

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
 SECURITIES EXCHANGE ACT OF 1934
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999 OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
 EXCHANGE ACT OF 1934
 FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 000-27969

IMMERSION CORPORATION
 (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE 94-3180138
 (STATE OR OTHER JURISDICTION OF INCORPORATION (IRS EMPLOYER IDENTIFICATION NO.)
 OR ORGANIZATION)

2158 PARAGON DRIVE
 SAN JOSE, CALIFORNIA 95131
 (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, ZIP CODE)

(408) 467-1900
 (REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

COMMON STOCK, \$0.001 PAR VALUE NASDAQ
 (TITLE OF CLASS) (NAMES OF EACH EXCHANGE ON WHICH REGISTERED)

Securities registered pursuant to Section 12(g) of the Act:
 NONE

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 if disclosure of delinquent filers pursuant to Item
 405 of Regulation S-K is not contained herein, and will not be contained, to the
 best of Registrant's knowledge, in definitive proxy or information statements
 incorporated by reference in Part III of this Form 10-K or any amendment to this
 Form 10-K.

Aggregate market value of the voting stock held on March 20, 2000 by
 non-affiliates of the registrant: \$878,186,188. Number of shares of Common Stock
 outstanding at March 20, 2000: 16,008,241.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statements for the 2000 Annual Meeting are
 incorporated by reference into Part III hereof.

IMMERSION CORPORATION
1999 FORM 10-K ANNUAL REPORT
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PART I

ITEM 1. BUSINESS

This report contains forwarding-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The forward-looking statements involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements as a result of certain factors, including those set forth in Item 1, those described elsewhere in this report and those described in other reports under the Securities Exchange Act of 1934. Readers are referred to the "Sales, Marketing and Support," "Research and Development," "Competition," "Intellectual Property," "Factors that May Affect Future Results" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections contained in this Annual Report on Form 10-K, which identify some of the important factors or events that could cause actual results or performances to differ materially from those contained in the forward-looking statements.

COMPANY OVERVIEW

Immersion Corporation was incorporated in California in 1993 and reincorporated in Delaware in 1999. References to the "Company" and "Immersion" refer to Immersion Corporation. The Company's principal executive offices are located 2158 Paragon Drive, San Jose, California 95131. The Company's telephone number is (408) 467-1900. The Company's website is www.immersion.com.

We develop hardware and software technologies that enable users to interact with computers using their sense of touch. Our patented technologies, which we call TouchSense(TM), enable computer peripheral devices, such as joysticks, mice and steering wheels, to deliver tactile sensations that correspond to on-screen events. We currently focus on licensing our intellectual property for these touch-enabling technologies to manufacturers of computer peripherals in the computer entertainment and general purpose personal computing markets. Our objective is to proliferate our TouchSense technologies across markets, platforms and applications so that touch and feel become as common as graphics and sound in the modern computer user interface.

We hold 38 U.S. patents covering various aspects of our hardware and software technologies and have over 125 patent applications pending in the U.S. and abroad. To date, we have licensed our intellectual property to more than 16 companies, including Microsoft and Logitech, which incorporate our patented touch-enabling technologies, together with other technologies necessary for computer gaming peripherals, into joysticks, gamepads and steering wheels that they manufacture. To target the computer mouse market, we have licensed our intellectual property to Logitech to manufacture the first touch-enabled computer mouse incorporating our hardware and software technologies. Logitech began marketing and selling its touch-enabled mouse during the fourth quarter of 1999.

INDUSTRY BACKGROUND

Early computers had crude user interfaces that only displayed text and numbers. These machines, commonly known as "green screen" computers, were effective at processing data but did not communicate information in an engaging and intuitive manner. As a result, computing was used primarily in selected scientific and business applications. In the early 1980s, computers began to use graphics and sound to engage users' perceptual senses more naturally. Graphics technologies brought pictures, charts, diagrams and animation to the computer screen. Audio technologies enabled sound and music.

By the late 1980s, graphics and audio technologies had spread to consumer markets, initially through computer gaming applications. By the early 1990s, the penetration of graphics and sound into consumer markets had expanded beyond gaming into mainstream productivity applications, largely due to the introduction of the Windows 3.0 graphical user interface. By the late 1990s, the proliferation of graphics and audio content helped transform the Internet into a highly interactive and popular medium for communication, commerce and entertainment.

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The evolution from alphanumeric characters to the modern user interface is widely considered to be one of the great advances in computing. By presenting content in ways that engage the senses more fully, computers were "humanized," becoming more personal, less intimidating and easier to use. These improvements helped expand the audience for computer technologies, encouraging people to use software for business, home and entertainment applications. Today, graphics and audio technologies are standard features of most computer systems.

While most modern computers realistically present information to the senses of sight and sound, they still lack the ability to convey content through the sense of touch. The absence of touch is a substantial barrier to making computer use more natural and intuitive. For example, current computing environments do not allow online shoppers to feel physical attributes of products prior to purchase and do not permit students to feel physical concepts like gravity and magnetism. Software designers strive to develop compelling applications for users to see and hear, but do not provide applications that engage users' sense of touch. As a result, software is not as engaging and informative as it would be if tactile sensations were conveyed.

The absence of touch and feel in modern computers also limits user productivity. The Windows interface, for example, is based on a physical metaphor: users must move the cursor on a screen to drag, drop, stretch and click. However, users must manipulate graphical elements without the benefit of tactile feedback. As a result, using a cursor is visually taxing. Selecting an icon, clicking on a hyperlink or grabbing the edge of a window are common tasks that would be easier to perform if users could feel the engagement of their cursor with the intended target.

Like sight and sound, touch is critical for interacting with and understanding our physical surroundings. Technology that brings the sense of touch to computing has the potential to further humanize the computer and increase the ease, usefulness and enjoyment of computing.

OUR SOLUTION

We develop and license technologies that allow computer users to touch and feel computer content. In diverse applications like computer gaming, business productivity, medical simulation and surfing the Web, our technologies enable software applications to engage a user's sense of touch through common peripheral devices such as joysticks, steering wheels, gamepads and mice. Joysticks, steering wheels and gamepads incorporating our technology are currently manufactured and sold by our licensees. We have also licensed our intellectual property to Logitech which has incorporated our touch-enabling technologies into a computer mouse that it began selling during the fourth quarter of 1999. Logitech is currently marketing the mouse for use in gaming and Web applications.

Our hardware and software technologies work together to enable peripheral devices to present touch sensations. Our patented designs include specialized hardware elements such as motors, control electronics and mechanisms, which are incorporated into common computer peripheral devices such as mice and joysticks. Driven by sophisticated software algorithms, these hardware elements direct tactile sensations corresponding to on-screen events to the user's hand. For

example, when a touch-enabled mouse is used to lift a "heavy" object within the computer application, software directs the mouse's motors to apply resistance to that motion to create a realistic simulation of weight. By contrast, when the cursor is moved against a "soft" object, the motors apply gradations of force to simulate the soft compliance of the object.

Key benefits of our solution include:

Complete Solution. We offer a complete technical solution that allows our licensees to incorporate our touch-enabling technologies into their computer peripheral device products such as mice, joysticks, steering wheels and gamepads at a reasonable cost and in a reasonable time frame. Our technical solution also allows software programmers and Web site developers to add touch-enabling elements to their applications. Our software automatically enables users to feel the basic user interface features of software applications running on Windows 98 without additional developer support. Our software enables users to feel basic Web page features represented through standard Hypertext Markup Language (HTML), Java

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and ActiveX protocols. In addition, we provide authoring tools that permit software developers to quickly design and incorporate custom touch sensations into their own applications.

Compatible with Industry Standards. We have designed our hardware and software technologies to be compatible with leading hardware and software standards. Our technologies operate across multiple platforms and comply with such standards as DirectX, Microsoft's entertainment application programming interface, and USB (Universal Serial Bus).

Cost-Effective Solution. We have developed component technologies that permit peripheral device manufacturers to design and manufacture peripheral devices that incorporate our touch-enabling technologies more cost effectively than would otherwise be possible. We have also developed and licensed sophisticated software drivers and firmware that permit our licensees to avoid substantial development costs and accelerate product introduction.

Presents Information to the Sense of Touch. It is difficult to communicate physical properties such as texture, compliance, weight and friction solely through words or pictures. Our technologies allow computer users to use their sense of touch to perceive these physical properties in a way that is instantly understandable and intuitively accessible. Our technologies significantly improve the ability of software to communicate to users the physical features of a product, the physical properties of a scientific or engineering principle or the physical response of an object in a simulated gaming environment.

Improves User Productivity in Cursor Manipulation Tasks. Computer users routinely select items on the screen using a cursor. This task involves precisely positioning a cursor on a desired target like a menu or a hyperlink, and then pressing a button to indicate that the target should be selected. With a traditional mouse, users can confirm only through visual feedback that the correct item has been selected. This task demands significant visual attention, slows execution and distracts the user from other activities. With a touch-enabled mouse, the user can feel each encounter between the cursor and an item on the screen. For example, the edge of a window feels like a groove carved into a desktop; when the cursor slides into the groove, users feel a distinct physical engagement. Users interpret these sensations intuitively because of their similarity to real-world encounters. When selecting icons, scrolling through a menu or clicking on a hyperlink on a Web page, the ability to feel the encounter greatly facilitates interaction.

Increases Satisfaction and Enjoyment of the Computing Experience. By engaging the user's sense of touch, our technologies have the potential to make a variety of software applications more interesting, engaging and satisfying. In the personal computer gaming market, our licenses, such as Logitech and Microsoft, are currently manufacturing and selling products incorporating our intellectual property. We believe that our technologies will increase user satisfaction across many additional applications,

including business productivity, engineering, education and e-commerce.

Enhances the Effectiveness of Simulation and Training Applications. Some computer applications, such as medical training, require realism to be effective. Companies and institutions have begun to replace traditional means of surgical training with more accessible and versatile simulation systems for training doctors to perform surgical procedures. Our technologies increase the effectiveness of these systems by providing tactile feedback that simulates what a doctor would feel when performing an actual procedure. Our technologies are used in training systems for laparoscopic surgery, endoscopic surgery and catheter insertion.

STRATEGY

Our objective is to proliferate our TouchSense technologies across markets, platforms and applications so that touch becomes as common as graphics and sound in the modern computer interface. We intend to maintain and enhance our position as the leading provider of touch-enabling technology in consumer markets by employing the following strategies:

Pursue Royalty-Based Licensing Model. We believe that the most effective way to proliferate our touch-enabling technology is to license our intellectual property to computer peripheral device manufac-

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turers. We have licensed our intellectual property to manufacturers of joysticks and steering wheels targeted at game consumers and have licensed our intellectual property to Logitech to incorporate our touch-enabling technologies into a computer mouse that it manufactures. We have also licensed our intellectual property to companies that make industrial products, such as medical simulation hardware and arcade systems. We intend to expand the number and scope of our licensing relationships and expect that licensing royalties will constitute an increasingly significant portion of our revenues in the future.

Facilitate Development of Touch-Enabled Products. We will continue to devote significant resources to facilitate the development and manufacture by our licensees of products incorporating our touch-enabling technologies. We offer complete design packages that include sample hardware, software, firmware and related documentation, and offer our technical expertise on a consulting basis. To facilitate development of products incorporating our touch-enabling technologies, we also offer specialized microprocessors for controlling the motors in mice, joysticks and steering wheels. We will continue to invest in research and development to improve our technologies, with a particular emphasis on reducing the cost of touch-enabled products.

Expand Software Support for Our Touch-Enabling Technology. In addition to licensing our intellectual property to computer peripheral device manufacturers and supporting their product development efforts, we have focused on expanding software support for our touch-enabling technology. We have developed software that enables users to automatically feel icons, menus and other objects in software running in Windows 98 applications or on Web pages accessed through Internet Explorer and Netscape Navigator. We offer specialized authoring tools that simplify adding touch sensations to software applications and Web pages. We also are promoting an efficient file format, called ".ifr," to facilitate the creation and storage of custom touch sensations.

Utilize the Internet to Create Market Demand for Touch-Enabled Products. We believe that adding touch sensations to Web pages will provide on-line advertisers with a new means to attract and keep customers on their sites. We intend to promote this benefit to Web developers and to encourage them to incorporate touch-enabled content into their Web pages. When software developers add touch-enabled content to a Web site using our Immersion Web Designer authoring tool, they are required by license to include an active link from their Web page to our Web site, www.immersion.com. Our Web site is also linked to our licensees' Web sites, at which users may buy touch-enabled products.

Expand Market Awareness. We promote adoption of our touch-enabling technology by increasing market awareness among peripheral device manufacturers, software developers and consumers. We devote significant

resources to working directly with our licensees to encourage and assist their product development efforts. We encourage software developers to add touch-enabled content to their applications by providing them with our authoring tools and technical support. As part of our license agreements, we require our licensees to use our trademarks and logos to create brand awareness among consumers. We intend to devote significant resources in the future to expand market awareness of our touch-enabling technology and our brands.

Secure Licensees in New Markets for Touch-Enabling Technology. We believe that our touch-enabling technology can be used in virtually all areas of computing. We initially focused on the computer gaming market where we have experienced rapid acceptance of our technologies by key licensees. We have recently broadened our focus to include mainstream computing and have licensed our touch-enabling technologies for use in computer mice. We intend to expand our market opportunities by addressing new platforms such as dedicated game consoles and set-top boxes, which are small computer appliances that plug into a television set enabling it to access the Internet.

Develop and Protect Touch-Enabling Technology. We hold 38 U.S. patents and have more than 125 patent applications pending in the U.S. and abroad covering our touch-enabling technology. Our success depends on our ability to license and commercialize our intellectual property and to continue to expand our intellectual property portfolio. We devote substantial resources to research and development and are engaged in projects focused on expanding the scope and application of our technologies. We have

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also secured technology by acquisition. We intend to continue to invest in technology development and potential acquisitions and to protect our intellectual property rights.

MARKET APPLICATIONS

While we believe that our technologies are broadly applicable, we are focusing our initial marketing and business development activities on the following target markets:

Computer Gaming. We initially licensed our intellectual property for touch-enabling technologies for consumer gaming peripherals in 1996 and branded this technology under the name I-FORCE. We have licensed our I-FORCE intellectual property to 16 manufacturers, including Logitech and Microsoft. According to PC Data, touch-enabled joysticks accounted for approximately 3% of domestic PC joystick sales by unit volume in 1997, 6% of the domestic PC joystick sales by unit volume in 1998, and 10% of the domestic PC joystick sales by unit volume in 1999. In addition, we have developed I-FORCE technologies for gaming applications designed specifically for arcade and location-based entertainment markets. We intend to expand our I-FORCE licensing business to include new product categories for the PC platform, such as gamepads, which are hand-held controllers for gaming consoles, and flight yokes, which are game controllers that simulate the controls of an airplane, and to target additional gaming platforms.

General Purpose Personal Computers. In order to bring touch-enabling technology to every desktop, we have targeted the general purpose computer market. To address this large opportunity, we developed FEELit, a touch-enabling technology designed for cursor control products that enables all the basic functionality of a traditional mouse but also presents information to the sense of touch. In 1998, we entered into a license with Logitech under which Logitech manufactures the Wingman Force Feedback Mouse incorporating our touch-enabling technology. Logitech began selling the Wingman Force Feedback Mouse in the fourth quarter of 1999.

Medical and Other Professional Computing. We have identified and addressed demand for our touch-enabling technology in various industrial, medical and scientific markets. We currently have both product manufacturing and product licensing business relationships in these markets.

TECHNOLOGY LICENSING AND PRODUCTS

Technology Licensing. We currently license our intellectual property to manufacturers which produce peripheral devices incorporating our touch-enabling technologies. In general, our licenses permit manufacturers to produce only a particular category of product within a specified field of use. We recently introduced our TouchSense brand, which covers all of our touch-enabling technologies. Prior to the introduction of our TouchSense brand, we granted licenses for gaming products, such as joysticks, steering wheels and gamepads, under the I-FORCE brand, and licenses for cursor control products, such as mice or trackballs, and into medical simulation devices, under the FEELit brand. We make our reference designs available to our licensees for an additional fee. A reference design is a package consisting of a technology binder, an electronic database and a hardware prototype that can be used in the development of a touch-enabled product.

Our basic licensing model includes a per unit royalty paid by the manufacturer that is a percentage of the wholesale selling price of the touch-enabled product. In addition, each licensee must abide by a branding obligation. The prominent display of TouchSense, I-FORCE and/or FEELit logos on retail packaging generates customer awareness for our technologies.

Consumer Products. We license our intellectual property to manufacturers which incorporate our touch-enabling technologies into joysticks, steering wheel and gamepad peripherals targeted at the PC platform. Currently, there are five consumer joysticks sold under the I-FORCE brand: the Wingman Force Feedback Joystick from Logitech, the Sidewinder Force Feedback Joystick from Microsoft, the Pegasus Force Feedback Joystick from Guillemot, the TopShot Force Feedback from AVB, and the Force-FX Joystick from CH Products. Currently, there are ten I-FORCE steering wheel gaming peripherals licensed under the I-FORCE brand, including the Wingman Formula Force from Logitech, the Force Feedback Racing Wheel

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from Guillemot, the Sidewinder Force Feedback Wheel from Microsoft and the V4 Force Feedback Racing Wheel and FX Force Feedback Racing Wheel from InterAct. Currently, there is one I-FORCE gamepad peripheral licensed under the I-FORCE brand, the Hammerhead FX from InterAct.

Logitech began selling its touch-enabled computer mouse during the fourth quarter of 1999. This mouse, which is called the Wingman Force Feedback Mouse, automatically allows users to feel many of the basic desktop controls in Windows 98 and standard interface elements of Web pages accessed through Internet Explorer and Netscape Navigator. Logitech is currently marketing the mouse for use in gaming and Web applications.

Medical Products. We license our intellectual property for our touch-enabling technologies to HT Medical Systems for use in three medical simulation products, CathSim, PreOp Endoscopic Simulator and PreOp Endovascular Simulator. These devices are used for training purposes and enable clinicians to feel simulations of sensations experienced during medical procedures, such as encountering an unexpected obstruction in an artery.

Arcade and Location-Based Entertainment Products. In order to help increase consumer awareness of touch-enabling technology in gaming applications, we license our touch-enabling technology to manufacturers of joystick and steering wheel arcade units.

Software and Developer Products. Demand for computer peripheral devices incorporating our touch-enabling technologies depends on the existence of software applications and Web pages that take advantage of these devices. The development of such software likewise depends on the existence of an installed base of touch-enabled hardware devices. We have addressed this interdependency of hardware and software solutions in two ways. First, we have developed end-user software that is included with Logitech's touch-enabled mouse at no additional cost, and which automatically adds touch to many of the basic Windows 98 controls. Second, we have developed and provide to developers and end users software authoring tools that help programmers add touch-enabled content to software applications and Web pages. We have developed an efficient file format, called an ".iffr" file, for representing, storing and transmitting touch sensations. This file format allows the development of touch sensation libraries that facilitate the development of touch-enabled applications software. We currently make Immersion Studio, Immersion Desktop and Immersion Web Designer

available to developers and Immersion Desktop and Immersion Web Plugin available to end users free of charge. We have licensed a limited number of copies of Immersion Studio to persons other than developers but have not generated significant revenues from these licenses.

Automatic Support

- Immersion Desktop adds touch sensations to many of the basic Windows 98 controls, such as icons, menus, buttons, sliders and windows. It immediately makes any application running under Windows 98 more interesting and enhances productivity during mouse use. It includes a control panel that gives users the ability to customize the feel of their desktop. This product is bundled with Logitech's touch-enabled mouse.
- Immersion Web Plugin adds touch to web pages accessed through Internet Explorer and Netscape Navigator. In conjunction with Immersion Desktop, it adds touch sensations to many of the standard interface elements of Web pages such as hyperlinks, check boxes and menus. It also allows users to feel custom sensations that have been added to Web pages. This product is bundled with each of Logitech's touch-enabled mouse.

