generated based on a licensee's production or shipment of licensed products incorporating the Company's intellectual property, technologies or software. Licensees with a per-unit or per-subscriber arrangement pay a per-unit royalty for each product manufactured or sold, or for each subscriber, as set forth in its license agreement. Licensees generally report manufacturing, sales or subscriber information in the month or quarter subsequent to when the production, shipment or subscription activity takes place. The Company estimates the royalties earned each quarter based on its forecast of manufacturing and sales activity by its licensees in that quarter. Any differences between actual royalties owed by a licensee and the Company's estimate are recognized when the licensee's royalty report is received. Estimating licensees' quarterly royalties prior to receiving the royalty reports requires the Company to make significant assumptions and judgments related to forecasted trends and growth rates used to estimate quantities manufactured, shipped or subscribed by licensees, which could have a material impact on the amount of revenue recognized.

Some hardware products are sold with a right of return and, in certain circumstances, credits or incentives may be provided to customers or resellers at the time of sale. Such credits and incentives are accounted for as variable consideration and recognized as a reduction to revenue. Estimates of returns, credits and incentives are made at contract inception and updated each reporting period.

In contracts where the Company does not host the TiVo service and that include engineering services that are essential to the functionality of the licensed technology or involve significant customization or modification of software, or where the Company provides non-recurring engineering ("NRE") services, the Company recognizes revenue as progress toward completion occurs using an input method based on the ratio of costs incurred to date to total estimated costs of the project. Significant judgment is required to estimate the remaining effort to complete the project. These estimates are reassessed throughout the term of the arrangement.

Management evaluates its estimates, inputs and assumptions related to revenue recognition on an ongoing basis. The use of different estimates, inputs or assumptions may materially affect the reported amounts of assets and liabilities as of the date of the financial statements and the results of operations for the reporting period.

## Practical Expedients and Exemptions

The Company applies a practical expedient to not perform an evaluation of whether a contract includes a significant financing component when the timing of revenue recognition differs from the timing of cash collection by one year or less.

The Company applies a practical expedient to expense costs to obtain a contract with a customer as incurred as a component of selling, general and administrative expenses when the amortization period would have been one year or less.

The Company applies a practical expedient when disclosing revenue expected to be recognized from unsatisfied performance obligations to exclude contracts with customers with an original duration of less than one year; contracts for which revenue is recognized based on the amount which the Company has the right to invoice for services performed and amounts attributable to variable consideration arising from (i) a sales-based or usage-based royalty of an intellectual property license or (ii) when variable consideration is allocated entirely to a wholly unsatisfied performance obligation; or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation.

## Revenue Details

The following information depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors by disaggregating revenue by product category/end market and geographic location (presented in "Note 16 - Segment and Geographic Information"). This information includes revenue recognized from contracts with customers and revenue from other sources, including past royalty revenues.

Revenue disaggregated by product category/end market was as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Consumer Experience	\$ 51,254	\$ 38,751
Pay-TV	52,341	—
Connected Car	19,987	17,191
Product revenue	\$ 123,582	\$ 55,942
IP Licensing revenue	98,014	61,723
Total revenue	\$ 221,596	\$ 117,665

## Contract Balances

### Contracts Assets

Contract assets primarily consist of unbilled contracts receivable that are expected to be received from customers in future periods, where the revenue recognized to date (or cumulative adjustments to retained earnings in the initial period of adopting Topic 606) exceeds the amount billed. The amount of unbilled contracts receivable may not exceed their net realizable value and are classified as long-term assets if the payments are expected to be received more than one year from the reporting date. Contract assets also include the incremental costs of obtaining a contract with a customer, principally sales commissions when the renewal commission is not commensurate with the initial commission, and deferred engineering costs for significant software customization or modification and set-up services to the extent deemed recoverable. Contract assets were recorded in the Condensed Consolidated Balance Sheets as follows (in thousands):

	March 31, 2021	December 31, 2020
Unbilled contracts receivable	\$ 128,758	\$ 132,431
Other current assets	1,178	1,208
Long-term unbilled contracts receivable	8,016	6,761
Other long-term assets	2,785	2,591
Total contract assets	\$ 140,737	\$ 142,991

### Contract Liabilities

Contract liabilities are mainly comprised of deferred revenue related to consumer lifetime subscriptions for the TiVo service, multi-period licensing or cloud-based services, and other offerings for which the Company is paid in advance while the promised good or service is transferred to the customer at a future date or over time. Deferred revenue also includes amounts

received related to professional services to be performed in the future. Deferred revenue arises when cash payments are received, including amounts which are refundable, in advance of performance obligations being completed.

### Allowance for Credit Losses

The allowance for credit losses, which includes the allowance for accounts receivable and unbilled contracts receivable, represents the Company's best estimate of lifetime expected credit losses inherent in those financial assets. The Company's lifetime expected credit losses are determined using relevant information about past events (including historical experience), current conditions, and reasonable and supportable forecasts that affect collectability. The Company monitors its credit exposure through ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. In addition, the Company performs routine credit management activities such as timely account reconciliations, dispute resolution, and payment confirmations. The Company may employ collection agencies and legal counsel to pursue recovery of defaulted receivables.

The Company's long-term unbilled contracts receivable is derived from fixed-fee or minimum-guarantee arrangements, primarily with large well-capitalized companies. It is generally considered to be of high credit quality due to past collection history and the nature of the customers.

The following table presents the activity in the allowance for credit losses for the three months ended March 31, 2021 and 2020 (in thousands):

	<u>Three Months Ended 2021</u>	<u>March 31, 2021</u>	<u>Three Months Ended 31, 2020</u>	<u>March 31, 2020</u>
	Accounts Receivable	Unbilled Contracts Receivable	Accounts Receivable	Unbilled Contracts Receivable
Beginning balance	\$ 7,336	\$ 2,231	\$ 566	\$ —
Provision for credit losses	1,142	123	2,213	—
Recoveries/charged-off/other adjustments	(4,440) (1)	530	(269)	—
Balance at end of period	<u>\$ 4,038</u>	<u>\$ 2,884</u>	<u>\$ 2,510</u>	<u>\$ —</u>

(1) The charge off of accounts receivable in the first quarter of 2021 was primarily related to a customer whose account had been substantially reserved for credit losses in 2020 due to deteriorating financial condition and delinquent payment history.

### Additional Disclosures

The following table presents additional revenue and contract disclosures (in thousands):

	<u>Three Months Ended March 31,</u>	
	<u>2021</u>	<u>2020</u>
Revenue recognized in the period from:		
Amounts included in deferred revenue at the beginning of the period	\$ 10,712	\$ 50
Performance obligations satisfied in previous periods (true ups, licensee reporting adjustments and settlements)*	\$ 19,863	\$ 47,511

\*True ups represent the differences between the Company's quarterly estimates of per-unit royalty revenue and actual production/sales-based royalties reported by licensees in the following period. Licensee reporting adjustments represent corrections or revisions to previously reported per-unit royalties by licensees, generally resulting from the Company's inquiries or compliance audits. Settlements represent resolutions of litigation during the period for past royalties owed pursuant to expired or terminated IP license agreements.

Remaining revenue under contracts with performance obligations represents the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) under the Company's fixed-fee IP, software-as-a-service agreements and engineering services contracts. The Company's remaining revenue under contracts with performance obligations was as follows (in thousands):

	<b>As of</b>	
	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Revenue from contracts with performance obligations expected to be satisfied in:		
2021 (remaining 9 months)	\$ 121,720	\$ 152,008
2022	119,848	102,764
2023	107,677	91,636
2024	87,695	77,989
2025	84,232	76,028
Thereafter	12,668	429
Total	<u>\$ 533,840</u>	<u>\$ 500,854</u>

#### **NOTE 4 – COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS**

**Other current assets consisted of the following (in thousands):**

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Income tax receivable	\$ 19,865	\$ 4,654
Prepaid expenses	22,376	20,393
Inventory*	8,603	9,819
Other	6,682	5,897
	<u>\$ 57,526</u>	<u>\$ 40,763</u>

\*All inventory is finished goods.

**Property and equipment, net, consisted of the following (in thousands):**

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Equipment, furniture and other	\$ 62,492	\$ 61,573
Building and improvements	18,309	18,309
Land	5,300	5,300
Leasehold improvements	25,751	25,776
	<u>111,852</u>	<u>110,958</u>
Less: accumulated depreciation and amortization	(52,641)	(47,751)
	<u>\$ 59,211</u>	<u>\$ 63,207</u>

**Other long-term assets consisted of the following (in thousands):**

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Non-current income tax receivable	\$ 116,805	\$ 122,993
Long-term deferred tax assets	7,416	7,042
Other assets	23,357	23,235
	<u>\$ 147,578</u>	<u>\$ 153,270</u>

**Accrued liabilities consisted of the following (in thousands):**

	March 31, 2021	December 31, 2020
Employee compensation and benefits	\$ 24,062	\$ 55,449
Accrued expenses	24,687	24,809
Current portion of operating lease liabilities	16,919	17,893
Accrued severance	4,560	5,332
Third-party royalties	4,708	5,906
Other	8,511	19,646
	<u>\$ 83,447</u>	<u>\$ 129,035</u>

**Other long-term liabilities consisted of the following (in thousands):**

	March 31, 2021	December 31, 2020
Long-term income tax payable	\$ 95,954	\$ 94,397
Other	4,382	4,556
	<u>\$ 100,336</u>	<u>\$ 98,953</u>

**Accumulated other comprehensive income consisted of the following (in thousands):**

	March 31, 2021	December 31, 2020
Foreign currency translation adjustment, net of tax	\$ 300	\$ 1,345
Unrealized loss on available-for-sale debt securities, net of tax	(115)	(81)
	<u>\$ 185</u>	<u>\$ 1,264</u>

**NOTE 5 – FINANCIAL INSTRUMENTS**

The Company has investments in debt securities which include corporate bonds and notes, treasury and agency notes and bills, commercial paper, certificates of deposit, and in equity securities consisting of money market funds. The Company classifies its debt securities as available-for-sale (“AFS”), which are accounted for at fair value with credit related losses recognized as a provision for credit loss expense in its Condensed Consolidated Statements of Operations and all non-credit related unrealized gains and losses recognized in accumulated other comprehensive income or loss on the Condensed Consolidated Balance Sheets. Under ASU 2016-01 (Topic 321), equity securities are measured at fair value with unrealized gains and losses recognized in other income and expense, net, on the Condensed Consolidated Statements of Operations.

The following is a summary of marketable securities at March 31, 2021 and December 31, 2020 (in thousands):

	March 31, 2021				
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Values
<b>Marketable securities</b>					
Corporate bonds and notes	\$ 64,768	\$ 2	\$ (46)	\$ —	\$ 64,724
Commercial paper	37,428	—	(7)	—	37,421
<b>Total debt securities</b>	102,196	2	(53)	—	102,145
Money market funds	5,049	—	—	—	5,049
<b>Total equity securities</b>	5,049	—	—	—	5,049
<b>Total marketable securities</b>	<u>\$ 107,245</u>	<u>\$ 2</u>	<u>\$ (53)</u>	<u>\$ —</u>	<u>\$ 107,194</u>
<b>Reported in:</b>					
Cash and cash equivalents					\$ 5,049
Available-for-sale debt securities					102,145
<b>Total marketable securities</b>					<u>\$ 107,194</u>

	December 31, 2020				
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit losses	Estimated Fair Values
<b>Marketable securities</b>					
Corporate bonds and notes	\$ 69,973	\$ 29	\$ (42)	\$ —	\$ 69,960
Commercial paper	15,991	—	(4)	—	15,987
Treasury and agency notes and bills	32,299	—	—	—	32,299
<b>Total debt securities</b>	<b>118,263</b>	<b>29</b>	<b>(46)</b>	<b>—</b>	<b>118,246</b>
Money market funds	3,849	—	—	—	3,849
<b>Total equity securities</b>	<b>3,849</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,849</b>
<b>Total marketable securities</b>	<b>\$ 122,112</b>	<b>\$ 29</b>	<b>\$ (46)</b>	<b>\$ —</b>	<b>\$ 122,095</b>
<b>Reported in:</b>					
Cash and cash equivalents					\$ 35,148
Available-for-sale debt securities					86,947
<b>Total marketable securities</b>					<b>\$ 122,095</b>

At March 31, 2021 and December 31, 2020, the Company had \$236.9 million and \$257.1 million, respectively, in cash, cash equivalents and short-term investments. A significant portion of these amounts was held in marketable securities, as shown above. The remaining balance of \$129.7 million and \$135.0 million at March 31, 2021 and December 31, 2020, respectively, was cash held in operating accounts not included in the tables above.

### Debt Securities

The gross realized gains and losses on sales of marketable debt securities were not material during the three months ended March 31, 2021 and 2020, respectively.

Unrealized losses on AFS debt securities were \$0.1 million and \$0.1 million, net of tax, as of March 31, 2021 and December 31, 2020, respectively. The Company evaluated whether the decline in fair value has resulted from credit losses or other factors and concluded these amounts were related to temporary fluctuations in value of AFS securities and were due primarily to changes in interest rates and market conditions of the underlying securities. In addition, the contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. The Company does not intend to sell the debt securities and it is more-likely-than-not that it will not be required to sell the investments before recovery of their amortized cost bases. The Company did not recognize a provision for credit losses related to its AFS debt securities for the three months ended March 31, 2021 and 2020, respectively.

