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ALL AMERICAN SEMICONDUCTOR INC

Form 10-Q

May 22, 2006

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

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2006
- or--
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 0-16207

ALL AMERICAN SEMICONDUCTOR, INC.
(Exact name of registrant as specified in its charter)

Delaware	59-2814714
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

16115 Northwest 52nd Avenue, Miami, Florida	33014
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (305) 621-8282

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Non-accelerated filer

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

As of May 11, 2006 3,976,731 shares of the common stock of All American Semiconductor, Inc. were outstanding.

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ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

FORM 10-Q - INDEX

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ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS	March 31 2006	December 31 2005

	(Unaudited)	
Current assets:		
Cash	\$ 2,003,000	\$ 2,250,000
Accounts receivable, less allowances for doubtful accounts of \$2,546,000 and \$2,364,000	84,713,000	82,166,000
Inventories	83,125,000	74,581,000
Other current assets	4,099,000	3,127,000
	-----	-----

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Total current assets	173,940,000	162,124,000
Property, plant and equipment - net	8,542,000	8,187,000
Deposits and other assets	3,167,000	3,335,000
	-----	-----
	\$ 185,649,000	\$ 173,646,000
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt	\$ 488,000	\$ 701,000
Accounts payable	59,679,000	51,603,000
Accrued expenses	7,180,000	6,155,000
Other current liabilities	288,000	197,000
	-----	-----
Total current liabilities	67,635,000	58,656,000
Long-term debt:		
Notes payable	94,266,000	89,511,000
Subordinated debt	627,000	645,000
Other long-term debt	998,000	998,000
	-----	-----
	163,526,000	149,810,000
	-----	-----

Commitments and contingencies

Shareholders' equity:		
Preferred stock, \$.01 par value, 1,000,000 shares authorized, none issued		-
Common stock, \$.01 par value, 40,000,000 shares authorized, 3,976,731 and 3,976,656 shares issued and outstanding	40,000	40,000
Capital in excess of par value	25,986,000	25,986,000
Accumulated deficit	(3,903,000)	(2,190,000)
	-----	-----
	22,123,000	23,836,000
	-----	-----
	\$ 185,649,000	\$ 173,646,000
	=====	=====

See notes to consolidated condensed financial statements

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ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

QUARTERS ENDED MARCH 31	2006	2005
	-----	-----
NET SALES	\$ 118,312,000	\$ 94,309,000
Cost of sales	(100,115,000)	(78,545,000)
	-----	-----
Gross profit	18,197,000	15,764,000
Selling, general and administrative expenses	(19,309,000)	(14,645,000)
	-----	-----

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INCOME (LOSS) FROM OPERATIONS	(1,112,000)	1,119,000
Interest expense	(1,604,000)	(1,013,000)
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	(2,716,000)	106,000
Income tax (provision) benefit	1,003,000	(45,000)
	-----	-----
NET INCOME (LOSS)	\$ (1,713,000)	\$ 61,000
	=====	=====
EARNINGS (LOSS) PER SHARE:		
Basic	\$. (43)	\$.02
	=====	=====
Diluted	\$. (43)	\$.01
	=====	=====

See notes to consolidated condensed financial statements

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ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

QUARTERS ENDED MARCH 31	2006	2005
-----	-----	-----
Cash Flows Provided By (Used For) Operating Activities	\$ (4,289,000)	\$ 12,385,000
	-----	-----
Cash Flows From Investing Activities:		
Acquisition of property and equipment	(629,000)	(464,000)
Decrease in other assets	146,000	113,000
	-----	-----
Cash flows used for investing activities	(483,000)	(351,000)
	-----	-----
Cash Flows From Financing Activities:		
Borrowings under line of credit agreement	119,724,000	89,871,000
Repayments under line of credit agreement	(114,863,000)	(101,842,000)
Repayments of notes payable	(336,000)	(228,000)
Net proceeds from issuance of equity securities	-	92,000
	-----	-----
Cash flows provided by (used for) financing activities	4,525,000	(12,107,000)
	-----	-----
Decrease in cash	(247,000)	(73,000)
Cash, beginning of period	2,250,000	645,000
	-----	-----
Cash, end of period	\$ 2,003,000	\$ 572,000
	=====	=====

Supplemental Cash Flow Information:

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Interest paid	\$ 1,514,000	\$ 919,000
	=====	=====
Income taxes paid - net	\$ 51,000	\$ 118,000
	=====	=====

See notes to consolidated condensed financial statements

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ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In the opinion of management, the accompanying unaudited Consolidated Condensed Financial Statements include all adjustments (consisting of normal recurring accruals or adjustments only) necessary to present fairly the financial position at March 31, 2006, and the results of operations and the cash flows for all periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be obtained in any future interim period or for the entire year.

For a summary of significant accounting policies (which have not changed from December 31, 2005, except for the adoption of Statement of Financial Accounting Standards ("SFAS") 123(R) on January 1, 2006 as explained in Note 3 to Notes to Consolidated Condensed Financial Statements (Unaudited)) and additional financial information, see the Company's Annual Report on Form 10-K for the year ended December 31, 2005, including the consolidated financial statements and notes thereto which should be read in conjunction with these financial statements.

The accompanying unaudited interim financial statements have been prepared in accordance with instructions to Form 10-Q and, therefore, do not include all information and footnotes required to be in conformity with accounting principles generally accepted in the United States of America.

2. EARNINGS PER SHARE

The following table sets forth the calculation of earnings (loss) per share on a basic and diluted basis:

Quarters Ended March 31	2006	2005
	-----	-----
Basic Earnings (Loss) Per Share:		
	-----	-----
Net Income (Loss)	\$ (1,713,000)	\$ 61,000
	=====	=====
Weighted Average Shares Outstanding	3,976,693	3,912,449
	=====	=====

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Basic Earnings (Loss) Per Share	\$. (43)	\$.02
	=====	=====
Diluted Earnings (Loss) Per Share:		

Net Income (Loss)	\$ (1,713,000)	\$ 61,000
	=====	=====
Weighted Average and Dilutive Shares:		
Weighted average shares outstanding	3,976,693	3,912,449
Dilutive shares	-	221,819
	-----	-----
	3,976,693	4,134,268
	=====	=====
Diluted Earnings (Loss) Per Share	\$. (43)	\$.01
	=====	=====

Basic earnings (loss) per share are determined by dividing the Company's net income (loss) by the weighted average shares outstanding. Diluted earnings (loss) per share include any dilutive effects of outstanding stock options.

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ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

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Excluded from the calculation of earnings (loss) per share are stock options to purchase 473,000 and 288,000 common shares in the quarters ended March 31, 2006 and 2005, as their inclusion would have been antidilutive.

3. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), Share-Based Payments ("SFAS 123 (R)"), which replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees. SFAS 123 (R) requires all share-based payments to employees including grants of employee stock options, be measured at fair value and expensed in the consolidated statement of operations over the service period (generally the vesting period). Upon adoption, the Company transitioned to SFAS 123 (R) using the modified prospective application, whereby compensation cost is only recognized in the consolidated statements of operations beginning with the first period that SFAS 123 (R) is effective and thereafter, with prior periods' stock-based compensation still presented on a pro forma basis. Under the modified prospective approach, the provisions of SFAS 123 (R) are to be applied to new employee awards and to employee awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of employee awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of employee awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under SFAS 123. The Company continues to use the Black-Scholes option valuation model to value stock options. As a result of the adoption of SFAS 123 (R), the Company recognized a pre-tax charge of \$55,000 (included in selling, general and administrative expenses), \$35,000 after-tax

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and \$.01 per share on a diluted basis in the quarter ended March 31, 2006 associated with the expensing of stock options. Employee stock option compensation expense in 2006 includes the estimated fair value of options granted, amortized on a straight-line basis over the requisite service period for the entire portion of the award. No stock options were granted or vested during the three months ended March 31, 2005.

Reported and pro forma net income (loss) and earnings (loss) per share are as follows:

Quarter Ended March 31	2006
Pre-tax stock-based compensation expense assuming fair value method applied to all awards	\$ 55,000
	=====
Stock-based compensation expense, net of tax	\$ 35,000
	=====
Net income (loss), as reported	\$ (1,713,000)
Fair value impact of employee stock compensation not reported in net income, net of tax	-

Pro forma net income (loss)	\$ (1,713,000)
	=====
Basic earnings (loss) per share:	
As reported	\$. (43)
Pro forma (43)
Diluted earnings (loss) per share:	
As reported	\$. (43)
Pro forma (43)

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the assumptions in the table below. During 2006, the Company took into consideration guidance under SFAS 123 (R) and SEC Staff Accounting Bulletin No. 107 (SAB 107) when reviewing and updating assumptions. The expected volatility is based upon historical volatility of our stock and other contributing factors. The expected term is based upon observation of actual time elapsed between date of grant and exercise of options for all employees. Previously such assumptions were determined based on historical data.

Quarter Ended March 31	2006
Expected volatility.....	39%
Risk-free interest rate.....	4%
Expected lives (years).....	4

At March 31, 2006 the Company had 629,973 shares of common stock reserved for its stock option plans.

ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

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The following is a summary of the changes in outstanding options for the quarter

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ended March 31, 2006:

	Shares -----	Weighted Average Exercise Price -----	Weighted Average Remaining Contractual Life -----	A Intrinsic -----
Outstanding at January 1, 2006	427,770	\$ 3.56		
Granted	67,500	3.87		
Exercised	(75)	1.92		
Forfeited or expired	(22,544)	3.68		

Outstanding at March 31, 2006	472,651	3.60	3.0	
	=====			
Exercisable at March 31, 2006	247,203	3.36	1.5	
	=====			

The weighted average grant date fair values of share options granted during the first quarter of 2006 was \$.49. There were no options granted during the first quarter of 2005. The total intrinsic values of share options exercised during the first quarters of 2006 and 2005 were \$ - and \$68,000. Cash received from option exercises during the first quarter of 2006 and 2005 totaled \$144 and \$92,000. These cash receipts are included in net proceeds from issuance of equity securities.

The following is a summary of the changes in non-vested shares for the quarter ended March 31, 2006:

As of March 31, 2006, there was \$191,000 of unrecognized compensation cost related to non-vested awards granted under the option plans, which is expected to be recognized over a weighted-average period of one year. The total fair values of shares vested during the first quarter of 2006 were \$50,000. No shares vested during the first quarter of 2005.

Option Plan

During the quarter ended March 31, 2006, the Company granted an aggregate of 67,500 stock options to 48 individuals pursuant to the Employees', Officers', Directors' Stock Option Plan, as previously amended and restated (the "Option Plan"). These options have an exercise price of \$3.87 per share (fair market value at date of grant), vest over a four-year period and are exercisable over a five-year period. During the quarter ended March 31, 2006, a total of 22,544 stock options previously granted pursuant to the Option Plan were canceled at exercise prices ranging from \$1.92 to \$13.02 per share. During the quarter ended March 31, 2006, 75 stock options previously granted pursuant to the Option Plan were exercised at an exercise price of \$1.92 per share.

Director Option Plan

During the quarter ended March 31, 2006, no stock options were granted by the Company pursuant to the 2000 Nonemployee Director Stock Option Plan, as amended.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

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4. SEVERANCE COSTS

During the quarter ended March 31, 2006, the Company accrued an aggregate of \$655,000 for severance costs to three individuals including severance to a former executive officer. The severance to such former executive officer included \$482,000 which will be paid over a two year period following the termination of the former executive officer's employment. The \$655,000 is included in selling, general and administrative costs in the accompanying Consolidated Condensed Statements of Operations (Unaudited) for the quarter ended March 31, 2006.

5. LONG-TERM DEBT

Line of Credit

Borrowings under the Company's \$100 million credit facility, as amended (the "Credit Facility"), bear interest at one of five pricing levels dependent on the Company's debt service coverage ratio at the quarterly pricing date (as defined), and are secured by all of the Company's assets including accounts receivable, inventories and equipment. At the first pricing level, at the Company's option, the rate will be either (a) .25% below the greater of the Federal funds rate plus .5% and prime or (b) 1.75% over LIBOR. At the second level, at the Company's option, the rate will be either (a) the greater of the Federal funds rate plus .5% and prime or (b) 2.00% over LIBOR. At the third level, at the Company's option, the rate will be either (a) .25% over the greater of the Federal funds rate plus .5% and prime or (b) 2.25% over LIBOR. At the fourth pricing level, at the Company's option, the rate will be either (a) .5% over the greater of the Federal funds rate plus .5% and prime or (b) 2.50% over LIBOR. At the fifth pricing level, at the Company's option, the rate will be either (a) .75% over the greater of the Federal funds rate plus .5% and prime or (b) 2.75% over LIBOR. The amounts that the Company may borrow under the Credit Facility are based upon specified percentages of the Company's eligible accounts receivable and inventories (as defined). The Company is required to comply with certain affirmative and negative covenants and certain financial ratios. The covenants, among other things, place limitations and restrictions on the Company's borrowings, investments, capital expenditures and transactions with affiliates; prohibit dividends and acquisitions; and prohibit stock redemptions in excess of an aggregate cost of \$2,000,000 during the term of the Credit Facility. The Credit Facility requires the Company to maintain certain minimum levels of tangible net worth throughout the term of the credit agreement as well as a minimum debt service coverage ratio and a minimum inventory turnover level, each tested on a quarterly basis. In May 2006, the Company's credit facility was amended subsequent to but effective as of the balance sheet date whereby the debt service coverage ratio test for the first quarter of 2006 was eliminated and the minimum tangible net worth level was reduced to \$21,000,000. The Company was in compliance with these amended and all other covenants under the Credit Facility at March 31, 2006. The Company anticipates that it will need additional amendments in the future. At March 31, 2006, outstanding borrowings under the Company's credit facility aggregated \$93,760,000 compared to \$88,900,000 at December 31, 2005.

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ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

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6. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

Management believes that the Company is operating in a single business segment, distribution of electronic components, in accordance with the rules of Statement of Financial Accounting Standards No. 131 ("Disclosure About Segments of an Enterprise and Related Information").

Sales by geographic areas are as follows:

Quarters Ended March 31	2006	2005
Americas (1)	\$107,379,000	\$ 85,640,000
Europe	3,312,000	4,489,000
Asia/Pacific	7,621,000	4,180,000
	\$118,312,000	\$ 94,309,000
	\$118,312,000	\$ 94,309,000

(1) Includes sales in the United States and Puerto Rico of \$101,314,000 and \$81,350,000 for the quarters ended March 31, 2006 and 2005.

Long-lived assets (property, plant and equipment - net) are located substantially in the Americas and include long-lived assets in the United States of \$8,536,000 and \$8,176,000 at March 31, 2006 and December 31, 2005.

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ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

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Management's Discussion and Analysis of Financial Condition and Results of Operations

All American Semiconductor, Inc. and its subsidiaries (collectively, the "Company"; sometimes referred to herein as "Registrant") is a distributor of electronic components manufactured by others. The Company distributes a full range of semiconductors (active components), including transistors, diodes, memory devices, microprocessors, microcontrollers, other integrated circuits, active matrix displays and various board-level products, as well as passive/electromechanical components. Passive products include capacitors, resistors and inductors. Electromechanical products include power supplies, cable, switches, connectors, filters and sockets. These products are sold primarily to original equipment manufacturers in a diverse and growing range of industries, including manufacturers of computers and computer-related products; office and home office equipment; cellular and portable products; wireless products; networking, satellite and other communications products; Internet infrastructure equipment and appliances; automobiles and automotive subsystems; consumer goods; voting and gaming machines; point-of-sale equipment; robotics and industrial equipment; defense and aerospace equipment; home entertainment; security and surveillance equipment; and medical instrumentation. The Company also sells products to contract electronics manufacturers, or electronics manufacturing services, or EMS, providers who manufacture products for companies in all electronics industry segments. Through the Aved Memory Products division of its subsidiary, Aved Industries, Inc., the Company also designs and has

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manufactured by third parties under the label of its subsidiary's division, certain memory modules which are sold to original equipment manufacturers.

Overview

Industry conditions have been improving since the first quarter of 2005 and have continued to improve through the first quarter of 2006. We expect that the improved conditions may continue throughout 2006. Our backlog of customer orders, which was \$69 million at December 31, 2004, had increased significantly to \$89 million by December 31, 2005. As of April 30, 2006, our backlog further increased to \$99 million.

Sales for the first quarter of 2006 represented our fourth consecutive quarterly increase in sales. While we expect that the future growth in global markets will include growth in the Americas the Company believes that growth rates will be higher in Asian markets and possibly European markets as well. To further support the continuing trend for business to transfer outside of North America, as well as to take advantage of developments in industry trends towards consolidation, the Company has expanded and may continue to expand further. The Company has operations in Korea, Malaysia and China to support Asian markets. The Company also has operations in the United Kingdom and Hungary to support European markets. There can be no assurance that the Company will achieve any growth in any particular market in the future.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the unaudited Consolidated Condensed Financial Statements and accompanying notes. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventories, income taxes, stock-based compensation, a postretirement benefit obligation and loss contingencies. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

The Company believes there have been no significant changes, during the quarter ended March 31, 2006, to the items disclosed as critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 except as follows:

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ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

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Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), Share-Based Payments ("SFAS 123(R)"), which replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees. SFAS 123 (R) requires all share-based payments to employees including grants of employee stock options, be measured at fair value and expensed in the consolidated statement of operations over the service period (generally the vesting period). Upon adoption, the Company transitioned to SFAS (R) using the modified prospective application, whereby compensation cost is only recognized in the consolidated

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statements of operations beginning with the first period that SFAS 123 (R) is effective and thereafter, with prior periods' stock-based compensation still presented on a pro forma basis. The Company continues to use the Black-Scholes option valuation model to value stock options. See Note 3 to Notes to Consolidated Condensed Financial Statements for required disclosures under SFAS 123 (R).

Results of Operations

Net sales for the first quarter of 2006 were \$118.3 million, an increase of 25.5% from net sales of \$94.3 million for the same period of 2005. The increase in sales reflects improvements in industry conditions which began during the second quarter of 2005 and continued into the first quarter of 2006, opportunities created from the ongoing consolidation in our industry and gains resulting from the Company's growth strategies. Management believes that industry conditions may remain positive throughout 2006, however management is concerned that continuing issues relating to the conversion onto a new enterprise resource planning (ERP) system implemented in February 2006 may inhibit the Company's ability to participate in the industry growth for the next few quarters.

Gross profit was \$18.2 million for the first quarter of 2006 compared to \$15.8 million for the first quarter of 2005. The increase in gross profit was due to the increase in sales which more than offset the decline in gross profit margins. Gross profit margins as a percentage of net sales were 15.4% for the first quarter of 2006 compared to 16.7% for the first quarter of 2005. The significant decrease in gross profit margins reflects issues relating to the conversion onto a new enterprise resource planning (ERP) system as well as the continued impact from sales to accounts that require aggressive pricing.

Selling, general and administrative expenses ("SG&A") was \$19.3 million for the first quarter of 2006 compared to \$14.6 million for the first quarter of 2005. SG&A for the first quarter of 2006 reflects increases in variable expenses of \$700,000 over the first quarter of 2005. This increase in variable expenses reflects increases in commission rates resulting from pressure in labor markets. In addition to the increases in variable expenses, fixed expenses increased \$4.0 million for the first quarter of 2006 compared to the same period of 2005. The increase in fixed expenses relates primarily to increases in compensation expense, bad debt adjustments and write-offs, consulting fees and maintenance and repairs during the first quarter of 2006 as compared to the same period of 2005. As a result of industry consolidation and improved conditions within the industry, during 2005 and the first quarter of 2006 the Company strategically increased its personnel in North America, Europe and Asia. The Company may expand further including personnel additions, to enhance its position in order to take advantage of industry consolidation and the continuing trends for business to transfer outside of North America. As a result of severe productivity losses caused by the new ERP system, the Company expects to add people across all departments to manage both operations and data flow. Management believes that these productivity losses are temporary and productivity gains will occur as improvements to the new ERP system are obtained in the second half of 2006 and into 2007. For the first quarter of 2006, the increase in fixed expenses was partially offset by a reduction in other expenses including occupancy costs. In addition, in connection with the new ERP system which was implemented in February of 2006, SG&A increased by \$69,000 representing the non-cash depreciation and amortization of the cost of the new ERP system over a seven year period. Additionally, SG&A increased as a result of consulting fees of \$497,000 associated with the ERP conversion. Furthermore the Company accrued \$655,000 for severance pay and expensed

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ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

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\$806,000 of bad-debt adjustments and write-offs. The Company anticipates additional expenses for maintenance and further development required in connection with the new ERP system. Quarterly SG&A will increase by \$226,000 per quarter representing non-cash depreciation and amortization of the cost of the new ERP system over a seven year period that is in addition to the two months increase reflected in the first quarter of 2006. Due to the foregoing, the Company expects that SG&A will increase in future periods.

SG&A as a percentage of net sales was 16.3% for the quarter ended March 31, 2006 compared to 15.5% for the same period of 2005. The increase was due to the increase in SG&A in absolute dollars described above which increase more than offset the impact from the increase in sales.

For the first quarter of 2006 the Company had a loss from operations of \$(1.1) million compared to income from operations of \$1.1 million for the same period of 2005. The decrease in income from operations for the quarter was primarily due to the significant decline in gross profit margins, the issues relating to the implementation of the new ERP system, including the impact on gross profit margins and additional consulting fees, significant accruals for severance pay, bad debt adjustments and write-offs and the other increases in SG&A as discussed previously.

Interest expense increased to \$1.6 million for the first quarter of 2006 compared to \$1.0 million for the same period of 2005. The increase in interest expense resulted from increases in average borrowings and increases in overall interest rates. Our average borrowings increased by \$22.4 million for the first quarter of 2006 compared to the first quarter of 2005 primarily as a result of increases in our accounts receivable and inventory levels. Accounts receivable increased as a result of increases in sales towards the latter part of 2005 and significant increases in sales during the first quarter of 2006. Accounts receivable also increased in connection with competitive pressures to provide extended payment terms to strategic customers and a slow down in our collections resulting from issues relating to the implementation of our new ERP system. Our inventory increased to support the increased levels of sales beginning during the second quarter of 2005 and the continued sequential growth in sales during the balance of 2005. An increase in supplier delivery times (or lead-times) has also caused the Company to increase inventory levels in order to be able to meet customer requirements. As a result of increases in the prime and LIBOR interest rates, the Company's overall interest rates increased despite the positive impact from the improved pricing structure under its credit facility. The Company's rate improved from the then first pricing level under its credit facility during the first quarter of 2005 to the third pricing level under the current pricing structure. This improvement, which aggregated 50 basis points, resulted from the change in the pricing structure under the August 8, 2005 amendment to the credit facility. The positive impact on interest expense from the improvement in the rate associated with the change in pricing structure was more than offset by the adverse effect from interest rate hikes by the Federal Reserve Board. As and to the extent the Federal Reserve continues to increase interest rates as anticipated, interest expense will increase. Additionally, the pricing level achieved by the Company in 2005 may not be attainable in the near future which may cause an increase in the Company's cost of borrowing. To the extent that the Company continues or increases its current level of borrowing, interest expense will increase in future periods. Interest expense for the first quarter of 2006 included non-cash amortization of deferred financing fees of \$22,000. Interest expense will reflect an aggregate of \$1.2 million of deferred financing fees over the term of the amended credit facility. See "Liquidity and Capital Resources" below and Note 5 to Notes to Consolidated Condensed Financial

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Statements (Unaudited).