Authoring Tools

- Immersion Studio is a fully animated graphical environment that allows developers of mainstream productivity, Web and gaming software to design touch sensations for their software titles by adjusting physical parameters. Each software file describing the touch sensation that a developer creates can be saved into an ".ifr" file and then can be quickly inserted into gaming applications and Web pages during the development process.

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- Immersion Web Designer is an easy-to-use authoring tool that allows Web developers to add touch sensations to Web pages. They can load any HTML Web page into the tool and modify it to support touch sensations.

Custom Microprocessors. Many touch-enabled peripheral devices utilize commercially available microprocessors that process instructions needed to deliver force sensations to the user. These microprocessors have not been tailored for the specific requirements of touch-enabled products. We have developed our custom Immersion Processors to improve the performance and to help to reduce the cost of gaming and peripheral products manufactured by our licensees. For example, our microprocessors contain circuitry to work with low cost sensors used in touch-enabled gaming and peripheral products, and have been designed to streamline processing of information sent between a personal computer and a touch-enabled gaming or computer peripheral product. We believe that these microprocessors are cost-effective components that allow our licensees to reduce their costs of goods and the amount of custom development that they must perform to bring a product to market, speeding their development cycle.

We have invested in this technology because we believe it is important as an enabling technology for low-cost touch-enabled devices. By incorporating commonly used components on a single piece of silicon, our microprocessors reduce the number of discrete components required on a printed circuit board and can help lower overall system costs for our licensees. This level of integration also simplifies the manufacture of touch-enabled products while increasing performance and reliability.

Our Immersion Processors are manufactured for us solely by Kawasaki LSI, with which we have entered into an ASIC Design and Development Agreement that remains in effect until cancelled by either party. We purchase the Immersion Processors from Kawasaki LSI and sell them to those licensees incorporating our touch-enabling technology in their gaming products that want to use the microprocessors in their gaming products. We permit Kawasaki LSI to sell our Immersion Processor directly to Logitech for use in its touch-enabled computer mouse. Kawasaki LSI pays a royalty to us on the sales of the Immersion Processors to Logitech. We generally warrant our microprocessors to conform to our specifications and to be free from defects in materials and workmanship for a period of one year from delivery, and Kawasaki LSI extends a similar warranty to us.

Specialty Products

Medical Simulation and Other Medical Equipment. We have developed numerous technologies that can be used for medical training and simulation. By allowing computers to deliver touch sensations to users, our technologies can support realistic simulations that are effective in teaching medical students and doctors what it feels like to perform a given procedure. Currently, we manufacture and sell a number of low volume specialized medical products, including:

- Virtual Laparoscopic Interface, a fully integrated tool designed to let developers, researchers and educators simulate minimally invasive surgical procedures;
- Laparoscopic Impulse Engine, a three-dimensional interface for virtual reality simulations of laparoscopic and endoscopic surgical procedures that allows users to feel actual surgical tools as if they were performing these procedures;
- PinPoint, a stereotactic arm manufactured for Marconi Medical Systems (formerly Picker International, Inc.), which is integrated with Picker CT scanners to enable image-guided biopsies and radiation therapy; and
- Endoscopic Sinus Surgery Simulation Trainer, an electro-mechanical system that recreates an operating room environment to simulate endoscopic procedures.

Arcade and Location-Based Entertainment Products. We manufacture versions of touch-enabled joysticks and steering wheel products with enhanced durability specifically for the arcade and location-based entertainment markets. We sell, and expect to continue to sell, these products directly to entertainment companies that operate entertainment centers. While these products are higher priced than the joysticks and

wheel products sold by licensees that incorporate our technologies into computer peripherals used for entertainment, the arcade and location-based market is a relatively small market when compared to the consumer markets served by our licensees.

Automotive Applications. We are currently engaged in the second phase of an engineering development project for a major automobile manufacturer regarding a touch-enabled control device for use in automobiles. We have no commitment from the automobile manufacturer as to when or whether such a touch-enabled control device may be incorporated into a shipping automobile model.

MicroScribe-3D. Our MicroScribe-3D product allows users to create three-dimensional computer models directly from physical objects. It contains sensor and microprocessor technologies that allow users to digitize physical objects simply by tracing their contours with a stylus. The computer records the three-dimensional geometry of the object and reproduces it on the screen as a three-dimensional computer model. MicroScribe-3D is designed to support the needs of game developers, engineers, animators, film makers, industrial designers and other professionals who need to create realistic three-dimensional computer images quickly and easily.

Softmouse. We also manufacture a high performance non-touch-enabled mouse for geographic information systems and the map-making industry. This product has a two-handed interface with ten buttons and a rotary thumbwheel. We currently sell this product to several major manufacturers, including Intergraph, Vision International and LH Systems. End users of Softmouse include the U.S. Geological Survey, NASA and the U.S. Department of Defense.

TECHNOLOGY

Touch or feel simulation, also known as force feedback, haptic feedback or force reflection, refers to the technique of adding touch sensations to computer software by imparting physical forces upon the user's hand. These forces are imparted by actuators, usually motors, that are incorporated into consumer peripheral devices such as mice, joysticks, steering wheels or gamepads, or into more sophisticated interfaces designed for industrial, medical or scientific applications. Touch-enabled peripheral devices can impart to users physical

sensations like rough textures, smooth surfaces, viscous liquids, compliant springs, jarring vibrations, heavy masses and rumbling engines.

As a user manipulates a touch-enabled device, such as a mouse, motors within the device apply computer-modulated forces that resist, assist or otherwise enhance the manipulations. These forces are generated based on mathematical models that simulate the desired sensations. For example, when simulating the feel of a rigid wall with a force feedback mouse, motors within the mouse apply forces that simulate the feel of encountering the wall. As the user moves the mouse to penetrate the wall, the motors apply a force that resists the penetration. The harder the user pushes, the harder the motors push back. The end result is a sensation that feels like a physical encounter with an obstacle.

The mathematical models that control the motors may be simple modulating forces based on a function of time, such as jolts and vibrations, or may be more complex modulating forces based on user manipulations such as surfaces, textures, springs and liquids. Complex sensations can be created by combining a number of simpler sensations. For example, a series of simulated surfaces can be combined to give the seamless feel of a complex object like a sports car or a telephone. Textures can be added to these complex surfaces so that the windshield of the sportscar feels smooth and its tires feel rubbery.

To simplify the process of generating touch sensations, we have developed a parallel processing architecture in which a dedicated processor resides within the peripheral device and performs the complex mathematics. The dedicated processor offloads the processing burden from the host computer. This distributed processing architecture, along with specialized software, provides a software developer with an easy-to-use high-level application programming interface that abstracts touch-enabled programming into a perceptual rather than mathematical level. The application programming interface allows programmers to define and initiate touch sensations with software routines that have descriptive physical names such as "wall,"

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"vibration" or "liquid." Programmers can easily adjust multiple parameters to customize different types of sensations.

We have developed an application programming interface called the Immersion API. It allows software developers to incorporate touch sensations into software applications quickly. In 1997, Microsoft included support for our Immersion API, which was then known as the I-FORCE API, into DirectX, Microsoft's standard gaming device application programming interface for the Windows platform.

Most computer interface devices, such as mice and joysticks, are input-only devices, meaning that they track a user's physical manipulations but provide no manual feedback. As a result, information flows in only one direction, from the peripheral to the computer. Touch-enabled devices are input-output devices, meaning that they track a user's physical manipulations (input) and provide realistic physical sensations coordinated with on-screen events (output). The computer and the device need to communicate quickly in order to present realistic sensations.

We have developed efficient processing techniques to minimize the amount of information that needs to be communicated between the computer and the peripheral. We use dedicated processors in the device to produce touch sensations in response to high-level commands from the computer. Our control architecture has the added benefit of performing force feedback computations in parallel with the computer's execution of a software application.

SALES, MARKETING AND SUPPORT

We establish licensing relationships and sell a number of our products through our direct sales efforts. We also sell some of our products indirectly through distributors and value-added resellers. As part of our strategy to increase our visibility and promote our touch-enabling technology, our license agreements generally require our licensees to display the TouchSense, I-FORCE or FEELit logos on licensed products they distribute.

Consistent with our intellectual property licensing strategy, we have focused our marketing activities on developing relationships with potential licensees and on participating with existing licensees in their marketing and

sales efforts. To generate awareness of our technologies and our licensees' products, we participate in industry trade shows, maintain ongoing contact with industry press, provide product information over our Web site and advertise in entertainment and game industry publications.

Another focus of our marketing efforts is to promote the adoption of our touch-enabling technology by software and Web developers to facilitate the implementation of touch sensations into software applications. We have developed the Immersion TouchSense Developer Toolkit, which contain our software authoring tools, as well as documentation, tutorials and software files containing sample touch sensations. We currently distribute this software to software developers at no cost. Our software support staff also works closely with developers to assist them in developing compelling touch-enabled applications. We provide sample touch sensations to developers through our Web site and through our Immersion Studio and Immersion Web Designer authoring tools. We intend to devote substantial resources to supporting software developers and Web page designers in the creation of touch-enabled software applications, including hiring additional software engineers and other technical personnel.

We anticipate allocating substantially more resources to sales and marketing to proliferate our technology and to support the sales of our licensed products. We intend to substantially increase our advertising and marketing efforts to end-users in 2000 because we believe that it is important to increase awareness of our touch-enabling technology among potential end users. As part of this effort, we intend to engage in a series of marketing and promotional campaigns, including advertisements, in-store product demonstrations, and press tours in the United States and Europe. The goal of these efforts is to create consumer awareness of the benefits of touch-enabled cursor control devices through the promotion of Logitech's Wingman Force Feedback Mouse product. Our sales and marketing expenses were approximately \$1.8 million in 1999, \$0.7 million in 1998 and \$0.7 million in 1997. We currently anticipate that we will incur at least \$9.0 million in sales and marketing expenses through the end of the year 2000.

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RESEARCH AND DEVELOPMENT

Our success depends on our ability to improve, and reduce the costs of, our technologies in a timely manner. We have assembled a team of highly skilled engineers who possess experience in the disciplines required for touch-enabling technology development, including mechanical engineering, electrical engineering and computer science.

Our research and development expenses were approximately \$2.3 million in 1999, \$1.8 million in 1998 and \$1.5 million in 1997. We currently anticipate that we will incur at least \$3.5 million in research and development expenses through the end of the year 2000. Our research and development efforts have been focused on technology development, including hardware, software and designs. We have entered into numerous contracts with government agencies and corporations that help fund advanced research and development. Our government contracts permit us to retain ownership of the technology developed under the contracts, provided that we provide the applicable government agency a license to use the technology for non-commercial purposes. Although we expect to continue to invest substantially in research and development activities, we expect government-sponsored research activity to decline.

COMPETITION

We are aware of several companies that claim to possess touch-enabling technology applicable to the consumer market, but we do not believe that these companies or their licensees have introduced touch-enabled products. Several companies also currently market force feedback products to non-consumer markets and could shift their focus to the consumer market. In addition, our licensees may develop products that compete with products employing our touch-enabling technology but are based on alternative technologies. Many of our licensees, including Microsoft and Logitech, and other potential competitors have greater financial and technical resources upon which to draw in developing computer peripheral technologies that do not make use of our touch-enabling technology.

Our competitive position is partially dependent on our licensees' competitive positions of those licensees that pay a pre-unit royalty. Our licensees' markets are highly competitive. We believe that the principal

competitive factors in our licensees' markets include price, performance, user-centric design, ease of use, quality and timeliness of products, as well as the manufacturer's responsiveness, capacity, technical abilities, established customer relationships, retail shelf space, advertising, promotion programs and brand recognition. Touch-related benefits in such markets may be viewed simply as enhancements and compete with non-touch-enabled technologies. Products incorporating our touch-enabling technology may also face competition from computer peripheral devices that use simple vibration technology, sometimes referred to as "dual shock" or "rumble pak."

Semiconductor companies, including Mitsubishi and STMicroelectronics, manufacture products that compete with the Immersion Processors but which have not been tailored specifically for touch-enabling technology. Our microprocessors have been optimized to work with low cost sensors used in touch-enabled gaming and peripheral products and to streamline processing of information sent between a personal computer and a touch-enabled gaming or computer peripheral product. We are not aware of any companies other than us that currently market optimized touch-enabling processors.

There are several companies that currently sell high-end simulation products that compete with our professional and medical products. The principal bases for competition in these markets are technological sophistication and price. We believe we compete favorably on these bases.

INTELLECTUAL PROPERTY

We rely on a combination of patents, copyrights, trade secrets, trademarks, employee and third-party nondisclosure agreements and licensing arrangements to protect our intellectual property. We consider our ability to protect our intellectual property to be critical to our success.

We hold 38 U.S. patents and have more than 125 pending patent applications, both domestic and foreign, covering touch and feel technologies. These patents and patent applications cover a variety of hardware and

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software innovations relating primarily to touch-enabling technologies. Our current U.S. patents expire between the years 2011 and 2016. Our failure to obtain or maintain adequate protection for our intellectual property rights for any reason could hurt our competitive position. Patents may not issue from the patent applications that we have filed or may file. Our issued patents may be challenged, invalidated or circumvented, and claims of our patents may not be of sufficient scope or strength, or issued in the proper geographic regions, to provide meaningful protection or any commercial advantage.

In addition, others may develop technologies that are similar or superior to our technologies, duplicate our technologies or design around our patents. Effective intellectual property protection may be unavailable or limited in some foreign countries. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise use aspects of our methods and devices that we regard as proprietary. If our intellectual property protection is insufficient to protect our intellectual property rights, we could face increased competition in the market for our technologies, or be unable to persuade or require companies to enter into royalty-bearing license arrangements.

We have acquired patents from third parties and also license some technologies from third parties. We must rely upon the owners of the patents or the technologies for information on the origin and ownership of the acquired or licensed technologies. As a result, our exposure to infringement claims may increase. We generally obtain representations as to the origin and ownership of acquired or licensed technology and indemnification to cover any breach of these representations. However, representations may not be accurate and indemnification may not provide adequate compensation for breach of the representations.

From time to time, we have received claims from third parties that our technologies, or those of our licensees, infringe the intellectual property rights of these third parties. Between May 1995 and June 1999, we received four such letters. After examination of these claims and consultation with counsel, we believe that these claims are without merit. To date, none of these companies has filed a legal action against us. However, these or other matters might lead to litigation costs in the future. Intellectual property claims, whether or not

they have merit, could be time-consuming to defend, cause product shipment delays, require us to pay damages against us, or require us to cease utilizing the technology unless we can enter into royalty or licensing agreements. Royalty or licensing agreements might not be available on terms acceptable to us or at all. Furthermore, claims could also result in claims from our licensees under the indemnification provisions of their agreements with us.

From time to time, we initiate claims against third parties that we believe infringe our intellectual property rights. To date, these claims have not led to any litigation. However, any litigation to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property assets.

FACTORS THAT MAY AFFECT FUTURE RESULTS

THE MARKET FOR OUR TOUCH-ENABLING TECHNOLOGIES IS AT AN EARLY STAGE AND, IF MARKET DEMAND DOES NOT DEVELOP, WE MAY NOT ACHIEVE OR SUSTAIN REVENUE GROWTH.

The consumer market for touch-enabling technology is at an early stage, and if we and our licensees are unable to develop consumer demand for our licensees' products we may not achieve or sustain revenue growth. To date, consumer demand for our technologies has been limited to the computer gaming peripherals market, and sales of joysticks and steering wheels incorporating our touch-enabling technologies in that market began only in late 1996 and 1998, respectively. Logitech, a licensee of our technology, launched a computer mouse incorporating our touch-enabling technologies during the fourth quarter of 1999. This touch-enabled mouse is the first entrant in a new category of touch-enabled computer cursor control devices. Touch-enabled mice may not achieve commercial acceptance or generate significant royalty revenue for us. In addition, software developers may elect not to create additional games or other applications that support our touch-enabling technology.

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Even if our technologies are ultimately widely adopted by consumers, widespread adoption may take a long time to occur. The timing and amount of royalties that we receive will depend on whether the products marketed by those licensees that pay us per-unit royalties achieve widespread adoption and, if so, how rapidly that adoption occurs. We expect that we will need to pursue extensive and expensive marketing and sales efforts to educate prospective licensees and consumers about the uses and benefits of our technologies and to persuade software developers to create software that utilizes our technologies.

WE HAD AN ACCUMULATED DEFICIT OF \$8.6 MILLION AS OF DECEMBER 31, 1999, WILL EXPERIENCE LOSSES IN THE FUTURE AND MAY NOT ACHIEVE OR MAINTAIN PROFITABILITY.

Since 1997, we have incurred losses in every fiscal quarter, and we expect losses through at least 2000. We will need to generate significant revenue to achieve and maintain profitability. We may not achieve, sustain or increase profitability in the future. We anticipate that our expenses will increase substantially in the foreseeable future as we:

- attempt to expand the market for touch-enabled products;
- increase our sales efforts;
- continue to develop our technologies;
- pursue strategic relationships; and
- protect and enforce our intellectual property.

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

OUR HISTORICAL FINANCIAL INFORMATION DOES NOT REFLECT OUR PRIMARY BUSINESS STRATEGY FOR ACHIEVING REVENUE GROWTH THROUGH ROYALTY PAYMENTS FROM SALES BY OUR LICENSEES OF COMPUTER PERIPHERAL PRODUCTS INCORPORATING OUR TOUCH-ENABLING TECHNOLOGIES, A STRATEGY FROM WHICH HISTORICALLY WE HAVE DERIVED LESS THAN ONE-THIRD OF OUR REVENUES.

We cannot predict our future revenues based on our historical financial

information. Historically, we derived the majority of our revenues from product sales, including sales of devices used to create three dimensional computer images of small objects, medical simulation products and a specialized non-touch enabled computer mouse used for map making. Historically, we have also derived revenues from contracts with our licensees to assist in the development of our licensees' touch-enabled products and from development contracts with government agencies for touch-enabling technology. The majority of our historical product sales resulted from sales of products that did not utilize our touch-enabling technology but utilized related advanced computer peripheral technologies.

We currently concentrate our marketing, research and development activities on licensing our touch-enabling technology in the computer entertainment and general purpose personal computer markets. For 1998, we derived only 6% of our total revenues from royalty revenue and for 1999, we derived 28% of our total revenues from royalty revenue. We anticipate that royalty revenue from licensing our technologies will constitute an increasing portion of our revenues. Accordingly, our historical results should not be relied upon as an indicator of our future performance.

OUR BUSINESS STRATEGY FOR ACHIEVING REVENUE GROWTH RELIES SIGNIFICANTLY ON ROYALTY PAYMENTS FROM SALES BY LOGITECH OF ITS FEEL-ENABLED MOUSE, A PRODUCT WHICH LOGITECH BEGAN SELLING IN THE FOURTH QUARTER OF 1999.

If Logitech's feel-enabled mouse does not achieve commercial acceptance or if production or other difficulties that sometimes occur when a new product is introduced interfere with sales of the Logitech mouse, our ability to achieve revenue growth could be significantly impaired. In the technology product development agreement that we entered into with Logitech in 1998, Logitech estimated that, based upon an assumed production of 100,000 units per year, its target price for its feel-enabled mouse would be \$99. Logitech, however, has made no commitments to us regarding the production volume or pricing of its feel-enabled

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mouse. The fact that the actual initial suggested retail price of Logitech's mouse is \$99.95 does not reflect any volume or pricing commitments made to us by Logitech. To date, sales of the Wingman Force Feedback Mouse have not reached volume levels. We believe that the facts that the current product is being marketed, in part, as a gaming product, and that it was introduced late in the 1999 Christmas buying season contributed to a slow ramp-up of initial sales. Desired sales volumes of feel-enabled mice may not be achieved until the first general purpose productivity version of the mouse has been introduced. We also expect that sales volume of touch-enabled mice will be affected by the quantity and quality of touch-enabled software titles available to consumers. Although we promote the incorporation of our touch-enabling technologies into software applications and Web sites, we have limited control over when and if third party software and Web developers adopt touch-enabling technologies. In addition, retailers may not recognize touch-enabled mouse products as a separate product category until there are additional manufacturers of touch-enabled mouse products and this may be a barrier to sales volume.