The following table summarizes the fair value and gross unrealized losses related to individual AFS debt securities at March 31, 2021 and December 31, 2020, which have been in a continuous unrealized loss position, aggregated by investment category and length of time (in thousands):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>March 31, 2021</b>						
Corporate bonds and notes	\$ 55,403	\$ (46)	\$ —	\$ —	\$ 55,403	\$ (46)
Commercial paper	32,422	(7)	—	—	32,422	(7)
<b>Total</b>	<b>\$ 87,825</b>	<b>\$ (53)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 87,825</b>	<b>\$ (53)</b>
<b>December 31, 2020</b>						
Corporate bonds and notes	\$ 53,137	\$ (42)	\$ —	\$ —	\$ 53,137	\$ (42)
Commercial paper	12,988	(4)	—	—	12,988	(4)
<b>Total</b>	<b>\$ 66,125</b>	<b>\$ (46)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 66,125</b>	<b>\$ (46)</b>

The estimated fair value of marketable debt securities by contractual maturity at March 31, 2021 is shown below (in thousands). Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	<b>Estimated Fair Value</b>
Due in one year or less	\$ 71,590
Due in one to two years	30,555
<b>Total</b>	<b>\$ 102,145</b>

### **Non-marketable Equity Securities**

Investments in non-marketable equity securities are accounted for using either the equity method or the cost method. Investments in entities over which the Company has the ability to exercise significant influence, but does not hold a controlling interest, are accounted for using the equity method. Under the equity method, the Company records its proportionate share of income or loss in other income and expense, net, in the Condensed Consolidated Statements of Operations. Investments in entities over which the Company does not have the ability to exercise significant influence are accounted for using the cost method. The Company monitors its non-marketable securities portfolio for potential impairment. When the carrying amount of an investment in a non-marketable security exceeds its fair value and the decline in fair value is determined to be other-than-temporary, the loss is recorded in other income and expense, net, in the Condensed Consolidated Statements of Operations.

Upon merging with TiVo on June 1, 2020, the Company assumed certain investments in non-marketable equity securities. As of March 31, 2021, other long-term assets included equity securities accounted for under the equity method with a carrying amount of \$4.3 million and equity securities without a readily determinable fair value with a carrying amount of \$0.1 million, respectively. No impairments or adjustments to the carrying amount of the Company's equity securities without a readily determinable fair value were recognized in the three months ended March 31, 2021. The Company had no investments in non-marketable equity securities prior to June 1, 2020.

### **NOTE 6 – FAIR VALUE**

The Company follows the authoritative guidance for fair value measurement and the fair value option for financial assets and financial liabilities. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability, or an exit price, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

- Level 1* Quoted prices in active markets for identical assets.
- Level 2* Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3* Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

When applying fair value principles in the valuation of assets, the Company is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The Company calculates the fair value of its Level 1 and Level 2 instruments based on the exchange traded price of similar or identical instruments, where available, or based on other observable inputs. There were no significant transfers into or out of Level 1 or Level 2 that occurred between December 31, 2020 and March 31, 2021.

The following sets forth the fair value, and classification within the hierarchy, of the Company's assets required to be measured at fair value on a recurring basis as of March 31, 2021 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Marketable securities				
Money market funds - equity securities (1)	\$ 5,049	\$ 5,049	\$ —	\$ —
Commercial paper - debt securities (2)	37,421	—	37,421	—
Corporate bonds and notes - debt securities (2)	64,724	—	64,724	—
<b>Total Assets</b>	<u>\$ 107,194</u>	<u>\$ 5,049</u>	<u>\$ 102,145</u>	<u>\$ —</u>

(1) Reported as cash and cash equivalents in the Condensed Consolidated Balance Sheet.

(2) Reported as AFS debt securities in the Condensed Consolidated Balance Sheet.

The following sets forth the fair value, and classification within the hierarchy, of the Company's assets required to be measured at fair value on a recurring basis as of December 31, 2020 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Marketable securities				
Money market funds - equity securities (1)	\$ 3,849	\$ 3,849	\$ —	\$ —
Corporate bonds and notes - debt securities (2)	69,960	—	69,960	—
Treasury and agency notes and bills - debt securities (3)	32,299	—	32,299	—
Commercial paper - debt securities (3)	15,987	—	15,987	—
<b>Total Assets</b>	<u>\$ 122,095</u>	<u>\$ 3,849</u>	<u>\$ 118,246</u>	<u>\$ —</u>

(1) Reported as cash and cash equivalents in the Condensed Consolidated Balance Sheet.

(2) Reported as AFS debt securities in the Condensed Consolidated Balance Sheet.

(3) Reported as cash and cash equivalents if purchased with an original maturity of three months or less at the date of purchase; otherwise reported as AFS debt securities in the Condensed Consolidated Balance Sheet.

#### Financial Instruments Not Recorded at Fair Value

The Company's long-term debt is carried at amortized cost and is measured at fair value on a quarterly basis for disclosure purposes. The carrying amounts and estimated fair values are as follows (in thousands):

	March 31, 2021		December 31, 2020	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
2020 Term B Loan Facility (1)	\$ 828,443	\$ 828,443	\$ 839,302	\$ 842,579
2021 Convertible Notes	48	48	48	48
Total long-term debt, net	<u>\$ 828,491</u>	<u>\$ 828,491</u>	<u>\$ 839,350</u>	<u>\$ 842,627</u>

(1) Carrying amounts of long-term debt are net of unamortized debt discount and issuance costs of \$32.2 million and \$34.4 million as of March 31, 2021 and December 31, 2020, respectively. See "Note 9 – Debt" for additional information.

If reported at fair value in the Condensed Consolidated Balance Sheets, the Company's debt would be classified within Level 2 of the fair value hierarchy. The fair value of the debt was estimated based on the quoted market prices for the same or similar issues.

## **NOTE 7 – BUSINESS COMBINATION**

Effective June 1, 2020, Xperi and TiVo completed the previously announced merger of equals transaction (the “Merger”) contemplated by the Agreement and Plan of Merger and Reorganization, dated as of December 18, 2019, as amended on January 31, 2020, (the “Merger Agreement”), by and among Xperi, TiVo, XRAY-TWOLF HoldCo Corporation (“Xperi Holding”), XRAY Merger Sub Corporation (“Xperi Merger Sub”) and TWOLF Merger Sub Corporation (“TiVo Merger Sub”). Immediately prior to the consummation of the Merger, Xperi Holding changed its name to “Xperi Holding Corporation” (the “Company”). Pursuant to the Merger Agreement, (i) Xperi Merger Sub was merged with and into Xperi, with Xperi surviving the merger as a subsidiary of Xperi Holding Corporation (the “Xperi Merger”) and (ii) TiVo Merger Sub was merged with and into TiVo, with TiVo surviving the merger as a subsidiary of Xperi Holding Corporation (the “TiVo Merger” and together with the Xperi Merger, the “Mergers”). Immediately following the consummation of the Mergers, each of Xperi and TiVo became wholly-owned subsidiaries of the Company.

Based on an evaluation of the provisions of ASC 805, “Business Combinations,” Xperi was determined to be the accounting acquirer in the Mergers. The Company has applied the acquisition method of accounting that requires, among other things, that identifiable assets acquired and liabilities assumed generally be recognized on the balance sheet at fair value as of the acquisition date. During the three months ended March 31, 2021, no measurement period adjustments were made. The Company expects to complete the final allocation of the purchase price as soon as practicable, but no later than one year from the date of the Mergers.

The Company is currently contemplating and may pursue, subject to any required regulatory approvals, a separation of the Company’s product business and IP licensing business through a tax-efficient transaction, resulting in two independent, publicly traded companies. The Company is currently evaluating the optimal timing of the contemplated business separation.

### **Transaction and Severance Costs**

In connection with the Mergers, the Company has incurred to date significant one-time expenses such as transaction and integration related costs (e.g. bankers fees, legal fees, consultant fees, etc.), lease impairment charges due to facilities consolidation, severance and retention costs (including stock-based compensation expense resulting from the contractually-required acceleration of equity instruments for departing executives). Total transaction and integration related costs were \$0.3 million and \$3.1 million for the three months ended March 31, 2021 and 2020, respectively. Post-merger severance and retention costs amounted to \$4.5 million for the three months ended March 31, 2021. The Company expects to incur additional expenses for integration, severance and retention, and the impairment of right-of-use assets due to facilities consolidation in future quarters.

## **NOTE 8 – GOODWILL AND IDENTIFIED INTANGIBLE ASSETS**

### *Goodwill*

The Company's reporting units include the Product segment and the IP Licensing segment. Of the carrying value of goodwill, approximately \$523.8 million was allocated to the Product segment and approximately \$323.2 million was allocated to the IP Licensing segment as of each of March 31, 2021 and December 31, 2020.

Goodwill at each reporting unit is evaluated for potential impairment annually, as of the beginning of the fourth quarter, and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable.

## Identified Intangible Assets

Identified intangible assets consisted of the following (in thousands):

	Average Life (Years)	March 31, 2021			December 31, 2020		
		Gross Assets	Accumulated Amortization	Net	Gross Assets	Accumulated Amortization	Net
<b>Finite-lived intangible assets</b>							
Acquired patents / core technology	3-15	\$ 659,085	\$ (181,967)	\$ 477,118	\$ 659,085	\$ (167,916)	\$ 491,169
Existing technology / content database	5-10	248,068	(179,019)	69,049	248,110	(169,326)	78,784
Customer contracts and related relationships	3-9	649,997	(283,368)	366,629	650,171	(256,199)	393,972
Trademarks/trade name	4-10	40,083	(22,283)	17,800	40,083	(21,029)	19,054
Non-competition agreements	1	2,231	(2,231)	—	2,231	(2,231)	—
Total finite-lived intangible assets		1,599,464	(668,868)	930,596	1,599,680	(616,701)	982,979
<b>Indefinite-lived intangible assets</b>							
TiVo Tradename/trademarks	N/A	21,400	—	21,400	21,400	—	21,400
Total intangible assets		<u>\$ 1,620,864</u>	<u>\$ (668,868)</u>	<u>\$ 951,996</u>	<u>\$ 1,621,080</u>	<u>\$ (616,701)</u>	<u>\$ 1,004,379</u>

As of March 31, 2021, the estimated future amortization expense of total finite-lived intangible assets was as follows (in thousands):

2021 (remaining 9 months)	\$	150,356
2022		154,089
2023		143,117
2024		104,205
2025		79,797
Thereafter		299,032
	<u>\$</u>	<u>930,596</u>

## NOTE 9 – DEBT

The outstanding amounts of debt were as follows (in thousands):

	March 31, 2021	December 31, 2020
2020 Term B Loan Facility	\$ 860,625	\$ 873,750
2021 Convertible Notes	48	48
Unamortized debt discount and issuance costs	(32,182)	(34,448)
	828,491	839,350
Less: current portion, net of debt discount and issuance costs	(43,825)	(43,689)
Total long-term debt, net of current portion	<u>\$ 784,666</u>	<u>\$ 795,661</u>

### 2020 Term B Loan Facility

On June 1, 2020, in connection with the consummation of the Mergers with TiVo, the Company entered into a Credit Agreement (the “2020 Credit Agreement”) by and among the Company, the lenders party thereto and Bank of America, N.A., as administrative agent and collateral agent. The 2020 Credit Agreement provides for a five-year senior secured term loan B facility in an aggregate principal amount of \$1,050 million (the “2020 Term B Loan Facility”). The interest rate applicable to loans outstanding under the 2020 Term B Loan Facility is equal to, at the Company’s option, either (i) a base rate plus a margin of 3.00% per annum or (ii) LIBOR plus a margin of 4.00% per annum. Commencing on September 30, 2020, the 2020 Term B Loan Facility will amortize in equal quarterly installments in aggregate quarterly amounts equal to (i) with respect to repayments occurring on or prior to June 1, 2023, 1.25% of the original principal amount of the 2020 Term B Loan Facility and (ii) with respect to repayments occurring after June 1, 2023 and prior to June 1, 2025, 1.875% of the original principal amount of the 2020 Term B Loan Facility, with the balance payable on the maturity date of the 2020 Term B Loan Facility (in each case subject to adjustment for prepayments). The 2020 Term B Loan Facility will mature on June 1, 2025. Upon the closing of the 2020 Credit Agreement, the Company borrowed \$1,050 million under the 2020 Term B Loan Facility. Net proceeds were

used on June 1, 2020, together with cash and cash equivalents, to refinance the existing indebtedness of the combined Company (the “Debt Financing”), including paydown of the TiVo 2019 Term Loan of \$734.6 million. See “Note 7 – Business Combination” for additional information relating to the Mergers. Additionally, debt discount and issuance costs of approximately \$39.7 million were incurred and capitalized in connection with the 2020 Term B Loan Facility in June 2020.

The Company commenced repaying quarterly installments under the 2020 Term B Loan Facility in the third quarter of 2020, and also elected to make a voluntary principal payment of \$150.0 million on December 31, 2020. As outlined in the 2020 Credit Agreement, additional cash payments must be made on an annual basis beginning March 31, 2022 based on certain leverage ratios and excess cash flow generated for the immediately preceding fiscal year. The voluntary principal payment made on December 31, 2020 may be applied against required additional paydowns, if any, beginning March 31, 2022.

The obligations under the 2020 Credit Agreement are guaranteed by Xperi, TiVo and certain other of the Company’s wholly-owned material domestic subsidiaries (collectively, the “Guarantors”) pursuant to the Guaranty, dated as of June 1, 2020, among Xperi, TiVo, the other Guarantors party thereto and Bank of America, N.A., as administrative agent. The obligations under the 2020 Credit Agreement are secured by a lien on substantially all of the assets of the Company and the Guarantors pursuant to the Security Agreement, dated as of June 1, 2020, among the Company, Xperi, TiVo, the other pledgors party thereto and Bank of America, N.A., as collateral agent.

The 2020 Credit Agreement contains customary events of default, upon the occurrence of which, after any applicable grace period, the lenders will have the ability to accelerate all outstanding loans thereunder. The 2020 Credit Agreement also contains customary representations and warranties and affirmative and negative covenants that, among other things, restrict the ability of the Company and its subsidiaries to create or incur certain liens, incur or guarantee additional indebtedness, merge or consolidate with other companies, transfer or sell assets and make restricted payments. These covenants are subject to a number of limitations and exceptions set forth in the Credit Agreement. The Company was in compliance with all requirements as of March 31, 2021.

#### *2018 Amended Term B Loan*

On December 1, 2016, in connection with the consummation of the acquisition of DTS, the Company entered into a Credit Agreement (the “Credit Agreement”) by and among the Company, Royal Bank of Canada, as administrative agent and collateral agent, and the lenders party thereto. The Credit Agreement provided for a \$600.0 million seven-year term B loan facility (the “Term B Loan Facility”) which would mature on November 30, 2023.