The Company had a net loss of \$(1.7) million or \$(.43) per share (diluted) for the quarter ended March 31, 2006, compared to net income of \$61,000, or \$.01 per share (diluted) for first quarter of 2005.

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ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

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Liquidity and Capital Resources

Working capital at March 31, 2006 increased to \$106.3 million from working capital of \$103.5 million at December 31, 2005. The current ratio was 2.57:1 at March 31, 2006 compared to 2.76:1 at December 31, 2005. The increase in working capital was primarily due to increases in accounts receivable and inventory which were partially offset by an increase in accounts payable. Accounts receivable was \$84.7 million at March 31, 2006 compared to \$82.2 million at December 31, 2005. The increase in accounts receivable reflects an increased level of sales towards the latter part of the first quarter of 2006 compared to the latter part of the fourth quarter of 2005. Accounts receivable also increased in connection with competitive pressures to provide extended payment terms to strategic customers and a slow down in our collections resulting from issues relating to the implementation of our new ERP system. Inventory levels were \$83.1 million at March 31, 2006 compared to \$74.6 million at December 31, 2005. Inventory increased to support the increased levels of sales beginning during the second quarter of 2005 and the continued sequential growth in sales during the balance of 2005. An increase in supplier delivery times (or lead-times) has also caused the Company to increase inventory levels in order to be able to meet customer requirements. Accounts payable increased to \$59.7 million at March 31, 2006 from \$51.6 million at December 31, 2005 in connection with an increase in the level of purchases made during the latter part of the first quarter of 2006 over the same period of the fourth quarter of 2005.

At March 31, 2006, the Company had subordinated debt with various maturities through 2015 which aggregated \$698,000, including the current portion of such debt, and had an unfunded postretirement benefit obligation of \$1.0 million. See the table below.

Borrowings under the Company's \$100 million credit facility, as amended (the "Credit Facility"), bear interest at one of five pricing levels dependent on the Company's debt service coverage ratio at the quarterly pricing date (as defined), and are secured by all of the Company's assets including accounts receivable, inventories and equipment. At the first pricing level, at the Company's option, the rate will be either (a) .25% below the greater of the Federal funds rate plus .5% and prime or (b) 1.75% over LIBOR. At the second level, at the Company's option, the rate will be either (a) the greater of the Federal funds rate plus .5% and prime or (b) 2.00% over LIBOR. At the third level, at the Company's option, the rate will be either (a) .25% over the greater of the Federal funds rate plus .5% and prime or (b) 2.25% over LIBOR. At the fourth pricing level, at the Company's option, the rate will be either (a) .5% over the greater of the Federal funds rate plus .5% and prime or (b) 2.50% over LIBOR. At the fifth pricing level, at the Company's option, the rate will be either (a) .75% over the greater of the Federal funds rate plus .5% and prime or (b) 2.75% over LIBOR. The amounts that the Company may borrow under the Credit Facility are based upon specified percentages of the Company's eligible accounts receivable and inventories (as defined). The Company is required to comply with certain affirmative and negative covenants and certain financial

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ratios. The covenants, among other things, place limitations and restrictions on the Company's borrowings, investments, capital expenditures and transactions with affiliates; prohibit dividends and acquisitions; and prohibit stock redemptions in excess of an aggregate cost of \$2.0 million during the term of the Credit Facility. The Credit Facility requires the Company to maintain certain minimum levels of tangible net worth throughout the term of the credit agreement as well as a minimum debt service coverage ratio and a minimum inventory turnover level, each tested on a quarterly basis. In May 2006, the Company's credit facility was amended subsequent to but effective as of the balance sheet date whereby the debt service coverage ratio test for the first quarter of 2006 was eliminated and the minimum tangible net worth level was reduced to \$21.0 million. The Company was in compliance with these amended and all other covenants under the Credit Facility at March 31, 2006. The Company anticipates that it will need additional amendments in the future. At March 31, 2006, outstanding borrowings under the Company's credit facility aggregated \$93.8 million compared to \$88.9 million at December 31, 2005. See Note 5 to Notes to Consolidated Condensed Financial Statements (Unaudited).

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ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

Long-term debt, operating leases and other long-term obligations as of March 31, 2006 mature as follows:

Obligations	Total	Payments Due by Period		
		Less than 1 year	1-3 years	4-5 years
Long-term debt (1)	\$ 94,457,000	\$ 70,000	\$ 157,000	\$ 93,937,000
Capital leases	924,000	418,000	506,000	-
Operating leases	12,800,000	3,000,000	4,500,000	3,400,000
Other long-term obligations (2) ...	998,000	-	-	-
Total obligations	\$109,179,000	\$ 3,488,000	\$ 5,163,000	\$ 97,337,000

(1) Reflected on the Company's Consolidated Condensed Balance Sheet (Unaudited) as of March 31, 2006 and includes \$93,760,000 under the Company's Credit Facility which matures on May 31, 2009.

(2) Reflected on the Company's Consolidated Condensed Balance Sheet (Unaudited) as of March 31, 2006 and represents a postretirement benefit obligation.

In February 2006, the Company implemented a new enterprise resource planning (ERP) system. The aggregate cost of this new ERP system, including costs of training and implementation but excluding capitalized payroll costs, is approximately \$8.5 million. At March 31, 2006, \$6.2 million associated with this ERP system was reflected in property, plant and equipment - net on the Consolidated Condensed Balance Sheet. In July 2004, the Company financed \$1.1 million of its ERP costs with a third party finance company under an installment payment arrangement. The effective interest rate under this agreement was 1.9% per annum. The Company also financed an additional \$1.8 million of the aggregate

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cost of the ERP system with another third party finance company, which financing arrangement has maturities through November 2008 and has effective interest rates ranging from 1.6% to 2.2% per annum. Of this \$1.8 million financing, \$565,000 is classified as operating leases and \$1.3 million is classified as capital leases.

At March 31, 2006, the outstanding obligation under these capital leases aggregating \$1.3 million was \$924,000.

The Company currently expects that its cash flows from operations and additional borrowings available under its Credit Facility will be sufficient to meet the Company's current financial requirements over the next twelve months, including obligations related to the current portion of long-term debt and capital and operating leases. However, the Company continues to explore additional sources of financing in order to support its growth.

Off-Balance Sheet Arrangements

The Company guaranteed the future payment to a third party of certain leases which were previously pledged to the Company as collateral for the payment of outstanding receivables which were owed by a customer. This guaranty was made when the leases were sold to this third party who paid to the Company in 2001 the net present value of the future payments of the leases. The guaranty expired during the quarter ended March 31, 2006.

Forward-Looking Statements; Business Risks and Uncertainties

This Form 10-Q contains forward-looking statements (within the meaning of Section 21E. of the Securities Exchange Act of 1934, as amended), representing the Company's current expectations, beliefs and intentions relating to the Company's or industry's future performance, market conditions, its future operating results, investments in the growth of its business, bookings, backlogs, sales, products, services and markets (including expansion of operations in Asia and Europe), trends or developments including relating to industry

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ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

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conditions or industry consolidation or future growth in global markets, expected capital expenditures (including for the new ERP system) and/or future events relating to or affecting the Company and its business and operations. If and when used in this Form 10-Q, the words "believes," "estimates," "plans," "expects," "attempts," "intends," "anticipates," "could," "may," "explore" and similar expressions as they relate to the Company or its management are intended to identify forward-looking statements. The actual performance, results or achievements of the Company could differ materially from those indicated by the forward-looking statements because of various risks and uncertainties. Factors that could adversely affect the Company's future results, performance or achievements include, without limitation: the level of strength of industry and market conditions and business activity being less than we believe or weakening; a tightening by customers of their inventory levels; a slowdown in sales; the continuance of a trend for electronics manufacturing to move offshore; the level of effectiveness of the Company's business, investment and marketing strategies, including those outside the Americas and particularly in Asia; insufficient funds from operations, from the Company's Credit Facility and from other sources

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(debt and/or equity) to support the Company's operations or the inability of the Company to obtain additional financing when needed or on terms acceptable to the Company; an increase in interest rates, including as a result of an increase in pricing levels under its Credit Facility, interest rate hikes by the Federal Reserve Board and/or an increase in the Company's average outstanding borrowings; a reduction in the level of demand for products of its customers including the level of growth of some of the new technologies supported by the Company; deterioration in the relationships with existing suppliers, particularly one of our largest suppliers; decreases in gross profit margins, including decreasing margins resulting from the Company being required to have aggressive pricing programs, an increasing number of low-margin, large volume transactions, inventory oversupply conditions and/or increases in the costs of goods; problems with telecommunication, computer and information systems, including related to the completion of the installation of the new ERP system and the effectiveness of the operation thereof, as well as the ultimate total cost of installing and implementing the ERP system being materially greater than expected; the inability of the Company to expand its product offerings or obtain product during periods of allocation; the impact from changes in accounting rules; adverse currency fluctuations; the adverse impact of terrorism or the threat of terrorism on the economy; and the other risks and factors detailed in this Form 10-Q and in the Company's Form 10-K for the fiscal year ended December 31, 2005 and other filings with the Securities and Exchange Commission and in its press releases. These risks and uncertainties are beyond the ability of the Company to control. In many cases, the Company cannot predict the risks and uncertainties that could cause actual results to differ materially from those indicated by the forward-looking statements. The Company undertakes no obligation to update publicly or revise any forward-looking statements, business risks and/or uncertainties.

Quantitative and Qualitative Disclosures about Market Risk

The Company's Credit Facility bears interest based on interest rates tied to the Federal funds rate, prime or LIBOR rate, any of which may fluctuate over time based on economic conditions. As a result, the Company is subject to market risk for changes in interest rates and could be subjected to increased or decreased interest payments if market interest rates fluctuate. If market interest rates increase, the impact may have a material adverse effect on the Company's financial results. For each 100 basis point fluctuation in the interest rates charged on the Company's borrowings under its Credit Facility, interest expense will increase or decrease by approximately \$234,000 per quarter based on outstanding borrowings at March 31, 2006. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources."

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of our management, including our chief executive officer and the chief financial officer, the effectiveness of the design and operation of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934, Rules 13a - 15(e) and 15d - 15(e)). Based on this evaluation our

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management, including our chief executive officer and chief financial officer, have concluded that as of the date of the evaluation our disclosure controls and procedures were effective to ensure that all material information required to be filed in this report has been made known to them.

Changes In Internal Controls Over Financial Reporting

There have been no changes in internal controls over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting, except as follows:

In February 2006, the Company implemented a new enterprise resource planning (ERP) system that it uses in its daily operations. It converted the database and operational processing systems to this new ERP system. The Company believes the new ERP system will allow the Company to retain the control and integrity of its information systems as and to the extent that the Company's operations grow into the future.

PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

There have been no material changes to our risk factors from those disclosed in our Form 10-K for the year ended December 31, 2005, except as follows:

We may not be able to satisfy our funding requirements.

We currently anticipate needing to spend significant amounts of cash to: meet our working capital requirements (including to support increases in levels of inventory, as well as customer backlog, and accounts receivable as our level of sales increases); invest in and finance capital equipment and infrastructure; upgrade our information and communication systems, including our new enterprise resource planning (ERP) system; expand our foreign operations and/or acquire businesses or open divisions; and/or respond to increases in expenses and costs, unanticipated developments, increasing customer demands and/or competitive pressures. If we do not have enough cash on hand, cash generated from our operations and/or cash available under our credit facility to meet these cash requirements, we will need to seek alternative sources of financing to carry out our growth and operating strategies, particularly if our credit facility is not available to do so. We may not be able to raise needed cash on terms acceptable to us, or at all. Financing may be on terms that are dilutive or potentially dilutive. If alternative sources of financing are required but are insufficient or unavailable, we will be required to modify our operating plans to the extent of available funding, if and assuming such modifications and/or other actions can be made or taken at all.

Our new enterprise resource planning (ERP) system could continue to interfere with our operations.

Although we are seeing some improvement recently, service to and relationships with our customers and suppliers have been adversely impacted by the implementation of our new ERP system. The strain on the Company's employees, as well as on its financial resources, in connection with the implementation of this new ERP system has been significant. We can offer no assurance that the implementation will be successful or that it will not cause additional interruption in operations and services. Failure of the new ERP system to

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improve or perform as expected would have a further material adverse impact on our operating results.

ALL AMERICAN SEMICONDUCTOR, INC. AND SUBSIDIARIES

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Sales of Unregistered Securities

During the quarter ended March 31, 2006, the Company did not issue or sell any unregistered securities, although, pursuant to the Company's Employees', Officers', Directors' Stock Option Plan, as previously amended and restated, the Company granted stock options to 48 individuals to purchase an aggregate of 67,500 shares of the Company's common stock at an exercise price of \$3.87 per share. The stock options vest over a four-year period and are exercisable over a five-year period. The stock options were granted by the Company in reliance upon the exemption from registration available under Section 4(2) of the Securities Act of 1933, as amended. See Note 3 to Notes to Consolidated Condensed Financial Statements (Unaudited).

ITEM 6. Exhibits

Exhibits

- 10.1 Fourth Amendment to Credit Agreement, dated as of May 22, 2006 among the Company, as borrower, and Harris N.A., successor by merger to Harris Trust and Savings Bank, as a lender and administrative agent, U.S. Bank National Association, as a lender and co-agent, and the other lenders party thereto.*
31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. ss. 1350.
32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. ss. 1350.

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.

All American Semiconductor, Inc.

(Registrant)

Date: May 22, 2006

/s/ BRUCE M. GOLDBERG

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Bruce M. Goldberg, President and
Chief Executive Officer
(Duly Authorized Officer)

Date: May 22, 2006

/s/ HOWARD L. FLANDERS

Howard L. Flanders, Executive Vice President
and Chief Financial Officer
(Principal Financial and Accounting Officer)

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2013.

Director	Option Awards Outstanding at December 31, 2013 (#)
John Fichthorn	40,000
Jack Saltich	57,000
Carl Schlachte	40,000
David Sugishita	10,834

(6) Pursuant to an agreement with the Dialectic Group, we paid Dialectic \$100,000 for its reasonable, documented out of pocket fees and expenses incurred in connection with matters related to our 2011 annual meeting and the negotiation and execution of the agreement. Mr. Fichthorn agreed not to accept any cash compensation as a member of the Board until the amount of forgone compensation equals \$100,000. As a result, the \$28,000 amount set forth above in the column titled *Fees Earned or Paid in Cash* was applied to such \$100,000 and was not paid in cash to Mr. Fichthorn. As of December 31, 2013, we have offset \$72,333 of cash compensation against the \$100,000 of expenses.

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CORPORATE GOVERNANCE

We are committed to good corporate governance, which promotes the long-term interests of stockholders, strengthens Board and management accountability and helps build public trust. The Board of Directors has established Corporate Governance Guidelines which provide a framework for our effective governance. The guidelines address matters such as the director responsibilities, director qualifications, determination of director independence, Board committee structure, Chief Executive Officer performance evaluation, management succession and stock ownership guidelines. The Board regularly reviews developments in corporate governance and updates the Corporate Governance Guidelines and other governance materials as it deems necessary and appropriate.

The corporate governance section of our website makes available our corporate governance materials, including the Corporate Governance Guidelines, the charters for each Board committee and our Code of Business Conduct and Ethics. To access these documents on our website, www.immersion.com, click on Investors and then Corporate Governance .

Board Leadership Structure

Our Board has determined that having an independent director serve as Chairman of our Board is in our best interests and those of our stockholders. This Board structure enhances the independence of our Board from our management by ensuring a greater role for the independent directors in our oversight and active participation of the independent directors in setting agendas and establishing priorities and procedures for our Board. In addition, separating these roles allows our Chief Executive Officer to focus his efforts on running our business and managing our day-to-day operations, while allowing our Board to benefit from our Chairman's extensive experience in leadership roles at a number of public companies and his knowledge and expertise in intellectual property licensing and enforcement. Generally, every regular meeting of our Board includes a meeting of our independent non-executive directors without management present.

Board Leadership Structure

Chairman of the Board: Carl Schlachte

Chief Executive Officer: Victor Viegas

All of our non-employee directors are independent.

Independence of Directors

In accordance with the standards for independence set forth in the rules of The NASDAQ Stock Market, our Board has determined that, except for Mr. Viegas, our Chief Executive Officer, each of the members of our Board has no relationship that would interfere with the exercise of independent judgment in carrying out his responsibilities as a director and is otherwise independent in accordance with the applicable rules of The NASDAQ Stock Market as currently in effect.

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Risk Management

Our Board recognizes the importance of effective risk oversight in running a successful business and in fulfilling its fiduciary responsibilities to Immersion and its stockholders. Consistent with our Board leadership structure, our Chief Executive Officer and other members of our executive team are responsible for the day-to-day management of risk, while our Board is responsible for ensuring that we have an appropriate culture of risk management and that we set the right tone at the top, oversee our aggregate risk profile and assist management in addressing specific risks.

Our Board exercises its oversight responsibility for risk both directly and through its standing committees. Strategic, operational and competitive risks also are presented and discussed at our Board's quarterly meetings, and more often as needed. On at least an annual basis, our Board conducts a review of our long-term strategic plans and members of our executive team report on our top risks and the steps management has taken or will take to mitigate these risks. On a regular basis between Board meetings, our Chief Executive Officer provides updates to the Board on the critical issues we face and recent developments in our principal markets.

Risk Management

Our Board oversees risk management.

Our Board and standing committees spend a portion of their time reviewing and discussing specific risk topics.

Company management is charged with managing risk, through internal processes and controls.

Our Audit Committee is responsible for reviewing our risk management framework and programs, as well as the framework by which management discusses our risk profile and risk exposures with our full Board and its committees. Our Audit Committee meets regularly with our Chief Financial Officer, our independent auditor, our General Counsel, and other members of senior management to discuss our major financial risk exposures, financial reporting, internal controls, credit and liquidity risk, compliance risk, key operational risks, and our risk management framework and programs. Other responsibilities include at least annually reviewing the implementation and effectiveness of our compliance and ethics program and our business continuity plan and test results. Our Audit Committee meets regularly in separate executive sessions with the independent auditor, as well as with Audit Committee members only, to facilitate a full and candid discussion of risk and other issues.

Our Compensation Committee is responsible for overseeing human capital and compensation risks, including evaluating and assessing risks arising from our compensation policies and practices for all employees and ensuring executive compensation is aligned with performance. Our Compensation Committee also is charged with monitoring our incentive and equity-based compensation plans, including employee benefit plans. For additional information regarding the Compensation Committee's review of compensation-related risk, please see the section of this proxy statement entitled "Compensation Discussion and Analysis Risk Assessment of Compensation Programs."

Our Nominating and Corporate Governance Committee oversees risks related to our overall corporate governance, including Board and committee composition, Board size and structure, director independence, and our corporate

governance profile and ratings. Our Nominating and Corporate Governance Committee also is actively engaged in overseeing risks associated with succession planning for our Board and management.

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Board and Committee Self-Evaluations

Our Board and each of the Audit, Compensation and Nominating and Corporate Governance Committees conduct an annual self-evaluation, which includes a qualitative assessment by each director of the performance of our Board and the committee or committees on which the director sits. Our Board also conducts an annual evaluation of its Chairman. Our Nominating and Corporate Governance Committee oversees the evaluation processes and reports the results to the committees and full Board following the completion of such evaluations.

Code of Business Conduct and Ethics

Our Board has adopted a Code of Business Conduct and Ethics that outlines the principles of legal and ethical business conduct. The code, which is applicable to all of our directors, employees, and officers, is available on our website at <http://ir.immersion.com/governance.cfm>. Any substantive amendment or waiver of this code may be made only by our Board upon a recommendation of the Audit Committee and will be disclosed on our website.

Communications by Stockholders with Directors

Stockholders may communicate with any and all directors by transmitting correspondence by mail, facsimile, or e-mail, addressed as follows: Board or individual director, c/o Corporate Secretary, Immersion Corporation, 30 Rio Robles, San Jose, California 95134; Fax: (408) 350-8761; E-mail Address: corporate.secretary@immersion.com. Our Corporate Secretary will maintain a log of such communications and transmit as soon as practicable such communications to the identified director addressee(s), unless there are safety or security concerns that mitigate against further transmission of the communication, as determined by our Corporate Secretary. Our Board or individual directors so addressed will be advised of any communication withheld for safety or security reasons as soon as practicable. The acceptance and forwarding of a communication to any director does not imply that the director owes or assumes any fiduciary duty to the person submitting the communication, all such duties being only as prescribed by applicable law.

Board Meetings and Committees of the Board

Attendance at Board, Committee and Annual Stockholder Meetings

Our Board and its committees meet throughout the year on a set schedule, hold special meetings as needed, and act by written consent from time to time. The Board met nine times during fiscal year 2013. Each director attended at least 75% of the meetings of the Board and of any committees of the Board on which he serves. The total number of meetings held by each committee is set forth below under **Committees of the Board** .

We make every effort to schedule our annual meeting of stockholders at a time and date to accommodate attendance by directors, taking into account the directors' schedules. All directors are encouraged to attend the annual meeting of stockholders. Three directors attended our 2013 annual meeting of stockholders.

Executive Sessions of the Board

The non-executive members of our Board and all committees of our Board meet in executive session without management present at each regularly scheduled in-person Board and committee meeting.

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The Board has a separately-designated standing Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee.

The Board has also adopted a written charter for each of the Board committees. Each charter is available on our website at <http://ir.immersion.com/governance.cfm>

In each case, our Board has delegated the responsibilities set forth below to the respective committee; however, our Board may from time to time, perform the duties itself.

The table below provides current membership (M) and chairmanship (C) information for each standing committee.

Name	Audit	Compensation	Nominating and Corporate Governance
Victor Viegas			
John Fichthorn	M		
Jack Saltich		C	C
Carl Schlachte	M		M
David Sugishita	C	M	

Audit Committee and Audit Committee Financial Expert

Members:

David Sugishita (Chairman)

John Fichthorn

Carl Schlachte

Number of Meetings in Fiscal Year 2013:

Seven

Independence:

Our Board has determined that each member of the Audit Committee meets the independence criteria set forth in the applicable rules of The NASDAQ Stock Market and the SEC for Audit Committee membership.

Financial Expert:

Our Board has determined that all members of the Audit Committee possess the level of financial literacy required by applicable NASDAQ Stock Market and SEC rules and that in accordance with section 407 of the Sarbanes-Oxley Act of 2002, at least one member of the Audit Committee, Mr. Sugishita, is an audit committee financial expert, as defined in the rules of the SEC.

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Responsibilities:

Our Audit Committee provides assistance to our Board in various matters, including fulfilling its responsibilities with respect to the following:

retaining our independent registered public accounting firm;

reviewing the scope of audit and pre-approving permissible non-audit services by our independent registered public accounting firm;

reviewing the accounting principles and auditing practices and procedures to be used for our financial statements;

reviewing the results of the audits of our financial statements; and

reviewing related party transactions.

Compensation Committee

Members:

Jack Saltich (Chairman)

David Sugishita

Number of Meetings in Fiscal Year 2013:

Four

Independence:

Our Board has determined that each member of the Compensation Committee meets the independence criteria set forth in the applicable NASDAQ Stock Market rules, is a non-employee director, as defined in

Rule 16b-3 under Section 16 of the Securities Exchange Act of 1934, as amended, and is an outside director under Section 162(m) of the Internal Revenue Code of 1986, as amended.