WE DO NOT CONTROL OR INFLUENCE OUR LICENSEES' MANUFACTURING, PROMOTION, DISTRIBUTION OR PRICING OF THEIR PRODUCTS INCORPORATING OUR TOUCH-ENABLING TECHNOLOGIES, UPON WHICH WE ARE DEPENDENT TO GENERATE ROYALTY REVENUE.

Our primary business strategy is to license our intellectual property to companies that manufacture and sell products incorporating our touch-enabling technologies. The sale of those products generates royalty revenue for us. For the year ended December 31, 1999, 28% of our total revenues was royalty revenue, and we expect royalty revenue will be an increasing portion of our total revenues in the future. However, we do not control or influence the manufacture, promotion, distribution or pricing of products that are manufactured and sold by our licensees and that incorporate our touch-enabling technologies. As a result, products incorporating our technologies may not be brought to market, achieve commercial acceptance or generate meaningful royalty revenue for us. For us to generate royalty revenue, those licensees that pay us per-unit royalties must manufacture and distribute products incorporating our touch-enabling technologies in a timely fashion and generate consumer demand through marketing and other promotional activities. Products incorporating our touch-enabling technologies are generally more difficult to design and manufacture than products that do not incorporate our touch-enabling technologies, and these difficulties may cause product introduction delays. If our licensees fail to stimulate and capitalize upon market demand for products that generate royalties

for us, our revenues will not grow. Peak demand for products that incorporate our technologies, especially in the computer gaming peripherals market, typically occurs in the third and fourth calendar quarters as a result of increased demand during the year-end holiday season. If our licensees do not ship licensed products in a timely fashion or fail to achieve strong sales in the second half of the calendar year, we would not receive related royalty revenue.

BECAUSE LOGITECH IS CURRENTLY OUR ONLY LICENSED MANUFACTURER OF TOUCH-ENABLED MICE, OUR ROYALTY REVENUE FROM TOUCH-ENABLED MICE WILL BE SIGNIFICANTLY REDUCED IF LOGITECH DOES NOT EFFECTIVELY MANUFACTURE AND MARKET TOUCH-ENABLED MICE PRODUCTS.

Logitech is currently the only licensed manufacturer of touch-enabled mice. If Logitech does not effectively manufacture, market and distribute its touch-enabled mouse product, our royalty revenue from touch-enabled mice would be significantly reduced. In addition, a lack of market acceptance of the Logitech touch-enabled mouse might dissuade other potential licensees from licensing our technologies for touch-enabled mice and other products.

IF WE FAIL TO PROTECT AND ENFORCE OUR INTELLECTUAL PROPERTY RIGHTS, OUR ABILITY TO LICENSE OUR TECHNOLOGIES AND TO GENERATE REVENUES WOULD BE IMPAIRED.

Our business depends on generating revenues by licensing our intellectual property rights and by selling products that incorporate our technologies. If we are not able to protect and enforce those rights, our ability to obtain future licenses and royalty revenue could be impaired. In addition, if a court were to limit the scope of,

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declare unenforceable or invalidate any of our patents, current licensees may refuse to make royalty payments or may themselves choose to challenge one or more of our patents. Also it is possible that:

- our pending patent applications may not result in the issuance of patents;
- our patents may not be broad enough to protect our proprietary rights;
- effective patent protection may not be available in every country in which our licensees do business.

We also rely on licenses, confidentiality agreements and copyright, trademark and trade secret laws to establish and protect our proprietary rights. It is possible that:

- laws and contractual restrictions may not be sufficient to prevent misappropriation of our technologies or deter others from developing similar technologies; and
- policing unauthorized use of our products and trademarks would be difficult, expensive and time-consuming, particularly overseas.

IF WE ARE UNABLE TO ENTER INTO NEW LICENSING ARRANGEMENTS WITH OUR EXISTING LICENSEES AND WITH ADDITIONAL THIRD-PARTY MANUFACTURERS FOR OUR TOUCH-ENABLING TECHNOLOGY, OUR ROYALTY REVENUE MAY NOT GROW.

Our revenue growth depends on our ability to enter into new licensing arrangements. Our failure to enter into new licensing arrangements will cause our operating results to suffer. We face numerous risks in obtaining new licenses on terms consistent with our business objectives and in maintaining, expanding and supporting our relationships with our current licensees. These risks include:

- the lengthy and expensive process of building a relationship with potential licensees;
- the fact that we may compete with the internal design teams of existing and potential licensees;
- difficulties in persuading consumer product manufacturers to work with us, to rely on us for critical technology and to disclose to us

proprietary product development and other strategies; and

- difficulties in persuading existing and potential licensees to bear the development costs necessary to incorporate our technologies into their products.

OUR QUARTERLY REVENUES AND OPERATING RESULTS ARE VOLATILE, AND IF OUR FUTURE RESULTS ARE BELOW THE EXPECTATIONS OF PUBLIC MARKET ANALYSTS OR INVESTORS, THE PRICE OF OUR COMMON STOCK IS LIKELY TO DECLINE.

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

These factors include:

- the establishment or loss of licensing relationships;
- the timing of payments under fixed and/or up-front license agreements;
- the timing of our expenses, including costs related to acquisitions of technologies or businesses;
- the timing of introductions of new products and product enhancements by our licensees and their competitors;
- our ability to develop and improve our technologies;
- our ability to attract, integrate and retain qualified personnel; and
- seasonality in the demand for our licensees' products.

Accordingly, we believe that period-to-period comparisons of our operating results should not be relied upon as an indicator of our future performance. In addition, because a high percentage of our operating

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expenses is fixed, a shortfall of revenues can cause significant variations in operating results from period to period.

THE HIGHER COST OF GAMING AND CURSOR CONTROL PERIPHERAL PRODUCTS INCORPORATING OUR TOUCH-ENABLING TECHNOLOGIES AS COMPARED TO NON TOUCH-ENABLED GAMING AND CURSOR CONTROL PERIPHERALS MAY INHIBIT OR PREVENT THE WIDESPREAD ADOPTION AND SALE OF PRODUCTS INCORPORATING OUR TECHNOLOGIES.

Joysticks, steering wheels, gamepads and computer mice incorporating our touch-enabling technologies are more expensive than similar competitive products that are not touch-enabled. Although major providers of computer peripheral devices, such as Logitech and Microsoft, have licensed our technology, the greater expense of products containing our touch-enabling technologies as compared to non touch-enabled products may be a significant barrier to the widespread adoption and sale of their touch-enabled products in consumer markets.

IF OUR TECHNOLOGIES ARE UNABLE TO GAIN MARKET ACCEPTANCE OTHER THAN IN TOUCH-ENABLED JOYSTICKS AND STEERING WHEELS, OUR REVENUE GROWTH WILL BE LIMITED.

Substantially all of our royalty revenue is derived from the licensing of I-FORCE, our portfolio of touch-enabling technology for personal computer gaming peripherals such as joysticks and steering wheels. Our I-FORCE royalty revenue was \$321,000 for 1998 and \$2,193,000 for 1999. I-FORCE royalty revenue represented 100% and 98% of our royalty revenue in 1998 and 1999, respectively. The market for joysticks and steering wheels for use with personal computers is a substantially smaller market than either the mouse market or the dedicated gaming console market and is characterized by declining average selling prices. If we are unable to gain market acceptance beyond the personal computer gaming peripherals market, we may not achieve revenue growth.

COMPETITION IN COMPUTER PERIPHERAL PRODUCTS IN BOTH THE GENERAL PURPOSE COMPUTING AND COMPUTER GAMING MARKETS COULD LEAD TO REDUCTIONS IN THE SELLING PRICE OF PERIPHERAL PRODUCTS OF OUR LICENSEES, WHICH WOULD REDUCE OUR ROYALTY REVENUE.

The general purpose computing and computer gaming markets in which our licensees sell peripheral products are highly competitive and are characterized by rapid technological change, short product life cycles, cyclical market patterns, a trend of declining average selling prices and increasing foreign and domestic competition. We believe that competition among computer peripheral manufacturers will continue to be intense, and that competitive pressures will drive the price of our licensees' products downward. Any reduction in our royalties per unit that is not offset by corresponding increases in unit sales will cause our revenues to decline.

BECAUSE WE HAVE A FIXED PAYMENT LICENSE WITH MICROSOFT, OUR ROYALTY REVENUE FROM LICENSING JOYSTICKS AND STEERING WHEELS IN THE GAMING MARKET MIGHT DECLINE IF MICROSOFT INCREASES ITS VOLUME OF SALES OF TOUCH-ENABLED JOYSTICKS AND STEERING WHEELS AT THE EXPENSE OF OUR OTHER LICENSEES.

Under the terms of our present agreement with Microsoft, Microsoft receives a perpetual, worldwide, irrevocable, non-exclusive license under our patents for its SideWinder Force Feedback Pro Joystick and its SideWinder Force Feedback Wheel, and for a future replacement version of these specific SideWinder products having essentially similar functional features. Instead of an ongoing royalty on Microsoft's sales of licensed products, the agreement provides for a payment of \$2.35 million, which we recognize in equal monthly increments over a one-year period ending mid-July 2000. The payment of \$2.35 million is fixed regardless of Microsoft's sales volume of these two licensed products. We derived 13% of our total revenues and 48% of our royalty revenue for the twelve months ended December 31, 1999 from Microsoft. At the present time, we do not have a license agreement with Microsoft for products other than the SideWinder joystick and steering wheel. Microsoft has a significant share of the market for touch-enabled joysticks and steering wheels for personal computers. Microsoft has significantly greater financial, sales and marketing resources, as well as greater name recognition and a larger customer base, than our other licensees. In the

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event that Microsoft increases its share of this market, our royalty revenue from other licensees in this market segment might decline.

LOGITECH ACCOUNTS FOR A LARGE PORTION OF OUR ROYALTY REVENUE AND THE FAILURE OF LOGITECH TO ACHIEVE SALES VOLUMES FOR ITS GAMING AND CURSOR CONTROL PERIPHERAL PRODUCTS THAT INCORPORATE OUR TOUCH-ENABLING TECHNOLOGIES MAY REDUCE OUR ROYALTY REVENUE.

We derived 13% of our total revenues and 32% of our royalty revenue for 1999 from Logitech. We expect that a significant portion of our total revenues will continue to be derived from Logitech. If Logitech fails to achieve anticipated sales volumes for its computer peripheral products that incorporate our technologies, our royalty revenue would be reduced.

BECAUSE PERSONAL COMPUTER PERIPHERAL PRODUCTS THAT INCORPORATE OUR TOUCH-ENABLING TECHNOLOGIES CURRENTLY MUST WORK WITH MICROSOFT'S OPERATING SYSTEM SOFTWARE, OUR COSTS COULD INCREASE AND OUR REVENUES COULD DECLINE IF MICROSOFT MODIFIES ITS OPERATING SYSTEM SOFTWARE.

Our hardware and software technology for personal computer peripheral products that incorporate our touch-enabling technologies is currently compatible with Microsoft's Windows 98 operating system software, including DirectX, Microsoft's entertainment applications programming interface. If Microsoft modifies its operating system, including DirectX, we may need to modify our technologies and this could cause delays in the release of products by our licensees. If Microsoft modifies its software products in ways that limit the use of our other licensees' products, our costs could be increased and our revenues could decline.

THIRD-PARTY CLAIMS OF INFRINGEMENT OF THEIR PROPRIETARY RIGHTS COULD RESULT IN EXPENSIVE, TIME-CONSUMING LITIGATION, WHICH COULD ADVERSELY AFFECT OUR BUSINESS.

Any intellectual property litigation, whether brought by us or by others, could result in the expenditure of significant financial resources and the diversion of management's time and efforts. In addition, litigation in which we are accused of infringement may cause product shipment delays, require us to develop non-infringing technology or require us to enter into royalty or license

agreements even before the issue of infringement has been decided on the merits.

If any litigation were not resolved in our favor, we could become subject to substantial damage claims from third parties and indemnification claims from our licensees. We and our licensees could be enjoined from the continued use of the technology at issue without a royalty or license agreement. Royalty or license agreements, if required, might not be available on acceptable terms, or at all.

If a third party claiming infringement against us prevailed and we could not develop non-infringing technology or license the infringed or similar technology on a timely and cost-effective basis, our expenses would increase and our revenues could decrease.

We attempt to avoid infringing known proprietary rights of third parties. We have not, however, conducted and do not conduct comprehensive patent searches to determine whether aspects of our technology infringe patents held by third parties. Third parties may hold, or may in the future be issued, patents that could be infringed by our products or technologies. Any of these third parties might make a claim of infringement against us with respect to the products that we manufacture and the technologies that we license. Between May 1995 and June 1999, we received letters from four companies, several of which have significantly greater financial resources than we do, asserting that some of our technologies, or those of our licensees, infringe their intellectual property rights. Certain of our licenses have received similar letters from the same four companies. Such letters may influence our licensees decisions whether to ship products incorporating our technologies. Although none of these matters has resulted in litigation to date, any of these notices, or additional notices that we could receive in the future from these or other companies, could lead to litigation. We might also elect to enforce our patents and other intellectual property rights against third parties, which could result in litigation.

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WE DEPEND ON KAWASAKI LSI TO PRODUCE OUR IMMERSION PROCESSORS AND MAY LOSE CUSTOMERS IF KAWASAKI LSI DOES NOT MEET OUR REQUIREMENTS.

Kawasaki LSI is the sole supplier of our custom Immersion Processors, which we develop, license and sell to improve the performance and to help reduce the cost of computer peripheral products, such as joysticks and mice, incorporating our touch-enabling technology. Because Kawasaki LSI manufactures and tests our processors, we have limited control over delivery schedules, quality assurance, manufacturing capacity, yields, costs and misappropriation of our intellectual property. Although Kawasaki LSI warrants that microprocessors it supplies to us or to our customers will conform to our specifications and be free from defects in materials and workmanship for a period of one year from delivery, any delays in delivery of the processor, quality problems or cost increases could cause us to lose customers and could damage our relationships with our licensees.

IF WE ARE UNABLE TO CONTINUALLY IMPROVE, AND REDUCE THE COST OF, OUR TECHNOLOGIES, COMPANIES MAY NOT INCORPORATE OUR TECHNOLOGIES INTO THEIR PRODUCTS, WHICH COULD IMPAIR OUR REVENUE GROWTH.

Our ability to achieve revenue growth depends on our continuing ability to improve, and reduce the cost of, our technologies and to introduce these technologies to the marketplace in a timely manner. If our development efforts are not successful or are significantly delayed, companies may not incorporate our technologies into their products and our revenue growth may be impaired.

THREE KEY MEMBERS OF OUR MANAGEMENT TEAM HAVE RECENTLY JOINED US AND THEY MAY NOT BE EFFECTIVELY INTEGRATED INTO OUR COMPANY, WHICH COULD IMPEDE THE EXECUTION OF OUR BUSINESS STRATEGY.

Our Vice President of Finance, Vice President of Marketing and Vice President of Business Development each joined us in July or August 1999. Accordingly, each of these individuals has limited experience with our business. Our success will depend to a significant extent on the ability of our new officers to integrate themselves into our daily operations, to gain the trust and confidence of other employees and to work effectively as a team. If any of them fails to do so, our ability to execute our business strategy would be impeded.

COMPETITION FROM PRODUCTS THAT DO NOT INCORPORATE OUR TECHNOLOGIES COULD LEAD TO

REDUCED PRICES AND SALES VOLUMES OF PRODUCTS INCORPORATING OUR TECHNOLOGIES THAT ARE MANUFACTURED BY OUR LICENSEES, WHICH COULD LIMIT OUR REVENUES OR CAUSE OUR REVENUES TO DECLINE.

Our licensees may seek to develop products that are based on alternative technologies that do not require a license under our intellectual property. Several companies currently market products that incorporate more expensive variations of touch-enabling technology for scientific and industrial use and may shift their focus to consumer markets if those markets continue to grow. In addition, we face competition from companies that market lower cost, less sophisticated vibration technology, sometimes referred to as "dual shock" or "rumble pak." These or other potential competitors may have significantly greater financial, technical and marketing resources. If existing or potential licensees do not license technology or intellectual property from us, our revenue growth could be limited or revenues could decline.

COMPETITION TO OUR IMMERSION PROCESSORS MAY LEAD TO REDUCED PRICES AND SALES VOLUMES OF OUR MICROPROCESSORS.

To date, the market for our Immersion Processors has been small. If the market grows, we expect more companies to compete in this market. Increased competition could result in significant price erosion, reduced revenues or loss of market share, any of which would have an adverse effect on our business and operating results. Currently, semiconductor companies, including Mitsubishi and STMicroelectronics, manufacture products that compete with our microprocessors. Although the products of these semiconductor companies have not been optimized for the specific requirements of touch-enabling technology, in the future, Mitsubishi, STMicroelectronics or other companies may elect to enter the market for optimized touch-enabling microprocessors. These companies may have greater financial, technical, manufacturing, distribution and

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other resources, greater name recognition and market presence, longer operating histories, lower cost structures and larger customer bases than we do. Accordingly, we may not be able to compete successfully against either current or future competitors.

WE MIGHT BE UNABLE TO RECRUIT OR RETAIN NECESSARY PERSONNEL, WHICH COULD SLOW THE DEVELOPMENT AND DEPLOYMENT OF OUR TECHNOLOGIES.

Our ability to develop and deploy our technologies and to sustain our revenue growth depends upon the continued service of our executive officers and other key personnel and upon hiring additional key personnel. We intend to hire additional sales, support, marketing and research and development personnel in 2000. Competition for these individuals is intense, and we may not be able to attract, assimilate or retain additional highly qualified personnel in the future. In addition, our technologies are complex and we rely upon the continued service of our existing engineering personnel to support licensees, enhance existing technology and develop new technologies.

WE HAVE EXPERIENCED RAPID GROWTH AND CHANGE IN OUR BUSINESS, AND OUR FAILURE TO MANAGE THIS AND ANY FUTURE GROWTH COULD HARM OUR BUSINESS.

We are increasing the number of our employees rapidly. Our business may be harmed if we do not integrate and train our new employees quickly and effectively. We also cannot be sure that our revenues will continue to grow at a rate sufficient to support the costs associated with an increasing number of employees.

Any future periods of rapid growth may place significant strains on our managerial, financial, engineering and other resources. The rate of any future expansion, in combination with our complex technologies, may demand an unusually high level of managerial effectiveness in anticipating, planning, coordinating and meeting our operational needs as well as the needs of our licensees.

PRODUCT LIABILITY CLAIMS, INCLUDING CLAIMS RELATING TO ALLEGED REPETITIVE STRESS INJURIES, COULD BE TIME-CONSUMING AND COSTLY TO DEFEND, AND COULD EXPOSE US TO LOSS.

Claims that consumer products have flaws or other defects that lead to personal or other injury are common in the computer peripherals industry. If products that we or our licensees sell cause personal injury, financial loss or

other injury to our or our licensees' customers, the customers or our licensees may seek damages or other recovery from us. Any claims against us would be time-consuming, expensive to defend and distracting to management and could result in damages and injure our reputation or the reputation of our licensees or their products. This damage could limit the market for our licensees' touch-enabled products and harm our results of operations.

In the past, manufacturers of peripheral products, such as computer mice, have been subject to claims alleging that use of their products has caused or contributed to various types of repetitive stress injuries, including carpal tunnel syndrome. We have not experienced any product liability claims to date.

Although our license agreements typically contain provisions designed to limit our exposure to product liability claims, existing or future laws or unfavorable judicial decisions could limit or invalidate the provisions.

IF WE FAIL TO DEVELOP NEW OR ENHANCED TECHNOLOGIES FOR NEW COMPUTER APPLICATIONS AND PLATFORMS, WE MAY NOT BE ABLE TO CREATE A MARKET FOR OUR TECHNOLOGIES AND OUR ABILITY TO GROW AND OUR RESULTS OF OPERATIONS MIGHT BE HARMED.