On January 23, 2018, the Company and the loan parties entered into an amendment to the Credit Agreement (the “Amendment”). In connection with the Amendment, the Company made a voluntary prepayment of \$100.0 million of the term loan outstanding under the Credit Agreement using cash on hand. The Amendment provided for, among other things, a replacement of the outstanding initial term loan with the new tranche term B-1 loan in a principal amount of \$494.0 million. On June 1, 2020, the entire remaining balance of \$344.0 million was paid off by using the proceeds from the 2020 Term B Loan Facility in connection with the Mergers. As a result of the refinancing transaction, the Company recorded a loss on early extinguishment of debt of \$8.3 million, which consisted of unamortized debt discount and issuance costs, in its Condensed Consolidated Statements of Operations during the second quarter of 2020.

#### *2019 Term Loan Facility*

In connection with the Mergers, the Company paid off the outstanding balance under the TiVo’s 2019 Term Loan. The 2019 Term Loan Facility Agreement was entered into on November 22, 2019 between TiVo, as borrower, and the lenders party thereto and HPS Investment Partners, LLC as administrative agent and collateral agent. Under the 2019 Term Loan, TiVo borrowed \$715.0 million, which was scheduled to mature on November 22, 2024.

Under the 2019 Term Loan Facility Agreement, TiVo was required to pay a 3.0% prepayment premium if the loan was prepaid on or prior to November 22, 2020. Further, under the same Loan Facility Agreement, the Mergers triggered certain change of control conditions that constituted an event of default, thus requiring the debt to be repaid immediately following the consummation of the Mergers. Using the proceeds from the aforementioned 2020 Term B Loan Facility, the Company, on June 1, 2020, made a full repayment of the 2019 Term Loan along with the prepayment penalty for a total payoff amount of \$734.6 million.

#### *2021 Convertible Notes*

Upon consummation of the TiVo Merger on June 1, 2020, the Company assumed \$48.0 thousand of Convertible Senior Notes that were issued by TiVo Solutions Inc. in September 2014 and mature October 1, 2021 (the “2021 Convertible Notes”). The

2021 Convertible Notes bear interest at an annual rate of 2.0%, payable semi-annually in arrears on April 1 and October 1 of each year.

#### *Interest Expense and Expected Principal Payments*

At March 31, 2021, \$828.5 million in total debt was outstanding with an interest rate, including the amortization of debt discount and issuance costs, of 5.2%. There were also \$32.2 million of unamortized debt discount and issuance costs recorded as a reduction from the carrying amount of the debt. Interest is payable monthly on the 2020 Term B Loan Facility. Interest expense was \$11.3 million and \$4.3 million for the three months ended March 31, 2021 and 2020, respectively. Amortized debt discount and issuance costs, which were included in interest expense, amounted to \$2.3 million and \$0.6 million for the three months ended March 31, 2021 and 2020, respectively.

As of March 31, 2021, future minimum principal payments for long-term debt are summarized as follows (in thousands):

2021 (remaining 9 months)	\$	39,423
2022		52,500
2023		72,188
2024		78,750
2025		617,812
Total	\$	<u>860,673</u>

#### **NOTE 10 – NET INCOME PER SHARE**

The following table sets forth the computation of basic and diluted shares (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
<b>Denominator:</b>		
Weighted average shares of common stock outstanding	104,940	49,945
Less: shares of restricted stock subject to repurchase	—	—
Total common shares-basic	104,940	49,945
<b>Effect of dilutive securities:</b>		
Options	32	3
Restricted stock awards and units	2,804	251
Total common shares-diluted	<u>107,776</u>	<u>50,199</u>

Basic net income per share is computed using the weighted average number of shares of common stock outstanding during the period, excluding any unvested restricted stock awards that are subject to repurchase. Diluted net income per share is computed using the treasury stock method to calculate the weighted average number of shares of common stock and, if dilutive, potential common shares outstanding during the period. Potentially dilutive common shares include unvested restricted stock awards and units and incremental common shares issuable upon the exercise of stock options, less shares repurchased from assumed proceeds. The assumed proceeds calculation includes actual proceeds to be received from the employee upon exercise and the average unrecognized stock compensation cost during the period.

For the three months ended March 31, 2021 and 2020, in the calculation of net income per share, 1.1 million and 2.1 million shares, respectively, subject to stock options and restricted stock awards and units were excluded from the computation of diluted net income per share as they were anti-dilutive.

#### **NOTE 11 – STOCKHOLDERS' EQUITY**

As described in Note 7, Xperi and TiVo completed the Mergers on June 1, 2020 to form Xperi Holding Corporation. Upon completion of the Mergers, each share of common stock of Xperi was converted into the right to receive one fully paid and non-assessable share of Company Common Stock. Further upon completion of the Mergers, each share of TiVo Common Stock was converted into the right to receive 0.455 fully paid and non-assessable shares of the Company Common Stock (the "Exchange Ratio"), in addition to cash in lieu of any fractional shares of the Company Common Stock. Following the Mergers,

Xperi Common Stock and TiVo Common Stock were delisted from Nasdaq. Since June 2, 2020, the shares of Company Common Stock have been listed for trading on Nasdaq under ticker symbol “XPER.”

### **Equity Incentive Plans**

Prior to the Merger Date, the Company had implemented and granted equity awards under the Xperi Corporation Seventh Amended and Restated 2003 Equity Incentive Plan. As of the effective date of the Mergers, no future grants will be made under the plan.

#### *The 2020 EIP*

In connection with the Mergers and immediately prior to June 1, 2020, the Company adopted the Xperi Holding Corporation 2020 Equity Incentive Plan (the “2020 EIP”).

Under the 2020 EIP, the Company may grant equity-based awards to employees, non-employee directors, and consultants for services rendered to the Company (or any parent or subsidiary) in the form of stock options, stock awards, restricted stock awards, restricted stock units, stock appreciation rights, dividend equivalents and performance awards (or any combination thereof). A total of 8,000,000 shares have been reserved for issuance under the 2020 EIP provided that each share issued pursuant to “full value” awards (i.e., stock awards, restricted stock awards, restricted stock units, performance awards and dividend equivalents) are counted against shares available for issuance under the 2020 EIP on a 1.5 to 1 ratio.

The 2020 EIP provides for option grants designed as either incentive stock options or nonstatutory options. Options generally are granted with an exercise price not less than the value of the common stock on the grant date and have a term of ten years from the date of grant and vest over a four-year period. The vesting criteria for restricted stock awards and restricted stock units is generally the passage of time or meeting certain performance-based objectives, and continued employment through the vesting period generally over four years for time-based awards.

#### *Assumed Plans*

On June 1, 2020, the Company assumed all then-outstanding stock options, awards, and shares available and reserved for issuance under all legacy Equity Incentive Plans of TiVo (collectively, the “Assumed Plans”). Stock options assumed from the Assumed Plans generally have vesting periods of four years and a contractual term of seven years. Awards of restricted stock and restricted stock units assumed from the Assumed Plans are generally subject to a four year vesting period. The number of shares subject to stock options and restricted stock unit awards outstanding under these plans are included in the tables below. Shares reserved under the Assumed Plans will be available for future grants.

As of March 31, 2021, there were 5.3 million shares reserved for future grants under both the 2020 EIP and the Assumed Plans.

A summary of the stock option activity is presented below (in thousands, except per share amounts):

	<u>Options Outstanding</u>	
	<u>Number of Shares Subject to Options</u>	<u>Weighted Average Exercise Price Per Share</u>
<b>Balance at December 31, 2020</b>	637	\$ 29.59
Options granted	—	—
Options exercised	(12)	\$ 19.58
Options canceled / forfeited / expired	(134)	\$ 45.14
<b>Balance at March 31, 2021</b>	<u>491</u>	<u>\$ 25.55</u>

## Restricted Stock Awards and Units

Information with respect to outstanding restricted stock awards and units as of March 31, 2021 is as follows (in thousands, except per share amounts):

	Restricted Stock and Restricted Stock Units			Weighted Average Grant Date Fair Value Per Share
	Number of Shares Subject to Time-based Vesting	Number of Shares Subject to Performance-based Vesting	Total Number of Shares	
<b>Balance at December 31, 2020</b>	5,662	1,061	6,723	\$ 16.63
Awards and units granted	2,743	645	3,388	\$ 23.72
Awards and units vested / earned	(873)	—	(873)	\$ 20.89
Awards and units canceled / forfeited	(227)	(42)	(269)	\$ 15.95
<b>Balance at March 31, 2021</b>	<u>7,305</u>	<u>1,664</u>	<u>8,969</u>	\$ 18.91

## Performance Awards and Units

Performance awards and units may be granted to employees or consultants based upon, among other things, the contributions, responsibilities and other compensation of the particular employee or consultant. The value and the vesting of such performance awards and units are generally linked to one or more performance goals or certain market conditions determined by the Company, in each case on a specified date or dates or over any period or periods determined by the Company, and may range from zero to 200 percent of the grant. For performance awards subject to a market vesting condition (“market-based PSUs”), the fair value per award is fixed at the grant date and the amount of compensation expense is not adjusted during the performance period regardless of changes in the level of achievement of the market condition.

## Employee Stock Purchase Plans

Prior to the Mergers, the Company had implemented the Xperi Corporation 2003 Employee Stock Purchase Plan and the International Employee Stock Purchase Plan, both of which were terminated immediately prior to the effective time of the Mergers.

In connection with the Mergers and immediately prior to June 1, 2020, the Company adopted the Xperi Holding Corporation 2020 Employee Stock Purchase Plan (the “2020 ESPP”). The 2020 ESPP is implemented through consecutive overlapping 24-month offering periods, each of which is comprised of four six-month purchase periods. The first offering period commenced on September 1, 2020 and will end on August 31, 2022. Each subsequent offering period under the 2020 ESPP will be twenty-four (24) months long and will commence on each September 1 and March 1 during the term of the plan. Participants may contribute up to 100% of their base earnings and commissions through payroll deductions, and the accumulated deductions will be applied to the purchase of shares on each semi-annual purchase date. The purchase price per share will equal 85% of the fair market value per share on the start date of the offering period or, if lower, 85% of the fair market value per share on the semi-annual purchase date.

An eligible employee’s right to buy the Company’s common stock under the 2020 ESPP may not accrue at a rate in excess of \$25,000 of the fair market value of such shares per calendar year for each calendar year of an offering period. If the fair market value per share of the Company’s common stock on any purchase date during an offering period is less than the fair market value per share on the start date of the 24-month offering period, then that offering period will automatically terminate and a new 24-month offering period will begin on the next business day. All participants in the terminated offering will be transferred to the new offering period.

As of March 31, 2021, there were 1.4 million shares reserved for grant under the Company’s 2020 ESPP.

## Stock Repurchase Programs

Following the termination of Xperi’s prior stock repurchase program after the closing of the Mergers, on June 12, 2020 the Board of Directors (the “Board”) of the Company authorized a new stock repurchase program providing for the repurchase of up to \$150.0 million of the Company’s Common Stock dependent on market conditions, share prices and other factors. As of March 31, 2021, the Company has repurchased a total of approximately 6.0 million shares of common stock, since inception of the plan, at an average price of \$15.87 per share for a total cost of \$95.1 million. As of December 31, 2020, the Company had repurchased a total of approximately 4.9 million shares of common stock, since inception of the plan, at an average price of \$14.25 per share for a total cost of \$70.1 million. The shares repurchased are recorded as treasury stock and are accounted for

under the cost method. No expiration date has been specified for this plan. As of March 31, 2021, the total remaining amount available for repurchase was \$54.9 million. The Company plans to continue to execute authorized repurchases from time to time under the plan.

The Company issues restricted stock units as part of the equity incentive plans described above. For the majority of restricted awards, shares are withheld to satisfy required withholding taxes at the vesting date. Shares withheld to satisfy required withholding taxes in connection with the vesting of restricted awards are treated as common stock repurchases in the condensed consolidated financial statements because they reduce the number of shares that would have been issued on vesting. However, these withheld shares are not included in common stock repurchases under the Company's authorized share repurchase plan. During the three months ended March 31, 2021 and 2020, the Company withheld 0.3 million and 0.2 million shares of common stock to satisfy \$7.4 million and \$3.1 million of required withholding taxes, respectively.

#### NOTE 12 – STOCK-BASED COMPENSATION EXPENSE

The effect of recording stock-based compensation (“SBC”) expense for the three months ended March 31, 2021 and 2020 is as follows (in thousands):

	Three Months Ended	
	March 31, 2021	March 31, 2020
Cost of licensing, services and software revenue	\$ 323	\$ —
Research, development and other related costs	4,347	3,036
Selling, general and administrative	8,549	4,951
Total stock-based compensation expense	13,219	7,987
Tax effect on stock-based compensation expense	(154)	(1,000)
Net effect on net income	\$ 13,065	\$ 6,987

SBC expense categorized by various equity components for the three months ended March 31, 2021 and 2020 is summarized in the table below (in thousands):

	Three Months Ended	
	March 31, 2021	March 31, 2020
Restricted stock awards and units	\$ 11,929	\$ 7,294
Employee stock purchase plan	1,271	690
Employee stock options	19	3
Total stock-based compensation expense	\$ 13,219	\$ 7,987

There were no options granted in the three months ended March 31, 2021 and 2020.

The following assumptions were used to value the restricted stock units subject to market conditions granted during the period:

	March 2021	July 2020*
Expected life (years)	3.0	3.0
Risk-free interest rate	0.3%	0.2%
Dividend yield	1.0%	1.4%
Expected volatility	47.9%	51.3%

\*There were no market-based PSUs granted prior to July 2020.