Responsibilities:

Our Compensation Committee provides assistance to our Board in various matters, including with respect to the following:

overseeing our general compensation structure, policies and programs, and assessing whether our compensation structure establishes appropriate incentives for management and employees and properly aligning executive compensation with stockholder interests and business performance;

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making recommendations to the Board with respect to and administration of our equity-based compensation plans, including our equity incentive plans and employee stock purchase plan;

reviewing and approving compensation packages for our executive officers;

reviewing and approving employment and retention agreements and severance arrangements for executive officers, including change-in-control provisions, plans or agreements; and

reviewing the compensation of directors for service on the Board and its committees and recommending changes in compensation to the Board.

Other than the delegation to the Chief Executive Officer of the authority to grant awards under certain equity plans pursuant to guidelines set by the Board, our Compensation Committee has not delegated any of its duties under its charter. The Compensation Committee may, however, from time to time, delegate duties or responsibilities to subcommittees or to one member of the Compensation Committee.

Nominating and Corporate Governance Committee

Members:

Jack Saltich (Chairperson)

Carl Schlachte

Number of Meetings in Fiscal Year 2013:

Three

Independence:

Our Board has determined that each member of the Nominating and Corporate Governance Committee meets the criteria for independent Board members set forth in the applicable NASDAQ Stock Market rules.

Responsibilities:

Our Nominating and Corporate Governance Committee provides assistance to our Board in various matters, including fulfilling its responsibilities with respect to the following:

identifying, evaluating and recommending candidates for Board

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positions to our Board and recommending to our Board policies on Board and committee composition and criteria for Board membership;

recommending to our Board, and reviewing on a periodic basis, our succession plan, including policies and principles for selection and succession of the Chief Executive Officer in the event of an emergency or the resignation or retirement of our Chief Executive Officer;

periodically reviewing policies and the compliance of senior executives with respect to these policies;

reviewing our compliance with corporate governance listing requirements of The NASDAQ Stock Market; and

assisting our Board in developing criteria for the annual evaluation of our Chief Executive Officer, director and committee performance.

RELATED PERSON TRANSACTIONS

In accordance with our Audit Committee charter, our Audit Committee is responsible for reviewing and approving the terms and conditions of any related party transactions. Review of any related party transaction would include reviewing each such transaction for potential conflicts of interests and other improprieties. Except as described in

Director Compensation above and Executive Compensation below, since January 1, 2013, there has not been, nor is there currently proposed, any transaction or series of similar transactions, to which we are or were a party, in which the amount involved exceeds \$120,000 and in which any of our directors, executive officers, or holders of more than 5% of our capital stock, or any of the immediate family members of such persons, had or will have a direct or indirect material interest.

In addition to indemnification provisions in our bylaws, we have entered into agreements to indemnify our directors and executive officers. These agreements provide for indemnification of our directors and executive officers for some types of expenses, including attorney's fees, judgments, fines, and settlement amounts incurred by persons in any action or proceeding, including any action by us or in our right, arising out of their services as our director or executive officer. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

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OWNERSHIP OF OUR EQUITY SECURITIES

Directors and Executive Officers

The following table sets forth information regarding beneficial ownership of Common Stock by each director, each individual named in the 2013 Summary Compensation Table on page 46, and our directors and executive officers as a group, all as of March 31, 2014. Unless otherwise noted, voting power and investment power in Common Stock are held solely by the named person.

Name	Aggregate Number of Shares Beneficially Owned	Percent of Outstanding Shares ¹	Additional Information
Victor Viegas	930,412	3.27%	Includes 872,805 shares that may be acquired upon exercise of options on or before May 30, 2014.
Paul Norris	138,695	*	Includes 136,666 shares that may be acquired upon exercise of options on or before May 30, 2014.
Dennis Sheehan	137,037	*	Includes 84,894 shares that may be acquired upon exercise of options on or before May 30, 2014.
Carl Schlachte	53,916	*	Includes 29,166 shares that may be acquired upon exercise of options on or before May 30, 2014.
John Fichthorn	1,366,930	4.81%	Includes 29,166 shares that may be acquired upon exercise of options on or before May 30, 2014. Includes 1,313,014 shares for which Dialectic Capital Management, LLC, John Fichthorn and Luke Fichthorn have shared voting and

			dispositive power.
			Includes 57,000 shares that may be acquired upon exercise of options on or before May 30, 2014..
Jack Saltich	106,750	*	
			Includes 10,000 shares that may be acquired upon exercise of options on or before May 30, 2014.
David Sugishita	21,000	*	
All directors, director nominee and executive officers as a group (8 persons)	2,754,740	9.69%	Includes 1,219,697 shares that may be acquired upon exercise of options on or before April 29, 2014.
* Less than 1% of issued and outstanding shares of Common Stock.			

¹ Calculated on the basis of 28,416,906 shares of common stock outstanding as of March 31, 2014, provided that any additional shares of common stock that a stockholder has the right to acquire within 60 days after March 31, 2014 are deemed to be outstanding for the purpose of calculating that stockholder's percentage of beneficial ownership.

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Principal Stockholders

Set forth in the table below is information about the number of shares held by persons we know to be the beneficial owners of more than 5% of the issued and outstanding Common Stock. Unless otherwise noted, voting power and investment power in Common Stock are held solely by the named entity.

Name and Address	Aggregate		Additional Information
	Number of Beneficially Owned Shares	Percent of Outstanding Shares ¹	
Rima Senvest Management, LLC 110 East 55 th St. NY, NY 10022	4,945,932	17.40%	Based solely on a Schedule 13G filed with the SEC on February 14, 2014, Rima Senvest Management LLC and Richard Marshaal have shared voting and dispositive power with respect to these shares. Senvest Master Fund, L.P. only has shared voting power as to 3,044,630 shares and Senvest International L.L.C has shared voting power as to 1,500,838 shares. The address of Senvest Master Fund, LP is c/o State Street (Cayman) Trust, Gardenia Court, Suite 3307, 45 Market Street, Camana Bay, P.O. Box 896, Grand Cayman KY1-1103, Cayman Islands.
BlackRock, Inc. 40 East 52 nd St. NY, NY 10022	2,260,774	7.95%	Based solely on a Schedule 13G/A filed with the SEC on January 29, 2014.
Shannon River 850 Third Ave., 11 th Floor NY, NY 10022	2,166,568	7.62%	Based solely on a Schedule 13G filed with the SEC on February 7, 2014, Spencer Waxman, Shannon River Partners, LP, Shannon River Fund Management Co LLC, and Shannon River Capital Management LLC have shared voting and dispositive power with respect to 107,468 shares, Spencer Waxman, Shannon River Master Fund, LP and Shannon River Global Management LLC have shared voting and dispositive power as to

1,053,885 shares, Spencer Waxman, Doonbeg Master Fund, LP and Doonbeg Global Management LLC have shared voting and dispositive power as to 1,005,215 shares.

Capital Research

Global Investors

333 S. Hope St.

L.A., CA 90071

1,469,932

5.17%

Based solely on a Schedule 13G/A filed with the SEC on February 13, 2014.

¹ Calculated on the basis of 28,416,906 shares of common stock outstanding as of March 31, 2014.

Table of Contents**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our officers, directors, and persons who beneficially own more than 10% of our common stock to file initial reports of ownership and reports of changes in ownership with the SEC. These persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms filed by such persons.

Based solely on our review of the forms furnished to us and written representations from certain reporting persons, we believe that, except as noted below, all filing requirements applicable to our officers, directors, and persons who beneficially own more than 10% of our common stock were complied with during the fiscal year ended December 31, 2013. A Form 4 for the disposition of 318,000 shares by John Fichthorn was filed late due to an administrative error.

COMPENSATION DISCUSSION AND ANALYSIS

This section describes our fiscal year 2013 compensation program as it relates to the following executive officers, all of whom we refer to collectively as our named executive officers:

Name	Title
Victor Viegas	Chief Executive Officer and Director
Paul Norris	Chief Financial Officer
Dennis Sheehan	Senior Vice President, Sales and Marketing

Executive Summary

In this Compensation Discussion and Analysis, we summarize our objectives regarding the compensation of our named executive officers, including how we determine the elements and amounts of executive compensation. Included below are discussions regarding how our compensation program ties to our strategic goals and objectives and supports stockholder value creation. Specifically, we will discuss our compensation philosophy, our compensation approach, our compensation determinations and our policies and practices related to executive compensation. Our executive compensation program reflects a commitment to:

align compensation with our annual and long-term business objectives and performance,

enable us to attract, retain and reward executive officers and other key employees who contribute to our long-term success,

motivate executive officers to enhance long-term stockholder value, and

position us competitively among the companies against which we recruit and compete for talent.

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2013 Financial Performance.

During fiscal 2013, we delivered record revenues and strong operating cash flows in a challenging global business and economic environment. In addition, we achieved key milestones that have established the foundation for future growth in the immediate and long term, both in our stable OEM business and investing in our new content and media business. These efforts resulted in significant stockholder returns, as our stock price increased over 44% in fiscal 2013.

The following is a summary of fiscal 2013 business and financial highlights:

Record Revenue and Strong Cash Flows. We grew revenue by \$15.3 million, or 48 percent from the prior year, to a record \$47.5 million. Net income for fiscal 2013 was \$40.2 million, or \$1.37 per diluted common share, as compared to a net loss of \$(7.2) million, or \$(0.26) per share, for fiscal 2012. Net income for 2013 included an income tax benefit of \$36.5 million, or \$1.24 per diluted common share, resulting primarily from the release of a tax valuation allowance relating to net deferred tax assets. Cash flows from continuing operations were \$21.2 million, for a cash, cash equivalents, and short term investments balance of \$71.1 million as of December 31, 2013.

Gross Profit Increase. As a result of our continued transition to a licensing model, our gross profit increased by \$16 million from the prior year to \$47.0 million. As a percentage of revenue, gross profit increased to 99% compared to 96% for fiscal 2012.

Extension of Existing Licenses and New Licenses. We were successful in negotiating new licenses with existing key licensees, including Samsung Electronics Co. for use of haptics in its mobile phones and wearable devices and Sony Computer Entertainment for use of haptics in its Playstation 4, and we were successful in negotiating new licenses with new mobile licensees, including Sharp Corporation in Japan and Beijing Xiaomi Communications Co. Ltd. in China and new automotive licenses with Tokai Rika Co. Ltd. and Marquardt GmbH.

Investment in China. We have built a strong team of sales and technical support staff in China to quickly serve the needs of customers and to capture our growing opportunities in that region.

Investment in our Content and Media Strategy. We have made significant progress in investing in an opportunity to add haptic feedback to mobile content, such as rich media advertisements and premium video content, including establishment of foundational intellectual property and innovation, the development of tools and software to enable the successful encoding, distribution and playback of haptic content and building a strong team to execute our content and media strategy.

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The graph below represents our total stockholder return over the last four years since our transition to a licensing business model as compared to the performance of the NASDAQ Stock Market. Total stockholder return for Immersion Common Stock for the one, two, three and four years were 44%, 96%, 63% and 123%, respectively.

Percentages reflect cumulative growth over period.

Total Stockholder Return calculated as of December 31, 2013; 1-year period begins January 2, 2013; 2- year period begins January 3, 2012; 3 year period begins January 3, 2011; 4-year period begins January 4, 2010.

2013 Executive Compensation Program.

In determining the compensation of our named executive officers for fiscal 2013, the Compensation Committee evaluated various factors, including the following:

our overall business and financial performance;

how the compensation program can drive our strategic goals and support stockholder value creation;

the individual s performance, experience and skills;

compensation previously paid or awarded to the individual;

competitive market data for similar positions based on a blend of our peer group and the Radford technology survey data; and

voting results from the last time the stockholders voted on the compensation of our named executive officers. For fiscal 2013, the Compensation Committee approved an executive compensation program that consisted of three principal elements: base salary, short term cash incentive awards under our executive incentive plans (EIP) and long-term equity-based incentive awards (LTI). Our Compensation

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Committee believes that, by allocating compensation among these elements, our overall executive compensation program appropriately balances compensation-related risk and the desire to focus our named executive officers on specific short-term and long-term goals important to our overall success. Consistent with our pay-for-performance philosophy, a significant portion of the compensation of our named executive officers in fiscal 2013 was variable or at-risk. For our Chief Executive Officer, 91% of his target total direct compensation was subject to annual performance goals or tied to the appreciation in value of our common stock. For our other named executive officers as a group, 60% of their target total direct compensation was subject to annual performance goals or tied to the appreciation in value of our common stock.

The following table summarizes total direct compensation for our named executive officers in fiscal 2013:

Name	Base Salary	Executive Incentive Plan		Equity Award	
	2013 Base Salary (\$)(1)	Percent Change	(EIP) 2013 EIP Award Target (\$)	2013 EIP Award Payout	2013 Equity Target Award
Victor Viegas	350,000	---*	350,000	563,556	\$ 3,234,720
Paul Norris	280,500	2%	140,250	214,672	\$ 305,508
Dennis Sheehan	252,500	1%	151,500	229,165	210,208

(1) Differs from actual paid as set forth in Summary Compensation Table due to payroll period allocation.

*Mr. Viegas has never received an increase in his base salary since he was hired in October 2009.

Long Term Incentive Compensation for our CEO.

In considering the Chief Executive Officer's long term equity incentive award, the Compensation Committee considered various factors, including our performance since Mr. Viegas joined, Mr. Viegas' current unvested equity position, Mr. Viegas' importance to the execution of our strategy and equity grants made to CEOs at peer companies.

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Under the leadership of Mr. Viegas, who became Chief Executive Officer in October 2009, we have performed very well and delivered significant value to stockholders. Not only has our market cap increased more than two-fold, during the term of Mr. Viegas' tenure as of March 31, 2014, we have returned over \$19 million in value to stockholders in the form of the stock buyback program. In addition, the Compensation Committee believes that Mr. Viegas' strategic vision and focus on long-term sustainable growth has laid a solid foundation for future growth. The Compensation Committee believes that Mr. Viegas' leadership has directly contributed to our strong performance over the last several years and should be appropriately rewarded.

When Mr. Viegas joined us in 2009, he received a grant of 600,000 shares that vested over a period of four years, the final portion of which vested in late 2013. Since then, he has received various annual grants. Mr. Viegas' vested and unvested equity position at the time the Compensation Committee was considering his compensation for 2013 was as follows:

Table of Contents***2013 Fiscal Year CEO Retention Option Grant.***

Given Mr. Viegas' past contribution to us and his importance during a critical point in the execution of our strategy, the Compensation Committee determined that a special retention grant was appropriate to help align Mr. Viegas' interests with those of stockholders during this critical state of our strategy execution and to also serve as a strong incentive for him to remain with us. The Compensation Committee granted Mr. Viegas an option to purchase 600,000 shares which vests annually over a period of five years. In making the grant, the Compensation Committee considered approximately one-third of the grant (200,000 shares) to be attributable to the typical annual grant process (and within the market comparable data for such annual grants) and two-thirds (400,000 shares) to be attributable to the special stockholder alignment and retention-based portion of the award. In order to ensure the retention aspect of this special award was obtained, the option grant to Mr. Viegas was structured to include a five year vesting schedule, which is one year longer than our historical vesting schedule and prevailing market practice.

Name	Size of Stock Option Grant in Fiscal 2013 (#)	Accounting Grant		Intrinsic Value of Vested	
		Stock Option Grant in Fiscal 2013 (\$)	Date Fair Value of	Intrinsic Value of	Portion of Fiscal 2013
				Fiscal 2013 Stock Option Grant as of First	Stock Option Grant as of First
				Option Grant as of Year Anniversary of	Option Grant as of Year Anniversary of
				December 31, 2013	December 31, 2013
					Grant Date (\$)
Victor					
Viegas	600,000	3,234,720		510,000	133,200

At the time of the grant of this special award, Mr. Viegas did not realize any value since the exercise price of his stock option was set based on the market price of our common stock two business days after the announcement of our transaction with Samsung, therefore the exercise price reflected any benefit the stock price received from this critical agreement. The Compensation Committee does not believe that the accounting grant date fair value of the stock option which is calculated for financial reporting purposes and included elsewhere in this proxy statement is necessarily an accurate measure of the compensation received by Mr. Viegas in 2013. The Compensation Committee believes that Mr. Viegas is motivated by the potential for appreciation in the stock price and that this is the best indicator of the true value and worth of the stock option. Further there is no guarantee that our stock price will continue to rise during the five-year vesting period of the seven-year term of the stock option, or that Mr. Viegas will realize significant (or any) economic benefit from the stock option.

Fiscal Year 2014 CEO Performance Option Grant.

In February 2014, in an effort to further align Mr. Viegas' compensation to our performance and stockholder value creation, the Compensation Committee redesigned the terms and conditions of his fiscal 2014 long-term equity award by significantly reducing the grant value of his 2014 option grant to \$570,850, just below the 50th percentile of our median peer group. This 2014 option grant was structured so as to provide that 50% of the shares (X) would only vest and become exercisable pursuant to performance conditions and 50% of the shares (X) would vest upon our typical time-based vesting schedule. This award represents a 18% reduction from the prior year's award. The performance portion of the option requires that the closing price of a share of our common stock must be equal to or exceed \$15.00 for 30 consecutive trading days on or prior to February 24, 2016, in order for the performance portion of the option to

be eligible for vesting (pursuant to our normal and customary four year time-based vesting schedule). Our Compensation Committee believed that adding this stock price performance hurdle to a portion of Mr. Viegas' 2014 stock option grant would serve to further align his interests with those of our stockholders and help drive increased stock price performance.

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Executive Compensation Governance and Practices

In designing our executive compensation program, we have implemented programs and policies to create alignment with our stockholders and that support our commitment to good compensation governance as follows:

Clawback Policy. We have the authority to require repayment of certain annual cash incentives in instances of executive misconduct.

No Tax Gross-Ups. Tax gross-ups are not provided to our executive officers for personal expenses or in the event that excise taxes are incurred following a qualifying termination in connection with a change in control.

Independent Compensation Consultant. The Compensation Committee has engaged Compensia as its independent compensation consultant. Compensia provides services only to the Compensation Committee and provided no other services to us during fiscal 2013.

Stock Ownership Guidelines. We have established stock ownership guidelines to further align our CEO's interests with those of our stockholders. The guidelines require our CEO to acquire and hold a meaningful ownership interest in our company.

Capped Award Payouts. We set maximum award levels on our executive incentive plans.

No Repricing of Underwater Options. Repricing of stock options is expressly prohibited by our equity incentive plan without the approval of our stockholders.

No Executive Pension Benefits. Named executive officers participate in the same defined contribution retirement plans as other employees.

The Compensation Committee believes that the programs and policies described above clearly demonstrate our commitment to, and consistent execution of, an effective performance-oriented executive compensation program.

2011 Say on Pay Vote

At the annual meeting of our stockholders held in June 2011, which is the last time our stockholders considered our named executive officers' compensation, over 98% of the total stockholders' votes were cast in favor of our named executive officers' 2010 compensation. Because it believes this advisory stockholder vote indicates strong support for continuing our program, the Compensation Committee has not made significant changes to our executive compensation program, other than determining that a special retention grant for our CEO in 2013 was necessary to ensure stability at a critical point in the execution of our strategy and further aligning CEO compensation to total stockholder return by structuring the CEO 2014 stock option grant to include significant performance requirements.

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Compensation Philosophy

The primary objective of our executive compensation program is to align compensation with our overall business goals and stockholder interests. Our compensation objective is to attract and retain top tier executive talent capable of managing in a dynamic business environment and motivate them to achieve above-market performance with a long-term view in creating stockholder value. To this end, our executive compensation philosophy reflects:

a pay-for-performance model that delivers pay based on overall company and individual performance;

an emphasis on long-term equity-based incentive awards that link a meaningful portion of executive compensation to the appreciation in value of our common stock; and

benchmarking of our pay levels and compensation practices against a comparator group that is reasonable and appropriate for our company.

Our named executive officers' total compensation includes base salary, an annual incentive cash award, and long-term equity incentive compensation.

Compensation Element	Objectives	Key Features
Base Salaries	To provide a fixed level of cash compensation to reward demonstrated experience, skills and competencies relative to the market value of the job.	Adjustments are considered annually based on individual performance, level of pay relative to market and internal pay equity.
Short-Term Cash Incentive Awards	Rewards annual corporate and individual performance and achievement of strategic goals. Aligns named executive officers' interests with those of our stockholders by promoting strong annual results through revenue growth and operating efficiency. Retains named executive officers by providing market-competitive compensation.	Short-term cash incentive payments are cash awards based on financial targets Revenue and Adjusted EBITDA (as defined below in the section entitled Executive Incentive Plans for all named executive officers. A portion of the cash incentive award is also based on individual performance evaluated against individual performance goals. Annual incentive awards can vary from 0% to 216% of the target amount.

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<p>Long-Term Incentive Awards (Equity Awards)</p>	<p>Aligns named executive officers interests with long-term stockholder interests by linking part of each named executive officers compensation to stock price performance.</p>	<p>Utilizes different equity types, including stock options and restricted stock units to balance stockholder interests and retention.</p>
	<p>Provides opportunities for wealth creation and ownership which promotes retention and enables us to attract and motivate our named executive officers.</p>	<p>Long-term equity awards generally vest in increments over a three or four year period.</p>
	<p>Retention of named executive officers through multi-year vesting of equity granted and multi-year performance periods.</p>	

Our executive officers are also eligible to participate in our health and benefits plans, retirement savings plans and our employee stock purchase plan, which are generally available to all of our employees. Although our Compensation Committee has not established a fixed policy for the allocation between cash and equity compensation or short-term and long-term compensation, our Compensation Committee, as part of its evaluation of the compensation of our executive officers, reviews not only the individual elements of compensation, but also total compensation.

Role of Compensation Committee

The Compensation Committee reviews and recommends to the Board for approval all compensation programs (including equity compensation) applicable to our executive officers and directors, our overall strategy for employee compensation, and the specific compensation of our Chief Executive Officer. The Compensation Committee approves the compensation of all other executive officers. The Compensation Committee has the sole authority to select, retain, and terminate special counsel and other experts (including compensation consultants), as the Compensation Committee deems appropriate.

Role of Chief Executive Officer in Compensation Decisions

While the Compensation Committee determines our overall compensation philosophy, our Board sets the compensation for our Chief Executive Officer. Our Chief Executive Officer also provides our Board and our Compensation Committee with his perspective on the performance of our executive officers as part of the determination of the individual portion payable under the executive incentive plans (as described below) and the annual personnel review as well as a self-assessment of his own performance. Our Chief Executive Officer is not present during any discussions by our Compensation Committee or our Board relating to his own compensation. Our Chief Executive Officer recommends to our Compensation Committee specific compensation amounts for executive

officers other than himself, and our Compensation Committee considers those recommendations and the information provided by its compensation consultant concerning peer group comparisons and industry trends and makes the ultimate compensation decisions. Our Chief Executive Officer, Vice President of Human Resources, and General Counsel regularly attend our Compensation Committee's meetings to provide perspectives on the competitive landscape and the needs of the business, information regarding our performance, and technical advice. Members of our Compensation Committee also participate in our

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Board’s annual review of the Chief Executive Officer’s performance and its setting of annual performance goals, in each case led by our independent Chairman of the Board. See Board Structure above for further details.