Our initiatives to develop new and enhanced technologies and to license technologies for new applications and new platforms may not be successful. Any new or enhanced technologies may not be favorably received by consumers and could damage our reputation or our brand. Expanding our technology could also require significant additional expenses and strain our management, financial and operational resources. The lack of market acceptance of these efforts or our inability to generate additional revenues sufficient to offset the associated costs could harm our results of operations.

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WE MAY ENGAGE IN ACQUISITIONS THAT DILUTE STOCKHOLDER VALUE, DIVERT MANAGEMENT ATTENTION OR CAUSE INTEGRATION PROBLEMS.

As part of our business strategy, we have in the past acquired, and might in the future acquire, businesses or intellectual property that we feel could complement our business, enhance our technical capabilities or increase our intellectual property portfolio. If we consummate acquisitions through an exchange of our securities, our stockholders could suffer significant dilution.

Acquisitions could create risks for us, including:

- unanticipated costs associated with the acquisitions;
- use of substantial portions of our available cash to consummate the acquisitions;
- diversion of management's attention from other business concerns;
- difficulties in assimilation of acquired personnel or operations; and
- intellectual property infringement claims and claims related to the ownership of acquired intellectual property.

Any acquisitions, even if successfully completed, might not generate any additional revenue or provide any benefit to our business.

YEAR 2000 COMPLIANCE COSTS AND RISKS ARE DIFFICULT TO ASSESS AND COULD RESULT IN DELAY OR LOSS OF REVENUES, DAMAGE TO OUR REPUTATION AND DIVERSION OF DEVELOPMENT RESOURCES.

Many computer programs and embedded date-reliant systems use two digits rather than four to define the applicable year. Programs and systems that record only the last two digits of the calendar year may not be able to distinguish whether "00" means 1900 or 2000. If not corrected, date-related information and data could cause these programs or systems to fail or to generate erroneous information.

To the extent that any third-party product with which our technology is associated is not Year 2000 compliant, our reputation may be harmed. Our revenue and operating results could become subject to unexpected fluctuations if our licensees encounter Year 2000 compliance problems that affect their ability to distribute licensed products. In addition, a delay or failure by our critical

suppliers to be Year 2000 compliant could interrupt our business. To date, our business has not been affected by Year 2000 compliance problems.

OUR STOCK MAY BE VOLATILE.

The stock market has experienced extreme volatility that often has been unrelated or disproportionate to the performance of particular companies. These market fluctuations may cause our stock price to decline regardless of our performance.

OUR EXECUTIVE OFFICERS, DIRECTORS AND MAJOR STOCKHOLDERS RETAIN SIGNIFICANT CONTROL OVER US, WHICH MAY LEAD TO CONFLICTS WITH OTHER STOCKHOLDERS OVER CORPORATE GOVERNANCE MATTERS.

Our current directors, officers and more than 5% stockholders, as a group, beneficially own a majority of our outstanding common stock. Acting together, these stockholders would be able to control all matters that our stockholders vote upon which require the vote of a simple majority of our shares, including the election of directors and mergers or other business combinations, which could have the effect of delaying or preventing a third party from acquiring control over or merging with us.

PROVISIONS IN OUR CHARTER DOCUMENTS AND DELAWARE LAW COULD PREVENT OR DELAY A CHANGE IN CONTROL, WHICH COULD REDUCE THE MARKET PRICE OF OUR COMMON STOCK.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. In addition, certain provisions of Delaware law may

discourage, delay or prevent someone from acquiring or merging with us. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

THERE ARE A LARGE NUMBER OF SHARES THAT MAY BE SOLD IN THE MARKET, WHICH MAY DEPRESS THE MARKET PRICE OF OUR COMMON STOCK.

Sales of substantial numbers of shares of our common stock in the public market, or the perception that sales may be made, could cause the market price of our common stock to decline. In addition, the sale of these shares could impair our ability to raise capital through the sale of additional equity securities. As of December 31, 1999 we had 15,765,211 shares of common stock outstanding. Of these, approximately 5.0 million shares are freely tradable. Substantially all of the remaining shares of our common stock will become available for sale in May 2000 upon the expiration of lock-up agreements, subject to the restrictions imposed by the federal securities laws on sales by affiliates. However, Hambrecht & Quist LLC, the lead underwriter of our initial public offering, may waive the lock-up restrictions in its sole discretion.

EMPLOYEES

As of December 31, 1999, we had 58 full-time employees, including 24 in research and development, 14 in sales and marketing and 20 in finance, administration and operations. As of that date, we also employed one independent contractor. None of our employees is represented by a labor union, and we consider our employee relations to be good.

EXECUTIVE OFFICERS

The following table sets forth information regarding our executive officers as of March 1, 2000:

NAME	POSITION WITH THE COMPANY	AGE
Louis Rosenberg, Ph.D.....	Chairman of the Board, President and Chief Executive Officer	30
Victor Viegas.....	Vice President, Finance and Chief Financial Officer	42
J. Stuart Mitchell.....	Vice President, Business Development	46

Bruce Schena.....	Vice President, Chief Technology Officer, Secretary	35
Jennifer Saffo.....	Vice President, Marketing	45
Kenneth Martin.....	Vice President, Engineering	34

Dr. Louis Rosenberg is a founder of Immersion and has served as Chairman of our board of directors and as President and Chief Executive Officer since May 1993. Since April 1997, Dr. Rosenberg has also served as a manager of MicroScribe LLC, a licensing company in which we hold a membership interest. Dr. Rosenberg holds bachelor of science, master of science and doctorate degrees in mechanical engineering from Stanford University.

Mr. Victor Viegas has served as our Chief Financial Officer and Vice President, Finance since August 1999. From June 1996 to August 1999, he served as vice president, finance and administration and chief financial officer of Macrovision Corporation, a developer and licensor of video and software copy protection technologies. From October 1986 to June 1996, he served as vice president of finance and chief financial officer of Balco Incorporated, a manufacturer of advanced automotive service equipment. He holds a bachelor of science degree in accounting and a master of business administration degree from Santa Clara University. Mr. Viegas is also a certified public accountant in the State of California.

Mr. J. Stuart Mitchell has served as our Vice President, Business Development since August 1999. From February 1987 to February 1999, Mr. Mitchell served as vice president of sales and marketing, systems products division and vice president of worldwide technology licensing business for Adobe Systems, Inc., a technology licensing desktop publishing and graphics software company. From May 1982 to January 1987, Mr. Mitchell served in various sales and marketing management positions for Zentec Corporation, a computer systems and display terminal company and, from April 1977 to April 1982, Mr. Mitchell served in various sales and marketing positions for Xerox Corporation, an information technology and document systems

company. Mr. Mitchell holds a bachelor of science degree in engineering physics with a minor in business from the University of Colorado, Boulder.

Mr. Bruce Schena has served as our Vice President, Chief Technology Officer and Secretary since January 1995. Mr. Schena also served on our board of directors from January 1995 until February 2000. Since April 1997, Mr. Schena has also served as a manager of MicroScribe LLC, a licensing company in which we hold a membership interest. From June 1993 to December 1994, Mr. Schena consulted for Pandemonium Product Development, a product design company owned by Mr. Schena. Mr. Schena holds bachelor of science and master of science degrees in mechanical engineering from Massachusetts Institute of Technology and a degree of engineer in mechanical engineering from Stanford University.

Ms. Jennifer Saffo has served as our Vice President, Marketing since July 1999. From January 1991 to July 1999, Ms. Saffo owned and operated a sole proprietorship marketing company delivering strategic marketing advice to Internet and software companies. From 1987 to 1990, Ms. Saffo served as director of marketing for Adobe Systems, Inc., a technology licensing desktop publishing and graphics software company. From 1984 to 1987, Ms. Saffo was a founder and director of Aldus Corporation, a desktop publishing company, and from 1981 to 1984, she served as national accounts manager at Microsoft Corporation, a software company. Ms. Saffo holds a bachelor of arts degree in linguistics from University of Colorado, Boulder.

Mr. Kenneth Martin has served as our Vice President, Engineering since February 2000. From April 1996 to January 2000, Mr. Martin served as our Director of Product Development. From June 1994 to April 1996, Mr. Martin served as a design engineer at IDEO Product Development Inc., a product design company. Since 1994, Mr. Martin also has served as a lecturer in the design division in the mechanical engineering department of Stanford University. Mr. Martin holds a bachelor of applied science degree from the University of Toronto and a master of science degree in manufacturing systems engineering from Stanford University.

ITEM 2. PROPERTIES

We have 16,280 square feet of office space in San Jose, California. Apart from the Immersion Processors which are manufactured by Kawasaki LSI, all of the products that we sell are manufactured in our San Jose office. Our lease for

this building expires on October 31, 2002. We anticipate adding office space over the next year in order to accommodate new employees.

ITEM 3. LEGAL PROCEEDINGS

We are not presently involved in any legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders in the fourth quarter of fiscal 1999.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the Nasdaq National Market under the symbol "IMMR." Our initial public offering of stock was November 12, 1999 at \$12.00 per share for an aggregate initial public offering of \$53,685,000, including proceeds from the exercise of the underwriters' over-allotment option. The following table sets forth, for the periods indicated, the high and low sales prices for the common stock on such market.

	HIGH	LOW
	-----	-----
Fiscal year ending December 31, 1999		
Fourth Quarter.....	\$49.94	\$15.88

On March 20, 2000, there were approximately 166 stockholders of record.

The managing underwriters in our initial public offering were Hambrecht & Quist, Bear, Stearns & Co. Inc. and Robertson Stephens. We registered the shares of the common stock sold in the offering under the Securities Act of 1933, as amended, on a Registration Statement on Form S-1 (No. 333-86361). The Securities and Exchange Commission declared the Registration Statement effective on November 12, 1999.

We paid a total of \$3.8 million in underwriting discounts and commissions and approximately \$1.6 million has been or will be paid for costs and expenses related to the offering. None of the costs and expenses related to the offering were paid directly or indirectly to any of our directors, officers, general partners or their associates, persons owning 10% or more of any class of our equity securities or any of our affiliates.

After deducting the underwriting discounts and commissions and the offering expenses, we received estimated net proceeds from the offering of \$48.3 million. The net offering proceeds have been used for general corporate purposes, to provide working capital to develop products and to expand our operations. Funds that have not been used have been invested in money market funds and other investment grade securities. We also may use a portion of the net proceeds to acquire or invest in businesses, technologies, products or services.

The market price of our common stock has fluctuated in the past and is likely to fluctuate in the future. In addition, the market prices of securities of other technology companies have been highly volatile. Factors that may have a significant effect on the market price of our common stock include:

- fluctuations in our operating results;
- announcements of new technologies by us or our competitors;
- analysts' reports and projections;
- regulatory actions; and
- general market, economic or political conditions in the U.S. or abroad.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock or other securities and we do not anticipate paying cash dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The consolidated statements of operations data set forth below for the years ended December 31, 1999, 1998, 1997, and the consolidated balance sheet data at December 31, 1999 and 1998 are derived from the consolidated financial statements of the Company included elsewhere in this Report on Form 10-K. The consolidated statement of operations data for the year ended December 31, 1996 and the consolidated balance sheet data at December 31, 1997 and 1996 are derived from audited consolidated financial statements not included in this Report on Form 10-K. The selected financial data for the year ended December 31, 1995 has been derived from unaudited consolidated financial statements that have been prepared on the same basis as the audited financial statements and which, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company's results of operations. The following financial data is qualified in its entirety by, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto included elsewhere in this Report on Form 10-K.

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	1999	1998	1997	1996	1995
	-----	-----	-----	-----	-----
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Revenues.....	\$ 8,038	\$ 5,021	\$4,332	\$2,737	\$1,353
Cost and expenses.....	12,880	6,868	4,909	2,846	1,424
Operating loss.....	(4,842)	(1,847)	(577)	(109)	(71)
Net loss.....	(4,354)	(1,673)	(527)	(81)	(57)
Basic and diluted net loss per share.....	\$ (0.66)	\$ (0.43)	\$(0.17)	\$(0.03)	\$(0.02)
Shares used in calculating basic and diluted net loss per share.....	6,599	3,909	3,162	2,825	2,468

	1999	1998	1997	1996	1995
	-----	-----	-----	-----	-----
CONSOLIDATED BALANCE SHEET DATA:					
Cash and cash equivalents.....	\$46,527	\$ 2,592	\$ 490	\$ 324	\$ 37
Working capital.....	51,299	3,975	2,080	1,151	779
Total assets.....	59,438	5,959	2,900	1,562	963
Redeemable convertible preferred stock....	--	1,476	1,471	--	--
Total stockholders' equity.....	56,648	3,773	944	1,383	876

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes forwarding-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The forward-looking statements involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements as a result of certain factors, including those set forth in Item 1, those described elsewhere in this report and those described in other reports under the Securities Exchange Act of 1934. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report.

OVERVIEW

Immersion was founded in 1993 to develop technologies that help improve

human to computer interaction. Historically, we have derived most of our revenues from sales of products and from development contracts. We began generating royalty revenue in the first quarter of 1997 and anticipate that royalty revenue will become an increasing percentage of our total revenues.

We began developing touch-enabled computer peripherals in 1993. In 1995, we introduced our Impulse Engine line of high-end touch-enabled devices for industrial, research and education markets. We manufacture and sell these products directly to our customers. In 1996, we introduced I-FORCE, our first branded portfolio of touch-enabling technology for consumer markets. We license I-FORCE, now called TouchSense, generally on a per unit royalty basis, to computer gaming peripheral manufacturers. Also in 1996, the first computer joystick incorporating I-FORCE was introduced.

We introduced FEELit, now called TouchSense, a technology for touch-enabled cursor control products, such as mice and trackballs, in 1997. In 1998, we licensed FEELit to Logitech, which began selling the first mouse during the fourth quarter of 1999.

We have developed a custom processor for touch-enabled products that is manufactured by Kawasaki LSI, and we began selling this processor in September 1998. In addition to selling the processors ourselves, we granted Kawasaki LSI a limited royalty-bearing license to sell these processors to Logitech for use in its touch-enabled computer mouse.

We currently sell products in the industrial and professional markets. We developed our first three-dimensional digitizer product, which is used to create three-dimensional computer images of small objects, in 1994 and currently sell this product under the name MicroScribe-3D. We began developing our Softmouse

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product, a specialized computer mouse used for mapmaking, in 1994. This mouse product is sold to original equipment manufacturers. We began developing technology and products for the medical market in 1993. We derive revenues from selling medical training and simulation products. In June 1999, we also began to license technologies for the medical training and simulation market.

We have entered into numerous contracts with government agencies and corporations since 1993. Government contracts help fund advanced research and development, are typically less than two years in duration, are usually for a fixed price or for our costs plus a fixed fee, and allow the government agency to license the resulting technology for government applications specifically excluding any commercial activity. Corporate contracts are typically for product development consulting, are for a fixed fee and are also less than two years in duration.

Logitech accounted for 13% of our total revenues in 1999 and 11% of our total revenues in 1998. The U.S. Government accounted for 7% of our total revenues in 1999, 10% of our total revenues in 1998, and 24% of our total revenues in 1997.

Since inception, we have completed a number of acquisitions of patents and technology. We capitalize the cost of patents and technology and license agreements, except for amounts relating to acquired in-process research and development for which there is no alternative future use. As of December 31, 1999, we had capitalized patents and technology of \$4.7 million, net of accumulated amortization of \$772,000. We are amortizing these patents and technology over the estimated useful life of the technology of nine years. Of this amount, we capitalized patents and technology of \$3.3 million, net of accumulated amortization of \$335,000, associated with the acquisition of patents and technology from Cybernet in March 1999. We are amortizing the Cybernet patents and technology over the estimated useful life of the technology of nine years, resulting in an amortization expense anticipated to be approximately \$402,000 per year.

In the quarter ended March 31, 1999, we expensed \$1.2 million of in-process research and development related to five development projects acquired from Cybernet. The first of these projects is a flexible force feedback development environment that allows developers to choose the level of complexity/functionality that fits their needs. At the time of acquisition, the development was 81% completed and the estimated cost to complete this development was \$438,000. Management expects to ship products using this

software beginning in September 2001. The second of these projects, a three-degree-of-freedom joystick, gives the operator smooth, intuitive movement and feedback along three axes -- roll, pitch and yaw -- using brushless motor and encoder technology. At the time of acquisition, the development was 36% completed and the estimated cost to complete this development was \$109,000. Management expects products based on this technology to become available in December 2000. The third of these projects is a six degree-of-freedom hand controller, a small back drivable robot that moves in six degrees of freedom, three linear positions and attitudes. At the time of acquisition, the development was 70% completed and the estimated cost to complete this development was \$88,000. Management expects to complete development of a product based on this technology and begin shipping it in fiscal 2000. The fourth project is a Flight Yoke, which provides the intuitive motion and feel of an airplane control yoke. It translates in and out to control the pitch, rotates for roll control, and provides the corresponding feel along these axes of motion. At the time of acquisition, the development was 49% completed and the estimated cost to complete this development was \$175,000. Management expects that licensees will ship licensed products using this technology in fiscal 2001. The fifth development project is a device that allows the user to physically interact with computer generated three-dimensional objects. At the time of acquisition, the development was 11% completed and the estimated cost to complete this development was \$248,000. Management expects that a product based on this technology will become available for sale in fiscal 2000.

We will begin to benefit from the acquired research and development of these products once they begin shipping. Failure to reach successful completion of these projects could result in impairment of the associated capitalized intangible assets and could require us to accelerate the time period over which the intangibles are being amortized, which could have a material adverse effect on our business, financial condition and results of operation. Significant assumptions used to determine the value of in-process research and development include the following: (i) forecast of net cash flows that were expected to result from the development effort

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using projections prepared by us and the seller's management; (ii) the portion of the projects completed estimated by considering a number of factors, including the costs invested to date relative to total costs of the development effort and the amount of development completed as of the acquisition date, on a technological basis, relative to the overall technological achievements required to achieve the functionality of the eventual product. The technological issues were addressed by engineering representatives from both us and the seller, and when estimating the value of the technology, the projected financial results of the acquired assets were estimated on a stand-alone basis without any consideration of potential synergistic benefits or "investment value" related to the acquisition. As there were no existing products acquired, separate projected cash flows were prepared for only the in-process projects.

These projected results were based on the number of units sold times the average selling price less the associated costs. After preparing the estimated cash flows from the products being developed, a portion of these cash flows were attributed to the existing technology, which was embodied in the in-process product lines and enabled a quicker and more cost-effective development of these products. When estimating the value of the in-process technologies, a discount rate of 30% was used. The discount rate considered both the status and risks associated with the cash flows at the acquisition date. Projected revenues from the in-process products are expected to commence in 2000 and 2001 as the products are completed and begin to ship. Initial annual revenue growth rates after introduction are projected to exceed 50% and decline to less than 15% by 2005. Gross margins from these products are anticipated to be consistent with the gross margins from our other products.

We record revenues from product sales upon shipment. We recognize fixed-fee contract revenue under the cost-to-cost percentage-of-completion accounting method based on the actual physical completion of work performed and the ratio of costs incurred to total estimated costs to complete the contract. We recognize allowable fees under cost-reimbursement contracts as costs are incurred. Losses on contracts are recognized when determined. Revisions in estimates are reflected in the period in which the conditions become known. We recognize royalty revenue based on royalty reports or related information received from the licensee. On July 19, 1999, we entered into an irrevocable, perpetual, non-exclusive, worldwide license agreement with Microsoft under which

Microsoft paid us a lump sum of \$2.35 million to cover all shipments of its SideWinder Force Feedback Wheel and its SideWinder Force Feedback Pro Joystick and a replacement version of these specific SideWinder products having essentially similar functional features. Under the terms of the agreement, the Company is to provide marketing services related to touch-enabling technology and related products for a twelve-month period following the effective date of the agreement. Accordingly, we will recognize the license payment as revenue over this twelve-month period ending mid-July, 2000.