ESPP grants occur in March and September. Prior to the Mergers, the final ESPP grant under the legacy ESPP program was in February 2020. The following assumptions were used to value the ESPP shares for these grants:

	March 2021	September 2020	February 2020
Expected life (years)	2.0	2.0	2.0
Risk-free interest rate	0.1%	0.1%	1.4%
Dividend yield	1.2%	1.4%	4.0%
Expected volatility	52.0%	57.5%	45.8%

## NOTE 13 – INCOME TAXES

For the three months ended March 31, 2021, the Company recorded an income tax benefit of \$4.0 million on pretax income of \$0.5 million, which resulted in an effective tax rate of (786.4)%. The income tax benefit for the three months ended March 31, 2021 was primarily related to foreign withholding taxes, U.S. federal base erosion and anti-abuse tax (“BEAT”) and unrealized foreign exchange loss from the prior year South Korea refund claims. The Company’s negative effective tax rate is based on the projected 2021 GAAP U.S. pretax loss and is significantly less than the 21% U.S. federal tax rate. The Company’s effective tax rate is the result of the most significant components of income tax expense, primarily driven by foreign withholding and BEAT. The computed negative effective tax rate is applied to the year-to-date U.S. profit resulting in an income tax benefit for the quarter ended March 31, 2021.

For the three months ended March 31, 2020, the Company recorded an income tax expense of \$2.1 million on pretax income of \$20.8 million, which resulted in an effective tax rate of 9.9%. The income tax expense for the three months ended March 31, 2020 was primarily related to tax expense from operating income, certain non-deductible expenses, shortfalls from stock-based compensation, an increase in valuation allowance against certain deferred tax assets, and unrealized foreign exchange losses from the prior year South Korea refund claim, offset by a deduction from foreign-derived intangible income and the release of unrecognized tax benefits due to a lapse in the statute of limitation.

As of March 31, 2021, gross unrecognized tax benefits increased \$1.5 million to \$228.7 million compared to \$227.2 million as of December 31, 2020. This was included in long-term deferred tax and other long-term liabilities on the Condensed Consolidated Balance Sheets. Of this amount, \$96.0 million would affect the effective tax rate if recognized. As of March 31, 2020, unrecognized tax benefits of \$85.5 million were included in long-term deferred tax and other long-term liabilities on the Condensed Consolidated Balance Sheets. Of this amount, \$81.6 million would affect the effective tax rate if recognized. The Company is unable to reasonably estimate the timing of the long-term payments or the amount by which the liability will increase or decrease.

It is the Company’s policy to classify accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes. The Company recognized interest and penalties related to unrecognized tax benefits of \$0.6 million and an insignificant amount for the three months ended March 31, 2021 and 2020, respectively. Accrued interest and penalties were \$3.1 million and \$2.5 million as of March 31, 2021 and December 31, 2020, respectively.

As of March 31, 2021, the Company’s 2016 through 2020 tax years are generally open and subject to potential examination in one or more jurisdictions. Earlier tax years for the Company and its subsidiaries are also open in certain jurisdictions which are currently subject to examination. In addition, in the U.S., any net operating losses or credits that were generated in prior years but not yet fully utilized in a year that is closed under the statute of limitations may also be subject to examination. The Company has submitted withholding tax refund claims with the South Korean authorities, and the final outcome is not anticipated to be settled within the next twelve months.

## NOTE 14 – LEASES

The Company leases office and research facilities, data centers and office equipment under operating leases which expire through 2029. The Company’s leases have remaining lease terms of one year to nine years, some of which may include options to extend the leases for five years or longer, and some of which may include options to terminate the leases within the next 6 years or less. Leases with an initial term of 12 months or less are not recorded on the balance sheets; expense for these leases is recognized on a straight-line basis over the lease term. Variable lease payments are expensed as incurred and are not included within the lease liability and right-of-use assets calculation. As a practical expedient, the Company elected, for all office and facility leases, not to separate nonlease components (e.g., common-area maintenance costs) from lease components (e.g., fixed payments including rent) and instead to account for each separate lease component and its associated non-lease components as a single lease component. As most of the leases do not provide an implicit rate, the Company generally, for purposes of discounting lease payments, uses its incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date.

The Company subleases certain real estate to third parties. The sublease portfolio consists of operating leases for previously exited office space. Certain subleases include variable payments for operating costs. The subleases are generally co-terminus with the head lease, or shorter. Subleases do not include any residual value guarantees or restrictions or covenants imposed by the leases. Income from subleases is recognized as a reduction to selling, general and administrative expenses.

The components of operating lease costs were as follows (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
Fixed lease cost (1)	\$ 5,466	\$ 1,834
Variable lease cost	1,365	347
Less: sublease income	(2,188)	—
Total operating lease cost	<u>\$ 4,643</u>	<u>\$ 2,181</u>

(1) Includes short-term leases, which were immaterial.

Other information related to leases was as follows (in thousands, except lease term and discount rate):

	<b>Three Months Ended,</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Operating cash flows from operating leases	\$ 5,555	\$ 1,638
<b>ROU assets obtained in exchange for new lease liabilities:</b>		
Operating leases	\$ —	\$ —
	<b>March 31, 2021</b>	<b>December 31, 2020</b>
<b>Weighted-average remaining lease term (years):</b>		
Operating leases	5.0	5.1
<b>Weighted-average discount rate:</b>		
Operating leases	5.2%	5.2%

Future minimum lease payments and related lease liabilities as of March 31, 2021 were as follows (in thousands):

	<b>Operating Lease Payments (1)</b>	<b>Sublease Income</b>	<b>Net Operating Lease Payments</b>
2021 (remaining 9 months)	\$ 15,818	\$ (4,598)	\$ 11,220
2022	17,985	(6,117)	11,868
2023	16,492	(6,231)	10,261
2024	15,718	(6,293)	9,425
2025	14,635	(6,279)	8,356
Thereafter	8,796	(935)	7,861
Total lease payments	<u>89,444</u>	<u>(30,453)</u>	<u>58,991</u>
Less: imputed interest	(11,058)	—	(11,058)
Present value of lease liabilities:	<u>\$ 78,386</u>	<u>\$ (30,453)</u>	<u>\$ 47,933</u>
Less: current obligations under leases (accrued liabilities)	16,919		
Noncurrent operating lease liabilities	<u>\$ 61,467</u>		

(1) Future minimum lease payments exclude short-term leases as well as payments to landlords for variable common area maintenance, insurance and real estate taxes.

As of December 31, 2020, future minimum lease payments were as follows (in thousands):

	Operating Lease Payments	Sublease Income	Net Operating Lease Payments
2021	\$ 21,825	\$ (6,257)	\$ 15,568
2022	18,420	(6,117)	12,303
2023	16,776	(6,231)	10,545
2024	15,719	(6,293)	9,426
2025	14,635	(6,279)	8,356
Thereafter	8,966	(935)	8,031
Total lease payments	<u>96,341</u>	<u>(32,112)</u>	<u>64,229</u>
Less: imputed interest	(12,205)	—	(12,205)
Present value of lease liabilities:	<u>\$ 84,136</u>	<u>\$ (32,112)</u>	<u>\$ 52,024</u>
Less: current obligations under leases (accrued liabilities)		17,893	
Noncurrent operating lease liabilities	<u>\$ 66,243</u>		

## NOTE 15 – COMMITMENTS AND CONTINGENCIES

### *Purchase and Other Contractual Obligations*

In the ordinary course of business, the Company enters into contractual agreements with third parties that include non-cancelable payment obligations, for which it is liable in future periods. These arrangements primarily include unconditional purchase obligations to service providers. As of March 31, 2021, the Company's total future unconditional purchase obligations were approximately \$144.5 million. Additionally, under certain other contractual arrangements, the Company may be obligated to pay up to \$2.2 million, a majority of which is expected to be paid by 2022, if certain milestones are achieved.

On December 31, 2019, TiVo entered into a contract requiring the Company to generate a minimum number of Qualified Referred Subscribers (as defined in the contract) over a 30 month period. In the event that the aggregate number of Qualified Referred Subscribers generated by the Company within the specified time period is less than the minimum guaranteed subscribers, the Company is required to pay an amount equal to the shortfall between the number of Qualified Referred Subscribers generated by the Company and the required minimum multiplied by a per Qualified Referred Subscribers fee, up to a maximum of \$5.0 million. As of March 31, 2021, \$2.8 million was accrued in the Condensed Consolidated Balance Sheets related to this contract.

### *Inventory Purchase Commitment*

The Company uses contract manufacturers to provide manufacturing services for its products. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate supply, the Company enters into agreements with its contract manufacturer that either allow them to procure inventory based on criteria as defined by the Company or that establish the parameters defining the Company's requirements. A significant portion of the Company's purchase commitments arising from these agreements consist of firm, non-cancelable and unconditional purchase commitments. In certain instances, these agreements allow the Company the option to cancel, reschedule or adjust the Company's requirements based on its business needs prior to firm orders being placed. As of March 31, 2021, the Company had total purchase commitments for inventory of \$5.6 million, of which \$0.6 million was accrued in the Condensed Consolidated Balance Sheet.

### *Indemnifications*

In the normal course of business, the Company provides indemnifications of varying scopes and amounts to certain of its licensees, customers, and business partners against claims made by third parties arising from the use of the Company's products, intellectual property, services or technologies. The Company cannot reasonably estimate the possible range of losses that may be incurred pursuant to its indemnification obligations, if any. Variables affecting any such assessment include, but are not limited to: the nature of the claim asserted; the relative merits of the claim; the financial ability of the party suing the indemnified party to engage in protracted litigation; the number of parties seeking indemnification; the nature and amount of damages claimed by the party suing the indemnified party; and the willingness of such party to engage in settlement

negotiations. To date, no such claims have been filed against the Company and no liability has been recorded in the Company's financial statements.

As permitted under Delaware law, the Company has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company believes, given the absence of any such payments in the Company's history, and the estimated low probability of such payments in the future, that the estimated fair value of these indemnification agreements is immaterial. In addition, the Company has directors' and officers' liability insurance coverage that is intended to reduce its financial exposure and may enable the Company to recover any payments, should they occur.

### **Contingencies**

At each reporting period, the Company evaluates whether or not a potential loss amount or a potential range of losses is probable and reasonably estimable under the provisions of the authoritative guidance that addresses accounting for contingencies. The Company is currently unable to predict the final outcome of lawsuits to which it is a party and therefore cannot determine the likelihood of loss nor estimate a range of possible losses. An adverse decision in any of these proceedings could significantly harm the Company's business and consolidated financial position, results of operations or cash flows.

The Company and its subsidiaries are involved in litigation matters and claims in the normal course of business. In the past, the Company and its subsidiaries have litigated to enforce their respective patents and other intellectual property rights, to enforce the terms of license agreements, to protect trade secrets, to determine the validity and scope of the proprietary rights of others and to defend itself or its customers against claims of infringement or invalidity. The Company expects it or its subsidiaries will be involved in similar legal proceedings in the future, including proceedings regarding infringement of its patents, and proceedings to ensure proper and full payment of royalties by licensees under the terms of its license agreements.

The existing and any future legal actions may harm the Company's business. For example, legal actions could cause an existing licensee or strategic partner to cease making royalty or other payments to the Company, or to challenge the validity and enforceability of patents owned by the Company's subsidiaries or the scope of license agreements with the Company's subsidiaries, or could significantly damage the Company's relationship with such licensee or strategic partner and, as a result, prevent the adoption of the Company's other technologies by such licensee or strategic partner. Litigation could also severely disrupt or shut down the business operations of licensees or strategic partners of the Company's subsidiaries, which in turn would significantly harm ongoing relations with them and cause the Company to lose royalty revenue.

The costs associated with legal proceedings are typically high, relatively unpredictable, and not completely within the Company's control. These costs may be materially higher than expected, which could adversely affect the Company's operating results and lead to volatility in the price of its common stock. Whether or not determined in the Company's favor or ultimately settled, litigation diverts managerial, technical, legal, and financial resources from the Company's business operations. Furthermore, an adverse decision in any of these legal actions could result in a loss of the Company's proprietary rights, subject the Company to significant liabilities, require the Company to seek licenses from others, limit the value of the Company's licensed technology or otherwise negatively impact the Company's stock price or its business and consolidated financial results.

### **NOTE 16 – SEGMENT AND GEOGRAPHIC INFORMATION**

The Company reports its financial results within two reportable segments: (1) Product and (2) Intellectual Property ("IP") Licensing. There are certain corporate overhead costs that are not allocated to these reportable segments because these operating amounts are not considered in evaluating the operating performance of the Company's business segments.

Reportable segments are identified based on the Company's organizational structure and information reviewed by the Company's chief operating decision maker ("CODM") to evaluate performance and allocate resources. The Company's Chief Executive Officer is also the CODM as defined by the authoritative guidance on segment reporting.

The Product segment consists primarily of licensing Company-developed audio, digital radio, imaging, edge-based machine learning and multi-channel video user experience ("UX") solutions. Audio, digital radio, imaging solutions and edge-based machine learning include the delivery of software and/or hardware-based solutions to the Company's consumer electronics ("CE") customers, automotive manufacturers or their supply chain partners. UX products and services revenue is primarily derived from multi-channel video service providers and CE manufacturers, licensing the TiVo service and selling TiVo-enabled devices like the Stream 4K, Personalized Content Discovery, enriched Metadata, viewership data and advertising.

The IP Licensing segment consists primarily of licensing the Company's innovations to leading companies in the media and semiconductor industries. Licensing arrangements include access to one or more of the Company's foundational patent portfolios and may also include access to some of its industry-leading technologies and proven know-how. In media, the Company's licensees include multichannel video programming distributors, OTT video service providers, consumer electronics manufacturers, social media, and other new media companies. In semiconductor, the Company's licensees include memory, sensors, RF component, and foundry companies.

The Company does not identify or allocate assets by reportable segment, nor does the CODM evaluate reportable segments using discrete asset information. Reportable segments do not record inter-segment revenue and accordingly there are none to report. The Company does not allocate other income and expense to reportable segments. Although the CODM uses operating income to evaluate reportable segments, operating costs included in one segment may benefit other segments.