Role of the Compensation Consultant

The Compensation Committee uses a compensation consultant primarily to provide input on compensation trends and developments and to assist with executive compensation benchmarking. The compensation consultant also provides a valuable outside perspective on executive compensation practices.

In establishing executive compensation for fiscal 2013, the Compensation Committee engaged Compensia to serve as its independent compensation consultant. During fiscal 2013, Compensia advised our Compensation Committee on executive compensation matters, including the selection of a peer group for compensation benchmarking and providing benchmark data comprising of a blend of peer group data and data from the Radford technology survey for assistance in setting fiscal 2013 compensation. Compensia was engaged directly by the Compensation Committee and does not provide any other unrelated products or services to us. No work performed by Compensia during fiscal year 2013 raised a conflict of interest.

Peer Group and Benchmarking

The companies comprising the peer group used by Compensia to aid in benchmarking compensation for 2013 were:

AuthenTec	Aware	CEVA, Inc.
Digimarc Corp.	MOSYS Inc.	DTS Inc.
MIPS Technologies, Inc.	Pixelworks Inc.	MEMSIC, Inc.
Ramtron International Corp.	SRS Labs Inc.	Quicklogic Corp.
NVE		

The peer companies were selected by the Compensation Committee at the recommendation of Compensia and are comparable to us with respect to their revenues (the annual revenues of each peer company were less than \$100 million), market capitalization (the market capitalization of each peer company was equal to or greater than \$25 million), and industry (all of the peer companies were in the intellectual property licensing industry or semiconductor industry).

The Compensation Committee reviews the peer group for compensation benchmarking and the Compensation Committee made several changes to the peer group in July 2013 as a result of several peers being acquired. Following review and analysis by Compensia, the Compensation Committee determined it was appropriate to make adjustments to the peer group for fiscal 2014 compensation planning.

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The 13 peer companies selected by the Compensation Committee for the fiscal 2014 peer group reflects five continuing peer companies from the 2013 peer group, eight deletions (including four that were acquired) and eight additions, as follows:

Continuing Peer Companies	Deleted Peer Companies	New Peer Companies
CEVA	Aware	Audience
Digimarc	MEMSIC	GSI Technology
DTS	Pixelworks	Intermolecular
MoSys	QuickLogic	Neonode
NVE	Authentec (acquired)	PDF Solutions
	MIPS (acquired)	Supertex
	Ramtron (acquired)	Universal Display
	SRS Labs Inc. (acquired)	Wi-LAN

In determining the peer group for fiscal 2014, the Compensation Committee used objective criteria for selecting peers to include companies in the IP licensing or semiconductor industry with revenues that were approximately one-half to three times our estimated revenues for 2013 and market capitalizations equal to approximately one-half to three times our market capitalization. At the time the peer group was selected, our revenues were in the first quartile of the companies in the peer group and its market capitalization was in the upper quartile of the companies in the peer group.

Compensation Determinations

The Compensation Committee made compensation determinations for our named executive officers for fiscal 2013 based on the analysis of pay levels compared to the data provided by Compensia as described above. In making these determinations, our general approach is to position the target compensation for our named executive officers based on the benchmark data, as follows:

Element of Compensation	Target Percentile
Base salary	50 th percentile
Target total cash compensation	65 th to 75 th percentile
Target Equity	75 th percentile
Target Total Direct compensation, including cash and equity	75 th to 80 th percentile

While we believe that comparisons to benchmark data are a useful tool, we do not believe that it is appropriate to establish executive compensation levels based solely on a comparison to market data. Due to the variations between companies reporting and the roles for which compensation for these companies is ultimately disclosed, directly comparable information is not available from each peer group company with respect to each of our named executive officers. In considering market compensation data, the Compensation Committee recognizes that executives at different companies can play significantly different roles, with different responsibilities and scopes of work, even though they may hold similar titles or nominal positions. The Compensation Committee therefore uses the market data as a starting point while also considering subjective factors such as experience, skills, competencies and performance. After reviewing these various factors, the Compensation Committee relies upon the judgment of its members and makes adjustments to an executive's compensation below or above the targeted percentile ranges. As a result, target

compensation for each of our named executive officers may fall below or above positioning relative to the peer group for a particular element of compensation.

Table of Contents***Base Salary.***

In determining base salaries for our named executive officers, the Compensation Committee considered the market data for similar position, the individual performance, experience and skill, and in the case of Mr. Norris, the fact that he had been with us for less than a year at the time the compensation decisions were being made, and in the case of Mr. Sheehan, the fact that he had been promoted in late 2012. These increases were effective February 1, 2013. As explained below, the Compensation Committee determined that it was more appropriate to increase Mr. Viegas performance-based compensation opportunities than to adjust his base salary. As a result of base salaries being negotiated by officers upon hiring or promotion, currently, the base salaries of the named executive officers fall within the 60th to 75th percentile of the comparator group.

The named executive officers' base salaries for 2013, as compared to 2012, were as follows:

Name	2012 Base Salary (\$)	2013 Base Salary (\$)	% Increase
Victor Viegas	350,000	350,000	--
Paul Norris	275,000	280,500	2
Dennis Sheehan	250,000	252,500	1

**Mr. Viegas has never received an increase in his base salary since he was hired in October 2009.*

Executive Incentive Plans.

The executive incentive plans are cash incentive programs designed to align executive compensation with annual performance and to enable us to attract, retain, and reward individuals who contribute to our success and to motivate such individuals to enhance our value. Our Compensation Committee believes that aggregate incentive payouts should be tightly linked to our performance, with individual compensation differentiated based on individual performance. As a result, funding and payouts under the executive incentive plans are dependent and based on our performance and each individual's performance. Our Compensation Committee reserves the right to cancel, suspend, amend or revise all or any part of the executive incentive plans for any reason at any time.

The Compensation Committee established a target award value for each of our named executive officers for fiscal 2013 based on competitive market data for similar positions and various other factors, including individual performance in the prior year and the terms of employment arrangements with the individual. Target awards are expressed as a percentage of base salary. In establishing the target award value, the Compensation Committee considered the 65th-75th percentile of target total cash compensation of the comparator group. Mr. Viegas' total target cash was slightly higher than the benchmark used in setting his cash compensation but reflects the Compensation Committee's desire to reward Mr. Viegas for his performance in 2012 while at the same time aligning more of his compensation with the interests of the stockholders by promoting strong annual results through revenue growth and operating efficiency. In the case of Mr. Norris and Mr. Sheehan, the total target cash was also slightly higher than the benchmark used in setting cash compensation as it reflects previously disclosed employment arrangements which were negotiated upon hiring or promotion.

In late 2013, the Compensation Committee revised the peer group for the fiscal 2014 compensation decisions as discussed above. As compared to the revised peer group, the total cash compensation for the named executive officers is generally positioned between the 60th and 75th percentile of such peer group.

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For fiscal 2013, target awards under the executive incentive plans represented a significant portion of total cash compensation for our named executive officers, which aligns more of the named executive officers' compensation with the interests of the stockholders.

Executive 2013 EIP Payments.

The following table sets forth the determinations of our Compensation Committee in February 2013 with respect to the executive incentive plan targets for fiscal 2013, as well as the actual amount of the cash incentive awards received by our named executive officers upon payout of the fiscal 2013 executive incentive plan in February 2013:

Fiscal 2013 EIP Target

Name	Position	Percentage of Base Salary Rate	Award Value	Fiscal 2013 EIP Award Payout
Victor Viegas	CEO	100%	350,000	563,556
Paul Norris	CFO	50%	140,250	214,672
Dennis Sheehan	SVP, Sales & Marketing	60%	151,500	229,165

Our Compensation Committee, with input from our Chief Executive Officer for all executive officers other than our Chief Executive Officer, establishes (1) performance measures based on business criteria and target levels of performance and (2) a formula for calculating each participant's award based on actual performance compared to the pre-established performance goals. Performance measures may be based on a wide variety of business metrics.

Our 2013 executive incentive plans were based on two independent components. A percentage of the bonus was based on the achievement by us of certain corporate financial metrics in 2013 as set forth below, and the remainder of the bonus was based on the achievement of individual management objectives. For payment to have been made under the objective component of the plans, we must have met the minimum revenue and adjusted EBITDA targets set forth in the matrix below. In addition, our Compensation Committee determined the performance weighting factors to be applied to the initial calculation of each executive's two independent components of the bonus, which weighting factors are based on each executive's overall annual performance as determined by our Compensation Committee. Each standard weighting factor is 1.0, but can be increased or decreased by 0.2 at the Compensation Committee's discretion, as applicable. If each such weighting factor is increased or decreased from the standard weighting factor of 1.0, then such modified weighting factor is then multiplied by the applicable independently determined component of such executive's incentive plan to determine the total incentive payment. As a result, the named executive officers are eligible to receive a cash award of 0% - 216% of their respective executive incentive plan target awards based on the achievement of corporate financial and individual performance goals.

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The GAAP revenue and adjusted EBITDA matrix for the corporate objectives of the 2013 executive incentive plans was set by the Compensation Committee and was based on our annual operating plan which contemplated an increase of 15% in revenue from 2012 and an increase in adjusted EBITDA of 135% from 2012. The matrix was as follows:

GAAP Revenue	\$33,920,000	\$38,160,000	\$42,400,000	\$46,640,000	\$50,880,000
/ adjusted EBITDA Targets					
\$12,960,000	125.0%	137.5%	150.0%	175.0%	200.0%
11,880,000	100.0	112.5	125.0	150.0	175.0
10,800,000	75.0	87.5	100.0	125.0	150.0
9,720,000	62.5	75.0	87.5	112.5	137.5
8,640,000	50.0	62.5	75.0	100.0	125.0

For purposes of the executive incentive plans, GAAP revenue means revenue recognized by us for the applicable period in accordance with GAAP and as reported in our audited financial statements, and adjusted EBITDA is Earnings before Interest, Taxes, Depreciation and Amortization, with the following exclusions: stock compensation expense, discontinued operations, restatement charges and restructuring charges. We exclude these items from the calculations in order to better measure true operating performance and profitability and to facilitate comparisons to the prior year period. By excluding certain one-time items from the calculations, the Compensation Committee sought to reward management for achieving the annual executive incentive plan goals, while at the same time focusing on actions that drive long-term stockholder value.

Our performance for 2013 resulted in GAAP revenues of \$47.5 million and an Adjusted EBITDA of \$12.8 million, which does not reflect our change in accounting policy that we adopted during the fourth quarter of 2013 for the treatment of external costs associated with our internally developed patents and trademarks. The impact of the change in accounting policy was to reduce Adjusted EBITDA for 2013 by \$3.9 million as compared to the amount that would have been determined under the prior policy. Interpolating this result between the revenue levels of \$46,648,000 and \$50,880,000 and between the \$11,880,000 and \$12,960,000 adjusted EBITDA levels on the table above resulted in a payout percentage of 177.52% of target for this measure.

For the individual performance of each named executive officer, the Compensation Committee reviewed each individual's performance in February 2013 against management by objectives (MBOs) set in the previous February and scored the individual based on the completion of such MBOs as of the end of fiscal 2013. In the case of Mr. Viegas, the Compensation Committee set MBOs that included concluding the Samsung transaction, increasing pricing, completing and executing the content and media business plan, implementing a user experience culture and

various other strategic objectives. Mr. Norris' MBOs included managing the compliance program, implementing our basic haptics strategy, supporting our licensing strategy, developing our content strategy and managing various operational initiatives. Mr. Sheehan's MBOs included achieving revenue and pipeline targets, completing basic haptics licenses and strategic deals, executing strategic planning and longer range activities and other operational initiatives.

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The following table set forth the amounts earned under each component of the 2013 executive incentive plans by the named executive officers:

Name	Percentage of Target	Corporate Component Multiplier	Actual Corporate Component	Percentage of Target	Individual Component Multiplier	Actual Individual Component	Total 2013 Award
Victor	80%	1.0	\$497,056	20%	1.0	\$66,500	\$563,556
Viegas							
Paul	70%	1.0	\$174,280	30%	1.0	\$40,392	\$214,672
Norris							
Dennis	70%	1.0	\$188,260	30%	1.0	\$40,905	\$229,165
Sheehan							

Long-Term Equity Incentive Awards.

The Compensation Committee approved annual equity awards to our named executive officers in the fiscal year 2013 after considering individual and corporate performance generally, the total compensation levels by our executives and the need to retain executives. Our Compensation Committee considers both executive and corporate performance as well as the actual compensation levels of our compensation peer companies when determining the size of equity awards. Typically, our Compensation Committee references the 75th percentile of the peer group when considering long-term equity grants to our named executive officers. We believe that this is consistent with a business emphasizing long-term growth and innovation. Although in 2012, the Compensation Committee awarded exclusively restricted stock units to the executives, in determining the 2013 grants for the executives other than the Chief Executive Officer, the Compensation Committee awarded restricted stock units as part of the annual grant process and stock options as a retention tool.

After taking account Mr. Norris' total direct compensation, the Compensation Committee granted Mr. Norris an annual restricted stock unit grant that fell between the 25th and 50th percentile of the comparator group. The Compensation Committee also granted Mr. Norris a stock option grant for retention purposes, which, combined with the annual restricted stock unit grant placed Mr. Norris' equity grants between the 60th and 75th percentile of the comparator group. Mr. Norris' total direct compensation for 2013 falls just above the 75th percentile of the comparator group.

Mr. Sheehan did not receive an annual restricted stock unit grant because he had received a promotion grant in October 2012. The Compensation Committee granted Mr. Sheehan a stock option grant for retention purposes that falls at the 75th percentile of the comparator group. Mr. Sheehan's total direct compensation for 2013 falls just above the 75th percentile of the comparator group.

The Compensation Committee granted our CEO the retention stock option described above. At the time the Compensation Committee considered all the grants described above, we were negotiating an agreement with Samsung that was deemed material. As a result, the Compensation Committee conditioned the grant on the conclusion of such negotiations and announcement of the transaction.

Stock Options.

Stock options are intended to align executives with the interests of stockholders in increasing sustainable, long-term stockholder value. We view stock options as an element of performance-based compensation because a stock option provides no realizable value upon grant. These instruments only deliver value to a recipient if the price of our common stock increases above the price at the time of grant and vesting requirements have been met. Our stock options are granted with an exercise price equal to the closing market price for our common stock on the date of grant and provide no cash benefit if the option is not exercised when the price of the stock exceeds the grant price during the option's term. Our stock options typically vest over a period of four years with 25% vesting after the first year and 1/48th monthly thereafter.

Table of Contents*RSUs.*

We grant our executives restricted stock units (RSUs) primarily to ensure that our executives maintain an ownership stake in our company. By providing an ownership stake, RSUs align executives' financial interests with stockholders' interests. We believe RSUs also aid in retention and provide value to our executives, given that we do not provide pensions. Our RSUs typically vest over a period of three years, with 33 1/3% of the shares subject to the award vesting on each of the first three anniversaries of the grant date.

2013 Executive Equity Awards.

The following table sets forth the determinations of our Compensation Committee in February 2013 with respect to the fiscal 2013 annual long term incentive equity awards for our named executive officers:

Name	Position	Shares Subject to Stock Options	Restricted Stock Units
Victor Viegas	CEO	600,000(1)	--
Paul Norris	CFO	40,000	10,000
Dennis Sheehan	SVP, Sales & Marketing	40,000	--

(1) Represents a combined annual grant and special retention grant that vests annually over 5 years.

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Severance and Change in Control Payments

We have, from time to time, entered into offer letters or employment agreements that contain certain benefits payable, in certain situations, upon termination or change in control. All such benefits extended to our executive officers are approved by our Compensation Committee in order to be competitive in our hiring and retention of executive officers, in comparison with companies with which we compete for talent. All such agreements with the named executive officers are described in *Potential Payments upon Termination or Change in Control* elsewhere in this proxy statement.

We have entered into retention and change in control agreements with our executive officers with the goal of retaining such executive officers during the pendency of a proposed change of control transaction, and in order to align the interests of the executive officers with our stockholders in the event of a change in control. We believe that a proposed or actual change in control transaction can adversely impact the morale of officers and create uncertainty regarding their continued employment. Without the benefits under the change in control agreements, executive officers may be tempted to leave our employment prior to the closing of the change in control, especially if they believe they will be terminated after the transaction closes, and any such departures could jeopardize the consummation of the transaction or our interests if the transaction does not close and we remain independent. Our Compensation Committee believes that these benefits therefore serve to enhance stockholder value and align the executive officers' interests with those of our stockholders in change in control transactions.

Other Benefits

We provide certain executive officers with perquisites and other personal benefits that our Compensation Committee believes are reasonable and consistent with our overall compensation programs and philosophy and which benefits are generally available to all of our employees. These benefits are provided in order to enable us to attract and retain these executives. Our Compensation Committee periodically reviews the levels of these benefits provided to our executive officers. These benefits include participation in our health and benefits plans, retirement savings plans and our employee stock purchase plan.

Equity Compensation Grant Practices

We do not have any program, plan, or practice to select equity compensation (including stock option) grant dates in coordination with the release of material non-public information, nor do we time the release of information for the purpose of affecting value. For stock options issued pursuant to our 2011 Equity Incentive Plan, employees have seven years from the date of the grant to exercise vested options, assuming they remain an employee of or service provider to Immersion or its subsidiaries and subject to any requirements of local law. For all other stock options, employees have ten years from the date of the grant to exercise vested options, assuming they remain an employee of or service provider to us or our subsidiaries and subject to any requirements of local law.

New Hire Grants.

New hire grants of equity compensation are made to eligible employees in connection with the commencement of employment. New hire grants become effective on and are priced as of the tenth business day of the month following the month of hire. These grants generally become fully vested after four years, with 1/4th of the grant vesting on the first anniversary of the date of commencement of

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employment and 1/48th of the grant vesting monthly thereafter. Grants to individuals of 50,000 shares or less, not to exceed an aggregate of 300,000 shares in any fiscal quarter, are made by the Chief Executive Officer pursuant to the delegation of power by the Compensation Committee. Such grants must be granted on the tenth business day of each month for individuals who were employees as of the last day of the previous month. All other grants are made by our Compensation Committee.

Annual Grants.

Annual restricted stock unit grants are awarded at our regularly scheduled Board meeting held in February and are made on the second business day after the release of our year-end earnings release. These grants typically vest as to 1/3rd of shares on an annual basis assuming continued service and subject to any requirements of local law.

Impact of Accounting and Tax Requirements on Compensation

We are limited by Section 162(m) of the Internal Revenue Code of 1986 to a deduction for federal income tax purposes of up to \$1,000,000 of compensation paid to our named executive officers in a taxable year. Compensation above \$1,000,000 may be deducted if, by meeting certain technical requirements, it can be classified as performance-based compensation. The stock options and restricted stock unit awards granted under our 2007 Equity Incentive Plan and 2011 Equity Incentive Plan are intended to be treated under current federal tax law as performance-based compensation exempt from limitation on deductibility. Although our Compensation Committee uses the requirements of Section 162(m) as a guideline, deductibility is not the sole factor it considers in assessing the appropriate levels and types of executive compensation and it will elect to forego deductibility when it believes it to be in our and our stockholders' best interests.

In addition to considering the tax consequences, our Compensation Committee considers the accounting consequences of, including the impact of the FASB ASC Topic 718, in its decisions in determining the forms of different awards and generally attempts to keep the value of awards equivalent regardless of type.

Risk Assessment of Compensation Programs

The Compensation Committee considers potential risks when reviewing and approving compensation programs. We have designed our compensation programs, including our incentive compensation plans, with specific features to address potential risks while rewarding employees for achieving financial and strategic objectives through prudent business judgment and appropriate risk taking. The following elements have been incorporated in our programs available for our executive officers:

A Balanced Mix of Compensation Components The target compensation mix for our executive officers is composed of salary, annual cash incentives and long-term equity incentives, representing a mix that is not overly weighted toward short-term cash incentives.

Multiple Performance Factors Our incentive compensation plans use both company-wide metrics and individual performance, which encourage focus on the achievement of objectives for our overall benefit:

- ú The executive incentive plans are dependent on multiple performance metrics including revenue and adjusted EBITDA, as well as individual goals related to specific strategic or operational objectives and the corporate metric portion of the incentive plan does not pay out unless certain financial metrics are met.

- ú The long-term incentives are equity-based, with three and four year vesting to complement our annual cash based incentives.

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Capped Incentive Awards Awards under the executive incentive plans are generally capped at the sum of:
(a) 200% of the target bonus attributable to company-wide metrics (with a maximum multiplier of 1.2), plus
(b) 100% of the target bonus attributable to individual performance (with a maximum multiplier of 1.2).

Clawback Provision The clawback provision provides our Board with the authority to recoup past incentive compensation in the event of a material restatement of Immersion's financial results due to fraud, intentional misconduct or gross negligence of the executive officer.

Additionally, our Compensation Committee considered an assessment of compensation-related risks for all of our employees. Based on this assessment and the factors noted above, our Compensation Committee concluded that our compensation programs do not create risks that are reasonably likely to have a material adverse effect on us. In making this evaluation, our Compensation Committee reviewed the key design elements of our compensation programs in relation to industry best practices as presented by Compensia, as well as the means by which any potential risks may be mitigated, such as through our internal controls and oversight by management and the Board.

Conclusion

In evaluating the individual components of overall compensation for each of our executive officers, the Compensation Committee reviews not only the individual elements of compensation, but also total compensation. Through the compensation programs described above, a significant portion of the compensation awarded to our executive officers is contingent upon each individual's and our performance. Our Compensation Committee remains committed to this philosophy of pay-for-performance and will continue to review executive compensation programs to ensure that the interests of our stockholders are served.

COMPENSATION COMMITTEE REPORT

The following report of the Compensation Committee shall not be deemed to be soliciting material or to otherwise be considered filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended (or the Securities Act), or the Exchange Act except to the extent that we specifically incorporate it by reference into such filing.

We, the Compensation Committee of the Board of Directors of Immersion Corporation, have reviewed and discussed the Compensation Discussion and Analysis contained in this proxy statement with management. Based on such review and discussion, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

COMPENSATION COMMITTEE
Jack Saltich, Chairman
David Sugishita

Table of Contents**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

Jack Saltich and David Sugishita were members of our Compensation Committee during the 2013 fiscal year. None of the individuals serving on our Compensation Committee were at any time during 2013, or at any other time, an officer or employee of us, nor did they have any relationships requiring disclosure by us under the SEC's rules requiring disclosure of certain relationships and related party transactions. None of our executive officers serve as a member of the Board of Directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board or our Compensation Committee.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2013 concerning our equity compensation plans:

Plan	Number of Securities to be Issued Upon Exercise of Outstanding Options,	Weighted-Average Exercise Price of Outstanding Options	Number of Securities to be Issued Upon Settlement of Outstanding Restricted Awards/Units	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Category (1)	(a)	(b)	(c)	(c)
Equity				4
Compensation	3,070,577 ¹	\$ 7.89 ²	712,056 ³	2,291,681
Plans				
Approved by				
Security				

Holdings (2)

Equity

Compensation

Plans Not

Approved by

Security

Holdings(5)	155,590	5.69	--	--
TOTAL	3,226,167		712,056	2,291,681

- 1 *The table does not include information for equity compensation plans assumed by us in business combinations. As part of the business combination with Immersion Medical in fiscal 2000, we assumed Immersion Medical's 1998 stock option plan. A total of 1,000 shares of common stock are reserved for issuance under this plan for an option that is fully vested and exercisable with an exercise price of \$3.81.*
- 2 *Consists of three plans: the Immersion Corporation 1997 Stock Option Plan, the 2007 Equity Incentive Plan and the 2011 Equity Incentive Plan.*
- 3 *These restricted stock units and awards have no exercise price.*
- 4 *Includes 480,560 shares available for future issuance under the Employee Stock Purchase Plan*
- 5 *As of December 31, 2013, we had issued and outstanding 155,590 shares of common stock for issuance pursuant to the 2008 Employment Inducement Award Plan. Each option granted pursuant to the 2008 Employment Inducement Award Plan has a 10-year term and vests at the rate of 1/4 of the shares on the first anniversary of the date of commencement of employment and 1/48 of the shares monthly thereafter.*

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EXECUTIVE COMPENSATION

2013 Summary Compensation Table

The following table sets forth information concerning the compensation earned during the years ended December 31, 2013, 2012 and 2011 by our Chief Executive Officer, our Chief Financial Officer and our Senior Vice President Sales and Marketing. No other officer met the definition of named executive officer for 2013.