Our cost of product sales consists primarily of materials, labor and overhead. There is no cost of sales associated with royalty revenue or development contract revenue. Our research and development expenses are comprised primarily of headcount and related compensation and benefits, consulting fees, costs of acquired technology, tooling and supplies and an allocation of facilities costs. Our sales and marketing expenses are comprised primarily of employee headcount and related compensation and benefits, advertising, trade shows, brochures, travel and an allocation of facilities costs. Our general and administrative expenses are comprised primarily of employee headcount and related compensation and benefits, legal and professional fees, office supplies, recruiting, travel and an allocation of facilities costs.

We signed a co-marketing agreement with Logitech during the fourth quarter of fiscal 1999 in which we agreed to assist Logitech with the launch and promotion of its touch-enabled mice. Under the terms of the agreement, for a period of five calendar quarters, beginning in the first calendar quarter of 2000, we are required to reimburse Logitech for certain marketing related expenses not to exceed \$200,000 per quarter, an expense funded with working capital. Only third-party marketing services that are targeted at promoting Logitech's touch-enabled mice are eligible for reimbursement. In addition, all promotional activities must be approved by us in advance. In order to remain eligible for reimbursement, Logitech must include our brand and slogan on all its marketing materials that reference touch-enabled functionality or products, and meet other conditions regarding its touch-enabled mice.

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We recorded deferred stock compensation of \$1.5 million in 1999 from the issuance of employee stock options. We are amortizing the deferred stock compensation over the terms of the related option agreements, which range up to four years.

HISTORICAL RESULTS OF OPERATIONS

The following table sets forth our statement of operations data as a percentage of total revenues.

	PERCENTAGE OF TOTAL NET REVENUES YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	-----	-----	-----
Net revenues:			
Royalty revenue.....	27.8%	6.4%	0.3%
Product sales.....	57.0	74.2	67.1
Development contracts and other.....	15.2	19.4	32.6
	-----	-----	-----
Total revenues.....	100.0	100.0	100.0
	-----	-----	-----
Costs and expenses:			
Cost of products sales.....	26.2	30.0	27.4
Sales and marketing.....	22.4	13.1	15.2
Research and development.....	28.3	36.2	35.0
General and administrative.....	51.8	53.3	35.8
Amortization of intangibles and deferred stock compensation.....	16.7	4.2	--
In-process research and development.....	14.8	--	--
	-----	-----	-----
Total costs and expenses.....	160.2	136.8	113.4
	-----	-----	-----
Operating loss.....	(60.2)	(36.8)	(13.4)

Other income.....	6.0	3.5	1.2
	----	----	----
Net loss.....	(54.2)%	(33.3)%	(12.2)%
	=====	=====	=====

COMPARISON OF YEARS ENDED DECEMBER 31, 1999, 1998, AND 1997

Total Revenues. Our total revenues for the year ended December 31, 1999 increased to \$8.0 million from \$5.0 million in 1998, an increase of 60%. The year over year increase was primarily the result of a \$1.9 million or 595% increase in royalty revenue due to increased 1999 sales by our I-FORCE licensees and \$ 1.1 million in revenues recognized under the Microsoft agreement. The remainder of the 1999 increase in sales over 1998 was due to an increase in product sales of \$858,000 or 23%. The increase in product sales is mainly attributed to a \$566,000 increase in professional medical products, and \$343,000 increase in microprocessor sales with smaller increases and decreases in other product categories. Total revenue for the year ended December 31, 1998 grew by \$689,000 over total 1997 revenues. The 1998 increase was principally the result of an \$817,000 increase in product sales, primarily from our MicroScribe-3D and industrial products, and a \$307,000 increase in royalty revenue due to increased sales by our I-FORCE licensees in 1998. The increase in product sales and royalty revenue was partially offset by a \$435,000 decrease in contract revenue.

Cost of Product Sales. Costs of product sales were \$2.1 million in 1999, \$1.5 million in 1998 and \$1.2 million in 1997. The \$0.6 million increase in cost of product sales in 1999 is mainly due higher sales volume, a 23% increase in product sales over last year and increased sales of our microprocessors which have a higher cost of sales as a percentage of product sales than our other products. The \$0.3 million increase in 1998 cost of product sales over 1997 was due to increased product sales volume. Cost of product sales as a percentage of product sales was 46% in 1999, 40% in 1998 and 41% in 1997. Cost of product sales as a percentage of product sales increased in 1999 from 1998 primarily due to a 276% increase in sales of our microprocessors, which have a higher cost as a percentage of sales than our other products.

Sales and Marketing. Sales and marketing expenses grew to \$1.8 million in 1999 from \$656,000 in 1998 and remained constant at \$658,000 in 1997. The \$1.1 million or 175% increase in 1999 was primarily a result of increased headcount and related compensation, benefits, and overhead costs of \$606,000 and corporate identity and web development costs of \$319,000. We expect sales and marketing expenses to increase significantly in absolute dollars due to planned growth of our sales and marketing organization. These planned increases include higher employee headcount and related compensation and increased advertising and marketing expenses. These planned increases also include expenses related to a co-marketing agreement that we entered into with Logitech in November 1999. Under the co-marketing agreement, we agree to reimburse Logitech for certain marketing-related expenses not to exceed \$200,000 per quarter during a five-quarter period beginning the first quarter of 2000.

Research and Development. Research and development expenses increased to \$2.3 million in 1999 from \$1.8 million in 1998 and \$1.5 million in 1997. The \$456,000 or 25% increase in 1999 is mainly due to a \$421,000 increase in employee headcount and the related compensation, benefits and overhead costs. The increase from 1997 to 1998 was principally due to an increase in employee headcount and related compensation of \$424,000, partially offset by a decrease in consulting services of \$142,000. We believe that continued investment in research and development is critical to our future success, and we expect these expenses to increase in absolute dollars in future periods.

General and Administrative. General and administrative expenses increased to \$4.2 million in 1999 from \$2.7 million in 1998 and \$1.6 million in 1997. The \$1.5 million or 56% increase in 1999 is mainly attributed to an increase of \$576,000 in employee headcount and related compensation, benefits, overhead costs and a \$824,000 increase in recruiting costs. The recruiting expenses are predominantly from cash and stock compensation given to a recruiter for identifying and employing three senior members of our management team. The increase from 1997 to 1998 was principally due to an increase in employee headcount and related compensation and benefits of \$584,000, an increase in legal and professional fees of \$147,000 and an increase in consulting services of \$109,000. We expect that the dollar amount of general and administrative expenses will increase in the future as we incur the significant additional

costs related to being a public company.

Amortization of Intangibles and Stock Compensation. Amortization of intangibles and stock compensation expense grew by \$1.1 million in 1999 to \$1.3 million from \$211,000 in 1998. We did not incur amortization expenses related to intangibles or stock compensation in 1997. Amortization of licenses and patents was \$551,000 in 1999 and \$211,000 in 1998 representing a \$340,000 increase year over year. The remainder of the 1999 increase is due to \$482,000 of amortization on a consulting agreement signed in March 1999 and \$306,000 of stock compensation amortization.

In-Process Research and Development. During the year ended December 31, 1999 we incurred a charge of \$1.2 million for in-process research and development resulting from the March 1999 acquisition of patents and in-process technology from Cybernet. The patents and technology were acquired in exchange for 1,291,200 shares of our common stock. We capitalized \$3.6 million of purchased patents and technology in connection with this acquisition. Strategically, this acquisition allowed us to increase the strength of our intellectual property portfolio by obtaining Cybernet's portfolio of issued patents and pending patent applications relating to hardware mechanisms and software architectures designed to deliver tactile sensations to computer users. It also allowed us to obtain five in-process research and development projects that embody aspects of the acquired intellectual property, and that have potential commercial value. These include a flexible force feedback development environment that allows developers to implement varying levels of force feedback functionality; a three-degree-of-freedom joystick that uses brushless motor and encoder technology; a six-degree-of-freedom hand controller; a flight yoke that realistically simulates the motion and feel of airplane controls; and a device that allows the user to touch three-dimensional objects.

Other Income. Other income consists primarily of interest income, dividend income and capital gains from cash and cash equivalents and short-term investments. Other income was \$488,000 in 1999, \$174,000 in 1998 and \$50,000 in 1997. The significant increase in 1999 is due to the increase in cash and cash equivalents and short-term investments chiefly from the \$48.3 million net proceeds of our public offering on November 12,

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1999. The 1998 increase over 1997 other income is largely due to increases in cash and cash equivalents and short-term investments of those years.

LIQUIDITY AND CAPITAL RESOURCES

Prior to our initial public offering on November 12, 1999 we funded our operations primarily from the sale of preferred stock. Net proceeds from the initial public offering were \$48.3 million. As of December 31, 1999, we had an accumulated deficit of \$8.6 million and working capital of \$51.3 million, including cash and cash equivalents of \$46.5 million.

Net cash provided by operating activities during 1999 was \$740,000, primarily attributable to noncash charges of \$3.5 million, a \$1.3 million increase in deferred revenue and increases in accounts payable and accrued liabilities of \$770,000, partially offset by a \$381,000 increase in prepaid expenses and other assets and a net loss of \$4.4 million. Deferred revenue at December 31, 1999 of \$1.3 million represents the unamortized portion of the \$2.35 million license payment received from Microsoft in July 1999. In 1998, net cash used in operating activities was \$1.8 million, primarily attributable to a net loss of \$1.7 million, an increase of \$592,000 in accounts receivable and an increase of \$186,000 in inventories. In 1997, net cash used in operating activities was \$237,000, primarily attributable to a net loss of \$527,000, largely offset by an increase in accounts payable of \$189,000.

Net cash used in investing activities during 1999 was \$5.4 million and primarily consisted of purchases of \$4.8 million of short-term investments and \$1.1 million of property and equipment, intangibles, and other assets, offset by \$403,000 from sales of short-term investments. In 1998, net cash provided by investing activities was \$237,000, attributable to \$3.8 million from sales of short-term investments primarily offset by \$2.9 million of purchases of short-term investments and \$434,000 for purchases of patents and technology. In 1997, net cash used in investing activities was \$1.2 million, and was attributable to \$1.5 million of purchases of short-term investments and \$205,000 of purchases of property, offset by \$538,000 from sales of short-term

investments. In order to improve our rate of return on cash and still provide short-term liquidity, we periodically purchase or sell short-term investments, which typically are interest-bearing, investment-grade securities with a maturity of greater than 90 days and less than one year.

Net cash provided by financing activities during 1999 was \$48.6 million, and consisted primarily of net proceeds of \$48.3 million from our initial public offering of common stock in November, 1999 and \$323,000 from the exercise of stock options and warrants. In 1998, net cash provided by financing activities was \$3.7 million and was attributable primarily to net proceeds of \$5.4 million from the sale of preferred stock, offset by the repurchase of \$1.8 million of stock. In 1997, net cash provided by financing activities was \$1.6 million and was attributable primarily to the proceeds of \$1.5 million from the sale of preferred stock.

We believe that our cash, cash equivalents and short-term investments, will be sufficient to meet our working capital needs and capital expenditure requirements for at least the next 12 months. We anticipate that capital expenditures for the full year ended December 31, 2000 will total approximately \$2.0 million in connection with anticipated growth in operations, infrastructure and personnel. If the Company acquires one or more businesses or products, the Company's capital requirements could increase substantially. In the event of such an acquisition or should any unanticipated circumstances arise which significantly increase the Company's capital requirements, there can be no assurance that necessary additional capital will be available on terms acceptable to the Company, if at all.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement requires companies to record derivatives on the balance sheet as assets or liabilities measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. SFAS No. 133 will be effective for us beginning in 2001. We believe that this statement will not have a significant impact on our financial condition and results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity. Our operating results have not been sensitive to changes in the general level of U.S. interest rates, particularly because most of our cash equivalents are invested in short-term debt instruments. If market interest rates were to change immediately and uniformly by 10% from levels at December 31, 1999, the fair value of our cash equivalents would not change by a significant amount.

Foreign Currency Fluctuations. We have not had any significant transactions in foreign currencies, nor did we have any significant balances that were due or payable in foreign currencies at December 31, 1999. Therefore, a hypothetical 10% change in foreign currency rates would not have a significant impact on our financial position and results of operations. We do not hedge any of our foreign currency exposure.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

IMMERSION CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
of Immersion Corporation:

We have audited the accompanying consolidated balance sheets of Immersion Corporation and its subsidiary (the Company) as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and comprehensive loss and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Immersion Corporation and its subsidiary at December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
San Jose, California
February 4, 2000

(March 9, 2000 as to Note 14)

IMMERSION CORPORATION

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	DECEMBER 31,	
	----- 1999	1998 -----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$46,527	\$ 2,592
Short-term investments.....	4,781	402
Accounts receivable (net of allowances for doubtful accounts of: 1999, \$134; and 1998, \$92).....	1,064	1,111

Inventories.....	660	481
Prepaid expenses and other assets.....	1,057	99
	-----	-----
Total current assets.....	54,089	4,685
Property -- net.....	591	329
Purchased patents and technology.....	4,687	945
Other assets.....	71	--
	-----	-----
Total assets.....	\$59,438	\$ 5,959
	=====	=====
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 750	\$ 410
Accrued compensation.....	180	171
Other accrued liabilities.....	503	82
Deferred revenue.....	1,316	--
Customer advances.....	39	46
Income taxes payable.....	2	1
	-----	-----
Total current liabilities.....	2,790	710
	-----	-----
Commitments and contingencies (Notes 6 and 13)		
Redeemable convertible preferred stock, Series C -- \$0.001 par value; 863,778 shares designated; shares issued and outstanding: 1999, none; 1998, 863,771.....	--	1,476
	-----	-----
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; 5,000,000 shares authorized:		
Series A -- \$0.001 par value; 2,495,648 shares designated; shares issued and outstanding: 1999, none; 1998, 2,495,644.....	--	1,012
Series B -- \$0.001 par value; 467,390 shares designated; shares issued and outstanding: 1999, none; 1998, 394,757.....	--	566
Series D -- \$0.001 par value; 1,388,901 shares designated; shares issued and outstanding: 1999, none; 1998, 1,376,928.....	--	5,377
Common stock -- \$0.001 par value; 100,000,000 shares authorized; shares issued and outstanding: 1999, 15,765,211; 1998, 4,164,231.....	65,554	961
Warrants.....	831	85
Deferred compensation.....	(1,167)	--
Accumulated other comprehensive loss.....	19	1
Note receivable from stockholder.....	(17)	(17)
Accumulated deficit.....	(8,572)	(4,212)
	-----	-----
Total stockholders' equity.....	56,648	3,773
	-----	-----
Total liabilities, redeemable preferred stock and stockholders' equity.....	\$59,438	\$ 5,959
	=====	=====

See notes to consolidated financial statements.

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IMMERSION CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
	-----	-----	-----
Revenues:			
Royalty revenue.....	\$ 2,232	\$ 321	\$ 14
Product sales.....	4,583	3,725	2,908

Development contracts and other.....	1,223	975	1,410
	-----	-----	-----
Total revenues.....	8,038	5,021	4,332
Costs and expenses:			
Cost of product sales.....	2,106	1,507	1,186
Sales and marketing.....	1,801	656	658
Research and development.....	2,273	1,817	1,515
General and administrative.....	4,171	2,677	1,550
Amortization of intangibles and deferred stock compensation*.....	1,339	211	--
In-process research and development.....	1,190	--	--
	-----	-----	-----
Total costs and expenses.....	12,880	6,868	4,909
Operating loss.....	(4,842)	(1,847)	(577)
Other income.....	488	174	50
	-----	-----	-----
Net loss.....	(4,354)	(1,673)	(527)
Redeemable convertible preferred stock accretion.....	6	6	3
	-----	-----	-----
Net loss applicable to common stockholders.....	\$ (4,360)	\$ (1,679)	\$ (530)
	=====	=====	=====
Basic and diluted net loss per share.....	\$ (0.66)	\$ (0.43)	\$ (0.17)
	=====	=====	=====
Shares used in calculating basic and diluted net loss per share.....	6,599	3,909	3,162
	=====	=====	=====
* Amortization of intangibles and deferred stock compensation Amortization of intangibles.....	\$ 1,033	\$ 211	\$ --
Deferred stock compensation -- sales and marketing.....	20	--	--
Deferred stock compensation -- research and development...	99	--	--
Deferred stock compensation -- general and administrative.....	187	--	--
	-----	-----	-----
Total.....	\$ 1,339	\$ 211	\$ --
	=====	=====	=====

See notes to consolidated financial statements.

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IMMERSION CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	CONVERTIBLE PREFERRED STOCK		COMMON STOCK		WARRANTS	DEFERRED COMPENSATION	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
	SHARES	AMOUNT	SHARES	AMOUNT			
Balances at January 1, 1997.....	2,741,109	1,473	3,313,351	29	39	--	5
Net loss.....							
Change in net unrealized gains from short-term investments.....							(3)
Comprehensive loss.....							
Issuance of warrants in connection with issuance of Series C redeemable convertible preferred stock.....					6		
Exercise of Series A preferred stock warrant.....	121,050	72			(12)		
Exercise of stock options.....			105,144	23			
Issuance of stock options for license agreement.....				5			
Preferred stock accretion.....							
	-----	-----	-----	-----	-----	-----	-----
Balances at December 31, 1997.....	2,862,159	1,545	3,418,495	57	33	--	2
Net loss.....							
Change in net unrealized gains from short-term investments.....							(1)
Comprehensive loss.....							
Issuance of Series D convertible preferred stock, net of issuance costs of \$374.....	1,376,928	5,376			17		
Exercise of Series A preferred stock warrants.....	30,260	36			(6)		
Exercise of common stock warrants.....			85,945	4			
Extension of Series B preferred stock warrants.....					41		
Exercise of stock options.....			1,024,615	114			
Issuance of common stock and options for patents.....			137,190	720			
Issuance of stock options for							

consulting services.....				68			
Repurchase of stock.....	(2,018)	(2)	(502,014)	(2)			
Preferred stock accretion.....							
Balances at December 31, 1998.....	4,267,329	\$6,955	4,164,231	\$ 961	\$ 85	\$ --	\$ 1
Net loss.....							
Change in net unrealized gains from short-term investments.....							18
Comprehensive loss.....							
Issuance of common stock options for services.....			76,665	770			
Exercise of common stock warrants.....			7,061	--			
Exercise of convertible preferred stock warrants.....	72,630	108		62	(62)		
Warrants issued for services.....					808		
Exercise of stock options.....			459,818	215			
Issuance of common stock and options for patents.....			1,379,970	5,092			
Issuance of stock options for license agreement.....				129			
Deferred stock compensation.....				1,473	(1,473)		
Amortization of stock compensation.....					306		
Issuance of common stock in connection with initial public offering, net of expenses of \$1,620.....			4,473,736	48,307			
Conversion of preferred stock to common stock.....	(4,339,959)	(7,063)	4,339,959	7,063			
Conversion of redeemable convertible preferred stock to common stock.....			863,771	1,482			
Preferred stock accretion.....							
Balances at December 31, 1999.....	--	\$ --	15,765,211	\$65,554	\$831	\$(1,167)	\$19