The following table sets forth the Company's segment revenue, operating expenses and operating income for the three months ended March 31, 2021 and 2020 (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
<b>Revenue:</b>		
Product segment	\$ 123,582	\$ 55,942
IP Licensing segment	98,014	61,723
<b>Total revenue</b>	<b>221,596</b>	<b>117,665</b>
<b>Operating expenses:</b>		
Product segment	108,563	46,236
IP Licensing segment	33,567	10,295
Unallocated operating expenses (1)	69,067	36,607
<b>Total operating expenses</b>	<b>211,197</b>	<b>93,138</b>
<b>Operating income:</b>		
Product segment	15,019	9,706
IP Licensing segment	64,447	51,428
Unallocated operating expenses (1)	(69,067)	(36,607)
<b>Total operating income</b>	<b>\$ 10,399</b>	<b>\$ 24,527</b>

- (1) Unallocated operating expenses consist primarily of selling, marketing, general and administrative expenses, such as administration, human resources, finance, information technology, corporate development and procurement. These expenses are not allocated because these amounts are not considered in evaluating the operating performance of the Company's business segments.

A significant portion of the Company's revenue is derived from licensees headquartered outside of the U.S., principally in Asia, and it is expected that this revenue will continue to account for a significant portion of total revenue in future periods. The table below lists the geographic revenue for the periods indicated (in thousands):

	<b>Three Months Ended</b>			
	<b>March 31, 2021</b>		<b>March 31, 2020</b>	
U.S.	\$ 131,498	59%	\$ 23,136	20%
Japan	26,444	12	51,322	44
South Korea	18,513	9	27,583	23
Europe and Middle East	16,422	7	4,448	4
Other	28,719	13	11,176	9
	<b>\$ 221,596</b>	<b>100%</b>	<b>\$ 117,665</b>	<b>100%</b>

For the three months ended March 31, 2021 and 2020, there were no customers and two customers, respectively, that each accounted for 10% or more of total revenue. As of March 31, 2021 and December 31, 2020, there were two customers and two customers, respectively, that each accounted for 10% or more of total accounts receivable.

**NOTE 17 - SUBSEQUENT EVENTS**

On April 22, 2021, the Board declared a cash dividend of \$0.05 per share of common stock, payable on June 15, 2021 to the stockholders of record at the close of business on May 25, 2021.

On April 22, 2021, the Board authorized an additional \$100.0 million of purchases under the Company's existing stock repurchase plan, increasing the total available balance to \$154.9 million as of such date.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto, and with our audited financial statements and notes thereto for the year ended December 31, 2020 found in the Form 10-K filed by Xperi Holding Corporation on February 26, 2021 (the “Form 10-K”).*

*This Quarterly Report contains forward-looking statements, which are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Words such as “expects,” “anticipates,” “plans,” “believes,” “seeks,” “estimates,” “could,” “would,” “may,” “intends,” “targets” and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this Quarterly Report. The identification of certain statements as “forward-looking” is not intended to mean that other statements not specifically identified are not forward-looking. All statements other than statements about historical facts are statements that could be deemed forward-looking statements, including, but not limited to, statements that relate to our future revenue, product development, demand, acceptance and market share, growth rate, competitiveness, gross margins, levels of research, development and other related costs, expenditures, the outcome or effects of and expenses related to litigation and administrative proceedings related to our patents, our intent to enforce our intellectual property rights, our ability to license our intellectual property, tax expenses, cash flows, our ability to liquidate and recover the carrying value of our investments, our management’s plans and objectives for our current and future operations, our plans for quarterly dividends and stock repurchases, our ability to achieve cost savings through the integration of the legacy businesses, the levels of customer spending or research and development activities, general economic conditions, the impact of the COVID-19 (as defined below) pandemic and related events, the impact of the Mergers (as defined below) on our financial condition and results of operations, our plans to separate the combined product and IP licensing businesses, and the sufficiency of financial resources to support future operations and capital expenditures.*

*Although forward-looking statements in this Quarterly Report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks, uncertainties, and changes in condition, significance, value and effect, including those discussed under the heading “Risk Factors” in our annual report on Form 10-K and other documents we file from time to time with the Securities and Exchange Commission (the “SEC”), such as our quarterly reports on Form 10-Q and our current reports on Form 8-K. Such risks, uncertainties and changes in condition, significance, value and effect could cause our actual results to differ materially from those expressed herein and in ways not readily foreseeable. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report and are based on information currently and reasonably known to us. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report, other than as required by law. Readers are urged to carefully review and consider the various disclosures made in this Quarterly Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.*

As used herein, the “Company,” “we,” “us” and “our” refer to Xperi when referring to periods prior to June 1, 2020 and Xperi Holding Corporation when referring to periods subsequent to June 1, 2020. Unless specified otherwise, the financial results in this Quarterly Report are those of the Company and its subsidiaries on a consolidated basis.

### **Business Overview**

Following consummation of the mergers between Xperi Corporation (“Xperi”) and TiVo Corporation (“TiVo”) on June 1, 2020 (the “Mergers”), Xperi Holding Corporation became the parent company of both Xperi and TiVo. The common stock of both Xperi and TiVo were de-registered after completion of the Mergers. On June 2, 2020, Xperi Holding Corporation’s common stock, par value \$0.001 per share, commenced trading on the Nasdaq Global Select Market (“Nasdaq”) under the ticker symbol “XPER.” Xperi was determined to be the accounting acquirer in the Mergers. As a result, the historical financial statements of Xperi for periods prior to the Mergers are considered to be the historical financial statements of Xperi Holding Corporation. Our results of operations include the operations of TiVo after June 1, 2020.

We are a leading consumer and entertainment product/solutions licensing company and one of the industry’s largest intellectual property (IP) licensing platforms, with a diverse portfolio of media and semiconductor intellectual property and more than 11,000 patents and patent applications worldwide. We invent, develop, and deliver technologies that enable extraordinary experiences. Xperi technologies, delivered via our brands (DTS, HD Radio, IMAX Enhanced, Invensas, TiVo), and by our subsidiary, Perceive Corporation (“Perceive”), make entertainment more entertaining, and smart devices smarter. Our technologies are integrated into billions of consumer devices, media platforms, and semiconductors worldwide, driving increased value for partners, customers and consumers. We shape how millions of consumers access and experience entertainment content, and our innovations are found in billions of devices and hundreds of millions of interfaces around the

globe. Headquartered in Silicon Valley with operations around the world, we have approximately 1,800 employees and over 30 years of operating experience.

We are currently contemplating and may pursue, subject to any required regulatory approvals, a separation of our Product business and IP Licensing business through a tax-efficient transaction, resulting in two independent, publicly traded companies. We are evaluating the optimal timing of the contemplated business separation and currently anticipate that such separation will not be completed earlier than the first half of 2022.

## **COVID-19 Impact**

Our business and results of operations have been adversely affected by the global COVID-19 pandemic and related events and we expect its impact to continue. Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the full impact of the COVID-19 pandemic on our businesses, and there is no guarantee that we will be able to address its adverse impacts fully or effectively. The impact to date has included periods of significant volatility in various markets and industries. The volatility has had, and we anticipate it will continue to have, an adverse effect on our customers and on our business, financial condition and results of operations, and may result in an impairment of our long-lived assets, including goodwill, increased credit losses and impairments of investments in other companies. In particular, the automotive market, as well as the broad consumer electronics industries, have been and may continue to be impacted by the pandemic and/or other events beyond our control, and further volatility could have an additional negative impact on these industries, customers, and our business. In addition, the COVID-19 pandemic and to a lesser extent, U.S. restrictions on trade with certain Chinese customers have and may continue to impact the financial conditions of our customers, who may not be able to satisfy their obligations under our agreements timely or at all.

In addition, actions by United States federal, state and foreign governments to address the COVID-19 pandemic, including travel bans, stay-at-home orders and school, business and entertainment venue closures, also had a significant adverse effect on the markets in which we conduct our businesses. COVID-19 poses the risk that our workforce, suppliers, and other partners may be prevented from conducting normal business activities for an indefinite period of time, including due to shutdowns or stay-at-home orders that may be requested or mandated by governmental authorities. We also implemented policies to allow our employees to work remotely as a result of the pandemic as we reviewed processes related to workplace safety, including social distancing and sanitation practices recommended by the Centers for Disease Control and Prevention. The impacts of the COVID-19 pandemic could also cause delays in obtaining new customers and executing renewals and could also impact our business as consumer behavior changes in response to the slowed economic conditions. Furthermore, our ongoing integration efforts following the Mergers have been and may continue to be delayed or interrupted due to the operational challenges and various restrictions and limitations imposed on us as a result of the COVID-19 pandemic, which may adversely affect the timing and success of the integration and anticipated benefits of the Mergers.

We have been closely monitoring the COVID-19 pandemic and its impact on our business, including legislation to mitigate the impact of COVID-19 such as the Coronavirus Aid, Relief, and Economic Security (CARES) Act which was enacted in March 2020, and the American Rescue Plan Act of 2021 which was enacted in March 2021. Although a significant portion of our anticipated revenue for 2021 is derived from fixed-fee and minimum-guarantee arrangements, primarily from large, well-capitalized customers which we believe somewhat mitigates the risks to our business, our per-unit and variable fees based revenue will continue to be susceptible to the volatility, supply chain disruptions and potential market downturns induced by the COVID-19 pandemic. Although we are unable to predict the full impact and duration of the COVID-19 pandemic on our business, we are actively managing our financial expenditures in response to continued uncertainty. Further discussion of the potential impacts on our business from the COVID-19 pandemic is provided under Part I, Item 1A – *Risk Factors* of the Form 10-K.

## **Results of Operations**

### *Revenue*

We generate revenue from the following principal activities.

#### *License Agreements*

We operate in two business segments. In our Product segment, we license our audio, digital radio, imaging, edge-based machine learning and multi-channel video user experience (“UX”) solutions. In our IP Licensing segment, we license (i) our media patent portfolios (“Media IP licensing”) to multichannel video programming distributors (MVPDs), OTT video service providers, consumer electronics manufacturers, social media, and other new media companies and (ii) our semiconductor technologies and associated patent portfolios (“Semiconductor IP licensing”) to memory, sensors, RF component, and foundry

companies. We license our technologies and portfolios under three revenue models: (i) fixed-fee Media IP licensing, (ii) fixed-fee or minimum guarantee Semiconductor IP or Product licensing, and (iii) per-unit or per-subscriber royalty licenses.

#### *Fixed-fee Media IP licensing*

Our long-term fixed-fee Media IP licensing agreements provide our customers with the rights to future patented technologies over the term of the agreement that are highly interdependent or highly interrelated to the patented technologies provided at the inception of the agreement. We treat these rights as a single performance obligation with revenue recognized on a straight-line basis over the term of the fixed-fee license agreement.

At times, we enter into license agreements in which a licensee is released from past patent infringement claims and is granted a license to ship an unlimited number of units or for an unlimited number of subscribers over a future period for a fixed fee. In these arrangements, we allocate the transaction price between the release for past patent infringement claims and the future license. As the release from past patent infringement claims is generally satisfied at execution of the agreement, the transaction price allocated to the release from past patent infringement claims is generally recognized in the period the agreement is executed and the amount of transaction price allocated to the future license is recognized ratably over the future license term.

#### *Fixed-fee or minimum guarantee Semiconductor IP or Product licensing*

We enter into Product or Semiconductor IP licenses that have fixed fee or minimum guarantee arrangements, whereby licensees pay a fixed fee for the right to incorporate our technology in the licensee's products over the license term. In arrangements with a minimum guarantee, the fixed fee component corresponds to a minimum number of units or dollars that the customer must produce or pay, with additional per-unit fees for any units or dollars exceeding the minimum. In most cases, the customer pays the fixed license fee in specified installments over the license term. For both fixed fee and minimum guarantee agreements for Semiconductor IP or Product licensing, we recognize the full fixed fee as revenue at the beginning of the license term, when the licensee has the right to use the IP and begins to benefit from the license.

If the contract term of a fixed fee or minimum guarantee arrangement is longer than one year, we also consider the scheduled payment arrangements to determine whether a significant financing component exists. In general, if the payment arrangements extend beyond the initial twelve months of the contract, we treat a portion of the payments as a significant financing component. The discount rate used for each arrangement reflects the rate that would be used in a separate financing transaction between us and the licensee at contract inception and takes into account the credit characteristics of the licensee and market interest rates as of the date of the agreement. As such, the amount of fixed fee revenue recognized at the beginning of the license term will be reduced by the calculated financing component.

We actively monitor and enforce our IP, including seeking appropriate compensation from customers that have under-reported royalties owed under a license agreement and from third parties that utilize our intellectual property without a license. As a result of these activities, we may, from time to time, recognize revenue from payments resulting from periodic compliance audits of licensees for underreporting royalties incurred in prior periods, as part of a settlement of a patent infringement dispute, or from legal judgments in a license dispute. These recoveries and settlements may cause revenue to be higher than expected during a particular reporting period and such recoveries may not occur in subsequent periods. We recognize revenue from recoveries when a binding agreement has been executed and we conclude collection under that agreement is likely.

#### *Per-unit or per-subscriber royalty licenses*

We recognize revenue from per-unit or per-subscriber royalty licenses in the period in which the licensee's sales or production are estimated to have occurred, which results in an adjustment to revenue when actual sales or production are subsequently reported by the licensee, which is generally in the month or quarter following usage or shipment. We generally recognize revenue from royalty licenses on a per-subscriber per-month model for licenses with service providers and a per-unit shipped or manufactured model for licenses with CE manufacturers and memory, sensors, RF component, and foundry companies. Estimating licensees' quarterly royalties prior to receiving the royalty reports requires us to make significant assumptions and judgments related to forecasted trends and growth rates used to estimate quantities shipped by customers, which could have a material impact on the amount of revenue we report on a quarterly basis.

#### *Arrangements with Multiple System Operators for the TiVo Service*

Our arrangements with multiple system operators (MSOs) typically include software customization and set-up services, associated maintenance and support, limited training, post-contract support, TiVo-enabled DVRs, non-DVR STBs and the TiVo service.