Name & Principal Position	Fiscal Year	Salary (1)(\$)	Stock Awards (5) (\$)	Option Awards (5) (\$)	Non-Equity Incentive Plan Compensation (6) (\$)	Total (\$)
Viegas Chief Executive Officer	2013	\$ 351,346	\$	\$ 3,234,720	\$ 563,556	\$ 4,149,628
	2012	347,308	618,300	--	186,435	1,152,043
Chief Financial Officer and Interim						
Chief Financial Officer(2)	2011	341,923	184,201	167,712	248,089	941,925
		281,071	95,300			
Chief Financial Officer	2013			210,208	214,672	801,910
	2012	175,577		844,400	60,789	1,080,766
Senior Vice President Sales & Marketing	2013	253,240		210,208	229,165	692,613
	2012	227,433	593,390		83,503	904,326

(1) Differs from salary reported in the Compensation Discussion & Analysis due to pay period allocation.

- (2) *On December 15, 2011, Mr. Viegas was appointed Interim Chief Financial Officer until May 14, 2012.*
- (3) *Mr. Norris joined us as our Chief Financial Officer on May 14, 2012.*
- (4) *Mr. Sheehan was appointed Senior Vice President Sales and Marketing effective October 1, 2012.*
- (5) *The amounts in this column represent the aggregate grant date fair value of the awards, computed in accordance with FASB ASC Topic 718. See note 10 of the notes to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of our assumptions in determining the FASB ASC Topic 718 values.*
- (6) *Consists of bonus awards under our executive incentive plans. See Compensation Discussion and Analysis for a description of our executive incentive plans.*

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2013 Grants of Plan-Based Awards

The following table sets forth information concerning each grant of an award made to a named executive officer during the year ended December 31, 2013:

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Units (2)	All other Stock Awards:	All Other Option Awards:	Exercise or Grant Date	Fair Value of Stock and Option Awards
		Threshold (\$)	Target (\$)	Maximum (\$)					
Victor Viegas	2/27/2013	168,000	350,000	756,000					
	3/8/2013					600,000	9.53	3,234,720	
	2/27/2013	72,930	140,250	286,110					
Paul Norris	3/8/2013					40,000	9.53	210,208	
	3/8/2013				10,000			95,300	
Dennis Sheehan	2/27/2013	78,780	151,500	309,060					
	3/8/2013					40,000	9.53	210,208	

(1) These awards were made pursuant to the 2013 executive incentive plans for each of Mr. Viegas, Mr. Norris and Mr. Sheehan. For a description of the criteria upon which the awards are determined, see *Compensation Discussion and Analysis* above. Actual payments under these awards have already been paid and are included in the Non-Equity Incentive Plan Compensation column of the 2013 Summary Compensation Table.

(2) These restricted stock units are long-term equity incentive awards granted pursuant to our 2011 Equity Incentive Plan. For more information related to these awards, including the vesting schedule, see

Compensation Discussion and Analysis above.

- (3) *These options are long-term equity incentive awards granted pursuant to our 2011 Equity Incentive Plan. For more information related to these awards, including the vesting schedule, see Compensation Discussion and Analysis* above.

Table of Contents**Outstanding Equity Awards at December 31, 2013**

The following table sets forth information concerning the outstanding equity awards held as of December 31, 2013 by our named executive officers:

	Option Awards(1)				Stock Awards(2)		
	Number of Securities Underlying Unexercised Options	Option Exercise Price (\$/sh)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested	Market Value of Shares or Units of Stock that Have Not Vested (3)		
	Stock Option Grant Date	Exerciseable (#)	Unexerciseable (#)	Price (\$/sh)	Option Expiration Date	Have Not Vested (#)	Have Not Vested (\$)
Victor Viegas	6/5/2006	100,000		6.11	6/5/2016		
	3/3/2008	10,000		8.61	3/3/2018		
	3/4/2009	8,500		2.70	3/4/2019		
	11/13/2009	600,000		3.85	11/13/2019		
	3/14/2011	29,791	13,542	6.61	3/14/2021		
	3/14/2011					9,289	96,420
	3/5/2012					60,000	622,800
	3/8/2013		600,000	9.53	3/8/2020		
Paul Norris	6/14/2012	98,958	151,042(4)	6.12	6/14/2019		
	3/8/2013		40,000	9.53	3/8/2020		
	3/8/2013					10,000	103,800
Dennis Sheehan	2/13/2009	30,000		4.63	2/13/2019		
	9/15/2010	20,833	4,167	5.06	9/15/2020		
	3/14/2011	17,187	7,813	6.61	3/14/2021		
	3/14/2011					4,166	43,243
	3/5/2012					31,333	325,237
	11/14/2012					33,333	345,997
	3/8/2013		40,000	9.53	3/8/2020		

(1) Except as otherwise indicated, options vest as to 25% of the shares on the one year anniversary of the grant date and the remaining vest at a monthly rate of one forty-eighth.

(2) The restricted stock units vest in three equal installments on each of the first three anniversaries of the date of grant.

(3) Based on the closing price of our common stock of \$10.38 per share on The NASDAQ Global Market on December 31, 2013.

(4) Option vests as to 25% of the shares on the one year anniversary of the date of commencement of employment and the remaining vest at a monthly rate of one forty-eighth.

Table of Contents**Option Exercises and Stock Vested In 2013 Fiscal Year**

The following table provides information concerning the exercise of stock options and the vesting of restricted stock units issued to our named executive officers during the year ended December 31, 2013:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise(1)	Value Realized on Exercise (\$)(2)	Number of Shares Acquired on Vesting(3)	Value Realized on Vesting (\$)(3)
Victor Viegas	200,000	3,059,925	39,289	290,512
Paul Norris	-	-	-	-
Dennis Sheehan	-	-	44,833	444,276

- (1) The total number of shares exercised is included above. As the shares were purchased and sold in the same day.
- (2) Based on the difference between the market price of our common stock on the date of exercise and the exercise price of the stock option.
- (3) Calculated by multiplying the number of vested restricted stock units by the market value of our common stock on the vesting date.

Potential Payments upon Termination or Change in Control

We have entered into the following agreements with each of our named executive officers that provide for severance and additional benefits in connection with our change in control:

Mr. Victor Viegas

Effective October 20, 2009, Mr. Viegas became our Interim Chief Executive Officer. In connection with his appointment, we entered into an employment agreement with Mr. Viegas pursuant to which he receives an annual base salary of \$350,000 and is eligible to receive an annual bonus of up to 60% of his base salary. In 2012, the Compensation Committee increased Mr. Viegas' target annual bonus to 80% of his salary and in 2013, the Compensation Committee increased the target to 100% of his base salary.

If the employment of Mr. Viegas is terminated without cause, as defined in the agreement or he resigns for constructive reason, as defined in the agreement, he would be entitled to receive, as severance, a payment equal to 12 months of his base salary and health insurance premium payments for 12 months. In addition, Mr. Viegas will also be entitled to immediate vesting of 70% of his then unvested equity awards.

In the event that Mr. Viegas is terminated without cause or resigns for constructive reason within three months of, or within 1 year following, a change of control, as defined in the agreement, Mr. Viegas will be entitled to receive a lump sum severance payment equal to 12 months base salary and health insurance premium payments for 12 months. In addition, Mr. Viegas will also be entitled to immediate vesting of 70% of his then unvested equity awards held by him.

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Payment of the foregoing benefits will be conditioned upon Mr. Viegas' execution of a general release of claims.

Mr. Paul Norris

Effective May 14, 2012, Mr. Norris became our Chief Financial Officer. In connection with his appointment, we entered into an offer letter with Mr. Norris pursuant to which he receives an annual base salary of \$275,000 which was increased to \$280,500 in 2013 and is eligible to receive an annual bonus with a target of 50% of his base salary.

In addition, we entered into a Retention and Ownership Change Event Agreement with Mr. Norris, which provides that in the event that his employment is terminated without cause, Mr. Norris will be entitled to receive (i) a lump sum severance payment equal to 12 months base salary; (ii) payments for COBRA premiums for up to 12 months following his termination date; and (iii) immediate vesting of 70% of his then unvested equity awards held by him.

In the event that, within 1 year following a change in control, as defined in the agreement, Mr. Norris's employment is terminated without cause or if he resigns for good reason, Mr. Norris would be entitled to receive (a) a lump sum severance payment equal to 12 months of his base salary; (b) health insurance premium payments for up to 12 months following his terminate date; and (c) immediate vesting of 70% of his then unvested equity awards held by him, which option would then become exercisable for 6 months after such termination.

Payment of the foregoing benefits will be conditioned upon Mr. Norris's execution of a general release of claims.

Mr. Dennis Sheehan

We also entered into a retention and ownership change event agreement with Mr. Sheehan. This agreement provides for the payment of severance and health insurance premiums upon the occurrence of certain events. In the event that his employment is terminated without cause, Mr. Sheehan will be entitled to receive a lump sum severance payment equal to 6 months base salary and payments of health insurance premiums for the earlier of 6 months or the date on which Mr. Sheehan first becomes eligible to obtain other group health insurance coverage. In the event Mr. Sheehan's employment is terminated without cause, or is terminated by him with good reason, in either case, in connection with an ownership change event of our company, then Mr. Sheehan will also be entitled to receive (i) a lump sum severance payment equal to 12 months base salary; (ii) payments of health insurance premiums for the earlier of 12 months or the date on which Mr. Sheehan first becomes eligible to obtain other group health insurance coverage; and (iii) immediate vesting of 50% of his unvested equity awards held by him. Payment of the foregoing benefits will be conditioned upon Mr. Sheehan's execution of a general release of claims.

We entered into an offer of promotion to Senior VP, Sales & Marketing with Mr. Sheehan on September 26, 2012 pursuant to which he received an annual base salary of \$250,000 which was increased to \$252,500 in 2013 and is eligible to receive an annual bonus with a target of 60% of his base salary

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Named Executive Officer	Event	
	Termination without cause or resignation for good reason or constructive reason	Termination without cause or resignation for good reason or constructive reason occurs due to a change in control
Victor Viegas		
Severance	\$350,000	\$350,000
COBRA Benefits	23,673	23,673
Equity Acceleration	896,191	896,191
TOTAL	\$1,269,864	\$1,269,864
Paul Norris		
Severance	\$280,500	\$280,500
COBRA Benefits	16,589	16,589
Equity Acceleration	546,867	546,867
TOTAL	\$843,956	\$843,956
Dennis Sheehan		
Severance	\$126,250	\$252,500
COBRA Benefits	6,914	13,828
Equity Acceleration	--	400,050
TOTAL	\$133,164	\$666,378

Dollar amounts include potential severance payout, potential COBRA payments and potential equity award acceleration based on the fair market value on December 31, 2013 less the exercise price.

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AUDIT COMMITTEE REPORT

This report of the Audit Committee is required by the Securities and Exchange Commission, and is not to be deemed soliciting material, is not to be deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference in any filing of Immersion Corporation under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any filing.

Under the guidance of a written charter adopted by our Board, the purpose of our Audit Committee is to retain an independent registered public accounting firm, to make such examinations as are necessary to monitor the corporate financial reporting of the internal and external audits and its subsidiaries, to provide to the Board the results of its examinations and recommendations derived there from, to outline to the Board the improvements made, or to be made, in internal accounting controls, and to provide the Board such additional information and materials as it may deem necessary to make the Board aware of significant financial matters that require the attention of the Board.

Management is primarily responsible for the system of internal controls and the financial reporting process. The independent registered public accounting firm is responsible for expressing an opinion on the financial statements based on an audit conducted in accordance with generally accepted auditing standards. Our Audit Committee is responsible for monitoring and overseeing these processes.

In this context and in connection with the audited financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2013, our Audit Committee:

reviewed and discussed the audited financial statements with management;

discussed with Deloitte & Touche LLP, with and without management present, the matters required to be discussed under the Statement of Auditing Standards No. 61, as amended, (AICPA, *Professional Standards*, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T;

received the written disclosures and the letter from Deloitte & Touche LLP required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence; discussed with the independent registered public accounting firm its independence; and concluded that the nonaudit services performed by Deloitte & Touche LLP are compatible with maintaining its independence; and

based on the foregoing reviews and discussions, recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC.

AUDIT COMMITTEE

David Sugishita, Chairman

John Fichthorn

Carl Schlachte

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RATIFICATION OF APPOINTMENT OF

INDEPENDENT REGISTERED PUBLIC

ACCOUNTING FIRM (PROPOSAL 2)

We are asking the stockholders to ratify the Audit Committee's engagement of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014. In the event the stockholders fail to ratify the appointment, our Audit Committee will reconsider its engagement. Even if the engagement is ratified, our Audit Committee, in its discretion, may direct the engagement of a different independent registered public accounting firm at any time during the year if our Audit Committee feels that such a change would be in our and our stockholders' best interest.

Deloitte & Touche LLP has been the independent registered public accounting firm that audits our financial statements since 1997. In accordance with standing policy, Deloitte & Touche LLP periodically changes the personnel who work on the audit.

Audit Fees and All Other Fees

The following table sets forth the aggregate fees billed to us for the fiscal years ended December 31, 2013 and 2012 by our principal accounting firm, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates:

		2013 Fees	2012 Fees
Audit Fees	\$	538,417	\$ 457,198
Audit-Related Fees		65,866	--
Tax Fees			
	Tax Compliance/Preparation	20,335	17,283
	Other Tax Services	64,991	9,459
All Other Fees		--	--
Total Fees		689,609	483,940

Audit Fees. This category consists of fees billed, or expected to be billed, for professional services rendered for the audits of our consolidated financial statements and the effectiveness of our internal controls over financial reporting, along with reviews of interim condensed consolidated financial statements included in quarterly reports, services that are normally provided by Deloitte & Touche LLP in connection with statutory and regulatory filings or engagements, and attestation services.

Audit-Related Fees. This category consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under Audit Fees.

Tax Fees. This category consists of tax compliance/preparation and other tax services. Tax compliance/preparation consists of fees billed for tax return preparation, claims for refunds, and tax payment planning services related to federal, state, and international taxes. Other tax services consist of fees billed for services including tax advice, tax strategy and other miscellaneous tax consulting and planning

All Other Fees. This category consists of fees for all other services other than those reported above. Our intent is to minimize services in this category.

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Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

Our Audit Committee has determined that all services performed by Deloitte & Touche LLP are compatible with maintaining the independence of Deloitte & Touche LLP. In addition, since the effective date of the SEC rules stating that an independent public accounting firm is not independent of an audit client if the services it provides to the client are not appropriately approved, our Audit Committee has approved, and will continue to pre-approve all services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services, and other services. None of the services described above were approved by our Audit Committee pursuant to the waiver of pre-approval provisions set forth in applicable rules of the SEC.

Our Audit Committee has adopted a policy for the pre-approval of services provided by the independent registered public accounting firm, pursuant to which it may pre-approve certain audit fees, audit-related fees, tax fees, and fees for other services. Under the policy, our Audit Committee may also delegate authority to pre-approve certain specified audit or permissible non-audit services to one or more of its members. A member to whom pre-approval authority has been delegated must report his pre-approval decisions, if any, to our Audit Committee at its next meeting. Unless our Audit Committee determines otherwise, the term for any service pre-approved by a member to whom pre-approval authority has been delegated is twelve months.

Other Information

We have been advised by Deloitte & Touche LLP that neither the firm, nor any member of the firm, has any financial interest, direct or indirect, in any capacity in us or our subsidiaries.

One or more representatives of Deloitte & Touche LLP will be present at this year's Annual Meeting of Stockholders. The representatives will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

Ratification of the appointment of the independent public accounting firm requires the affirmative vote of a majority of the votes cast by the holders of the shares of Common Stock voting in person or by proxy at the Annual Meeting of Stockholders.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

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ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS (PROPOSAL 3)

In accordance with Section 14A of the Exchange Act, we seek a non-binding advisory vote from our stockholders to approve the compensation of its named executive officers as described in the Compensation Discussion and Analysis section beginning on page 26 and the Executive Compensation section beginning on page 46. We have designed our compensation programs to align compensation with our annual and long-term business objectives and performance and to motivate executive officers to enhance long-term stockholder value.

The Compensation Committee strongly believes that executive compensation — both pay opportunities and pay actually realized — should be tied to our performance. As illustrated in the accompanying charts, 91% of our Chief Executive Officer's target total direct compensation was subject to annual performance goals or tied to the appreciation in value of our common stock. For our other named executive officers as a group, 60% of their target total direct compensation was subject to annual performance goals or tied to the appreciation in value of our common stock.

In deciding how to vote on this proposal, the Board encourages you to read the Compensation Discussion and Analysis section beginning on page 26 for a detailed description of our executive compensation philosophy and programs, the compensation decisions the Compensation Committee has made under those programs and the factors considered in making those decisions. In particular, you should consider the following factors, which are more fully discussed in the Compensation Discussion and Analysis:

In a year marked by continued uncertainty in the global economy, we delivered record revenue, strong cash flow, an increase in gross profit and 44% stockholder return.

Mr. Viegas' special retention option grant with a five year vesting schedule was necessary to incentivize Mr. Viegas to remain with us at a critical point in the execution of our strategy.

The Board recommends that the stockholders vote FOR the following resolution:

RESOLVED, that the stockholders approve, on an advisory basis, the compensation of our named executive officers, as disclosed in this proxy statement, including the Compensation Discussion and Analysis, the executive compensation tables and the related narrative.

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Because your vote is advisory, it will not be binding upon the Board. However, the Board values stockholders opinions and the Compensation Committee will take into account the outcome of the vote when considering future executive compensation decisions.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ADVISORY VOTE TO APPROVE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS.

AMENDMENT OF IMMERSION CORPORATION 2011 EQUITY INCENTIVE PLAN (PROPOSAL 4)

At the Annual Meeting of Stockholders, our stockholders will be asked to approve an amendment to the Immersion Corporation 2011 Equity Incentive Plan (the 2011 Plan) to increase the number of shares reserved for issuance by 1.4 million shares of common stock and to make some minor technical changes to the 2011 Plan.

Our Board believes that the 2011 Plan is a necessary and powerful employee incentive and retention tool that benefits all of our stockholders. As stated in the Compensation Discussion and Analysis section of this proxy statement, equity ownership programs are central to our compensation program because they put our employees interests directly into alignment with those of other stockholders, as they reward employees upon improved stock price performance. A broad-based equity incentive plan focuses our employees who receive grants on achieving strong corporate performance, and we have embedded in our culture the necessity for employees to think and act as stockholders.

We operate in a competitive market and new hire grants are essential in helping us attract talented individuals. Likewise, annual grants are essential in helping us retain and motivate our most valuable employees. Stockholder approval of our request for additional shares is necessary to enable us to grant equity to new employees and continue with our annual grant program for existing employees through our fiscal year 2016 annual grants. In April 2014, the Board approved the increase to the available share reserve and other technical amendments to the 2011 Plan, subject to approval by our stockholders. Our Board and management, therefore, recommend that stockholders approve the amendment to our 2011 Plan. If our stockholders do not approve the amendment to the 2011 Plan, the 2011 Plan will remain in effect with its current terms and conditions and the number of shares reserved for issuance will not increase.

2011 Plan Share Reserve

As of March 31, 2014, an aggregate of 1,110,773 shares of our common stock remained available for future grants under our 2011 Plan. The Board believes that this share reserve amount is insufficient to meet our future needs, and without the requested share reserve increase, we could be unable to sustain our current new hire and annual equity grant programs through our fiscal year 2016 annual grants.

We are committed to effectively managing our employee equity compensation programs while minimizing stockholder dilution. In 2011, when we adopted the 2011 Plan, we adopted a burn rate policy for fiscal years 2011 through 2013 which required us to limit the number of shares that we grant subject to stock awards over the three year period to no more than an annual average of 5.84% of our outstanding common stock (which is equal to the median burn rate plus one standard deviation of the 2010 calendar year for Russell 3000 companies in our Global Industry Classification Standards Peer Group (Technology Hardware and Equipment), as published by Institutional Shareholder Services in 2010). Our annual burn rate is calculated as the number of shares subject to stock awards (including stock options, stock appreciation rights, restricted stock, restricted stock units and other stock awards) granted during our fiscal year (although for purposes of this analysis the number of shares subject to

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performance units and performance shares are counted in the fiscal year that they are paid out instead of the fiscal year in which they are granted) (adjusted as described below), divided by our outstanding common stock, measured in each case as of the last day of each fiscal year as reported in our periodic filings with the SEC. Awards that are settled in cash, awards that are granted pursuant to stockholder approved exchange programs, awards sold under our employee stock purchase plan and awards issued, assumed or substituted in acquisitions are excluded from our burn rate calculation. For purposes of our calculation, each share subject to a full value award (i.e., restricted stock, restricted stock units, performance shares and any other award that does not have an exercise price per share equal to the per share fair market value of our common stock on the grant date) are counted as more than one share on the following schedule: (a) 1.5 shares if our annual common stock price volatility was 54.6% or higher; (b) 2.0 shares if our annual common stock price volatility was between 36.1% and 54.6%; (c) 2.5 shares if our annual common stock price volatility was between 24.9% and 36.1%; (d) 3.0 shares if our annual common stock price volatility was between 16.5% and 24.9%; (e) 3.5 shares if our annual common stock price volatility was between 7.9% and 16.5%; and (f) 4.0 shares if our annual common stock price volatility was less than 7.9%. Our burn rate for fiscal years 2011 through 2013 was 4.47%. It is our current intention to continue to limit burn rate to a level consistent with our historical usage.

The 2011 Plan Combines Compensation and Governance Best Practices

The 2011 Plan includes provisions that are designed to protect our stockholders' interests and to reflect corporate governance best practices including:

Continued broad-based eligibility for equity awards. We grant equity awards to all of our employees. By doing so, we link employee interests with stockholder interests throughout the organization and motivate our employees to act as owners of the business.

Stockholder approval is required for additional shares. The 2011 Plan does not contain an annual evergreen provision. The 2011 Plan authorizes a fixed number of shares, so that stockholder approval is required to increase the maximum number of securities which may be issued under the 2011 Plan.

No discount stock options or stock appreciation rights. All stock options and stock appreciation rights will have an exercise price equal to or greater than the fair market value of our common stock on the date the stock option or stock appreciation right is granted. To date we have not granted any stock appreciation rights under our other plans.