	NOTE RECEIVABLE FROM STOCKHOLDER	ACCUMULATED DEFICIT	TOTAL	TOTAL COMPREHENSIVE LOSS
	-----	-----	-----	-----
Balances at January 1, 1997.....	--	(163)	1,383	
Net loss.....		(527)	(527)	\$ (527)
Change in net unrealized gains from short-term investments.....			(3)	(3)
Comprehensive loss.....				----- \$ (530) -----
Issuance of warrants in connection with issuance of Series C redeemable convertible preferred stock.....			6	
Exercise of Series A preferred stock warrant.....			60	
Exercise of stock options.....			23	
Issuance of stock options for license agreement.....			5	
Preferred stock accretion.....		(3)	(3)	
Balances at December 31, 1997.....	--	(693)	944	
Net loss.....		(1,673)	(1,673)	\$ (1,673)
Change in net unrealized gains from short-term investments.....			(1)	(1)
Comprehensive loss.....				----- \$ (1,674) -----
Issuance of Series D convertible preferred stock, net of issuance costs of \$374.....			5,393	
Exercise of Series A preferred stock warrants.....			30	
Exercise of common stock warrants.....			4	
Extension of Series B preferred stock warrants.....			41	
Exercise of stock options.....	(17)		97	
Issuance of common stock and options for patents.....			720	
Issuance of stock options for consulting services.....			68	
Repurchase of stock.....		(1,840)	(1,844)	
Preferred stock accretion.....		(6)	(6)	
Balances at December 31, 1998.....	\$(17)	\$(4,212)	\$ 3,773	
Net loss.....		(4,354)	(4,354)	\$(4,354)
Change in net unrealized gains from short-term investments.....			18	18
Comprehensive loss.....				----- \$ (4,336) -----
Issuance of common stock options for services.....			770	
Exercise of common stock warrants.....			--	
Exercise of convertible preferred stock warrants.....			108	
Warrants issued for services.....			808	
Exercise of stock options.....			215	
Issuance of common stock and				

options for patents.....		5,092	
Issuance of stock options for license agreement.....		129	
Deferred stock compensation.....		--	
Amortization of stock compensation.....		306	
Issuance of common stock in connection with initial public offering, net of expenses of \$1,620.....		48,307	
Conversion of preferred stock to common stock.....		--	
Conversion of redeemable convertible preferred stock to common stock.....		1,482	
Preferred stock accretion.....	(6)	(6)	
Balances at December 31, 1999.....	\$(17)	\$(8,572)	\$56,648

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IMMERSION CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
Cash flows from operating activities:			
Net loss.....	\$(4,354)	\$(1,673)	\$ (527)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization.....	229	142	102
Amortization of intangibles.....	1,033	211	--
Amortization of deferred stock compensation.....	306	--	--
In-process research and development.....	1,190	--	--
Stock and options issued for consulting services and other.....	770	68	--
Stock options issued for license agreement.....	--	--	5
Extension of warrants for consulting services.....	--	41	--
Changes in assets and liabilities:			
Accounts receivable.....	47	(592)	(100)
Inventories.....	(179)	(186)	(25)
Prepaid expenses and other assets.....	(381)	(50)	2
Accounts payable.....	340	122	189
Accrued liabilities.....	430	123	52
Deferred revenue.....	1,316	--	--
Customer advances.....	(7)	(18)	64
Income taxes payable.....	--	(2)	1
Net cash provided by (used in) operating activities.....	740	(1,814)	(237)
Cash flows from investing activities:			
Purchases of short-term investments.....	(4,764)	(2,943)	(1,487)
Sales and maturities of short-term investments.....	403	3,752	538
Purchase of property.....	(489)	(138)	(205)
Purchases of patents and technology.....	(445)	(434)	--
Other assets.....	(140)	--	--
Net cash provided by (used in) investing activities.....	(5,435)	237	(1,154)
Cash flows from financing activities:			
Issuance of Series D convertible preferred stock and warrants, net.....	--	5,393	--
Issuance of Series C redeemable convertible preferred stock, net.....	--	(1)	1,474
Exercise of stock options.....	215	97	23
Repurchase of stock.....	--	(1,844)	--
Exercise of warrants.....	108	34	60
Issuance of common stock in connection with public offering.....	48,307	--	--
Net cash provided by financing activities.....	48,630	3,679	1,557

Net increase in cash and cash equivalents.....	----- 43,935	----- 2,102	----- 166
Cash and cash equivalents:			
Beginning of the year.....	----- 2,592	----- 490	----- 324
End of the year.....	----- \$46,527	----- \$ 2,592	----- \$ 490
Supplemental disclosure of cash flow information:			
Cash paid for taxes.....	----- \$ --	----- \$ 1	----- \$ 12
Noncash activities:			
Change in net unrealized gains from short-term investments.....	----- \$ 18	----- \$ (1)	----- \$ (3)
Issuance of equity instruments for patents, technology and licenses.....	----- \$ 5,221	----- \$ 720	----- \$ --
Issuance of warrants.....	----- \$ 808	----- \$ --	----- \$ 6
Accretion of redeemable preferred stock.....	----- \$ 6	----- \$ 6	----- \$ 3
Exercise of stock option for note receivable.....	----- \$ --	----- \$ 17	----- \$ --

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Business -- Immersion Corporation was incorporated in May 1993 in California and provides technologies that enable users to interact with computers using their sense of touch.

Principles of Consolidation -- The consolidated financial statements include the accounts of Immersion Corporation and its wholly-owned subsidiary (the "Company"). All intercompany transactions and balances have been eliminated in consolidation.

Cash Equivalents -- The Company considers all highly liquid debt or equity instruments purchased with an original maturity at the date of purchase of 90 days or less to be cash equivalents.

Short-Term Investments -- Short-term investments consist primarily of highly liquid debt instruments purchased with an original maturity at the date of purchase of greater than 90 days and investments in mutual funds. Short-term investments are classified as available-for-sale securities and are stated at market value with unrealized gains and losses reported as a component of accumulated other comprehensive loss within stockholders' equity.

Inventories -- Inventories are stated at the lower of cost (first-in, first-out basis) or market.

Property -- Property is stated at cost and is depreciated using the straight-line method over the estimated useful life of the related asset. The estimated useful lives are as follows:

Computer equipment and purchased software.....	3 years
Machinery and equipment.....	5 years
Furniture and fixtures.....	5 years

Leasehold improvements are amortized over the shorter of the lease term or their useful life.

Purchased Patents and Technology -- Purchased patents and technology are stated at cost and are amortized over the shorter of the remaining life of the

patent or the estimated useful life of the technology, generally nine years.

Accumulated amortization was \$714,000 and \$221,000 at December 31, 1999 and 1998 respectively.

Long-Lived Assets -- The Company reviews for the impairment of a long-lived asset whenever events or changes in circumstances indicate that the carrying amount of that asset may not be recoverable. An impairment loss would be recognized when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount.

Product Warranty -- The Company sells the majority of its products with warranties ranging from three to twelve months. Historically, warranty-related costs have been immaterial.

Note Receivable from Stockholder -- The note receivable from stockholder was issued in exchange for common stock, bears interest at 5.39% per annum and is due March 2001.

Revenue Recognition -- Revenues from product sales are recorded upon shipment. Revenues from development contracts with the U.S. Government and other commercial customers are derived from either fixed price or reimbursement of costs contracts. Contract revenues are recognized under the cost-to-cost percentage-of-completion accounting method based on the actual physical completion of work performed and the ratio of costs incurred to total estimated costs to complete the contract. Losses on contracts are recognized when determined. Revisions in estimates are reflected in the period in which the conditions become known. Allowable fees under cost-reimbursement contracts are recognized as costs are incurred. The Company recognizes royalty revenue based on royalty reports or related information received from the licensee. Advance payments under license agreements that also require the Company to provide future services to the licensee

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

are deferred and recognized over the service period when vendor specific objective evidence related to the value of the services does not exist.

At December 31, 1999, the Company has no obligation to repay amounts received under development contracts with the U.S. government or other commercial customers.

Advertising -- Advertising costs are expensed as incurred and included in sales and marketing expense. Advertising expense was \$153,000, \$147,000, and \$164,000 in 1999, 1998 and 1997 respectively.

Research and Development -- Research and development costs are expensed as incurred. The Company has generated revenues from development contracts with the U.S. Government and other commercial customers that have enabled it to accelerate its own product development efforts. Such development revenues have only partially funded the Company's product development activities, and the Company generally retains ownership of the products developed under these arrangements. As a result, the Company classifies all development costs related to these contracts as research and development expenses.

Income Taxes -- The Company provides for income taxes using the asset and liability approach defined by Statement of Financial Accounting Standards ("SFAS") No. 109.

Software Development Costs -- Certain of the Company's products include software. Costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized in accordance with SFAS No 86, Computer Software to be Sold, Leased or Otherwise Marketed. The Company considers technological feasibility to be established upon completion of a working model of the software and the related hardware. Because the Company believes its current process for developing software is essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

Stock-Based Compensation -- The Company accounts for its stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock issued to Employees.

Comprehensive Income -- In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, Reporting Comprehensive Income, which requires that an enterprise report, by major components and as a single total, the change in its net assets during the period from nonowner sources. The Company adopted this statement in 1998 and has presented its total comprehensive loss in the statements of stockholders' equity. Accumulated other comprehensive loss during 1999, 1998 and 1997 is comprised of unrealized gains on available-for-sale investments of \$19,000, \$1,000 and \$2,000, respectively.

Net Loss per Share -- Basic net loss per share excludes dilution and is computed by dividing net loss applicable to common stockholders by the weighted average number of common shares outstanding for the period (excluding shares subject to repurchase). Diluted net loss per common share was the same as basic net loss per common share for all periods presented since the effect of any potentially dilutive securities is excluded as they are anti-dilutive because of the Company's net losses.

Use of Estimates -- The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These management estimates include the allowance for doubtful accounts and the net realizable value of inventory. Actual results could differ from those estimates.

Concentration of Credit Risks -- Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash and cash equivalents, short-term investments and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

accounts receivable. The Company invests primarily in money market accounts, commercial paper, and debt securities of U.S. Government agencies. The Company sells products primarily to companies in North America, Europe and the Far East. A majority of these sales are to customers in the personal computer industry. To reduce credit risk, management performs periodic credit evaluations of its customers' financial condition. The Company maintains reserves for potential credit losses, but historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area.

Certain Significant Risks and Uncertainties -- The Company operates in a dynamic industry and, accordingly, can be affected by a variety of factors. For example, management of the Company believes that changes in any of the following areas could have a negative effect on the Company in terms of its future financial position and results of operations: its ability to obtain additional financing; the mix of revenues; the loss of significant customers; fundamental changes in the technology underlying the Company's products; market acceptance of the Company's and its licensees' products under development; the availability of contract manufacturing capacity; development of sales channels; litigation or other claims against the Company; the hiring, training and retention of key employees; successful and timely completion of product and technology development efforts; and new product or technology introductions by competitors.

Fair Value of Financial Instruments -- Financial instruments consist primarily of cash equivalents and short-term investments. Cash equivalents and short-term investments are stated at fair value based on quoted market prices.

Recently Issued Accounting Standards -- In June 1997, the FASB issued SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, which establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and major customers. The Company currently operates in one

reportable segment under SFAS No. 131.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement requires companies to record derivatives on the balance sheet as assets or liabilities measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. SFAS No. 133 will be effective for the Company's year ending December 31, 2001. Management believes that this statement will not have a material impact on the Company's financial position or results of operations.

Reclassifications -- Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on net loss or stockholders' equity.

2. PURCHASED PATENTS AND TECHNOLOGY

During 1998, the Company entered into a license agreement and acquired various patents relating to touch-enabling technology. In connection with these agreements, the Company paid \$434,000, issued 137,190 shares of common stock and issued an option to purchase 242,100 shares of common stock at \$3.66 per share (see Note 7). The Company has recorded the estimated fair value of the aggregate consideration of \$1,154,000 as purchased patents and technology.

In February 1999, the Company acquired certain patents and related materials pertaining to touch-enabling technology from another company in exchange for \$25,000 in cash and 88,770 shares of the Company's common stock. In addition, the Company is required to issue an additional 16,140 shares of common stock to the seller if the Company is successful in obtaining either a reissue or a foreign version of at least one of the patents. The Company's stock issued in this transaction is being held in escrow until the successful reissue of at least one of the patents. If this condition is not met at the end of five years and the stock is therefore still held in escrow, the seller has the right to put the shares back to the Company for \$3.72 per share. The existence of the put option has the effect of increasing the value assigned to the shares issued to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

\$3.72 per share. As a result, the estimated value of \$355,000 (representing 88,770 shares at \$3.72 per share plus \$25,000) has been recorded as purchased patents and technology.

In March 1999, the Company acquired certain additional patents relating to touch-enabling technologies and in-process research and development from another company in exchange for 1,291,200 shares of the Company's common stock with an estimated fair value of \$4,720,000. The seller had the option to put 807,000 of the shares back to the Company after five years and to require the Company to return the patents, subject to the Company's retaining a non-exclusive license to the patents. This put option expired upon our initial public offering in November, 1999. The Company has included in the aggregate purchase price of the purchased patents and in-process research and development the estimated fair value of \$42,000 for the put option and \$45,000 of direct acquisition costs. The aggregate purchase price of \$4,807,000 has been allocated \$3,617,000 to purchased patents and technology and \$1,190,000 to acquired in-process research and development. The purchased patents and technology are being amortized over the estimated useful life of nine years. The allocation of the purchase price to the respective intangibles was based on management's estimates of the after-tax cash flows and gave explicit consideration to the Securities and Exchange Commission's views on purchased in-process research and development as set forth in its September 9, 1998 letter to the American Institute of Certified Public Accountants. Specifically, the valuation gave consideration to the following: (i) the employment of a fair market value premise excluding any Company-specific considerations that could result in estimates of investment value for the subject assets; (ii) comprehensive due diligence concerning all potential intangible assets; (iii) the determination that none of the technology development had been completed at the time of acquisition; and (iv) the allocation to in-process research and development based on a calculation that considered only the efforts completed as of the transaction date, and only the cash flow associated with these completed efforts for one generation of the

products currently in process. As indicated above, the Company recorded a one-time charge of \$1,190,000 upon the acquisition in March 1999 for purchased in-process research and development related to five development projects. The charge related to the portion of these products that had not reached technological feasibility, had no alternative future use and for which successful development was uncertain. Management's conclusion that the in-process development effort had no alternative future use was reached in consultation with the engineering personnel from both the Company and the seller.

The first of these projects is a flexible force feedback development environment that allows developers to choose the level of complexity/functionality that fits their needs. At the time of acquisition, the development was 81% complete and the estimated cost to complete this development was \$438,000. Management expects to complete this development of this product and begin shipping it in September 2001. The second of these projects, a three-degree-of-freedom joystick, gives the operator smooth, intuitive movement and feedback along three axes -- roll, pitch and yaw -- using brushless motor and encoder technology. At the time of acquisition, the development was 36% complete and the estimated cost to complete this development was \$109,000. Management expects products based on this technology to become available in December 2000. The third of these projects, a six-degree-of-freedom hand controller, is a small back drivable robot that moves in six degrees of freedom, three linear positions and attitudes. At the time of acquisition, the development was 70% completed and the estimated cost to complete this development was \$88,000. Management expects to complete development of this product and begin shipping it in June 2001. The fourth project is a Flight Yoke, which provides the intuitive motion and feel of an airplane control yoke. It translates in and out to control the pitch, rotates for roll control, and provides the corresponding feel along these axes of motion. At the time of acquisition, the development was 49% completed and the estimated cost to complete this development was \$175,000. Management expects that licensees will ship products in fiscal 2001. The fifth development project is a device that allows the user to physically interact with computer generated three-dimensional objects. At the time of acquisition, the development was 11% completed and the estimated cost to complete this development was \$248,000. Management expects that the product will become available for sale in fiscal 2000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

The Company will begin to benefit from the acquired research and development of these products once they begin shipping. Failure to reach successful completion of these projects could result in impairment of the associated capitalized intangible assets and could require the Company to accelerate the time period over which the intangibles are being amortized, which could have a material adverse effect on the Company's business, financial condition and results of operation. Significant assumptions used to determine the value of in-process research and development, include the following: (i) forecast of net cash flows that were expected to result from the development effort using projections prepared by the Company's and the seller's management; (ii) the portion of the projects estimated by considering a number of factors, including the costs invested to date relative to total cost of the development effort and the amount of progress completed as of the acquisition date, on a technological basis, relative to the overall technological achievements required to achieve the functionality of the eventual product. The technological issues were addressed by engineering representatives from both the Company and the seller, and when estimating the value of the technology, the projected financial results of the acquired assets were estimated on a stand-alone basis without any consideration to potential synergistic benefits or "investment value" related to the acquisition. As there were no existing products acquired, separate projected cash flows were prepared for only the in-process projects.

These projected results were based on the number of units sold times the average selling price less the associated costs. After preparing the estimated cash flows from the products being developed, a portion of these cash flows were attributed to the existing technology, which was embodied in the in-process product lines and enabled a quicker and more cost-effective development of these products. When estimating the value of the in-process technologies, a discount rate of 30% was used. The discount rate considered both the status and risks associated with the cash flows at the acquisition date. Projected revenues from

the in-process products are expected to commence in 2000 and 2001 as the products are completed and begin to ship. Initial annual revenue growth rates after introduction are projected to exceed 50% and decline to less than 15% by 2005. Gross margins from these products are anticipated to be consistent with the gross margins from its other products.

The technology was acquired in a transaction that was tax-free to the seller and, as a result, the Company has a minimal tax basis in the acquired technology. Accordingly, a deferred tax liability of \$1,410,000 has been recorded for the difference in the book and tax bases of the acquired assets. This resulted in the concurrent recognition of previously reserved deferred tax assets of an equal amount. Also, in connection with this acquisition, the Company entered into a consulting arrangement with the seller to provide consulting services related to the development of various platforms of touch-enabling technology, and collaborate with the Company, in executing development agreements with the U.S. government and other commercial customers for a three year period. In consideration for certain consulting services and rights, the Company granted to the seller a warrant to purchase 322,800 shares of the Company's common stock at \$3.66 per share (see Note 7), paid the seller \$150,000, and is obligated to pay an additional \$75,000 in 2000 and 2001. The consideration for the consulting services of \$1,108,000, including the estimated fair value of the warrant (\$808,000), has been recorded as prepaid expenses and noncurrent other assets. The consideration for the consulting service will be amortized over the two-year estimated period of benefit of the consulting services. The warrants were fully vested at the date of grant. Accordingly, the fair value of the warrants was determined at the date of grant using the methods specified by SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), with the following assumptions: expected life, 10 years; risk free interest rate, 5.7%; volatility, 50% and no dividends during the expected term.

Also during 1999, in consideration for a technology license agreement, the Company issued an option to purchase 20,175 shares of common stock at an exercise price of \$3.66 per share. The Company has recorded the estimated fair value of the option of \$129,000 as purchased patents and technology at December 31, 1999 (see Note 7).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

3. CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The following is a summary of available-for-sale securities at December 31, 1999 (in thousands):

	AMORTIZED COST	UNREALIZED HOLDINGS GAINS	UNREALIZED HOLDING LOSSES	MARKET VALUE
	-----	-----	-----	-----
	(IN THOUSANDS)			
Commercial paper.....	\$49,495	\$19	\$--	\$49,514
	=====	===	==	=====
Included in cash equivalents.....				\$44,733
Included in short-term investments.....				4,781

Total available-for-sale securities.....				\$49,514
				=====

The following is a summary of available-for-sale securities at December 31, 1998 (in thousands):

	AMORTIZED COST	UNREALIZED HOLDING GAINS	UNREALIZED HOLDING LOSSES	MARKET VALUE
	-----	-----	-----	-----

(IN THOUSANDS)

Mutual funds.....	\$ 401	\$1	\$--	\$ 402
	=====	==	==	=====
Included in cash equivalents.....				\$ --
Included in short-term investments.....				402

Total available-for-sale securities.....				\$ 402
				=====

The Company realized gains on the sales of securities of none, \$56,000 and \$14,000 in 1999, 1998 and 1997, respectively, while realizing losses of none, \$1,000 and \$1,000 for 1999, 1998 and 1997 respectively.

4. INVENTORIES

	DECEMBER 31,	
	1999	1998
	-----	-----
	(IN THOUSANDS)	
Raw materials and subassemblies.....	\$504	\$378
Work in process.....	23	37
Finished goods.....	133	66
	-----	-----
Total.....	\$660	\$481
	=====	=====

5. PROPERTY

	DECEMBER 31,	
	1999	1998
	-----	-----
	(IN THOUSANDS)	
Computer equipment and purchased software.....	\$ 573	\$314
Machinery and equipment.....	292	177
Furniture and fixtures.....	180	123
Leasehold improvements.....	42	13
	-----	-----
Total.....	1,087	627
Less accumulated depreciation.....	(496)	(298)
	-----	-----
Property, net.....	\$ 591	\$329
	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

6. COMMITMENTS

The Company leases its manufacturing and office facilities under a noncancelable operating lease that expires in October 2002.