We have two types of arrangements with MSOs that include technology deployment and engineering services. In instances where we host the TiVo service, non-refundable payments received for customization and set-up services are deferred and recognized as revenue ratably over the hosting term. The related cost of such services is capitalized to the extent it is deemed recoverable and amortized to cost of revenue over the same period as the related TiVo service revenue is recognized. We estimate the stand-alone selling prices for training, DVRs, non-DVR STBs and maintenance and support based on the price charged in stand-alone sales of the promised good or service. The stand-alone selling price for the TiVo service is determined considering the size of the MSO and expected volume of deployment, market conditions, competitive landscape, internal costs and total gross margin objectives. For a term license to the TiVo service, we receive license fees for the hosted TiVo service on either a per-subscriber per-month basis or a fixed fee. We recognize revenue from per-subscriber per-month licenses during the month the TiVo service is provided to the customer and recognize revenue from fixed fee licenses ratably over the license period.

In arrangements where we do not host the TiVo service and that include engineering services that are essential to the functionality of the licensed technology or involve significant customization or modification of the software, we recognize revenue as progress toward completion is made using an input method based on the ratio of costs incurred to date to total estimated costs of the project. Estimating project costs requires forecasting costs, tracking progress toward completion and projecting the remaining effort to complete the project. These estimates are reassessed throughout the term of the arrangement, and revisions to estimates are recognized on a cumulative catch-up basis when the changed conditions become known. We generally recognize revenue from license fees for the TiVo service that the Company does not host on a per-subscriber per-month basis due to the recognition constraint on intellectual property usage-based royalties.

#### Subscription Services

Subscription services revenue primarily consists of fees to provide customers with access to one or more of our hosted products such as the iGuide IPG, advanced search and recommendations, metadata and analytics products, including routine customer support. We generally receive per-subscriber per-month fees for the iGuide IPG and search and recommendations service and revenue is recorded in the month the customer uses the service. We generally receive a monthly or quarterly fee from our metadata or analytics licenses for the right to use the metadata or access our analytics platform and to receive regular updates. Revenue from our metadata and analytics service is recognized ratably over the subscription period.

#### TiVo-enabled DVRs and non-DVRs and related TiVo Service

We sell TiVo-enabled DVRs and non-DVRs and the related service directly to customers through sales programs via the TiVo.com website and license the sale of TiVo-enabled DVRs and non-DVRs through a limited number of retailers. After the initial subscription period, all customers have various pricing options when they renew their subscription.

The transaction price allocated to the DVR is recognized as revenue upon shipment to the customer and the transaction price allocated to the TiVo service is recognized as revenue ratably over the service period. Subscription revenue from lifetime subscriptions is recognized ratably over the estimated useful life of the DVR associated with the subscription. The estimated useful life for a DVR depends on a number of assumptions, including but not limited to, customer retention rates, the timing of new product introductions and historical experience. We periodically reassess the estimated useful life of a DVR. When the actual useful life of the DVR materially differs from our estimates, the estimated useful life of the DVR is adjusted, which could result in the recognition of revenue over a longer or shorter period of time.

The following table presents our historical operating results for the periods indicated as a percentage of revenue:

	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
<b>Revenue:</b>		
Licensing, services and software	99%	100%
Hardware	1	—
Total revenue	100	100
<b>Operating expenses:</b>		
Cost of licensing, services and software revenue, excluding depreciation and amortization of intangible assets	10	1
Cost of hardware revenue, excluding depreciation and amortization of intangible assets	3	—
Research, development and other related costs	25	24
Selling, general and administrative	30	31
Depreciation expense	2	2
Amortization expense	24	19
Litigation expense	1	2
Total operating expenses	95	79
Operating income	5	21
Interest expense	5	4
Other income and expense, net	—	(1)
Income before taxes	—	18
Provision for (benefit from) income taxes	(2)	2
Net income	2%	16%

Total Revenue (in thousands, except for percentages):

	<b>Three Months Ended</b>		<b>Increase/ (Decrease)</b>	<b>% Change</b>
	<b>March 31, 2021</b>	<b>March 31, 2020</b>		
Total revenue	\$ 221,596	\$ 117,665	\$ 103,931	88%

The \$103.9 million, or 88% increase in total revenue for the three months ended March 31, 2021, compared to the same period in the prior year, was primarily due to inclusion of revenue from the results of TiVo operations following the Mergers. Excluding TiVo revenue, legacy Xperi revenue would have decreased due primarily to a decline in revenue from the Semiconductor IP licensing business.

#### *Cost of Licensing, Services and Software Revenue, Excluding Depreciation and Amortization of Intangible Assets*

Cost of licensing, services and software revenue, excluding depreciation and amortization of intangible assets, consists primarily of employee-related costs, royalties paid to third parties, maintenance costs and an allocation of facilities costs, as well as service center and other expenses related to providing the TiVo Service, non-recurring engineering (“NRE”) services and our metadata offering.

Cost of licensing, services and software revenue, excluding depreciation and amortization of intangible assets, for the three months ended March 31, 2021 was \$21.4 million, as compared to \$1.5 million for the three months ended March 31, 2020, an increase of \$19.9 million. The increase was due to the inclusion of post-merger TiVo expenses in the first quarter of 2021.

We anticipate cost of licensing, services and software revenue, excluding depreciation and amortization of intangible assets, will continue to increase in 2021 when compared to 2020 due to the inclusion of a full year of TiVo operations in our consolidated results.

#### *Cost of Hardware Revenue, Excluding Depreciation and Amortization of Intangible Assets*

Cost of hardware revenue, excluding depreciation and amortization of intangible assets, includes all product-related costs associated primarily with TiVo-enabled devices, including employee-related costs, warranty costs, order fulfillment costs, certain licensing costs, and an allocation of facilities costs.

Cost of hardware revenue, excluding depreciation and amortization of intangible assets, for the three months ended March 31, 2021 was \$6.7 million, as compared to \$0.1 million for the three months ended March 31, 2020, an increase of \$6.6 million. The increase was due to the inclusion post-merger TiVo expenses in the first quarter of 2021.

We anticipate cost of hardware revenue, excluding depreciation and amortization of intangible assets, will continue to increase in 2021 when compared to 2020 primarily due to the inclusion of a full year of TiVo operations in our consolidated results as well as expected growth in sales of hardware products.

#### *Research, Development and Other Related Costs*

Research, development and other related costs (“R&D expense”) are comprised primarily of employee-related costs, stock-based compensation expense, engineering consulting expenses associated with new product and technology development, product commercialization, quality assurance and testing costs, as well as costs related to patent applications and examinations, reverse engineering, materials, supplies, equipment depreciation and an allocation of facilities costs. All research, development and other related costs are expensed as incurred.

R&D expense for the three months ended March 31, 2021 was \$55.2 million, as compared to \$28.6 million for the three months ended March 31, 2020, an increase of \$26.6 million. The increase was due to the inclusion of post-merger TiVo R&D expenses in the first quarter of 2021. Excluding TiVo expenses, R&D expense would have decreased by approximately \$2.5 million, due principally to reduced headcount and personnel costs as a result of cost synergies realized, lower travel related costs as well as reduced spending in materials, supplies, facilities and insurance in the first quarter of 2021.

We believe that a significant level of R&D expense will be required for us to remain competitive in the future. We also anticipate that R&D expense will increase in 2021 when compared to 2020 due primarily to due to the inclusion of a full year of TiVo operations in our consolidated results.

#### *Selling, General and Administrative*

Selling expenses consist primarily of compensation and related costs for sales and marketing personnel engaged in sales and licensee support, reverse engineering personnel and services, marketing programs, public relations, promotional materials, travel, trade show expenses, and stock-based compensation expense. General and administrative expenses consist primarily of compensation and related costs for general management, information technology, finance personnel, legal fees and expenses, facilities costs, stock-based compensation expense, and professional services. Our general and administrative expenses, other than facilities-related expenses, are not allocated to other expense line items.

Selling, general and administrative (“SG&A”) expenses for the three months ended March 31, 2021 were \$67.4 million, as compared to \$36.6 million for the three months ended March 31, 2020, an increase of \$30.8 million. The increase was due principally to the inclusion of TiVo expenses in the first quarter of 2021. Excluding TiVo expenses, SG&A expenses would have decreased by approximately \$1.6 million, driven by a decrease in provision for credit losses, lower sales/marketing promotion expenses and travel and entertainment costs, partially offset by post-merger severance and retention costs recorded in the first quarter of 2021.

We anticipate SG&A expenses will increase in 2021 when compared to 2020 due principally to the inclusion of a full year of TiVo operations in our consolidated results.

#### *Depreciation Expense*

Depreciation expense for the three months ended March 31, 2021 was \$5.7 million, as compared to \$1.7 million for the three months ended March 31, 2020, an increase of \$4.0 million. The increase was primarily attributable to depreciation expense on TiVo fixed assets added through the Mergers in June 2020.

We anticipate depreciation expense will continue to increase in 2021 as compared to 2020 as a result of the inclusion of the full year effect of TiVo’s assets after the Mergers.

#### *Amortization Expense*

Amortization expense for the three months ended March 31, 2021 was \$52.2 million, as compared to \$22.5 million for the three months ended March 31, 2020, an increase of \$29.7 million. The increase was primarily attributable to amortization of intangible assets recorded in connection with the Mergers in June 2020, and secondarily due to intangible assets acquired in the fourth quarter of 2020.

With the Mergers, we anticipate that amortization expense will continue to be a significant expense since we acquired approximately \$878 million in intangible assets which will be amortized over the next several years. See “Note 8 – Goodwill and Identified Intangible Assets” in the Notes to Condensed Consolidated Financial Statements for additional information.

#### *Litigation Expense*

Litigation expense for the three months ended March 31, 2021 was \$2.5 million, as compared to \$2.1 million for the three months ended March 31, 2020, an increase of \$0.4 million. The increase was primarily due to inclusion of post-merger TiVo litigation expenses, partially offset by reduced case activity.

In 2019 and in 2020 prior to the Mergers, TiVo’s litigation expenses were significantly higher than Xperi’s litigation expenses in the same periods. We expect that litigation expense will continue to be a material portion of our operating expenses and, as a result of the Mergers, will increase significantly in future periods. Litigation expense may fluctuate between periods because of planned or ongoing litigation, as described in Part II, Item 1 – *Legal Proceedings*, and because of litigation planned for or initiated from time to time in the future in order to enforce and protect our intellectual property and contract rights.

Upon expiration of our customers’ licenses, if those licenses are not renewed, litigation may become necessary to secure payment of reasonable royalties for the use of our patented technology. If we plan for or initiate such litigation, our future litigation expenses may increase.

#### *Stock-based Compensation Expense*

The following table sets forth our stock-based compensation (“SBC”) expense for the three and nine months ended March 31, 2021 and 2020 (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
Cost of licensing, services and software revenue	\$ 323	\$ —
Research, development and other related costs	4,347	3,036
Selling, general and administrative	8,549	4,951
Total stock-based compensation expense	<u>\$ 13,219</u>	<u>\$ 7,987</u>

Stock-based compensation awards include employee stock options, restricted stock awards and units, and employee stock plan purchases. The increase in SBC expense for the three months ended March 31, 2021, compared to the corresponding period in 2020, was primarily a result of including incremental expense from assumed TiVo stock awards from the Mergers and increases in stock award grants as a result of the Mergers.

#### *Interest Expense*

Interest expense for the three months ended March 31, 2021 was \$11.3 million, as compared to \$4.3 million for the three months ended March 31, 2020. The increase in interest expense was primarily a result of a higher average debt balance as compared to the first quarter of 2020 as we entered into a new term loan of \$1,050 million on June 1, 2020 to refinance the indebtedness of the combined companies in connection with the Mergers.

We anticipate interest expense will increase in 2021 when compared to 2020 as a result of a full year of the higher debt balance and amortization of debt discount and issuance costs.

#### *Other Income and expense, Net*

Other income and expense, net, for the three months ended March 31, 2021 was \$1.4 million, as compared to \$0.6 million for the three months ended March 31, 2020. Other income and expense, net, in the first quarter of 2021 was higher than the corresponding period in 2020 due principally to recognition of an unrealized loss of \$0.7 million on our equity investment in Onkyo Corporation common stock in the first quarter of 2020.

#### *Provision for Income Taxes*

With certain exceptions, our provision for income taxes is based on our worldwide estimated annualized effective tax rate. For jurisdictions in which a loss is forecast but no benefit can be realized for those losses, the tax is estimated separately. Additionally, we record certain taxes measured when required. Due to our significant net operating loss carryforwards and a

valuation allowance applied against a significant portion of our deferred tax assets, foreign withholding taxes are generally the primary driver of income tax expense and the primary reason for cash tax payments of income taxes. For the three months ended March 31, 2021, our negative effective tax rate is based on the projected 2021 GAAP U.S. pretax loss and is significantly less than the 21% U.S. federal tax rate. The low effective tax rate is the result of the most significant components of income tax expense, primarily driven by foreign withholding taxes and BEAT. The computed negative effective tax rate is applied to the year-to-date U.S. profit resulting in an income tax benefit for the quarter ended March 31, 2021.

For the three months ended March 31, 2021, we recorded an income tax benefit of \$4.0 million on pretax income of \$0.5 million, which resulted in an effective tax rate of (786.4)%. The income tax benefit for the three months ended March 31, 2021 was primarily related to foreign withholding taxes, U.S. federal base erosion and anti-abuse tax, and unrealized foreign exchange loss from prior year South Korea refund claims. For the three months ended March 31, 2020, we recorded an income tax expense of \$2.1 million on pretax income of \$20.8 million, which resulted in an effective tax rate of 9.9%. The income tax expense for the three months ended March 31, 2020 was primarily related to tax expense from operating income, increase in certain non-deductible expenses, shortfalls from stock-based compensation, increase in valuation allowance on certain deferred tax assets, and unrealized foreign exchange losses from the prior year South Korea refund claim, offset by a deduction from foreign-derived intangible income and the release of unrecognized tax benefits due to a lapse in the statute of limitations.

The year-over-year decrease in income tax expense for the quarter ended March 31, 2021 is largely attributable to the application of a negative effective tax rate to year-to-date U.S. pre-tax income.