Repricing is not allowed. The 2011 Plan prohibits the repricing or other exchange of underwater stock options and stock appreciation rights without prior stockholder approval.

Reasonable share counting provisions. In general, when awards granted under the 2011 Plan expire or are canceled without having been fully exercised, or are settled in cash, the shares reserved for those awards will be returned to the share reserve and be available for future awards. However, shares of common stock that are delivered by the grantee or withheld by us as payment of the exercise or purchase price in connection with the exercise of an option or the grant of an award or the payment of tax withholding obligations in the case of an option or stock appreciation right will not be returned to the share reserve.

At the end of 2012, in preparation for the annual grant in 2013, we conducted a full review of our broad-based equity strategy and established new equity grant guidelines. Due to our small size, 100% of the employees participate in the equity program. In setting the new equity guidelines for restricted stock units, we targeted to deliver equity at the 50th percentile based on public Northern California headquartered companies with revenue under \$500 million. In 2014, recognizing the significant change in the value of our Common Stock and our desire to conserve shares, we revised the guidelines using the 2013 equity guidelines to decrease the number of shares of Common Stock subject to the restricted stock units in order to properly reflect the change in value of a share of Common Stock.

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However, even with this approach, given our current burn rate, as well as our anticipated new hire grants for fiscal year 2014, the Board anticipates that without an increase to the share reserve, the existing share reserve could potentially be exhausted before the end of fiscal year 2015.

The Board considers its share reserve on an annual basis, as the vast majority of our equity grants are made each March during our annual grant process. Based on our expected annual share usage, we believe our current reserve will be sufficient for our March 2015 grants, but would be insufficient for our expected March 2016 grants. The Board believes that the request for an additional 1.4 million shares will allow us to replenish our share usage under all equity plans during fiscal year 2014 and to continue and maintain our current granting practices through our 2016 annual grants and until our annual meeting of stockholders to be held thereafter in 2016.

The closing market price of our common stock on March 31, 2014 was \$10.55. As of March 31, 2014, we had an aggregate of 3,534,306 outstanding stock options with a weighted average exercise price of \$8.18 and a weighted average remaining term of 5.36 years, as well as 642,830 outstanding full value awards remaining unvested and/or unsettled.

Vote Required and Board Recommendation

Stockholders are requested to approve the adoption of an amendment to our 2011 Plan to increase the number of shares reserved for issuance by 1.4 million shares of common stock and to make some minor technical changes to the 2011 Plan. The 2011 Plan, giving effect to the amendment described in this Proposal 4, is attached to this proxy statement as Annex A.

We firmly believe that the approval of an amendment to the 2011 Plan is essential to continue to grow our business. The Board believes that equity awards in meaningful amounts motivate high levels of performance, align the interests of our employees and stockholders by giving employees the perspective of an owner with an equity stake in our company, and provide an effective means of recognizing employee contributions to our success. The Board believes that equity awards are a competitive necessity in the environment in which we operate, and are essential to our continued success at recruiting and retaining the highly qualified technical and other key personnel who help us meet our goals, as well as rewarding and encouraging current employees. The Board believes that the ability to continue to grant meaningful equity awards will be important to our future success.

Approval of the amendment to the 2011 Plan requires the affirmative vote of the holders of a majority of the votes cast in person or by proxy and entitled to vote at the meeting. Abstentions and broker non-votes will not have any effect on the outcome of this proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE AMENDMENT TO THE IMMERSION CORPORATION 2011 EQUITY INCENTIVE PLAN.

Summary of 2011 Plan

Purpose of 2011 Plan

The 2011 Plan allows us, under the direction of our Compensation Committee or those persons to whom administration of the 2011 Plan, or part of the 2011 Plan, has been delegated or permitted by law, to make grants of stock options, restricted stock awards, stock bonus awards, stock appreciation rights, restricted stock units, performance shares and performance units to employees, directors, consultants, independent contractors and advisors. The purpose of these equity awards is to attract and retain talented employees, directors, consultants, independent

contractors and advisors and further align their interests and those of our stockholders by continuing to link a portion of their compensation with our performance.

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Key Terms

The following is a summary of the key provisions of the 2011 Plan.

Plan Term: April 5, 2011 to April 5, 2021

Eligible Participants: Only employees, including officers and directors who are also employees, are eligible to receive grants of incentive stock options. All other awards may be granted to any of our employees, directors, consultants, and independent contractors, provided that the grantee renders bona fide services to us. Our Compensation Committee determines which individuals will participate in the 2011 Plan. Currently, there are approximately 110 employees and 5 non-employee directors who are eligible to participate in the 2011 Plan.

Shares Authorized: If the amendment to the 2011 Plan is approved, there will be 1,400,000 additional shares authorized under the 2011 Plan, subject to adjustment only to reflect stock splits and similar events. Shares subject to awards under the prior plans that rollover into the 2011 Equity Plan (the 2007 Plan and the 2008 Employment Inducement Plan) and the Equity Plan that are cancelled, forfeited or that expire by their terms are returned to the pool of shares available for grant and issuance under the 2011 Equity Plan. Shares subject to awards are counted at the rate of one for one if such Shares were subject to an option or SAR and at the rate of one and three quarters for one if subject to another type of award. Substituted awards in the event of a corporate transaction shall not reduce the number of shares we are authorized to grant under the 2011 Plan or that may be granted to any individual in any calendar year.

As of March 31, 2014, we had 639,386 outstanding restricted stock and restricted stock unit awards and 1,912,071 outstanding options under the 2011 Plan with a weighted average exercise price of \$9.48 and weighted average remaining contractual term of 5.91 years. As of March 31, 2014, we had 1,110,773 shares available for grant in the 2011 Plan.

Award Types:

- (1) Non-qualified and incentive stock options
- (2) Restricted stock awards
- (3) Stock bonus awards

(4) Stock appreciation rights

(5) Restricted stock units

(6) Performance shares

(7) Performance units

Full-Value Share Multiple for

Determining the Number of Shares

Available for Grant:

For purposes of determining the number of shares available for grant under the Equity Plan against the maximum number of shares authorized, any full-value award (i.e., anything other than a stock option or a stock appreciation right) currently reduces the number of shares available for issuance under the 2011 Plan by 1.75 shares.

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<i>Limits on Awards:</i>	<p>No more than 1,000,000 shares may be granted to any individual under the plan during any calendar year, other than new employees, who are eligible to receive up to 2,000,000 shares in the calendar year during which they begin employment. No These limits are intended to ensure that awards will qualify under Section 162(m) of the U.S. Internal Revenue Code of 1986, as amended (the Code), if applicable. Failure to qualify under this section might result in our inability to take a tax deduction for part of our performance-based compensation to senior executives.</p> <p>No individual will be eligible to receive more than \$1,000,000 in performance units in any calendar year.</p>
<i>Vesting:</i>	<p>Vesting schedules are determined by our Compensation Committee when each award is granted. Options generally vest over four years, other than options for our non-employee directors which vest in full on the one-year anniversary of the date of grant. Restricted stock units generally vest over three years and restricted stock awards granted only to non-employee directors generally vest in full on the one-year anniversary of the date of grant.</p>
<i>Award Terms:</i>	<p>Stock options have a term no longer than seven years from the date the options were granted, except in the case of incentive stock options granted to holders of more than 10% of our voting power, which have a term no longer than five years. Stock appreciation rights have a term no longer than seven years from the date they were granted.</p>
<i>Grants to Non-Employee Directors:</i>	<p>Currently, when a non-employee director joins the Board, he or she currently receives an initial grant of an option to purchase 40,000 shares of common stock. Twenty-five percent (25%) of this option vests on the one year anniversary of the date of grant and the rest vests in thirty-six (36) equal monthly installments. At the annual stockholder meeting, each non-employee director then in office currently receives 11,000 shares of restricted stock, which vests on the one-year anniversary of the grant date. In the future, awards to employee directors will be fully discretionary subject to disclosure to stockholders. The aggregate number of shares subject to awards granted to a non-employee director in any calendar year shall not exceed 1,000,000. A non-employee director may elect to receive his or her annual retainer payment and/or meeting fees from us in the form of cash or awards of a combination thereof as determined by the Compensation Committee.</p>

Repricing Prohibited:

Repricing, or reducing the exercise price of outstanding options or SARs, is prohibited without stockholder approval under the 2011 Plan. Such prohibited repricing includes canceling, substituting, or exchanging outstanding options or SARs in exchange for cash, other awards or options or SARs with an exercise price that is less than the exercise price of the original options or SARs, unless approved by stockholders.

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The following table shows, in the aggregate, the number of shares subject to restricted stock that will be granted automatically in fiscal 2014 to our five non-employee directors, pursuant to the Equity Plan equity incentive grant formula for non-employee directors if the 2011 Plan is approved by the stockholders.

Name and Position	Dollar Value (\$)
Non-Employee	
Director Group	\$ 125,000

Future awards under the 2011 Plan to executive officers, employees or other eligible participants, and any additional future discretionary awards to non-employee directors in addition to those granted automatically pursuant to the grant formula described above, are discretionary and cannot be determined at this time. We therefore have not included any such awards in the table above.

As of March 31, 2014, the following awards have been granted under the 2011 Plan over the term of the 2011 Plan:

Name	Number of Options <u>Granted</u>	Number of Restricted Shares and Restricted Shares Stock <u>Units Granted</u>
Victor Viegas	700,000	90,000
Dennis Sheehan	55,000	104,000
Paul Norris	310,000	20,000
John Fichthorn	40,000	24,750
Jack Saltich	-	24,750
Carl Schlachte	40,000	24,750
David Sugishita	-	24,750
	1,065,000	214,000

All current executive officers as a group (3 persons)

All current non-employee directors as a group (4 persons)

80,000

99,000

All employees, excluding current executive officers

836,975

845,941

61

Table of Contents***Terms applicable to Stock Options and Stock Appreciation Rights***

The exercise price of grants made under the 2011 Plan of stock options or stock appreciation rights may not be less than the fair market value (the closing price of our common stock on the date of grant, and if that is not a trading day, the closing price of our common stock on the trading day immediately prior to the date of grant) of our common stock. On the record date, the closing price of our common stock was \$10.52 per share. The term of these awards may not be longer than seven years. Our Compensation Committee determines at the time of grant the other terms and conditions applicable to such award, including vesting and exercisability.

Terms applicable to Restricted Stock Awards, Restricted Stock Unit Awards, Performance Shares, Performance Units and Stock Bonus Awards

Our Compensation Committee determines the terms and conditions applicable to the granting of restricted stock awards, restricted stock unit awards, performance shares, performance units and stock bonus awards. Our Compensation Committee may make the grant, issuance, retention and/or vesting of restricted stock awards, restricted stock unit awards, performance shares, performance units and stock bonus awards contingent upon continued employment with us, the passage of time, or such performance criteria and the level of achievement versus such criteria as it deems appropriate. Awards of performance shares or performance units may be settled in shares or in cash.

Eligibility Under Section 162(m)

Awards may, but need not, include performance criteria that satisfy Section 162(m) of the Code. To the extent that awards are intended to qualify as performance-based compensation under Section 162(m), the performance criteria may include among other criteria, one of the following criteria, either individually, alternatively or in any combination, applied to either our company as a whole or to a business unit or subsidiary, either individually, alternatively, or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by our Compensation Committee in the award:

Revenue

Sales

Expenses

Operating income

Gross margin

Operating margin

Earnings before any one or more of: stock-based compensation expense, interest, taxes, depreciation and amortization

Pre-tax profit

Net operating income

Net income

Economic value added

Free cash flow

Operating cash flow

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Balance of cash, cash equivalents and marketable securities

Stock price

Earnings per share

Return on stockholder equity

Return on capital

Return on assets

Return on investment

Employee satisfaction

Employee retention

Market share

Customer satisfaction

Product development

Research and development expenses

Completion of an identified special project

Completion of a joint venture or other corporate transaction

To the extent that an award under the 2011 Plan is designated as a performance award, but is not intended to qualify as performance-based compensation under Section 162(m), the performance criteria can include the achievement of strategic objectives as determined by the Board.

Notwithstanding satisfaction of any completion of any performance criteria described above, to the extent specified at the time of grant of an award, the number of shares of common stock, number of shares subject to stock options or other benefits granted, issued, retainable and/or vested under an award on account of satisfaction of performance criteria may be reduced by our Compensation Committee on the basis of such further considerations as our Compensation Committee in its sole discretion determines.

Transferability

Except as otherwise provided in the 2011 Plan, awards granted under the 2011 Plan may not be sold, pledged, assigned, hypothecated, transferred or disposed of except by will or the laws of descent and distribution. No award may be made subject to execution, attachment or other similar process.

Administration

Our Compensation Committee administers the 2011 Plan. Subject to the terms and limitations expressly set forth in the Equity Plan, our Compensation Committee selects the persons who receive awards, determines the number of shares covered thereby, and, establishes the terms, conditions and other provisions of the grants. Our Compensation Committee may construe and interpret the 2011 Plan and prescribe, amend and rescind any rules and regulations relating to the 2011 Plan. Our Compensation Committee may delegate to a committee of two or more directors the ability to grant awards to 2011 Plan participants, so long as such participants are not officers, members of our Board of Directors, or any other person who is subject to Section 16 of the Securities Exchange Act of 1934, as amended, and to take certain other actions with respect to participants who are not executive officers.

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Amendments

The Board may terminate or amend the 2011 Plan at any time, provided that no action may be taken by the Board (except those described in Adjustments) if stockholder approval is required.

Adjustments

In the event of an extraordinary cash dividend, stock dividend, recapitalization, stock split, reverse stock split, subdivision, combination, reclassification or similar change of our capital structure without consideration, the Board may approve, in its discretion, an adjustment of the number and kind of shares available for grant under the 2011 Plan, and subject to the various limitations set forth in the 2011 Plan, the number of shares subject to outstanding awards under the 2011 Plan, and the exercise price of outstanding stock options and of other awards.

In the event of a merger or asset sale, any or all outstanding awards may be assumed or an equivalent award substituted by a successor corporation. Substitute awards shall not reduce the number of shares authorized for grant under the 2011 Plan or authorized for grant to an individual in a calendar year. In the event the successor corporation refuses to assume or substitute the awards outstanding under the 2011 Plan, the outstanding awards shall terminate, unless other action is taken by the Board. In such event, each holder will be notified that the awards are exercisable for a period to be determined by the Board and upon expiration of such period, such awards shall terminate. All awards need not be treated similarly.

Outstanding awards shall terminate immediately prior to the consummation of such dissolution or liquidation.

Forfeiture Events

All awards under the 2011 Plan shall be subject to clawback or recoupment pursuant to any compensation clawback or recoupment policy adopted by the Board or required by law during the term of individual s employment or other service with our company that is applicable to our executive officers, employees, directors or other service providers, and in addition to any other remedies available under such policy and applicable law, may require the cancelation of outstanding awards and the recoupment of any gains realized with respect to awards.

U.S. Tax Consequences

The following is a general summary as of the date of this proxy statement of the United States federal income tax consequences to us and participants in the Equity Plan. The federal tax laws may change and the federal, state and local tax consequences for any participant will depend upon his or her individual circumstances. Each participant has been, and is, encouraged to seek the advice of a qualified tax advisor regarding the tax consequences of participation in the plan.

Non-Qualified Stock Options

A participant will realize no taxable income at the time a non-qualified stock option is granted under the plan, but generally at the time such non-qualified stock option is exercised, the participant will realize ordinary income in an amount equal to the excess of the fair market value of the shares on the date of exercise over the stock option exercise price. Upon a disposition of such shares, the difference between the amount received and the fair market value on the date of exercise will generally be treated as a long-term or short-term capital gain or loss, depending on the holding period of the shares. We will generally be entitled to a deduction for federal income tax purposes at the same time and in the same amount as the participant is considered to have realized ordinary income in connection with the exercise

of the non-qualified stock option.

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Incentive Stock Options

A participant will realize no taxable income, and we will not be entitled to any related deduction, at the time any incentive stock option is granted. If certain employment and holding period conditions are satisfied, then no taxable income will result upon the exercise of such option and we will not be entitled to any deduction in connection with the exercise of such stock option. Upon disposition of the shares after expiration of the statutory holding periods, any gain realized by a participant will be taxed as long-term capital gain and any loss sustained will be long-term capital loss, and we will not be entitled to a deduction in respect to such disposition. While no ordinary taxable income is recognized at exercise (unless there is a disqualifying disposition, see below), the excess of the fair market value of the shares over the stock option exercise price is a preference item that is recognized for alternative minimum tax purposes.

Except in the event of death, if shares acquired by a participant upon the exercise of an incentive stock option are disposed of by such participant before the expiration of the statutory holding periods (i.e., a disqualifying disposition), such participant will be considered to have realized as compensation taxed as ordinary income in the year of such disposition an amount, not exceeding the gain realized on such disposition, equal to the difference between the stock option price and the fair market value of such shares on the date of exercise of such stock option. Generally, any gain realized on the disposition in excess of the amount treated as compensation or any loss realized on the disposition will constitute capital gain or loss, respectively. If a participant makes a disqualifying disposition, generally in the fiscal year of such disqualifying disposition we will be allowed a deduction for federal income tax purposes in an amount equal to the compensation realized by such participant.

Stock Appreciation Rights

A grant of a stock appreciation right (which can be settled in cash or our common stock) has no federal income tax consequences at the time of grant. Upon the exercise of stock appreciation rights, the value received is generally taxable to the recipient as ordinary income, and we generally will be entitled to a corresponding tax deduction.

Restricted Stock

A participant receiving restricted stock may be taxed in one of two ways: the participant (i) pays tax when the restrictions lapse (i.e., they become vested) or (ii) makes a special election to pay tax in the year the grant is made. At either time the value of the award for tax purposes is the excess of the fair market value of the shares at that time over the amount (if any) paid for the shares. This value is taxed as ordinary income and is subject to income tax withholding. We receive a tax deduction at the same time and for the same amount taxable to the participant. If a participant elects to be taxed at grant, then, when the restrictions lapse, there will be no further tax consequences attributable to the awarded stock until the recipient disposes of the stock, at which point any gain or loss will be short-term or long-term capital gain or loss, depending on the holding period of the stock prior to such disposition.

Restricted Stock Units

In general, no taxable income is realized upon the grant of a restricted stock unit award. The participant will generally include in ordinary income the fair market value of the award of stock at the time shares of stock are delivered to the participant or at the time the restricted stock unit vests. We generally will be entitled to a tax deduction at the time and in the amount that the participant recognizes ordinary income. Restricted stock units usually vest over a time period specified by the Board.

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Performance Stock Units

Similar to restricted stock units, in general, no taxable income is realized upon the grant of a performance stock unit award. The participant will generally include in ordinary income the fair market value of the award of stock at the time shares of stock are delivered to the participant or at the time the performance stock unit vests. We generally will be entitled to a tax deduction at the time and in the amount that the participant recognizes ordinary income. Performance stock units usually vest upon the achievement of metrics established by the Board.

Performance Shares

The participant will not realize income when a performance share is granted, but will realize ordinary income when shares are transferred to him or her. The amount of such income will be equal to the fair market value of such transferred shares on the date of transfer. We will be entitled to a deduction for federal income tax purposes at the same time and in the same amount as the participant is considered to have realized ordinary income as a result of the transfer of shares.

Section 162(m) Limit

The plan is intended to enable us to provide certain forms of performance-based compensation to executive officers that will meet the requirements for tax deductibility under Section 162(m) of the Code. Section 162(m) provides that, subject to certain exceptions, we may not deduct compensation paid to any one of certain executive officers in excess of \$1 million in any one year. Section 162(m) excludes certain performance-based compensation from the \$1 million limitation.

ERISA Information

The plan is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974, as amended.

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ANNEX A

IMMERSION CORPORATION

2011 EQUITY INCENTIVE PLAN

(As Amended April 7, 2014)

1. PURPOSE. The purpose of this Plan is to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Company, and any Parents and Subsidiaries that exist now or in the future, by offering them an opportunity to participate in the Company's future performance through the grant of Awards. Capitalized terms not defined elsewhere in the text are defined in Section 28.

2. SHARES SUBJECT TO THE PLAN.

2.1 Number of Shares Available. Subject to Sections 2.5 and 21 and any other applicable provisions hereof, the total number of Shares reserved and available for grant and issuance pursuant to this Plan as of the date of adoption of the Plan by the Board, is 3,700,000 Shares plus (i) any reserved shares not issued or subject to outstanding grants under the Company's 2007 Equity Incentive Plan (the *Prior 2007 Plan*) on the Effective Date (as defined below) up to a maximum of 400,000 Shares, (ii) any reserved shares not issued or subject to outstanding grants under the Company's 2008 Employment Inducement Award Plan (the *Prior 2008 Plan*) on the Effective Date up to a maximum of 2,300,000 Shares, (iii) shares that are subject to stock options or other awards granted under the Prior 2007 Plan or the Prior 2008 Plan that cease to be subject to stock options or other awards after the Effective Date for any reason after the exercise of an option or SAR; (iv) shares issued under the Prior 2007 Plan or the Prior 2008 Plan before or after the Effective Date that, after the Effective Date are forfeited or repurchased at the original issue price; and (v) are subject to Awards granted under the Prior 2007 Plan or the Prior 2008 Plan that otherwise terminate without Shares being issued. Any Award shall reduce the number of Shares available for issuance under this Plan at the rate of one (1) for one (1) if such Shares were subject to an Option or SAR and at the rate of one and three quarters (1.75) for one (1) if subject to an Award other than an Option or SAR.

2.2 Lapsed, Returned Awards. Shares subject to Awards, and Shares issued under the Plan under any Award, will again be available for grant and issuance in connection with subsequent Awards under this Plan to the extent such Shares: (a) are subject to issuance upon exercise of an Option or SAR granted under this Plan but which cease to be subject to the Option or SAR for any reason other than exercise of the Option or SAR; (b) are subject to Awards granted under this Plan that are forfeited or are repurchased by the Company at the original issue price; (c) are subject to Awards granted under this Plan that otherwise terminate without such Shares being issued; or (d) are surrendered pursuant to an Exchange Program. The following Shares may not again be made available for future grant and issuance as Awards under the Plan: (i) Shares that are withheld to pay the exercise or purchase price of an Award or to satisfy any tax withholding obligations in connection with an Option or SAR, (ii) Shares not issued or delivered as a result of the net settlement of an outstanding Option or SAR or (iii) shares of the Company's Common Stock repurchased on the open market with the proceeds of an Option exercise price. To the extent that a Performance Award in the form of a Performance Unit has been made, such Award will not reduce the number of Shares available for issuance under the Plan. To the extent that any Award is forfeited, repurchased or terminates without Shares being issued, Shares may again be available for issuance under this Plan at the rate of one (1) for one (1) if such shares were subject to an Option or SAR and at the rate of one and three quarters (1.75) for one (1) if subject to an Award other than an Option or SAR.

2.3 Minimum Share Reserve. At all times the Company shall reserve and keep available a sufficient number of Shares as shall be required to satisfy the requirements of all outstanding Awards granted under this Plan.

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2.4 **Limitations.** No more than 20,000,000 Shares shall be issued pursuant to the exercise of ISOs.