Minimum future operating lease payments are as follows:

(IN THOUSANDS)

2000.....	243
2001.....	255
2002.....	263

Total minimum lease payments.....	\$761
	====

Rent expense was approximately \$268,000, \$169,000, and \$117,000 in 1999, 1998, and 1997 respectively.

The Company has signed an agreement with a significant customer to co-market a licensed product. Pursuant to the terms of the agreement, the Company will reimburse the customer for certain marketing related expenses not to exceed \$200,000 per quarter for a period of five quarters beginning with the first calendar quarter of 2000.

7. STOCKHOLDERS' EQUITY

Common Stock -- On November 12, 1999, the Company completed its initial public offering ("IPO") of 4,887,500 shares of its common stock (including 637,500 shares issued upon the exercise of the underwriters' over-allotment option) at \$12.00 per share. Of the 4,887,500 shares sold 4,473,736 shares were sold by the Company and 413,764 shares were sold by selling shareholders. Net proceeds to the Company, after deducting underwriting discounts and commissions and offering expenses, aggregated approximately \$48.3 million. At the closing of the initial public offering all preferred stock was converted to common stock.

Common stock issued to the founders and certain other employees is subject to repurchase agreements under which the Company has the option to repurchase the unvested shares upon termination of employment at the original issue price. The Company's repurchase right generally lapses over four years. At December 31, 1999, the Company's repurchase rights had lapsed. At December 31, 1998, 23,537 shares of common stock were subject to repurchase by the Company.

During 1999, the Company issued 1,379,970 shares of common stock in connection with purchases of patents and technology (see Note 2) and 68,595 shares of common stock with a fair value of \$562,000 for recruiting services. During 1998, the Company issued 137,190 shares of common stock in connection with purchases of patents. The fair value of the common stock of \$501,000 was recorded as purchased patents and technology

Stock Split -- In November 1999, the Company's Board of Directors approved a 0.807-for-one reverse common and Series C and D preferred stock split and a 4.035-for-one Series A and B preferred stock split. All references to share and per-share date for all periods presented have been retroactively adjusted to give effect to the split.

Common Stock Warrants -- During June 1997, the Company issued a warrant to purchase 91,191 shares of the Company's common stock at an exercise price of \$0.19 per share to a Series C preferred investor. The warrant is exercisable through 2002. The estimated fair value of this warrant of \$6,000 has been accounted for as a reduction to the Series C preferred stock financing proceeds.

In connection with the sale of Series D preferred stock, the Company issued a warrant to purchase 11,972 shares of Series D preferred stock at an exercise price of \$4.18 to an investment banker. The estimated

fair value of this warrant of \$17,000 has been accounted for as a reduction to the Series D preferred stock financing proceeds. At the closing of our initial public offering, this warrant to purchase preferred stock was converted to a warrant to purchase common stock.

As discussed in Note 2, during March 1999, the Company issued a warrant to purchase 322,800 shares of the Company's common stock at an exercise price of \$3.66 per share for consulting services. The warrant is exercisable through 2009. The estimated fair value of the warrant of \$808,000 has been recorded as

prepaid consulting services and is being amortized over the service period of two years.

Stock Options -- Under the Company's stock option plans, the Company may grant options to purchase up to 7,991,975 shares of common stock to employees, directors and consultants at prices not less than the fair market value on the date of grant for incentive stock options and not less than 85% of fair market value on the date of grant for nonstatutory stock options. These options generally expire ten years from the date of grant. The Company has granted immediately exercisable options as well as options that become exercisable over periods ranging from three months to four years.

Details of activity under the option plans are as follows:

Outstanding, January 1, 1997.....	2,395,458	\$0.10
Granted (weighted average fair value \$0.04).....	1,022,860	\$0.30
Exercised.....	(105,144)	\$0.21
Canceled.....	(168)	\$0.19
	-----	-----
Outstanding, December 31, 1997 (2,871,999 exercisable at a weighted average price of \$0.16).....	3,313,006	\$0.16
Granted (weighted average fair value \$0.38).....	721,976	\$1.31
Exercised.....	(1,024,615)	\$0.11
Canceled.....	(88,484)	\$3.59
	-----	-----
Outstanding, December 31, 1998 (2,722,380 exercisable at a weighted average price of \$0.32).....	2,921,883	\$0.36
Granted (weighted average fair value \$1.32).....	2,526,659	\$7.53
Exercised.....	(459,818)	\$0.47
Canceled.....	(85,737)	\$3.25
	-----	-----
Outstanding, December 31, 1999.....	4,902,987	\$3.99
	=====	=====

Additional information regarding options outstanding as of December 31, 1999 is as follows:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$0.04 - \$ 0.14	857,803	5.40	\$0.07	851,078	\$0.07
0.17 - 0.37	966,839	5.27	0.26	943,049	0.26
0.41 - 1.24	530,341	8.11	0.67	530,341	0.67
1.36 - 4.02	837,769	8.62	3.50	304,582	3.02
8.67 - 10.00	1,710,235	9.45	9.34	7,527	9.50
	-----	-----	-----	-----	-----
\$0.04 - \$10.00..	4,902,987	7.63	\$3.99	2,636,577	\$0.63
=====	=====	=====	=====	=====	=====

At December 31, 1999 the Company had 1,465,083 shares, available for future grants under the option plans.

Additional Stock Plan Information -- As discussed in Note 1, the Company accounted for its stock-based awards using the intrinsic value method in accordance with APB No. 25, Accounting for Stock Issued to Employees and its

related interpretations. SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), requires the disclosure of pro forma net loss had the Company adopted the fair value method as of the beginning of fiscal 1996. Under SFAS 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though these models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The Company's calculations were made using the minimum value method with the following weighted average assumptions: expected life, 18 months following vesting; risk free interest rate, 5.4%, 5.3%, and 6.0% in 1999, 1998, and 1997 respectively; volatility, 50% subsequent to the initial public filing in November, 1999, and no dividends during the expected term. The Company's fair value calculations on stock-based awards under the 1999 Employee Stock Purchase Plan were also made using the option pricing model with the following weighted average assumptions: expected life, eighteen months; volatility, 50%; risk free interest rate, 5.4%; and no dividends during the expected term. The Company's calculations are based on a multiple option valuation approach and forfeitures are recognized as they occur. If the computed fair values of the awards issued in 1999, 1998, and 1997 had been amortized to expense over the vesting periods of the awards, pro forma net loss would have been \$4,984,000 (\$.76 net loss per share), \$1,885,000 (\$.48 net loss per share) and \$545,000 (\$.17 net loss per share) in 1999, 1998, and 1997, respectively.

The Company had outstanding nonstatutory stock options to consultants to purchase 203,604, 153,570, and 104,182 shares of common stock at December 31, 1999, 1998 and 1997, respectively. Compensation expense of \$138,000, \$68,000, and \$5,000 was recognized as result of these options in 1999, 1998, and 1997, respectively. The fair value of the unvested portion of these options is being amortized over the vesting period. The fair value attributable to the unvested portion of these options is subject to adjustment based upon the future value of the Company's common stock. The fair values of these options were determined at the date of vesting using the methods specified by SFAS 123 with the following weighted average assumptions during 1999, 1998, and 1997, respectively: expected life, 10 years; risk free interest rate, 5.2%, 5.3% and 6.0%; volatility, 50%; and no dividends during the expected term. Forfeitures are recognized as they occur.

In addition, the Company granted nonstatutory stock options to purchase 20,175 and 242,100 shares of common stock in 1999 and 1998, respectively, in connection with licensing of technology and the acquisition of patents (see Note 2). The estimated fair value of these options of \$129,000 and \$219,000, respectively, has been recorded as purchased patents and technology. These options were fully vested at the date of grant. Accordingly, the fair value of the options was determined at the date of grant using the methods specified by SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), with the following assumptions during 1999 and 1998, respectively: expected life, 10 years; risk free interest rate, 5.0% and 5.5%; volatility, 50% and 25%; and no dividends during the expected term.

Employee Stock Purchase Plan -- Upon the closing of the Company's initial public offering on November 12, 1999 the company adopted its' 1999 Employee Stock Purchase Plan ("ESPP"). Under the ESPP, eligible employees may purchase common stock through payroll deductions at a purchase price of 85% of the lower of the fair market value of the Company's stock at the beginning of the offering period or the purchase date. Participants may not purchase more than 1,000 shares in a six-month offering period or stock having a value greater than \$25,000 in any calendar year as measured at the beginning of the offering period. A total of 500,000 shares of common stock are reserved for the issuance under the ESPP plus an automatic annual increase on January 1, 2000 and on each January 1 thereafter through January 1, 2010 by an amount equal to the lesser of 500,000 share per year or number of shares determined by the Board of Directors. As of December 31, 1999 no shares had been purchased under the plan.

Deferred Stock Compensation -- In connection with grants of certain stock options to employees and directors in the twelve months ended December 31, 1999, the Company recorded \$1,473,000 for the difference between the deemed fair value

for accounting purposes and the stock price as determined by the Board of Directors on the date of grant. This amount has been presented as a reduction of stockholders' equity and is being amortized to expense over the vesting period of the related stock options (generally four years). Amortization of deferred stock compensation for the twelve months ended December 31, 1999 was \$306,000.

8. NET LOSS PER SHARE

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

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Numerator:			
Net loss:.....	\$ (4,354)	\$ (1,673)	\$ (527)
Redeemable preferred stock accretion.....	6	6	3
Net loss applicable to common stockholders.....	\$ (4,360)	\$ (1,679)	\$ (530)
Denominator:			
Weighted average common shares outstanding.....	6,675	3,970	3,338
Weighted average common shares held in escrow.....	(76)	--	--
Weighted average common shares outstanding subject to repurchase.....	--	(61)	(176)
Shares used in computation, basic and diluted.....	6,599	3,909	3,162
Net loss per share, basic and diluted.....	\$ (0.66)	\$ (0.43)	\$ (0.17)

The Company's computation of net loss per share excludes 88,770 shares held in escrow as discussed in Note 2, as the conditions required to release these shares from escrow had not been satisfied as of December 31, 1999.

For the above-mentioned periods, the Company had securities outstanding that could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net loss per share in the periods presented since their effect would have been anti-dilutive. These outstanding securities consisted of the following:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Redeemable convertible preferred stock.....	--	863,771	864,642
Convertible preferred stock.....	--	4,267,329	2,862,159
Shares of common stock subject to repurchase.....	--	23,537	125,813
Outstanding options.....	4,902,987	2,921,883	3,313,006
Warrants.....	425,963	182,854	287,087
Total.....	5,328,950	8,259,374	7,452,707
Weighted average exercise price of options.....	\$ 3.99	\$ 0.36	\$ 0.16
Weighted average exercise price of warrants.....	\$ 2.93	\$ 0.95	\$ 0.56

9. INCOME TAXES

No provision for federal income taxes was required for the years ended

December 31, 1999, 1998 and 1997 due to the Company's net losses in these periods.

Significant components of the net deferred tax assets and liabilities for federal and state income taxes consisted of:

	DECEMBER 31,	
	1999	1998
	(IN THOUSANDS)	
Deferred tax assets:		
Net operating loss carryforwards.....	\$ 1,021	\$ 830
Deferred revenue.....	564	--
Research and development credits.....	189	130
Reserves and accruals recognized in different periods.....	112	75
Depreciation and amortization.....	25	2
	-----	-----
Total deferred tax assets.....	1,911	1,037
Deferred tax liabilities:		
Difference in tax basis of purchased technology.....	(1,139)	--
Valuation reserve.....	(772)	(1,037)
	-----	-----
Net deferred tax assets.....	\$ --	\$ --
	=====	=====

As discussed in Note 2, a deferred tax liability relating to a difference in the tax basis for purchased technology was established in 1999. This resulted in the concurrent \$1.4 million reversal of the valuation reserve for deferred tax assets.

The Company's effective tax rate differed from the expected benefit at the federal statutory tax rate as follows:

	1999	1998	1997
	-----	-----	-----
Federal statutory tax rate.....	(35.0)%	(35.0)%	(35.0)%
State taxes, net of federal benefit.....	(6.0)	(6.0)	(6.0)
Stock compensation.....	2.3	--	--
Other.....	(0.2)	0.6	0.6
Valuation allowance.....	38.9	40.4	40.4
	-----	-----	-----
Effective tax rate.....	--%	--%	--%
	=====	=====	=====

Substantially all of the Company's loss from operations for all periods presented is generated from domestic operations.

At December 31, 1999, the Company has federal and state net operating loss carryforwards of approximately \$2,706,000 and \$1,141,000, respectively, expiring through 2019 and through 2004, respectively.

Current federal and state tax laws include provisions limiting the annual use of net operating loss carryforwards in the event of certain defined changes in stock ownership. The Company's issuances of common and preferred stock may have resulted in such a change. Accordingly, the annual use of the Company's net operating loss carryforwards would be limited according to these provisions. Management has not yet determined the extent of this limitation, and this limitation may result in the loss of carryforward benefits due to their expiration.

10. SEGMENT INFORMATION, OPERATIONS BY GEOGRAPHIC AREA AND SIGNIFICANT CUSTOMERS

The Company operates in one business segment, which is the design, development, production, marketing and licensing of products based on touch-enabling technology. These devices are used in computer entertainment, personal computing, medical and other professional computing applications. The Company operates entirely in North America and does not maintain operations in other countries. The following is a summary of revenues within geographic areas. Revenues are broken out geographically by the ship-to location of the customer.

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
	REVENUES	REVENUES	REVENUES
(IN THOUSANDS)			
North America.....	\$5,644	\$3,363	\$3,325
Europe.....	1,170	950	648
Far East.....	1,108	597	347
Rest of the world.....	116	111	12
Total.....	\$8,038	\$5,021	\$4,332

Significant Customers

In 1999, 26% of our total revenues came from two unrelated customers, each customer accounted for 13% of our total revenues. In 1998, a preferred stockholder and an unrelated customer accounted for 11% and 10% of total revenues, respectively. In 1997, one unrelated customer accounted for 24% of total revenue.

Receivables due from one unrelated customer was \$137,000 at December 31, 1999. Receivables due from a preferred stockholder were \$387,000 at December 31, 1998. Receivables due from two unrelated customers were \$158,000 and \$57,000, respectively, at December 31, 1997.

11. EMPLOYEE BENEFIT PLAN

The Company has a 401(k) tax-deferred savings plan under which eligible employees may elect to have a portion of their salary deferred and contributed to the 401(k) plan. Contributions may be made by the Company at the discretion of the Board of Directors. As of December 31, 1999 the Company recorded expenses of \$42,000, none, and none for 1999, 1998 and 1997 respectively.

12. RELATED PARTIES

In July 1997, the Company transferred certain patent rights related to its MicroScribe product to a newly created limited liability corporation, MicroScribe LLC, in exchange for 1,000 Class 1 Units and 98,999 Class 2 Units. This investment represents a 99% ownership of MicroScribe LLC. Subsequently, the Company distributed all Class 2 Units to its then outstanding common, preferred and vested option holders on a pro rata basis. The Company maintains a 1% ownership of MicroScribe LLC subsequent to the distribution of the Class 2 Units. There was no recorded value related to these internally-developed patent agreements, and thus no amount was recognized as a result of the transfer.

During July 1997, the Company also entered into an exclusive ten-year license agreement with MicroScribe LLC (the "Agreement") for the right to manufacture, market and sell the related MicroScribe technology. Under the terms of the Agreement, the Company must pay a royalty to MicroScribe LLC based on a variable percentage of net receipts as defined under the Agreement. Royalty expense under the Agreement was \$132,000, \$116,000 and \$49,000 in 1999, 1998 and 1997, respectively.

As discussed in Note 10, a preferred stockholder accounted for \$249,000 of royalty revenue and \$316,000 of development contract revenue in 1998.

13. CONTINGENCIES

The Company has received claims from third parties asserting that the Company's technologies, or those of its licensees, infringe on the other parties' intellectual property rights. Management believes that these claims are without merit and, with respect to each, has obtained or is in the process of obtaining written non-infringement and/or patent invalidity opinions from outside patent counsel. Accordingly, in the opinion of management, the outcome of such claims will not have a material effect on the financial statements of the Company.

14. SUBSEQUENT EVENTS

On March 9, 2000, the Company completed its acquisition of Montreal-based Haptic Technologies Inc. for approximately \$7.0 million, consisting of 141,538 shares of Company's common stock and \$338,000 paid in cash. Haptic develops and markets hardware and software that brings the sense of touch to computing environments. As a result of the acquisition Haptic becomes a wholly-owned subsidiary of Immersion and will continue operations in Montreal, Canada. The acquisition was accounted for using the purchase method. In connection with the transaction, the Company assumed unvested options of Haptic resulting in deferred stock compensation of \$5.5 million which will be amortized over the remaining vesting period of approximately four years.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

The SEC allows us to include information required in this report by referring to other documents or reports we have already or will soon be filing. This is called "Incorporation by Reference." We intend to file our definitive proxy statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report, and certain information therein is incorporated in this report by reference.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item 10 with respect to executive officers is set forth in Part I of this Annual Report on Form 10-K and the information required by this Item 10 with respect to directors is incorporated by reference from the section entitled "Election of Directors" in Immersion's definitive Proxy Statement for its 2000 annual stockholders' meeting.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from the section entitled "Director and Executive Compensation" in Immersion's definitive Proxy Statement for its 2000 annual stockholders' meeting.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is incorporated by reference from the section entitled "Security Ownership of Certain Beneficial Owners and Management" in Immersion's definitive Proxy Statement for its 2000 annual stockholders' meeting.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is incorporated by reference from the section entitled "Certain Transactions" in Immersion's definitive Proxy Statement for its 2000 annual stockholders' meeting.

PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this Form:

1. Financial Statements

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Independent Auditors' Report.....	33
Consolidated Balance Sheets.....	34
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2. Financial Statement Schedules

All schedules have been omitted because the required information is not present or not present in amounts sufficient to require submission of the schedules or because the information required is included in the Consolidated Financial Statements or Notes thereto.