The need for a valuation allowance requires an assessment of both positive and negative evidence when determining whether it is more-likely-than-not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction-by-jurisdiction basis. In making such assessment, significant weight is given to evidence that can be objectively verified. After considering both positive and negative evidence to assess the recoverability of our net deferred tax assets, we determined that it was not more-likely-than-not that we would realize our federal, certain state and certain foreign deferred tax assets given the substantial amount of tax attributes that will remain unutilized to offset forecasted future tax liabilities. In the future, we may release our deferred tax asset valuation allowance associated with our federal, state or foreign deferred tax assets depending on achievement of future profitability in relevant jurisdictions, or implementing tax planning strategies that enable us to utilize deferred tax assets. There can be no assurance that we will generate profits or implement tax strategies in future periods enabling us to fully realize our deferred tax assets. The timing of recording a deferred tax asset valuation allowance or the reversal of such valuation allowance is subject to objective and subjective factors that cannot be known in advance. We intend to continue maintaining a full valuation allowance on our federal deferred tax assets until there is sufficient evidence to support the reversal of all or some of a portion of these allowances. However, given our current earning and anticipated future earnings, we believe that there is a reasonable possibility that within the next 12 months, sufficient positive evidence may become available to allow us to reach a conclusion that a significant portion of our federal valuation allowance will no longer be needed. Release of the valuation allowance would result in the recognition of certain federal deferred tax assets and a decrease to income tax expense for the period the release is recorded.

## **Segment Operating Results**

We operate in two reportable segments: (1) Product and (2) IP Licensing. There are certain corporate overhead costs that are not allocated to these reportable segments because these operating amounts are not considered in evaluating the operating performance of our business segments.

Our Chief Executive Officer has been determined to be the Chief Operating Decision Maker (“CODM”) in consideration with the authoritative guidance on segment reporting.

The Product segment consists primarily of licensing our internally-developed audio, digital radio, imaging, edge-based machine learning and multi-channel video user experience (“UX”) solutions. Audio, digital radio, imaging solutions and edge-based machine learning include the delivery of software and/or hardware-based solutions to our consumer electronics (“CE”) customers, automotive manufacturers or their supply chain partners. UX products and services revenue is primarily derived from multi-channel video service providers and CE manufacturers, licensing the TiVo service and selling TiVo-enabled devices like the Stream 4K, Personalized Content Discovery, enriched Metadata, viewership data and advertising.

The IP Licensing segment consists primarily of licensing our innovations to leading companies in the media and semiconductor industries. Licensing arrangements include access to one or more of our foundational patent portfolios and may also include access to some of our industry-leading technologies and proven know-how. In media, our licensees include multichannel video programming distributors, OTT video service providers, consumer electronics manufacturers, social media and other new media companies. In semiconductor, our licensees include memory, sensors, RF component, and foundry companies.

We do not identify or allocate assets by reportable segment, nor does the CODM evaluate reportable segments using discrete asset information. Reportable segments do not record inter-segment revenue and accordingly there are none to report. Although the CODM uses operating income to evaluate reportable segments, operating costs included in one segment may benefit other segments.

The following table sets forth our segments' revenue, operating expenses and operating income (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
<b>Revenue:</b>		
Product segment	\$ 123,582	\$ 55,942
IP Licensing segment	98,014	61,723
<b>Total revenue</b>	<b>221,596</b>	<b>117,665</b>
<b>Operating expenses:</b>		
Product segment	108,563	46,236
IP Licensing segment	33,567	10,295
Unallocated operating expenses (1)	69,067	36,607
<b>Total operating expenses</b>	<b>211,197</b>	<b>93,138</b>
<b>Operating income:</b>		
Product segment	15,019	9,706
IP Licensing segment	64,447	51,428
Unallocated operating expenses (1)	(69,067)	(36,607)
<b>Total operating income</b>	<b>\$ 10,399</b>	<b>\$ 24,527</b>

- (1) Unallocated operating expenses consist primarily of selling, marketing, general and administrative expenses, including administration, human resources, finance, information technology, corporate development and procurement. These expenses are not allocated because these amounts are not considered in evaluating the operating performance of the Company's business segments.

For the three months ended March 31, 2021, the unallocated operating expenses were \$69.1 million, compared to \$36.6 million for the three months ended March 31, 2020. The increase of \$32.5 million was due principally to the inclusion of TiVo expenses and post-merger severance and retention costs recorded in the first quarter of 2021, partially offset by a decrease in provision for credit losses, lower sales/marketing promotion expenses and travel and entertainment costs.

The revenue and operating income amounts in this section have been presented on a basis consistent with GAAP applied at the segment level. Of our \$847.0 million in goodwill at March 31, 2021, approximately \$523.8 million was allocated to our Product segment and approximately \$323.2 million was allocated to our IP Licensing segment.

#### *Product Segment*

	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
<b>Total revenue</b>	<b>\$ 123,582</b>	<b>\$ 55,942</b>
<b>Operating expenses:</b>		
<b>Total cost of revenue</b>	<b>27,986</b>	<b>1,584</b>
Research, development and other related costs	47,998	22,847
Litigation	1,090	210
Depreciation	3,794	1,372
Amortization	27,695	20,223
<b>Total operating expenses</b>	<b>108,563</b>	<b>46,236</b>
<b>Total operating income</b>	<b>\$ 15,019</b>	<b>\$ 9,706</b>

Product revenue for the three months ended March 31, 2021 was \$123.6 million as compared to \$55.9 million for the three months ended March 31, 2020, an increase of \$67.6 million. The increase was primarily attributable to the inclusion of TiVo product revenue, partially offset by a decrease in revenue from minimum guarantee (“MG”) contracts executed during the first quarter of 2021 as compared to first quarter of 2020.

Operating expenses for the three months ended March 31, 2021 were \$108.6 million, as compared to \$46.2 million for the three months ended March 31, 2020, an increase of \$62.4 million. The increase was primarily due to the inclusion of TiVo Product expenses, partially offset by merger-related cost synergies.

Operating income in the three months ended March 31, 2021 was \$15.0 million compared to operating income of \$9.7 million in the three months ended March 31, 2020, with the variance due to the reasons stated above.

#### IP Licensing Segment

	Three Months Ended	
	March 31, 2021	March 31, 2020
Total revenue	\$ 98,014	\$ 61,723
Operating expenses:		
Total cost of revenue	146	—
Research, development and other related costs	7,225	5,759
Litigation	1,443	1,893
Depreciation	253	357
Amortization	24,500	2,286
Total operating expenses	33,567	10,295
Total operating income	\$ 64,447	\$ 51,428

IP Licensing revenue for the three months ended March 31, 2021 was \$98.0 million as compared to \$61.7 million for the three months ended March 31, 2020, an increase of \$36.3 million. The increase was primarily attributable to the inclusion of TiVo IP Licensing revenue, partially offset by a decline in revenue from the Semiconductor IP licensing business.

Operating expenses for the three months ended March 31, 2021 were \$33.6 million, as compared to \$10.3 million for the three months ended March 31, 2020, an increase of \$23.3 million. The increase was primarily due to the inclusion of TiVo IP Licensing expenses, partially offset by merger-related cost synergies.

In 2019 and in 2020, prior to the Mergers, TiVo’s litigation expenses were significantly higher than Xperi’s litigation expenses in the same periods. We expect that litigation expense will continue to be a material portion of our operating expenses and may fluctuate between periods because of planned or ongoing litigation, as described in Part II, Item 1 – *Legal Proceedings*, in this report, and because of litigation planned for or initiated from time to time in the future in order to enforce and protect our intellectual property and contract rights.

Operating income for the three months ended March 31, 2021 was \$64.4 million compared to operating income of \$51.4 million for the three months ended March 31, 2020, with the variance due to the reasons stated above.

#### Liquidity and Capital Resources

(in thousands, except for percentages)	As of	
	March 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 134,759	\$ 170,188
Short-term investments	102,145	86,947
Total cash, cash equivalents and short-term investments	\$ 236,904	\$ 257,135
Percentage of total assets	9%	10%

	Three Months Ended			
	March 31, 2021		March 31, 2020	
Net cash from operating activities	\$	26,729	\$	32,644
Net cash from investing activities	\$	(17,387)	\$	11,157
Net cash from financing activities	\$	(44,033)	\$	(9,947)

Our primary sources of liquidity and capital resources are our operating cash flows and our short-term investments. Cash, cash equivalents and short-term investments were \$236.9 million at March 31, 2021, a decrease of \$20.2 million from \$257.1 million at December 31, 2020. This decrease resulted primarily from \$5.3 million in dividends paid, \$32.4 million in repurchases of common stock and \$13.1 million in repayment of the 2020 Term B Loan Facility, which was partially offset by \$26.7 million in cash generated from operations and \$6.7 million in proceeds from the issuance of common stock under our employee stock grant programs and employee stock purchase plans. Cash and cash equivalents totaled \$134.8 million at March 31, 2021, a decrease of \$35.4 million from \$170.2 million at December 31, 2020.

Cash flows provided by operations were \$26.7 million for the three months ended March 31, 2021, primarily due to our net income of \$4.5 million being further adjusted for non-cash items of depreciation of \$5.7 million, amortization of intangible assets of \$52.2 million and stock-based compensation expense of \$13.2 million. These increases were partially offset by \$52.8 million in changes in operating assets and liabilities including payment during the quarter of employee bonuses earned in 2020.

Cash flows provided by operations were \$32.6 million for the three months ended March 31, 2020, primarily due to our net income of \$18.8 million being further adjusted for non-cash items of depreciation of \$1.7 million, amortization of intangible assets of \$22.5 million, stock-based compensation expense of \$8.0 million and provision for credit loss expense of \$2.0 million. These increases were partially offset by a reduction of \$2.1 million in deferred income taxes and \$19.6 million in changes in operating assets and liabilities.

Net cash used in investing activities was \$17.4 million for the three months ended March 31, 2021, primarily related to purchases of short-term investments of \$42.5 million and capital expenditures of \$1.8 million, partially offset by maturities and sales of securities of \$26.9 million.

Net cash provided by investing activities was \$11.2 million for the three months ended March 31, 2020, primarily related to maturities and sales of securities of \$11.8 million, partially offset by \$0.7 million in capital expenditures.

Net cash used in financing activities was \$44.0 million for the three months ended March 31, 2021 principally due to \$13.1 million in repayment of indebtedness, \$5.3 million in dividends paid, and \$32.4 million in repurchases of common stock, partially offset by \$6.7 million in proceeds due to the issuance of common stock under our employee stock grant programs and employee stock purchase plans.

Net cash used in financing activities was \$9.9 million for the three months ended March 31, 2020 principally due to \$10.0 million in dividends paid and \$3.1 million in repurchases of common stock, partially offset by \$3.2 million in proceeds due to the issuance of common stock under our employee stock grant programs and employee stock purchase plans.

The primary objectives of our investment activities are to preserve principal and to maintain liquidity while at the same time capturing a market rate of return. To achieve these objectives, we maintain a diversified portfolio of securities including money market funds and debt securities including corporate bonds and notes, municipal bonds and notes, commercial paper, treasury and agency notes and bills and certificates of deposit. We invest excess cash predominantly in high-quality investment grade debt securities with less than three years to maturity. Our marketable debt securities are classified as available-for-sale ("AFS") with credit losses recognized as a credit loss expense and non-credit related unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income or loss. The fair values for our securities are determined based on quoted market prices as of the valuation date or observable prices for similar assets.

For AFS debt securities in an unrealized loss position, we first assess whether we intend to sell, or it is more-likely-than-not that we will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, we consider the extent to which fair value is less than amortized cost, any changes to the credit rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected

is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in accumulated other comprehensive income or loss. We did not recognize a provision for credit losses related to our AFS debt securities in the three months ended March 31, 2021 and 2020, respectively.

On December 1, 2016, we entered into a Credit Agreement with Royal Bank of Canada (“RBC”) which provided for a \$600.0 million seven-year term B loan facility. The Term B Loan Facility was scheduled to mature on November 30, 2023. During 2019 we made three voluntary principal payments totaling \$150.0 million, and upon consummation of the Mergers on June 1, 2020, we repaid the full remaining balance of \$344.0 million under the Credit Agreement. In addition, upon consummation of the Mergers on June 1, 2020, we repaid \$734.6 million of assumed TiVo debt with the proceeds from a new borrowing of \$1,050 million discussed below.

On June 1, 2020, in connection with the consummation of the Mergers, we entered into a Credit Agreement (the “2020 Credit Agreement”) by and among us, the lenders party thereto and Bank of America, N.A., as administrative agent and collateral agent. The 2020 Credit Agreement provides for a five-year senior secured term loan B facility in an aggregate principal amount of \$1,050 million (the “2020 Term B Loan Facility”). The interest rate applicable to loans outstanding under the 2020 Term B Loan Facility is equal to, at our option, either (i) a base rate plus a margin of 3.00% per annum or (ii) LIBOR plus a margin of 4.00% per annum. Commencing on September 30, 2020, the 2020 Term B Loan Facility will amortize in quarterly installments equal to (i) with respect to repayments occurring on or prior to June 1, 2023, 1.25% of the original principal amount of the 2020 Term B Loan Facility and (ii) with respect to repayments occurring after June 1, 2023 and prior to June 1, 2025, 1.875% of the original principal amount of the 2020 Term B Loan Facility, with the balance payable on the maturity date of the 2020 Term B Loan Facility (in each case subject to adjustment for prepayments). The 2020 Term B Loan Facility will mature on June 1, 2025. Upon the closing of the 2020 Credit Agreement, we borrowed \$1,050 million under the 2020 Term B Loan Facility. Net proceeds were used on June 1, 2020, together with cash and cash equivalents, to repay existing indebtedness of the combined Company, including the aforementioned Term B Loan Facility with RBC. We commenced repaying quarterly installments under the 2020 Term B Loan Facility in the third quarter of 2020. The agreement permits prepayment of principal without penalty and on December 31, 2020, we elected to make a voluntary principal payment of \$150.0 million.