2.5 **Adjustment of Shares.** If the number of outstanding Shares is changed by an extraordinary cash dividend, stock dividend, recapitalization, stock split, reverse stock split, subdivision, combination, reclassification or similar change in the capital structure of the Company, without consideration, then (a) the number of Shares reserved for issuance and future grant under the Plan set forth in Sections 2.1 or 2.2, (b) the Exercise Prices of and number of Shares subject to outstanding Options and SARs, (c) the number of Shares subject to other outstanding Awards, (d) the maximum number of shares that may be issued as ISOs set forth in Section 2.4, (e) the maximum number of Shares that may be issued to an individual or to a new Employee in any one calendar year set forth in Section 3 and (f) the number of Shares that are granted as Awards to Non-Employee Directors as set forth in Section 12, shall be proportionately adjusted, subject to any required action by the Board or the stockholders of the Company and in compliance with applicable securities laws; provided that fractions of a Share will not be issued.

3. **ELIGIBILITY.** ISOs may be granted only to Employees. All other Awards may be granted to Employees, Consultants, Directors and Non-Employee Directors of the Company or any Parent or Subsidiary of the Company; provided such Consultants, Directors and Non-Employee Directors render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction. No Participant will be eligible to receive an Award for more than one million (1,000,000) Shares in any calendar year under this Plan except that new Employees of the Company or a Parent or Subsidiary of the Company (including new Employees who are also officers and directors of the Company or any Parent or Subsidiary of the Company) are eligible to receive an Award for up to a maximum of two million (2,000,000) Shares in the calendar year in which they commence their employment.

4. **ADMINISTRATION.**

4.1 **Committee Composition; Authority.** This Plan will be administered by the Committee or by the Board acting as the Committee. Subject to the general purposes, terms and conditions of this Plan, and to the direction of the Board, the Committee will have full power to implement and carry out this Plan, except, however, the Board shall establish the terms for the grant of an Award to Non-Employee Directors. The Committee will have the authority to:

- (a) construe and interpret this Plan, any Award Agreement and any other agreement or document executed pursuant to this Plan;
- (b) prescribe, amend and rescind rules and regulations relating to this Plan or any Award;
- (c) select persons to receive Awards;
- (d) determine the form and terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may vest and be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, the method to satisfy tax withholding obligations or any other tax liability and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Committee will determine;
- (e) determine the number of Shares or other consideration subject to Awards;
- (f) determine the Fair Market Value in good faith, if necessary;

(g) determine whether Awards will be granted singly, in combination with, in tandem with, in replacement of, or as alternatives to, other Awards under this Plan or any other incentive or compensation plan of the Company or any Parent or Subsidiary of the Company;

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- (h) grant waivers of Plan or Award conditions;
- (i) determine the vesting, exercisability and payment of Awards;
- (j) correct any defect, supply any omission or reconcile any inconsistency in this Plan, any Award or any Award Agreement;
- (k) determine whether an Award has been earned;
- (l) subject to Section 18, determine the terms and conditions of any, and to institute any Exchange Program;
- (m) reduce or waive any criteria with respect to Performance Factors;
- (n) adjust Performance Factors to take into account changes in law and accounting or tax rules as the Committee deems necessary or appropriate to reflect the impact of extraordinary or unusual items, events or circumstances to avoid windfalls or hardships provided that such adjustments are consistent with the regulations promulgated under Section 162(m) of the Code with respect to persons whose compensation is subject to Section 162(m) of the Code;
- (o) adopt rules and/or procedures (including the adoption of any subplan under this Plan and country addenda to Award Agreements) relating to the operation and administration of the Plan to accommodate grants to Participants residing outside of the United States;
- (p) delegate any of the foregoing to a subcommittee consisting of one or more executive officers pursuant to a specific delegation as permitted by applicable law, including Section 157(c) of the Delaware General Corporation Law; and
- (q) make all other determinations necessary or advisable for the administration of this Plan.

4.2 **Committee Interpretation and Discretion.** Any determination made by the Committee with respect to any Award shall be made in its sole discretion at the time of grant of the Award or, unless in contravention of any express term of the Plan or Award, at any later time, and such determination shall be final and binding on the Company and all persons having an interest in any Award under the Plan. Any dispute regarding the interpretation of the Plan or any Award Agreement shall be submitted by the Participant or Company to the Committee for review. The resolution of such a dispute by the Committee shall be final and binding on the Company and the Participant. The Committee may delegate to one or more executive officers the authority to review and resolve disputes with respect to Awards held by Participants who are not Insiders, and such resolution shall be final and binding on the Company and the Participant.

4.3 **Section 162(m) of the Code and Section 16 of the Exchange Act.** When necessary or desirable for an Award to qualify as performance-based compensation under Section 162(m) of the Code the Committee shall include at least two persons who are outside directors (as defined under Section 162(m) of the Code) and at least two (or a majority if more than two then serve on the Committee) such outside directors shall approve the grant of such Award and timely determine (as applicable) the Performance Period and any Performance Factors upon which vesting or settlement of any portion of such Award is to be subject. When required by Section 162(m) of the Code, prior to settlement of any such Award at least two (or a majority if more than two then serve on the Committee) such outside directors then serving on the Committee shall determine and certify in writing the extent to which such Performance Factors have been timely achieved and the extent to which the Shares subject to such Award have thereby been earned. Awards granted to Participants who are subject to Section 16 of the Exchange Act must be approved by two or more non-employee directors (as defined in the regulations promulgated under Section 16 of the Exchange Act). With

respect to Participants

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whose compensation is subject to Section 162(m) of the Code, and provided that such adjustments are consistent with the regulations promulgated under Section 162(m) of the Code, the Committee may adjust the performance goals to account for changes in law and accounting and to make such adjustments as the Committee deems necessary or appropriate to reflect the impact of extraordinary or unusual items, events or circumstances to avoid windfalls or hardships, including without limitation (i) restructurings, discontinued operations, extraordinary items, and other unusual or non-recurring charges, (ii) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management, or (iii) a change in accounting standards required by generally accepted accounting principles.

4.4 **Documentation.** The Award Agreement for a given Award, the Plan and any other documents may be delivered to, and accepted by, a Participant or any other person in any manner (including electronic distribution or posting) that meets applicable legal requirements.

4.5 **Foreign Award Recipients.** Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and any Subsidiary operate or have employees or other individuals eligible for Awards, the Committee, in its sole discretion, shall have the power and authority to: (a) determine which Subsidiary shall be covered by the Plan; (b) determine which individuals outside the United States are eligible to participate in the Plan; (c) modify the terms and conditions of any Award granted to individuals outside the United States; (d) establish subplans and addenda to Award Agreements and modify exercise procedures and other terms and procedures, to the extent the Committee determines such actions to be necessary or advisable (and such subplans and/or modifications shall be attached to this Plan as appendices and any addenda to the Award Agreements); provided, however, that no such subplans, addenda to Award Agreements and/or modifications shall increase the share limitations contained in Section 2.1 hereof; and (e) take any action, before or after an Award is made, that the Committee determines to be necessary or advisable to obtain approval or comply with any local governmental regulatory exemptions or approvals. Notwithstanding the foregoing, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act or any other applicable United States securities law, the Code, or any other applicable United States governing statute or law.

5. **OPTIONS.** The Committee may grant Options to Participants and will determine whether such Options will be Incentive Stock Options within the meaning of the Code (*ISOs*) or Nonqualified Stock Options (*NQSOs*), the number of Shares subject to the Option, the Exercise Price of the Option, the period during which the Option may vest and be exercised, and all other terms and conditions of the Option, subject to the following:

5.1 **Option Grant.** Each Option granted under this Plan will identify the Option as an ISO or an NQSO. An Option may be, but need not be, awarded upon satisfaction of such Performance Factors during any Performance Period as are set out in advance in the Participant's individual Award Agreement. If the Option is being earned upon the satisfaction of Performance Factors, then the Committee will: (x) determine the nature, length and starting date of any Performance Period for each Option; and (y) select from among the Performance Factors to be used to measure the performance, if any. Performance Periods may overlap and Participants may participate simultaneously with respect to Options that are subject to different performance goals and other criteria.

5.2 **Date of Grant.** The date of grant of an Option will be the date on which the Committee makes the determination to grant such Option, or a specified future date. The Award Agreement and a copy of this Plan will be delivered to the Participant within a reasonable time after the granting of the Option.

5.3 **Exercise Period.** Options may be vested and exercisable within the times or upon the conditions as set forth in the Award Agreement governing such Option; provided, however, that no Option will be exercisable after the expiration of seven (7) years from the date the Option is granted; and provided further that no ISO granted to a person

who, at the time the ISO is granted, directly or by attribution owns more than ten

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percent (10%) of the total combined voting power of all classes of stock of the Company or of any Parent or Subsidiary of the Company (*Ten Percent Stockholder*) will be exercisable after the expiration of five (5) years from the date the ISO is granted. The Committee also may provide for Options to become exercisable at one time or from time to time, periodically or otherwise, in such number of Shares or percentage of Shares as the Committee determines.

5.4 **Exercise Price.** The Exercise Price of an Option will be determined by the Committee when the Option is granted; provided that: (i) the Exercise Price of an Option will be not less than one hundred percent (100%) of the Fair Market Value of the Shares on the date of grant and (ii) the Exercise Price of any ISO granted to a Ten Percent Stockholder will not be less than one hundred ten percent (110%) of the Fair Market Value of the Shares on the date of grant. Payment for the Shares purchased may be made in accordance with Section 11 and the Award Agreement and in accordance with any procedures established by the Company.

5.5 **Method of Exercise.** Any Option granted hereunder will be vested and exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Committee and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share. An Option will be deemed exercised when the Company receives: (i) notice of exercise (in such form as the Committee may specify from time to time) from the person entitled to exercise the Option (and/or via electronic execution through the authorized third party administrator), and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Committee and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 2.5 of the Plan. Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

5.6 **Termination.** The exercise of an Option will be subject to the following (except as may be otherwise provided in an Award Agreement):

(a) If the Participant is Terminated for any reason except for Cause or the Participant's death or Disability, then the Participant may exercise such Participant's Options only to the extent that such Options would have been exercisable by the Participant on the Termination Date no later than three (3) months after the Termination Date (or such shorter time period or longer time period not exceeding five (5) years as may be determined by the Committee, with any exercise beyond three (3) months after the Termination Date deemed to be the exercise of an NQSO), but in any event no later than the expiration date of the Options.

(b) If the Participant is Terminated because of the Participant's death (or the Participant dies within three (3) months after a Termination other than for Cause or because of the Participant's Disability), then the Participant's Options may be exercised only to the extent that such Options would have been exercisable by the Participant on the Termination Date and must be exercised by the Participant's legal representative, or authorized assignee, no later than twelve (12) months after the Termination Date (or such shorter time period not less than six (6) months or longer time period not exceeding five (5) years as may be determined by the Committee, but in any event no later than the expiration date of the Options.

(c) If the Participant is Terminated because of the Participant's Disability, then the Participant's Options may be exercised only to the extent that such Options would have been exercisable by the Participant on the Termination Date and must be exercised by the Participant (or the Participant's legal representative or authorized assignee) no later than twelve (12) months after the Termination Date (with any

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exercise beyond (a) three (3) months after the Termination Date when the Termination is for a Disability that is not a permanent and total disability as defined in Section 22(e)(3) of the Code, or (b) twelve (12) months after the Termination Date when the Termination is for a Disability that is a permanent and total disability as defined in Section 22(e)(3) of the Code, deemed to be exercise of an NQSO), but in any event no later than the expiration date of the Options.

(d) If the Participant is terminated for Cause, then Participant's Options shall expire on such Participant's Termination Date, or at such later time and on such conditions as are determined by the Committee, but in any no event later than the expiration date of the Options.

5.7 **Limitations on Exercise.** The Committee may specify a minimum number of Shares that may be purchased on any exercise of an Option, provided that such minimum number will not prevent any Participant from exercising the Option for the full number of Shares for which it is then exercisable.

5.8 **Limitations on ISOs.** With respect to Awards granted as ISOs, to the extent that the aggregate Fair Market Value of the Shares with respect to which such ISOs are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds one hundred thousand dollars (\$100,000), such Options will be treated as NQSOs. For purposes of this Section 5.8, ISOs will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted. In the event that the Code or the regulations promulgated thereunder are amended after the Effective Date to provide for a different limit on the Fair Market Value of Shares permitted to be subject to ISOs, such different limit will be automatically incorporated herein and will apply to any Options granted after the effective date of such amendment.

5.9 **Modification, Extension or Renewal.** The Committee may modify, extend or renew outstanding Options and authorize the grant of new Options in substitution therefore, provided that any such action may not, without the written consent of a Participant, impair any of such Participant's rights under any Option previously granted. Subject to Section 18, the Committee may (a) reduce the Exercise Price of outstanding Options or (b) grant Options in substitution for cancelled options or other Awards authorized under the Plan. Any outstanding ISO that is modified, extended, renewed or otherwise altered will be treated in accordance with Section 424(h) of the Code.

5.10 **No Disqualification.** Notwithstanding any other provision in this Plan, no term of this Plan relating to ISOs will be interpreted, amended or altered, nor will any discretion or authority granted under this Plan be exercised, so as to disqualify this Plan under Section 422 of the Code or, without the consent of the Participant affected, to disqualify any ISO under Section 422 of the Code.

6. RESTRICTED STOCK AWARDS.

6.1 **Awards of Restricted Stock.** A Restricted Stock Award is an offer by the Company to sell to a Participant Shares that are subject to restrictions (***Restricted Stock***). The Committee will determine to whom an offer will be made, the number of Shares the Participant may purchase, the Purchase Price, the restrictions under which the Shares will be subject and all other terms and conditions of the Restricted Stock Award, subject to the Plan.

6.2 **Restricted Stock Purchase Agreement.** All purchases under a Restricted Stock Award will be evidenced by an Award Agreement. Except as may otherwise be provided in an Award Agreement, a Participant accepts a Restricted Stock Award by signing and delivering to the Company an Award Agreement with full payment of the Purchase Price, within thirty (30) days from the date the Award Agreement was delivered to the Participant. If the Participant does not accept such Award within thirty (30) days, then the offer of such Restricted Stock Award will terminate, unless the

Committee determines otherwise.

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6.3 **Purchase Price.** The Purchase Price for a Restricted Stock Award will be determined by the Committee and may be less than Fair Market Value on the date the Restricted Stock Award is granted. Payment of the Purchase Price must be made in accordance with Section 11 of the Plan, and the Award Agreement and in accordance with any procedures established by the Company.

6.4 **Terms of Restricted Stock Awards.** Restricted Stock Awards will be subject to such restrictions as the Committee may impose or are required by law. These restrictions may be based on completion of a specified number of years of service with the Company or upon completion of Performance Factors, if any, during any Performance Period as set out in advance in the Participant's Award Agreement. Prior to the grant of a Restricted Stock Award, the Committee shall: (a) determine the nature, length and starting date of any Performance Period for the Restricted Stock Award; (b) select from among the Performance Factors to be used to measure performance goals, if any; and (c) determine the number of Shares that may be awarded to the Participant. Performance Periods may overlap and a Participant may participate simultaneously with respect to Restricted Stock Awards that are subject to different Performance Periods and having different performance goals and other criteria.

6.5 **Termination of Participant.** Except as may be set forth in the Participant's Award Agreement, vesting ceases on such Participant's Termination Date (unless determined otherwise by the Committee).

7. STOCK BONUS AWARDS.

7.1 **Awards of Stock Bonuses.** A Stock Bonus Award is an award to an eligible person of Shares for services to be rendered or for past services already rendered to the Company or any Parent or Subsidiary. All Stock Bonus Awards shall be made pursuant to an Award Agreement. No payment from the Participant will be required for Shares awarded pursuant to a Stock Bonus Award.

7.2 **Terms of Stock Bonus Awards.** The Committee will determine the number of Shares to be awarded to the Participant under a Stock Bonus Award and any restrictions thereon. These restrictions may be based upon completion of a specified number of years of service with the Company or upon satisfaction of performance goals based on Performance Factors during any Performance Period as set out in advance in the Participant's Stock Bonus Agreement. Prior to the grant of any Stock Bonus Award the Committee shall: (a) determine the nature, length and starting date of any Performance Period for the Stock Bonus Award; (b) select from among the Performance Factors to be used to measure performance goals; and (c) determine the number of Shares that may be awarded to the Participant. Performance Periods may overlap and a Participant may participate simultaneously with respect to Stock Bonus Awards that are subject to different Performance Periods and different performance goals and other criteria.

7.3 **Form of Payment to Participant.** Payment may be made in the form of cash, whole Shares, or a combination thereof, based on the Fair Market Value of the Shares earned under a Stock Bonus Award on the date of payment, as determined in the sole discretion of the Committee.

7.4 **Termination of Participation.** Except as may be set forth in the Participant's Award Agreement, vesting ceases on such Participant's Termination Date (unless determined otherwise by the Committee).

8. STOCK APPRECIATION RIGHTS.

8.1 **Awards of SARs.** A Stock Appreciation Right (**SAR**) is an award to a Participant that may be settled in cash, or Shares (which may consist of Restricted Stock), having a value equal to (a) the difference between the Fair Market Value on the date of exercise over the Exercise Price multiplied by (b) the number of Shares with respect to which the SAR is being settled (subject to any maximum number of Shares that may be issuable as specified in an Award

Agreement). All SARs shall be made pursuant to an Award Agreement.

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8.2 **Terms of SARs.** The Committee will determine the terms of each SAR including, without limitation: (a) the number of Shares subject to the SAR; (b) the Exercise Price and the time or times during which the SAR may be settled; (c) the consideration to be distributed on settlement of the SAR; and (d) the effect of the Participant's Termination on each SAR. The Exercise Price of the SAR will be determined by the Committee when the SAR is granted, and may not be less than Fair Market Value. A SAR may be awarded upon satisfaction of Performance Factors, if any, during any Performance Period as are set out in advance in the Participant's individual Award Agreement. If the SAR is being earned upon the satisfaction of Performance Factors, then the Committee will: (x) determine the nature, length and starting date of any Performance Period for each SAR; and (y) select from among the Performance Factors to be used to measure the performance, if any. Performance Periods may overlap and Participants may participate simultaneously with respect to SARs that are subject to different Performance Factors and other criteria.

8.3 **Exercise Period and Expiration Date.** A SAR will be exercisable within the times or upon the occurrence of events determined by the Committee and set forth in the Award Agreement governing such SAR. The SAR Agreement shall set forth the expiration date; provided that no SAR will be exercisable after the expiration of seven (7) years from the date the SAR is granted. The Committee may also provide for SARs to become exercisable at one time or from time to time, periodically or otherwise (including, without limitation, upon the attainment during a Performance Period of performance goals based on Performance Factors), in such number of Shares or percentage of the Shares subject to the SAR as the Committee determines. Except as may be set forth in the Participant's Award Agreement, vesting ceases on such Participant's Termination Date (unless determined otherwise by the Committee). Notwithstanding the foregoing, the rules of Section 5.6 also will apply to SARs.

8.4 **Form of Settlement.** Upon exercise of a SAR, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying (i) the difference between the Fair Market Value of a Share on the date of exercise over the Exercise Price; times (ii) the number of Shares with respect to which the SAR is exercised. At the discretion of the Committee, the payment from the Company for the SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof. The portion of a SAR being settled may be paid currently or on a deferred basis with such interest or dividend equivalent, if any, as the Committee determines, provided that the terms of the SAR and any deferral satisfy the requirements of Section 409A of the Code.

8.5 **Termination of Participation.** Except as may be set forth in the Participant's Award Agreement, vesting ceases on such Participant's Termination Date (unless determined otherwise by the Committee).

9. RESTRICTED STOCK UNITS.

9.1 **Awards of Restricted Stock Units.** A Restricted Stock Unit (*RSU*) is an award to a Participant covering a number of Shares that may be settled in cash, or by issuance of those Shares (which may consist of Restricted Stock). All RSUs shall be made pursuant to an Award Agreement.

9.2 **Terms of RSUs.** The Committee will determine the terms of an RSU including, without limitation: (a) the number of Shares subject to the RSU; (b) the time or times during which the RSU may be settled; and (c) the consideration to be distributed on settlement, and the effect of the Participant's Termination on each RSU. An RSU may be awarded upon satisfaction of such performance goals based on Performance Factors during any Performance Period as are set out in advance in the Participant's Award Agreement. If the RSU is being earned upon satisfaction of Performance Factors, then the Committee will: (x) determine the nature, length and starting date of any Performance Period for the RSU; (y) select from among the Performance Factors to be used to measure the performance, if any; and (z) determine the number of Shares deemed subject to the RSU. Performance Periods may overlap and participants may participate simultaneously with respect to RSUs that are subject to different Performance Periods and

different performance goals and other criteria.

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9.3 **Form and Timing of Settlement.** Payment of earned RSUs shall be made as soon as practicable after the date(s) determined by the Committee and set forth in the Award Agreement. The Committee, in its sole discretion, may settle earned RSUs in cash, Shares, or a combination of both. The Committee may also permit a Participant to defer payment under a RSU to a date or dates after the RSU is earned provided that the terms of the RSU and any deferral satisfy the requirements of Section 409A of the Code.

9.4 **Termination of Participant.** Except as may be set forth in the Participant's Award Agreement, vesting ceases on such Participant's Termination Date (unless determined otherwise by the Committee).

10. PERFORMANCE AWARDS.

10.1 **Performance Awards.** Performance Awards may be granted in the form of either Performance Shares or Performance Units. Each Award Agreement evidencing a Performance Award shall specify the number of Performance Shares or Performance Units subject thereto, the Performance Award Formula, the Performance Goal(s) and Performance Period applicable to the Award, and the other terms, conditions and restrictions of the Award.

10.2 **Terms of Performance Awards.** The Committee will determine the terms of a Performance Award including, without limitation: (a) the number of Shares subject to the Performance Award; (b) the time or times during which the Performance Award may be settled; and (c) the consideration to be distributed on settlement, and the effect of the Participant's Termination on each Performance Award. A Performance Award may be awarded upon satisfaction of such performance goals based on Performance Factors during any Performance Period as are set out in advance in the Participant's Award Agreement. If the Performance Award is being earned upon satisfaction of Performance Factors, then the Committee will: (x) determine the nature, length and starting date of any Performance Period for the Performance Award; (y) select from among the Performance Factors to be used to measure the performance, if any; and (z) determine the number of Shares deemed subject to the Performance Award. Performance Periods may overlap and participants may participate simultaneously with respect to Performance Awards that are subject to different Performance Periods and different performance goals and other criteria. No Participant will be eligible to receive more than \$1,000,000 in Performance Units in any calendar year.

10.3 **Form and Timing of Settlement.** Payment of earned Performance Awards shall be made as soon as practicable after the date(s) determined by the Committee and set forth in the Award Agreement. The Committee, in its sole discretion, may settle earned Performance Awards in cash, Shares, or a combination of both. The Committee may also permit a Participant to defer payment under a Performance Award to a date or dates after the Performance Award is earned provided that the terms of the Performance Award and any deferral satisfy the requirements of Section 409A of the Code.

10.4 **Termination of Participant.** Except as may be set forth in the Participant's Award Agreement, vesting ceases on such Participant's Termination Date (unless determined otherwise by the Committee).