At March 31, 2021, \$828.5 million was outstanding under the 2020 Term B Loan Facility with an interest rate, including amortization of debt discount and issuance costs, of 5.2%. Interest is payable monthly. Under the existing loan agreements, we have future minimum principal payments for our debt of \$39.4 million for the remainder of 2021, \$52.5 million, \$72.2 million and \$78.8 million in 2022, 2023 and 2024, respectively, with the remaining principal balance due in 2025. We are obligated to pay a portion of excess cash flow on an annual basis beginning March 31, 2022 based on certain ratios and our excess cash flow generated for the immediately preceding calendar year as well as for any litigation settlements subsequent to the Mergers. The voluntary principal payment described above may be offset against any obligated payments due as of March 31, 2022. The 2020 Term B Loan Facility contains customary covenants, and as of March 31, 2021, we were in full compliance with such covenants.

In August 2007, Xperi’s Board of Directors authorized a plan to repurchase Xperi’s outstanding shares of common stock dependent on market conditions, share price and other factors. This authorization was terminated upon closing of the Mergers. On June 12, 2020, our Board of Directors authorized a new stock repurchase program (the “new plan”) providing for the repurchase of up to \$150.0 million of our common stock dependent on market conditions, share price and other factors. Since the inception of the plan, and through March 31, 2021, we have repurchased approximately 6.0 million shares of common stock at a total cost of \$95.1 million at an average price of \$15.87. During the three months ended March 31, 2021, our repurchases totaled \$25.0 million. As of March 31, 2021, the total remaining amount available for repurchase was \$54.9 million. On April 22, 2021, our Board of Directors authorized an additional \$100.0 million of purchases, increasing the current total available balance to \$154.9 million as of such date. We may continue to execute authorized repurchases from time to time under the new program.

In April 2021, our Board of Directors authorized payment of a quarterly dividend of \$0.05 per share, to be paid in June 2021. We anticipate that all quarterly dividends will be paid out of cash, cash equivalents and short-term investments.

From 2018 through the first quarter of 2021, we generated approximately \$759 million of cash flows from operating activities. While we expect to continue to generate cash flows from operating activities for the remainder of 2021, the COVID-19 pandemic continues to present uncertainties to the level of such cash flows as compared to prior years. Additionally, integration of the two legacy businesses post-merger and transaction costs relating to the contemplated separation of the two businesses will impact operating cash flow for 2021. We have taken actions to manage cash flows by reducing discretionary spending and other variable costs, delaying employee hiring, and closely monitoring receivables and payables.

We believe that based on current levels of operations and anticipated growth, our cash from operations, together with cash, cash equivalents and investments currently available, will be sufficient to fund our operations, debt service, dividends, stock

repurchases and acquisition needs for at least the next twelve months. Poor financial results, unanticipated expenses, unanticipated acquisitions of technologies or businesses or unanticipated strategic investments could give rise to additional financing requirements sooner than we expect. There can be no assurance that equity or debt financing will be available when needed or, if available, that such financing will be on terms satisfactory to us and not dilutive to our then-current stockholders.

### **Contractual Obligations**

For information about our contractual obligations, see “Contractual Obligations” in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2020. Other than the principal payment of \$13.1 million made by us under the 2020 Term B Loan Facility in March 2021, our contractual obligations have not changed materially since December 31, 2020.

As of March 31, 2021, we had accrued \$96.0 million of unrecognized tax benefits in long-term income taxes payable related to uncertain tax positions, which includes \$3.1 million of accrued interest and penalties. At this time, we are unable to reasonably estimate the timing of the long-term payments or the amount by which the liability will increase or decrease over time. If we are successful in receiving our South Korean withholding tax refunds of \$116.8 million, including interest and foreign exchange gain, then \$63.2 million of unrecognized tax benefit would be payable to the U.S. tax authorities.

Refer to “Note 15 – Commitments and Contingencies” of the Notes to Condensed Consolidated Financial Statements for additional information.

### **Off-Balance Sheet Arrangements**

As of March 31, 2021, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

### **Critical Accounting Policies and Estimates**

During the three months ended March 31, 2021, there were no significant changes in our critical accounting policies. See “Note 2 – Summary of Significant Accounting Policies” of Notes to the Condensed Consolidated Financial Statements for additional detail. For a discussion of our critical accounting policies and estimates, see Part II, Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K.

### **Recent Accounting Pronouncements**

See “Note 2 – Summary of Significant Accounting Policies” of the Notes to Condensed Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For a discussion of the Company’s market risk, see Part II, Item 7A – Quantitative and Qualitative Disclosures About Market Risk in the Form 10-K.

### **Item 4. Controls and Procedures**

Attached as exhibits to this Form 10-Q are certifications of Xperi Holding Corporation’s Chief Executive Officer and Chief Financial Officer, which are required in accordance with Rule 13a-14 of the Exchange Act. This “Controls and Procedures” section includes information concerning the controls and controls evaluation referred to in the certifications and it should be read in conjunction with the certifications, for a more complete understanding of the topics presented.

#### **Evaluation of Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this report (the evaluation date). Based on this evaluation, because of the material weaknesses in internal control over financial reporting described below, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of March 31, 2021.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. As described in our annual report on Form 10-K for the year ended December 31, 2020, management determined that the following control deficiencies that constituted material weaknesses in our internal control over financial reporting existed as of December 31, 2020, and continue to exist as of March 31, 2021.

The Company did not design and maintain effective controls related to the review of cash flow forecasts used in the valuation of intangible assets acquired in a business combination and the goodwill impairment analyses. Specifically, the control activities related to the review of the inputs and assumptions used in the development of the cash flow forecast used in the valuation of intangible assets acquired in a business combination and goodwill impairment analyses were not designed at an appropriate level of precision to prevent or detect a material misstatement. These control deficiencies did not result in a misstatement to our consolidated financial statements for the year ended December 31, 2020. However, these control deficiencies, if not remediated, could result in a misstatement to the annual or interim consolidated financial statements which would result in a material misstatement of the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that these control deficiencies constitute material weaknesses.

### **Remediation Plan**

Our management, with oversight from our Audit Committee, has developed and is in the process of implementing a remediation plan in response to the identified material weaknesses described above. To date we have engaged a third-party firm that is currently assisting in evaluating our current processes through interviews with employees involved in those processes and review of the related work product for controls over the valuation of intangible assets acquired in a business combination and goodwill impairment calculations. This will be followed by recommended changes to those processes and developing educational materials to enhance our employees' awareness of and focus on documentation and review procedures as well as the design and implementation of additional control activities over the review of the inputs and assumptions in our cash flow forecasts.

These material weaknesses will not be considered remediated until the applicable remediated controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

We believe the measures described above will remediate the control deficiencies we have identified and strengthen our internal control over financial reporting. We are committed to continuing to improve our internal control processes and will continue to review, optimize and enhance our financial reporting controls and procedures.

The process of designing and implementing an effective financial reporting system is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a financial reporting system that is adequate to satisfy our reporting obligations. As we continue to evaluate and take actions to improve our internal control over financial reporting, we may determine to take additional actions to address control deficiencies or determine to modify certain of the remediation measures described above.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, during our most recently completed fiscal quarter that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**Item 1. Legal Proceedings**

In the normal course of our business we are involved in legal proceedings. In the past, we have litigated to enforce our respective patents and other intellectual property rights, to enforce the terms of license agreements, to protect trade secrets, to determine the validity and scope of the proprietary rights of others and to defend ourselves or our customers against claims of infringement or invalidity. We expect to continue to be involved in similar legal proceedings in the future, including proceedings regarding infringement of our patents, and proceedings to ensure proper and full payment of royalties by licensees under the terms of our license agreements.

Other than to the extent the proceedings described below have concluded, we cannot predict the outcome of any of the proceedings described below. An adverse decision in any of these proceedings could significantly harm our business and our consolidated financial position, results of operations, and cash flows.

**Patent Infringement Litigation**

From time-to-time in the ordinary course of our patent licensing business, we are required to engage in litigation to protect our intellectual property from infringement. While litigation is never our preference and we prefer to reach mutually agreeable commercial licensing arrangements with third parties, it is sometimes a necessary step to effectively protect our investment in patented technology. As a result of these lawsuits, defendants have often filed *Inter Partes* Review (“IPR”) petitions with the U.S. Patent Office’s Patent Trial and Appeal Board (and other similar post-grant proceedings outside of the U.S.) seeking to invalidate one or more of the patents-in-suit. We are currently engaged in multiple lawsuits with several third parties.

**Videotron Patent Infringement Litigation**

On June 23, 2017, Rovi Guides, Inc. and TiVo Solutions Inc. (together, “TiVo”) filed a patent infringement complaint against Videotron Ltd. and Videotron G.P. (together, “Videotron”) in Toronto, Canada, alleging infringement of six patents. Videotron was a prior licensee under the Rovi patent portfolio. The first week of trial on four patents was held the week of March 9, 2020. The Federal Court of Canada closed due to the COVID-19 pandemic on March 16, 2020, and the trial was temporarily stayed. The trial resumed on May 25, 2020, conducted remotely by video, and concluded on June 17, 2020. The parties filed their written closing submissions on September 30, 2020. The closing arguments were held in January 2021. No date is set by the court to issue its judgement.

**Bell and Telus Patent Infringement Litigation**

On January 19, 2018, TiVo filed a patent infringement complaint against Bell Canada (and four of its affiliates) in Toronto, Canada, alleging infringement of six patents. On February 2, 2018, TiVo filed a patent infringement complaint against Telus Corporation (and two of its affiliates) in Toronto, Canada, alleging infringement of the same six patents. Bell Canada and Telus Corporation were previously indirectly licensed to some of Rovi’s patents through a prior agreement between Rovi and one of their suppliers. The Bell Canada and Telus Corporation cases are being heard together for purposes of pre-trial and trial proceedings. On August 27, 2019, the court issued an order bifurcating the liability phase from the damages phase of the case. There is no set trial date or procedural schedule for the damages phase of the cases. The liability and injunction trial on four patents was held from July 13 – August 6, 2020. The closing arguments were held in January 2021. No date is set by the court to issue its judgement.

**NVIDIA Patent Infringement Litigation**

On May 8, 2019, Invensas Corporation and Tessera Advanced Technologies, Inc. filed a complaint against NVIDIA Corporation (“NVIDIA”) in the United States District Court for the District of Delaware, alleging infringement of five patents, and requesting, among other things, that NVIDIA be ordered to pay compensatory damages in an amount no less than a reasonable royalty. NVIDIA answered the complaint on July 1, 2019 and subsequently moved to transfer the case to the United States District Court for the Northern District of California. The court denied NVIDIA’s motion to transfer on September 17, 2019.

In September 2020, the Patent Trial and Appeal Board (“PTAB”) instituted IPRs of several patents-in-suit. The parties stipulated to an order staying the litigation pending resolution of the IPR proceedings, and to dismissal of claims relating to two patents. For the remaining IPRs, oral arguments are scheduled for June 2021, and final decisions are expected in September 2021.

**Item 1A. Risk Factors**

Management believes that there have been no significant changes to the risk factors associated with our business as compared to those disclosed in Part 1, Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2020, which is incorporated by reference herein.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Items 2(a) and 2(b) are not applicable.

**(c) Stock Repurchases**

<i>(Shares in thousands)</i>	<b>Total number of shares purchased</b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of our share repurchase program</b>	<b>Approximate dollar value of shares that may yet be purchased under our share repurchase program (a)</b>
<b>2021</b>				
January	—	\$ —	—	
February	—	—	—	
March	1,071	23.34	1,071	
Total	<u>1,071</u>	<u>\$ 23.34</u>	<u>1,071</u>	\$54.9 million

(a) Calculated as of March 31, 2021. On June 12, 2020, our Board of Directors authorized a stock repurchase program providing for the repurchase of up to \$150.0 million of the Company's common stock. The timing, price and volume of repurchases will be based on market conditions, relevant securities laws and other factors. The stock repurchases may be made from time to time, through solicited or unsolicited transactions in the open market, in privately negotiated transactions, or pursuant to a Rule 10b5-1 plan. The program may be discontinued or amended at any time and has no specified expiration date. All repurchases in the three months ended March 31, 2021 were made under this program. On April 22, 2021, our Board of Directors approved an increase in the repurchase authorization by \$100.0 million, bringing the total dollar value of shares that may yet be purchased under our stock repurchase program to \$154.9 million.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

## Item 6. Exhibits

<u>Exhibit Number</u>	<u>Exhibit Title</u>
31.1	<a href="#"><u>Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934</u></a>
31.2	<a href="#"><u>Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934</u></a>
32.1	<a href="#"><u>Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

## SIGNATURES

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

Dated: May 5, 2021

XPERI HOLDING CORPORATION

By: /s/ Robert Andersen  
Robert Andersen  
Chief Financial Officer

**Certification of the Chief Executive Officer**  
**Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934**

I, Jon Kirchner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Xperi Holding Corporation;
2. 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;
3. 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;
4. The registrant's other certifying officer 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
5. The registrant's other certifying officer 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 the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2021

/s/ Jon Kirchner

Jon Kirchner

Chief Executive Officer and President

**Certification of the Chief Financial Officer**  
**Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934**

I, Robert Andersen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Xperi Holding Corporation;
2. 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;
3. 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;
4. The registrant's other certifying officer 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
5. The registrant's other certifying officer 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 the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2021

/s/ Robert Andersen  
Robert Andersen  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
RULE 13a-14(b) OF THE SECURITIES EXCHANGE ACT OF 1934  
AND 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Xperi Holding Corporation, a Delaware corporation (the “Company”), on Form 10-Q for the three months ended March 31, 2021 as filed with the Securities and Exchange Commission (the “Report”), I, Jon Kirchner, Chief Executive Officer and President, certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jon Kirchner

\_\_\_\_\_  
Jon Kirchner

Chief Executive Officer and President

May 5, 2021

**CERTIFICATION PURSUANT TO  
RULE 13a-14(b) OF THE SECURITIES EXCHANGE ACT OF 1934  
AND 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Xperi Holding Corporation, a Delaware corporation (the “Company”), on Form 10-Q for the three months ended March 31, 2021 as filed with the Securities and Exchange Commission (the “Report”), I, Robert Andersen, Chief Financial Officer of the Company, certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert Andersen

\_\_\_\_\_  
Robert Andersen

Chief Financial Officer

May 5, 2021

*A signed original of this written statement required by Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 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.*