11. PAYMENT FOR SHARE PURCHASES.

Payment from a Participant for Shares purchased pursuant to this Plan may be made in cash or by check or, where expressly approved for the Participant by the Committee and where permitted by law (and to the extent not otherwise set forth in the applicable Award Agreement):

- (a) by cancellation of indebtedness of the Company to the Participant;

(b) by surrender of shares of the Company held by the Participant that have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Award will be exercised or settled;

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- (c) by waiver of compensation due or accrued to the Participant for services rendered or to be rendered to the Company or a Parent or Subsidiary of the Company;
- (d) by consideration received by the Company pursuant to a broker-assisted or other form of cashless exercise program implemented by the Company in connection with the Plan;
- (e) by any combination of the foregoing; or
- (f) by any other method of payment as is permitted by applicable law.

12. GRANTS TO NON-EMPLOYEE DIRECTORS.

12.1 Types of Awards. Non-Employee Directors are eligible to receive any type of Award offered under this Plan except ISOs. Awards pursuant to this Section 12 may be automatically made pursuant to policy adopted by the Board, or made from time to time as determined in the discretion of the Board. The aggregate number of Shares subject to Awards granted to a Non-Employee Director pursuant to this Section 12 in any calendar year shall not exceed 1,000,000.

12.2 Eligibility. Awards pursuant to this Section 12 shall be granted only to Non-Employee Directors. A Non-Employee Director who is elected or re-elected as a member of the Board will be eligible to receive an Award under this Section 12.

12.3 Vesting, Exercisability and Settlement. Except as set forth in Section 21, Awards shall vest, become exercisable and be settled as determined by the Board. With respect to Options and SARs, the exercise price granted to Non-Employee Directors shall not be less than the Fair Market Value of the Shares at the time that such Option or SAR is granted.

12.4 Election to receive Awards in Lieu of Cash. A Non-Employee Director may elect to receive his or her annual retainer payments and/or meeting fees from the Company in the form of cash or Awards or a combination thereof, as determined by the Committee. Such Awards shall be issued under the Plan. An election under this Section 12.4 shall be filed with the Company on the form prescribed by the Company.

13. WITHHOLDING TAXES.

13.1 Withholding Generally. Whenever Shares are to be issued in satisfaction of Awards granted under this Plan, the Company may require the Participant to remit to the Company an amount sufficient to satisfy applicable federal, state, local and international withholding tax requirements related to the Participant's participation in the Plan and legally applicable to the Participant prior to the delivery of Shares pursuant to exercise or settlement of any Award. Whenever payments in satisfaction of Awards granted under this Plan are to be made in cash, such payment will be net of an amount sufficient to satisfy applicable federal, state, local and international withholding tax requirements.

13.2 Stock Withholding. The Committee, in its sole discretion and pursuant to such procedures as it may specify from time to time, may require or permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (i) paying cash, (ii) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld, (iii) delivering to the Company already-owned Shares having a Fair Market Value equal to the minimum amount required to be withheld, or (iv) withholding from proceeds of the sale of otherwise deliverable Shares acquired pursuant to an Award either through a voluntary sale or through a mandatory sale arranged by the Company. The Fair Market Value of the Shares

to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

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14. TRANSFERABILITY.

14.1 **Transfer Generally.** Unless determined otherwise by the Committee, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution. If the Committee makes an Award transferable, including, without limitation, by instrument to an inter vivos or testamentary trust in which the Awards are to be passed to beneficiaries upon the death of the trustor (settlor) or by gift to a Permitted Transferee, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

14.2 **Award Transfer Program.** Notwithstanding any contrary provision of the Plan, the Committee shall have all discretion and authority to determine and implement the terms and conditions of any Award Transfer Program instituted pursuant to this Section 14.2 and shall have the authority to amend the terms of any Award participating, or otherwise eligible to participate in, the award transfer program, including (but not limited to) the authority to (i) amend (including to extend) the expiration date, post-termination exercise period and/or forfeiture conditions of any such Award, (ii) amend or remove any provisions of the Award relating to the Award holder's continued service to the Company, (iii) amend the permissible payment methods with respect to the exercise or purchase of any such Award, (iv) amend the adjustments to be implemented in the event of changes in the capitalization and other similar events with respect to such Award, and (v) make such other changes to the terms of such Award as the Committee deems necessary or appropriate in its sole discretion. Notwithstanding anything to the contrary in the Plan, in no event will the Committee have the right to determine and implement the terms and conditions of any Award Transfer Program without stockholder approval.

15. PRIVILEGES OF STOCK OWNERSHIP; RESTRICTIONS ON SHARES.

15.1 **Voting and Dividends.** No Participant will have any of the rights of a stockholder with respect to any Shares until the Shares are issued to the Participant. After Shares are issued to the Participant, the Participant will be a stockholder and have all the rights of a stockholder with respect to such Shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such Shares; provided, that if such Shares are Restricted Stock, then any new, additional or different securities the Participant may become entitled to receive with respect to such Shares by virtue of a stock dividend, stock split or any other change in the corporate or capital structure of the Company will be subject to the same restrictions as the Restricted Stock; provided, further, that the Participant will have no right to retain such stock dividends or stock distributions with respect to Shares that are repurchased at the Participant's Purchase Price or Exercise Price, as the case may be, pursuant to Section 15.2. However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Award that the Participant shall be entitled to Dividend Equivalent Rights with respect to the payment of cash dividends on Shares during the period beginning on the date the Award is granted and ending, with respect to each share subject to the Award, on the earlier of the date on which the Award is exercised or settled or the date on which they are forfeited. Such Dividend Equivalent Rights, if any, shall be credited to the Participant in the form of additional whole Shares as of the date of payment of such cash dividends on Shares.

15.2 **Restrictions on Shares.** At the discretion of the Committee, the Company may reserve to itself and/or its assignee(s) a right to repurchase (a ***Right of Repurchase***) a portion of any or all Unvested Shares held by a Participant following such Participant's Termination at any time within ninety (90) days after the later of the Participant's Termination Date and the date the Participant purchases Shares under this Plan, for cash and/or cancellation of purchase money indebtedness, at the Participant's Purchase Price or Exercise Price, as the case may be.

16. CERTIFICATES. All Shares or other securities (whether or not certificated) delivered under this Plan will be subject to such stock transfer orders, legends and other restrictions as the Committee may deem necessary or

advisable, including restrictions under any applicable federal, state or foreign securities law, or any rules, regulations and other requirements of the SEC or any stock exchange or automated quotation system upon which the Shares may be listed or quoted and any foreign exchange controls or restrictions.

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17. ESCROW; PLEDGE OF SHARES. To enforce any restrictions on a Participant's Shares, the Committee may require the Participant to deposit all certificates representing Shares, together with stock powers or other instruments of transfer approved by the Committee, appropriately endorsed in blank, with the Company or an agent designated by the Company to hold in escrow until such restrictions have lapsed or terminated, and the Committee may cause a legend or legends referencing such restrictions to be placed on the certificates. Any Participant who is permitted to execute a promissory note as partial or full consideration for the purchase of Shares under this Plan will be required to pledge and deposit with the Company all or part of the Shares so purchased as collateral to secure the payment of the Participant's obligation to the Company under the promissory note: provided, however, that the Committee may require or accept other or additional forms of collateral to secure the payment of such obligation and, in any event, the Company will have full recourse against the Participant under the promissory note notwithstanding any pledge of the Participant's Shares or other collateral. In connection with any pledge of the Shares, the Participant will be required to execute and deliver a written pledge agreement in such form as the Committee will from time to time approve. The Shares purchased with the promissory note may be released from the pledge on a pro rata basis as the promissory note is paid.

18. EXCHANGE AND BUYOUT OF AWARDS. The repricing of Options or SARs is not permitted without prior stockholder approval. Repricing is defined as the terms of outstanding awards may not be amended to reduce the exercise price of outstanding Options or SARs or cancel, substitute, buyout or exchange outstanding Options or SARs in exchange for cash, other Awards or Options or SARs with an exercise price that is less than the exercise price of the original Options or SARs. The Committee may, at any time or from time to time authorize the Company, in the case of an Option or SAR exchange with stockholder approval, and with the consent of the respective Participants (unless not required pursuant to Section 5.9 of the Plan), to pay cash or issue new Awards in exchange for the surrender and cancellation of any, or all, outstanding Awards.

19. SECURITIES LAW AND OTHER REGULATORY COMPLIANCE. An Award will not be effective unless such Award is in compliance with all applicable U.S. and foreign federal and state securities laws, rules and regulations of any governmental body, and the requirements of any stock exchange or automated quotation system upon which the Shares may then be listed or quoted, as they are in effect on the date of grant of the Award and also on the date of exercise or other issuance. Notwithstanding any other provision in this Plan, the Company will have no obligation to issue or deliver certificates for Shares under this Plan prior to: (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and/or (b) completion of any registration or other qualification of such Shares under any state or federal or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable. The Company will be under no obligation to register the Shares with the SEC or to effect compliance with the registration, qualification or listing requirements of foreign or state securities laws, stock exchange, exchange control or automated quotation system, and the Company will have no liability for any inability or failure to do so.

20. NO OBLIGATION TO EMPLOY. Nothing in this Plan or any Award granted under this Plan will confer or be deemed to confer on any Participant any right to continue in the employ of, or to continue any other relationship with, the Company or any Parent or Subsidiary of the Company or limit in any way the right of the Company or any Parent or Subsidiary of the Company to terminate Participant's employment or other relationship at any time.

21. CORPORATE TRANSACTIONS.

21.1 Assumption or Replacement of Awards by Successor. In the event of a Corporate Transaction any or all outstanding Awards may be assumed or replaced by the successor corporation, which assumption or replacement shall be binding on all Participants. In the alternative, the successor corporation may substitute equivalent Awards or provide substantially similar consideration to Participants as was provided to stockholders (after taking into account

the existing provisions of the Awards). The successor corporation may also issue, in place of outstanding Shares of the Company held by the Participant, substantially similar shares or

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other property subject to repurchase restrictions no less favorable to the Participant. In the event such successor or acquiring corporation (if any) refuses to assume, convert, replace or substitute Awards, as provided above, pursuant to a Corporate Transaction, then notwithstanding any other provision in this Plan to the contrary, unless otherwise determined by the Committee, such Awards shall terminate and cease to be outstanding effective as of the time of consummation of the Corporate Transaction. In such event, the Committee will notify the Participant in writing or electronically that such Award will be exercisable for a period of time determined by the Committee in its sole discretion, and such Award will terminate upon the expiration of such period. Awards need not be treated similarly in a Corporate Transaction.

21.2 **Assumption of Awards by the Company.** The Company, from time to time, also may substitute or assume outstanding awards granted by another company, whether in connection with an acquisition of such other company or otherwise, by either; (a) granting an Award under this Plan in substitution of such other company's award; or (b) assuming such award as if it had been granted under this Plan if the terms of such assumed award could be applied to an Award granted under this Plan. Such substitution or assumption will be permissible if the holder of the substituted or assumed award would have been eligible to be granted an Award under this Plan if the other company had applied the rules of this Plan to such grant. In the event the Company assumes an award granted by another company, the terms and conditions of such award will remain unchanged (except that the Purchase Price or the Exercise Price, as the case may be, and the number and nature of Shares issuable upon exercise or settlement of any such Award will be adjusted appropriately pursuant to Section 424(a) of the Code). In the event the Company elects to grant a new Option in substitution rather than assuming an existing option, such new Option may be granted with a similarly adjusted Exercise Price. Substitute Awards shall not reduce the number of Shares authorized for grant under the Plan or authorized for grant to a Participant in a calendar year.

21.3 **Non-Employee Directors Awards.** Notwithstanding any provision to the contrary herein, in the event of a Corporate Transaction, the vesting of all Awards granted to Non-Employee Directors shall accelerate and such Awards shall become exercisable (as applicable) in full prior to the consummation of such event at such times and on such conditions as the Committee determines.

22. **ADOPTION AND STOCKHOLDER APPROVAL.** This Plan shall be submitted for the approval of the Company's stockholders, consistent with applicable laws, within twelve (12) months before or after the date this Plan is adopted by the Board.

23. **TERM OF PLAN/GOVERNING LAW.** Unless earlier terminated as provided herein, this Plan will become effective on the Effective Date and will terminate ten (10) years from the date this Plan is adopted by the Board. This Plan and all Awards granted hereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to that state's conflict of law provisions.

24. **AMENDMENT OR TERMINATION OF PLAN.** The Board may at any time terminate or amend this Plan in any respect, including, without limitation, amendment of any form of Award Agreement or instrument to be executed pursuant to this Plan; provided, however, that the Board will not, without the approval of the stockholders of the Company, amend this Plan in any manner that requires such stockholder approval; provided further, that a Participant's Award shall be governed by the version of this Plan then in effect at the time such Award was granted.

25. **NONEXCLUSIVITY OF THE PLAN.** Neither the adoption of this Plan by the Board, the submission of this Plan to the stockholders of the Company for approval, nor any provision of this Plan will be construed as creating any limitations on the power of the Board to adopt such additional compensation arrangements as it may deem desirable, including, without limitation, the granting of stock awards and bonuses otherwise than under this Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

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26. INSIDER TRADING POLICY. Each Participant who receives an Award shall comply with any policy adopted by the Company from time to time covering transactions in the Company's securities by Employees, officers and/or directors of the Company.

27. ALL AWARDS SUBJECT TO COMPANY CLAWBACK OR RECOUPMENT POLICY. All Awards shall be subject to clawback or recoupment pursuant to any compensation clawback or recoupment policy adopted by the Board or required by law during the term of Participant's employment or other service with the Company or its Parent or Subsidiary that is applicable to executive officers, employees, directors or other service providers of the Company or its Parent or Subsidiary, and in addition to any other remedies available under such policy and applicable law, may require the cancellation of outstanding Awards and the recoupment of any gains realized with respect to Awards.

28. DEFINITIONS. As used in this Plan, and except as elsewhere defined herein, the following terms will have the following meanings:

Award means any award under the Plan, including any Option, Restricted Stock, Stock Bonus, Stock Appreciation Right, Restricted Stock Unit or award of Performance Shares.

Award Agreement means, with respect to each Award, the written or electronic agreement between the Company and the Participant setting forth the terms and conditions of the Award, including a country-specific addenda for non-U.S. Participants, which shall be in substantially a form (which need not be the same for each Participant) that the Committee (or in the case of non-Insider Participants, the Committee's delegate), has from time to time approved, and will comply with and be subject to the terms and conditions of this Plan.

Award Transfer Program means, any program instituted by the Committee that would permit Participants the opportunity to transfer for value any outstanding Awards to a financial institution or other person or entity approved by the Committee. A transfer for value shall not be deemed to occur under this Plan where an Award is transferred by a Participant for bona fide estate planning purposes to a trust or other testamentary vehicle approved by the Committee.

Board means the Board of Directors of the Company.

Cause means unless such term or an equivalent term is otherwise defined with respect to an Award by the Participant's Award Agreement or by a written contract of employment or service, any of the following: (i) the Participant's theft, dishonesty, willful misconduct, breach of fiduciary duty for personal profit, or falsification of any Company documents or records; (ii) the Participant's material failure to abide by a Company's code of conduct or other policies (including, without limitation, policies relating to confidentiality and reasonable workplace conduct); (iii) the Participant's unauthorized use, misappropriation, destruction or diversion of any tangible or intangible asset or corporate opportunity of a Company (including, without limitation, the Participant's improper use or disclosure of a Company's confidential or proprietary information); (iv) any intentional act by the Participant which has a material detrimental effect on a Company's reputation or business; (v) the Participant's repeated failure or inability to perform any reasonable assigned duties after written notice from a Company of, and a reasonable opportunity to cure, such failure or inability; (vi) any material breach by the Participant of any employment, service, non-disclosure, non-competition, non-solicitation or other similar agreement between the Participant and a Company, which breach is not cured pursuant to the terms of such agreement; or (vii) the Participant's conviction (including any plea of guilty or nolo contendere) of any criminal act involving fraud, dishonesty, misappropriation or moral turpitude, or which impairs the Participant's ability to perform his or her duties with a Company.

Code means the United States Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

Committee means the Compensation Committee of the Board or those persons to whom administration of the Plan, or part of the Plan, has been delegated as permitted by law.

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Common Stock means the common stock of the Company.

Company means Immersion Corporation, or any successor corporation.

Consultant means any person, including an advisor or independent contractor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

Corporate Transaction means the occurrence of any of the following events: (i) any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the beneficial owner (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then-outstanding voting securities; (ii) the consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; (iii) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation or (iv) any other transaction which qualifies as a corporate transaction under Section 424(a) of the Code wherein the stockholders of the Company give up all of their equity interest in the Company (except for the acquisition, sale or transfer of all or substantially all of the outstanding shares of the Company). Notwithstanding the foregoing, to the extent that any amount constituting deferred compensation as defined in Section 409A of the Code) would become payable under this Plan by reason of a Change in Control, such amount shall become payable only if the event constituting a Change in Control would also constitute a change in ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company (both as defined in Section 409A of the Code).

Director means a member of the Board.

Disability means in the case of incentive stock options, total and permanent disability as defined in Section 22(e)(3) of the Code and in the case of other Awards, that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

Dividend Equivalent Right means the right of a Participant, granted at the discretion of the Committee or as otherwise provided by the Plan, to receive a credit for the account of such Participant in an amount equal to the cash dividends paid on one Share for each Share represented by an Award held by such Participant.

Effective Date means the date the Plan is approved by stockholders of the Company, which shall be within twelve (12) months of the approval of the Plan by the Board.

Employee means any person, including Officers and Directors, providing services as an employee of the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute employment by the Company.

Exchange Act means the United States Securities Exchange Act of 1934, as amended.

Exchange Program means a program approved by stockholders of the Company pursuant to which (a) outstanding Awards are surrendered, cancelled or exchanged for cash, the same type of Award or a different Award (or combination thereof) or (b) the exercise price of an outstanding Award is increased or reduced.

Exercise Price means, with respect to an Option, the price at which a holder may purchase the Shares issuable upon exercise of an Option and with respect to a SAR, the price at which the SAR is granted to the holder thereof.

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Fair Market Value means, as of any date, the value of a share of the Company's Common Stock determined as follows:

- (a) if such Common Stock is publicly traded and is then listed on a national securities exchange, its closing price on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading as reported in *The Wall Street Journal* or such other source as the Committee deems reliable;
- (b) if such Common Stock is publicly traded but is neither listed nor admitted to trading on a national securities exchange, the average of the closing bid and asked prices on the date of determination as reported in *The Wall Street Journal* or such other source as the Committee deems reliable; or
- (c) if none of the foregoing is applicable, by the Board or the Committee in good faith.

Insider means an officer or director of the Company or any other person whose transactions in the Company's Common Stock are subject to Section 16 of the Exchange Act.

Non-Employee Director means a Director who is not an Employee of the Company or any Parent or Subsidiary.

Option means an award of an option to purchase Shares pursuant to Section 5 or Section 12.

Parent means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if each of such corporations other than the Company owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Participant means a person who holds an Award under this Plan.

Performance Award means a cash or stock award granted pursuant to Section 10 or Section 12 of the Plan.

Performance Factors means any of the factors selected by the Committee and specified in an Award Agreement, from among the following objective measures, either individually, alternatively or in any combination, applied to the Company as a whole or any business unit or Subsidiary, either individually, alternatively, or in any combination, on a GAAP or non-GAAP basis, and measured, to the extent applicable on an absolute basis or relative to a pre-established target, to determine whether the performance goals established by the Committee with respect to applicable Awards have been satisfied:

- (i) revenue;
- (ii) sales;
- (iii) expenses;
- (iv) operating income;

- (v) gross margin;
- (vi) operating margin;
- (vii) earnings before any one or more of: stock-based compensation expense, interest, taxes, depreciation and amortization;
- (viii) pre-tax profit;

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- (ix) net operating income;
- (x) net income;
- (xi) economic value added;
- (xii) free cash flow;
- (xiii) operating cash flow;
- (xiv) balance of cash, cash equivalents and marketable securities;
- (xv) stock price;
- (xvi) earnings per share;
- (xvii) return on stockholder equity;
- (xviii) return on capital;
- (xix) return on assets;
- (xx) return on investment;
- (xxi) employee satisfaction;
- (xxii) employee retention;
- (xxiii) market share;
- (xxiv) customer satisfaction;

- (xxv) product development;
- (xxvi) research and development expenses;
- (xxvii) completion of an identified special project; and

(xxviii) completion of a joint venture or other corporate transaction.

Performance Factors shall be calculated with respect to the Company and each Subsidiary consolidated therewith for financial reporting purposes or such division or other business unit as may be selected by the Committee. For purposes of the Plan, the Performance Factors applicable to a Performance Award shall be calculated in accordance with generally accepted accounting principles, if applicable, but prior to the accrual or payment of any Performance Award for the same Performance Period and excluding the effect (whether positive or negative) of any change in accounting standards or any extraordinary, unusual or nonrecurring item, as determined by the Committee, occurring after the establishment of the Performance Goals applicable to the Performance Award. Each such adjustment, if any, shall be made solely for the purpose of providing a consistent basis from period to period for the calculation of Performance Factors in order to prevent the dilution or enlargement of the Participant's rights with respect to a Performance Award.

Performance Period means the period of service determined by the Committee, not to exceed five (5) years, during which years of service or performance is to be measured for the Award.

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Performance Share means a right to receive Shares pursuant to Section 10 of the Plan.

Permitted Transferee means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law (including adoptive relationships) of the Employee, any person sharing the Employee's household (other than a tenant or employee), a trust in which these persons (or the Employee) have more than 50% of the beneficial interest, a foundation in which these persons (or the Employee) control the management of assets, and any other entity in which these persons (or the Employee) own more than 50% of the voting interests.

Performance Unit means the right to receive cash pursuant to Section 10 of the Plan.

Plan means this Immersion Corporation 2011 Equity Incentive Plan.

Purchase Price means the price to be paid for Shares acquired under the Plan, other than Shares acquired upon exercise of an Option or SAR.

Restricted Stock Award means an award of Shares pursuant to Section 6 or Section 12 of the Plan, or issued pursuant to the early exercise of an Option.

Restricted Stock Unit means an Award granted pursuant to Section 9 or Section 12 of the Plan.

SEC means the United States Securities and Exchange Commission.

Securities Act means the United States Securities Act of 1933, as amended.

Shares means shares of the Company's Common Stock and the common stock of any successor security.

Stock Appreciation Right means an Award granted pursuant to Section 8 or Section 12 of the Plan.

Stock Bonus means an Award granted pursuant to Section 7 or Section 12 of the Plan.

Subsidiary means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Termination or ***Terminated*** means, for purposes of this Plan with respect to a Participant, that the Participant has for any reason ceased to provide services as an employee, officer, director, consultant, independent contractor or advisor to the Company or a Parent or Subsidiary of the Company. An employee will not be deemed to have ceased to provide services in the case of (i) sick leave, (ii) military leave, or (iii) any other leave of absence approved by the Committee; provided, that such leave is for a period of not more than 90 days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute or unless provided otherwise pursuant to formal policy adopted from time to time by the Company and issued and promulgated to employees in writing. In the case of any employee on an approved leave of absence, the Committee may make such provisions respecting suspension of vesting of the Award while on leave from the employ of the Company or a Parent or Subsidiary of the Company as it may deem appropriate, except that in no event may an Award be exercised after the expiration of the term set forth in the applicable Award Agreement. The Committee will have sole discretion to determine whether a Participant has ceased to provide services and the effective date on which the Participant ceased to provide services (the ***Termination Date***).

Unvested Shares means Shares that have not yet vested or are subject to a right of repurchase in favor of the Company (or any successor thereto).

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