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3. Exhibits:

The following exhibits are filed herewith:

EXHIBIT NUMBER -----	DESCRIPTION -----
2.1	Agreement and Plan of Reorganization with Cybernet Systems Corporation ("Cybernet"), its wholly-owned subsidiary and our wholly-owned subsidiary dated March 4, 1999.*****
2.2	Share Purchase Agreement with Haptic Technologies Inc. ("Hapttech") and 9039-4115 Quebec, Inc. ("Holdco") and the Shareholders of Hapttech and Holdco and 511220 N.B. Inc. ("Purchaser") dated February 28, 2000.
3.1	Amended and Restated Articles of Incorporation of Immersion, as amended to date.*****
3.2	Certificate of Incorporation of Immersion.***
3.3	Form of Amended and Restated Certificate of Incorporation of Immersion.***
3.4	Certificate of Designations of Immersion.***
3.5	Agreement and Plan of Merger.***
3.6	Certificate of Elimination of Immersion.***
3.7	Certificate of Amendment of Restated Certificate of Incorporation of Immersion.***
3.8	Bylaws of Immersion.*****
3.9	Form of Bylaws.****
4.1	Information and Registration Rights Agreement dated April 13, 1998.*****
4.2	Immersion Corporation Cybernet Registration Rights Agreement dated March 5, 1999.*****
4.3	Common Stock Grant and Purchase Agreement and Plan with Michael Reich & Associates dated July 6, 1999.*****
4.4	Common Stock Agreement with Digital Equipment Corporation dated June 12, 1998.*****
10.1	1994 Stock Option Plan and form of Incentive Stock Option Agreement and form of Nonqualified Stock Option Agreement.*****
10.2	1997 Stock Option Plan and form of Incentive Stock Option Agreement and form of Nonqualified Stock Option Agreement.**
10.3	Form of Indemnity Agreement.*****
10.4	Immediately Exercisable Nonstatutory Stock Option Agreement

- 10.5 with Steven G. Blank dated November 1, 1996.*****
Common Stock Purchase Warrant issued to Cybernet Systems Corporation dated March 5, 1999.*****
- 10.6 Consulting Services Agreement with Cybernet Systems Corporation dated March 5, 1999.*****
- 10.7 Amendment to Warrant to Purchase Shares of Series B Preferred Stock to Bruce Paul amending warrant to purchase 32,280 shares of Series B Preferred Stock dated September 22, 1998.*****
- 10.8 Amendment to Warrant to Purchase Shares of Series B Preferred Stock to Bruce Paul amending warrant to purchase 40,350 shares of Series B Preferred Stock dated September 22, 1998.*****
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- 10.10 Exchange Agreement with MicroScribe, LLC dated July 1, 1997.*****
- 10.11 Lease with Speiker Properties, L.P. dated October 26, 1998.****
- 10.12 Agreement Draft for ASIC Design and Development with Kawasaki LSI, U.S.A., Inc., dated October 16, 1997.***
- 10.13 Patent License Agreement with Microsoft Corporation dated July 19, 1999.***

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NUMBER

DESCRIPTION

- 10.14 Semiconductor Device Component Purchase Agreement with Kawasaki LSI, U.S.A., Inc., dated August 17, 1998.***
- 10.15 Amendment No. 1 to Semiconductor Device Component Purchase Agreement with Kawasaki LSI, U.S.A., Inc. dated April 27, 1999.***
- 10.16 Intercompany Intellectual Property License Agreement with MicroScribe, LLC dated July 1, 1997.**
- 10.17 Patent License Agreement with MicroScribe, LLC dated July 1, 1997.**
- 10.18 Intellectual Property License Agreement with Logitech, Inc. dated October 4, 1996.***
- 10.19 Intellectual Property License Agreement with Logitech, Inc. dated April 13, 1998.***
- 10.20 Technology Product Development Agreement with Logitech, Inc. dated April 13, 1998.***
- 10.21 1999 Employee Stock Purchase Plan and form of subscription agreement thereunder.***
- 10.22 Common Stock Purchase Warrant issued to Intel Corporation dated June 6, 1997.
- 10.23 Marketing Development Fund Letter Agreement with Logitech, Inc. dated November 15, 1999.#
- 21.1 Subsidiaries of Immersion.*****
- 23.1 Consent of Deloitte & Touche LLP.
- 24.1 Power of Attorney (Included on page 54).*****
- 27.1 Financial Data Schedule for the period ended December 31, 1999.

***** Previously filed with Registrant's Registration Statement on Form S-1 (File No. 333-86361) on September 1, 1999.

**** Previously filed with Amendment No. 1 to Registrant's Registration Statement on Form S-1 (File No. 333-86361) on September 13, 1999.

*** Previously filed with Amendment No. 2 to Registrant's Registration Statement on Form S-1 (file No. 333-86361) on October 5, 1999.

** Previously filed with Amendment No. 4 to Registrant's Registration Statement on Form S-1 (File No. 333-86361) on November 5, 1999.

* Previously filed with Amendment No. 5 to Registrant's Registration Statement on Form S-1 (File No. 333-86361) on November 12, 1999.

Certain information has been omitted and filed separately with the Commission. Confidential treatment has been granted with respect to the omitted portions.

Certain information has been omitted and filed separately with the Commission. Confidential Treatment has been requested with respect to the omitted portions.

(b) Reports on Form 8-K:

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

IMMERSION CORPORATION.

By: /s/ LOUIS ROSENBERG, PH.D.

Louis Rosenberg, Ph.D.
President, Chief Executive Officer
and Chairman of the Board

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Louis Rosenberg and Victor Viegas, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

NAME ----	TITLE -----	DATE ----
/s/ LOUIS ROSENBERG, PH.D. ----- Louis Rosenberg, Ph.D.	President, Chief Executive Officer and Director	March 23, 2000
/s/ VICTOR VIEGAS ----- Victor Viegas	Chief Financial Officer (Principal Financial and Accounting Officer)	March 23, 2000
/s/ BRUCE SCHENA ----- Bruce Schena	Vice President, Chief Technology Officer and Secretary	March 23, 2000
/s/ CHARLES BOESENBERG ----- Charles Boesenberg	Director	March 23, 2000
/s/ STEVEN BLANK ----- Steven Blank	Director	March 20, 2000
/s/ JONATHAN RUBINSTEIN ----- Jonathan Rubinstein	Director	March 21, 2000

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Immersion Corporation:

We have audited the consolidated financial statements of Immersion Corporation as of December 31, 1999 and 1998, and for each of the three years in the period ended December 31, 1999, and have issued our report thereon dated February 4, 2000. Our audits also included the consolidated financial statement schedule of Immersion Corporation, listed in the Index at Item 14(a)(2). This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

San Jose, California
February 4, 2000

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS/ WRITE-OFFS	BALANCE AT END OF PERIOD
	-----	-----	-----	-----
Year ended December 31, 1997				
Allowance for doubtful accounts.....	\$ 8	\$39	\$ 9	\$ 38
Year ended December 31, 1998				
Allowance for doubtful accounts.....	\$38	\$57	\$ 3	\$ 92
Year ended December 31, 1999				
Allowance for doubtful accounts.....	\$92	\$65	\$23	\$134

IMMERSION CORPORATION

2000 FORM 10-K REPORT
INDEX TO EXHIBITS

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NUMBER

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- ** Previously filed with Amendment No. 4 to Registrant's Registration Statement on Form S-1 (File No. 333-86361) on November 5, 1999.
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- ## Certain information has been omitted and filed separately with the Commission. Confidential treatment has been granted with respect to the omitted portions.
- # Certain information has been omitted and filed separately with the Commission. Confidential Treatment has been requested with respect to the omitted portions.

HAPTIC TECHNOLOGIES INC.
as Corporation

And

9039-4115 QUEBEC, INC.
as Holdco

and

THE SHAREHOLDERS OF
CORPORATION AND HOLDCO
LISTED IN THE SIGNATURE PAGE HERETO

And

511220 N.B. INC.
as Purchaser

and

IMMERSION CORPORATION
as Immersion

SHARE PURCHASE AGREEMENT

FEBRUARY 28, 2000

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SHARE PURCHASE AGREEMENT

Share Purchase Agreement dated February 28, 2000, between MATTHEW Mather, a businessman, residing and domiciled at 5037, Saint-Andre Street, Montreal, Quebec H2J 3A5 ("MATHER"); and CHRISTOPHE RAMSTEIN, a businessman, residing and domiciled at 4275, Garnier Street, Montreal, Quebec H2J 3R7 ("RAMSTEIN"); and VINCENT HAYWARD a businessman, residing and domiciled at 2277, Av. Harvard, Montreal, Quebec H4A 2W1 ("HAYWARD"); and VINCENT Canonico, a businessman, residing and domiciled at 750, Versaille, Montreal, Quebec H3C 1Z4 ("CANONICO"); and PEDRO GREGORIO, an engineer, residing and domiciled at 7353, Dunver Crescent, Verdun, Quebec H4H 2H6 ("GREGORIO"); and ALAIN PARE, a businessman, residing and domiciled at 253 Acres, Kirkland, Quebec, H9H 4M1 ("PARE"); and SOCIETE INNOVATECH DU GRAND MONTREAL, a company duly incorporated under the Companies Act (Quebec, 1992, C.33), having its registered office at 2020, University Street, Suite 1527, Montreal, Quebec H3A 2A5, acting through and represented by Mr. Hubert Manseau, its President, duly authorized for the purposes hereof as he so declares ("INNOVATECH"); and FONDS EN TRANSFERTS DE TECHNOLOGIES INDUSTRIELLES, societe en commandite d'investissement, having its registered office at 255, Saint-Jacques Street, West, Montreal, Quebec, H2Y 1M6, acting through and represented by its General Partner, 90271602 Quebec, Inc., represented by Mr. Bernard Hamel, duly authorized for the purposes hereof as he so declares ("FTTI"); and VISUAIDE, INC, a company duly incorporated under the Companies Act, having its registered office at 841, boul. Jean-Paul Vincent a Longueuil, (Quebec), J4G 1R3, acting through and represented by, Mr. Gilles Pepin, authorized for the purposes hereof as he so declares ("VISUAIDE"); and 9039-4115 QUEBEC, INC a company duly incorporated under the Companies Act, having its registered office at 3575, rue Saint-Laurent, bureau 422, Montreal (Quebec) H2X 2T7, acting through and represented by, Mr. Matthew Mather and Mr. Christophe Ramstein, authorized for the purposes hereof as they so declare ("HOLDCO"); and HAPTIC TECHNOLOGIES INC, a company duly incorporated under the

Canada Business Corporations Act, having its registered office at 3575, Saint-Laurent Blvd, suite 422, Montreal (Quebec) H2X 2T7, acting through and represented by, Mr. Alain Pare, President and CEO, authorized for the purposes hereof as he so declares ("CORPORATION"); and 511220 N.B. INC., a corporation incorporated under the laws of New Brunswick ("PURCHASER"), acting through and represented by, Victor Viegas, authorized for the purposes hereof as he so declares; IMMERSION CORPORATION, a corporation incorporated under the laws of Delaware ("IMMERSION") acting through and represented by, Victor Viegas, authorized for the purposes hereof as he so declares;

ARTICLE 1
INTERPRETATION

1.1 DEFINED TERMS.

As used in this Agreement, the following terms have the following meanings:

"AFFILIATE" has the meaning ascribed thereto in the Canada Business Corporations Act.

"AGREEMENT" means this share purchase agreement and all schedules and instruments in amendment or confirmation of it; and the expressions "ARTICLE" and "SECTION" followed by a number mean and refer to the specified Article or Section of this Agreement.

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"AUTHORIZATION" means, with respect to any Person, any order, permit, approval, waiver, licence or similar authorization of any Governmental Entity having jurisdiction over the Person.

"BOOKS AND RECORDS" means all books of account, tax records, sales and purchase records, customer and supplier lists, computer software, formulae, business reports, plans and projections and all other documents, files, correspondence and other information of Corporation whether in writing or electronic form.

"BUSINESS DAY" means any day other than a Saturday, Sunday or other day on which the principal commercial banks in Montreal, Quebec are not open for business during normal business hours.

"CANONICO" has the meaning in the initial description of the Parties hereto.

"CLOSING" means the completion of the transaction of purchase and sale contemplated in this Agreement.

"CLOSING DATE" means March 9, 2000.

"CONSENT" means the consent of a contracting party to a direct or indirect change in control of Corporation if required by the terms of any Contract.

"CONTRACTS" means all agreements to which Corporation is a party including all contracts, leases of personal property and commitments of any nature, written or oral.

"CORPORATE RECORDS" means the corporate records of Corporation or Holdco, as the case may be, including (i) all constating documents and by-laws, (ii) all minutes of meetings and resolutions of shareholders and directors (and any committees), and (iii) the share certificate books, securities register, register of transfers and register of directors.

"CORPORATION" has the meaning in the initial description of the Parties hereto.

"CORPORATION OPTIONS" has the meaning specified in Section 2.5.

"DAMAGES" has the meaning specified in Section 8.1.

"EMPLOYEE PLANS" means all the employee benefit, fringe benefit, supplemental unemployment benefit, bonus, incentive, profit sharing, termination, change of control, pension, retirement, stock option, stock purchase, stock appreciation, health, welfare, medical, dental, disability, life insurance and similar plans, programmes, arrangements or practices relating to the current or former employees, officers or directors of Corporation maintained, sponsored or funded by Corporation, whether written or oral, funded or unfunded, insured or self-insured, registered or unregistered.

"FINANCIAL STATEMENTS" shall mean the audited financial statements for Corporation as at August 31, 1997, August 31, 1998 and August 31, 1999, respectively, consisting in each case of a balance sheet and the accompanying statements of income, retained earnings and changes in financial position for the period then ended and notes to the financial statements together with the report of the auditors thereon, a copy of which financial statements is annexed hereto as Schedule 3.2(r).

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"FTTI" has the meaning in the initial description of the Parties hereto.

"GAAP" means, at any time, accounting principles generally accepted in Canada including those set out in the Handbook of the Canadian Institute of Chartered Accountants, at the relevant time applied on a consistent basis.

"GOVERNMENTAL ENTITY" means any (i) multinational, federal, provincial, state, municipal, local or other governmental or public department, central bank, court, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) any subdivision or authority of any of the foregoing, or (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

"GREGORIO" has the meaning in the initial description of the Parties hereto.

"HAYWARD" has the meaning in the initial description of the Parties hereto.

"HOLDCO" has the meaning in the initial description of the Parties hereto.

"HOLDCO SHARES" has the meaning specified in Section 2.1.

"HOLDCO VENDORS" shall mean Mather, Ramstein, Hayward, Canonico and Gregorio.

"IMMERSION" has the meaning specified in the initial description of the Parties hereto.

"IMMERSION COMMON STOCK" has the meaning specified in Section 2.5.

"IMMERSION SHARES" has the meaning specified in Section 2.2(b) .

"INDIVIDUAL VENDORS" shall mean Mather, Ramstein, Hayward, Canonico, Gregorio and Pare.

"INNOVATECH" has the meaning in the initial description of the Parties hereto.

"INTELLECTUAL PROPERTY" means (i) any trade marks, trade names, business names, brand names, service marks, logos, computer software, computer programmes, copyrights, including any performing, author or moral rights, designs, inventions, patents, franchises, formulae, processes, know-how,

technology and related goodwill, (ii) any applications, registrations, issued patents, continuations in part, divisional applications or analogous rights or licence rights therefor, and (iii) other intellectual or industrial property in each case, owned or used by the Corporation.

"INTERIM FINANCIAL STATEMENTS" means the unaudited balance sheets of Corporation as at December 31, 1999 and January 31, 2000 and the accompanying unaudited statements of income of Corporation for the periods then ended and all notes in respect thereof.

"INTERIM PERIOD" means the period between the close of business on this date and the Closing.

"ITA" has the meaning specified in Section 3.2(y) (ix).

"LAWS" shall mean (i) all constitutions, treaties, laws, statutes, codes, ordinances, orders, decrees, rules, regulations, and municipal by-laws, whether domestic, foreign or international;

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(ii) all judgments, orders, writs, injunctions, decisions, rulings, decrees, and awards of any governmental authority or body; and (iii) all policies, practices and guidelines of any governmental authority or body which, although not actually having the force of law, are considered by such governmental authority or body as requiring compliance as if having the force of law, in each case binding on or affecting the Party or Person referred to in the context in which such word is used; and "LAW" shall mean any one of them.

"LEASED PROPERTY" means the land and premises listed and described in Schedule 3.2(m).

"LEASES" means the leases of the Leased Property described in Schedule 3.2(m).

"LIEN" means any mortgage, charge, pledge, hypothecation, security interest, assignment, lien (statutory or otherwise), title retention agreement or arrangement, restrictive covenant or other encumbrance of any nature or any other arrangement or condition which, in substance, secures payment or performance of an obligation.

"MATERIAL CONTRACTS" has the meaning specified in Section 3.2(n).

"MATHER" has the meaning in the initial description of the Parties hereto.

"OPTION PLAN" has the meaning specified in Section 2.5.

"ORDINARY COURSE" means, with respect to an action taken by a Person, that such action is consistent with the past practices of the Person and is taken in the ordinary course of the normal day-to-day operations of the Person.

"PARE" has the meaning in the initial description of the Parties hereto.

"PARTIES" means Vendors, Immersion, Corporation and Purchaser and any other Person who may become a party to this Agreement.

"PERSON" means a natural person, partnership, limited liability partnership, corporation, joint stock company, trust, unincorporated association, joint venture or other entity or Governmental Entity, and pronouns have a similarly extended meaning.

"PRIME RATE" shall mean the annual rate of interest on commercial loans charged by Canadian Imperial Bank of Commerce from time to time.

"PUBLIC STATEMENT" has the meaning specified in Section 10.4.

"PURCHASE PRICE" has the meaning specified in Section 2.2.

"PURCHASED SHARES" has the meaning specified in Section 2.1.

"PURCHASER" has the meaning in the initial description of the Parties hereto.

"R&D CREDIT OR REFUNDS" has the meaning specified in Section 3.2(y)(xi).

"RAMSTEIN" has the meaning in the initial description of the Parties hereto.

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"REQUIRED CONSENTS" means those Consents and Authorizations listed and described in Schedule 3.2(b).

"SHAREHOLDERS AGREEMENT OF CORPORATION" means the shareholders agreement of Corporation made as of December 15, 1998 among Corporation and the other shareholders listed therein.

"SHAREHOLDERS AGREEMENT OF HOLDCO" means the shareholders agreement of Holdco made as of February 3, 2000.

"SUBSCRIPTION AMOUNT" has the meaning specified in Section 2.3.

"TAX" has the meaning specified in Section 3.2(y)(i).

"TAX RETURNS" has the meaning specified in Section 3.2(y)(ii).

"THIRD PARTY CLAIM" has the meaning specified in Section 8.9(1).

"US PERSON" shall mean (i) a natural person resident in the United States; (ii) a partnership or corporation organized or incorporated under the laws of the United States; (iii) an estate of which any executor or administrator is a US Person; (iv) any trust of which any trustee is a US Person; (v) an agency or branch of a foreign entity located in the United States; (vi) a non-discretionary account or similar account (other than an estate of trust) held by a dealer or other fiduciary for the benefit or account of a US Person; (vii) a discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States; and (viii) a partnership or corporation if (A) organized or incorporated under the laws of any foreign jurisdiction; and (b) formed by a US Person principally for the purpose of investing in securities not registered under the Securities Act (U.S.), unless it is organized or incorporated, and owned by accredited investors (as defined in Rule 501(a) promulgated under the U.S. federal Securities Act of 1933) who are not natural persons, estates or trusts.

"VENDORS shall mean Mather, Ramstein, Hayward, Canonico, Gregorio, Pare, Innovatech, FTII and Visuaide and "VENDOR" shall mean any one of them.

"VISUAIDE" has the meaning in the initial description of the Parties hereto.

1.2 GENDER AND NUMBER.

Any reference in this Agreement to gender includes all genders and words importing the singular number only shall include the plural and vice versa.

1.3 HEADINGS, ETC.

The division of this Agreement into Articles and Sections and the insertion of headings are for convenient reference only and are not to affect its interpretation.

1.4 CURRENCY.

All references in this Agreement to dollars, unless otherwise specifically indicated, are expressed in Canadian currency.

1.5 KNOWLEDGE.

Where any representation or warranty contained in this Agreement is expressly qualified by reference to the knowledge of the Individual Vendors, it shall be deemed to refer to the actual knowledge of such person. Where any representation or warranty contained in this Agreement is expressly qualified by reference to the knowledge of Visuaide, it shall be deemed to refer to the actual knowledge of Gilles Pepin.

1.6 ACCOUNTING TERMS.

All accounting terms not specifically defined in this Agreement shall be interpreted in accordance with GAAP.

1.7 INCORPORATION OF SCHEDULES.

The schedules attached to this Agreement shall, for all purposes of this Agreement, form an integral part of it.

ARTICLE 2
PURCHASED SHARES AND PURCHASE PRICE

2.1 PURCHASE AND SALE.

Subject to the terms and conditions of this Agreement, each Vendor agrees to sell, assign and transfer to Purchaser and Purchaser agrees to purchase from each Vendor listed in Schedule 2.1 on the Closing Date, all (but not less than all) of their respective shares in the capital of Corporation listed in Schedule 2.1, which shares constitute all (but not less than all) of the issued and outstanding shares in the capital of Corporation with the exception of the shares in the capital of Corporation held by Holdco (collectively, the "PURCHASED SHARES") and all (but not less than all) of their respective shares in the capital of Holdco listed in Schedule 2.1, which shares constitute all (but not less than all) of the issued and outstanding shares in the capital of Holdco (collectively, the "HOLDCO Shares").

2.2 PURCHASE PRICE.

The purchase price (the "PURCHASE PRICE") payable by Purchaser to Vendors for the Purchased Shares and the Holdco Shares shall be as follows:

- (a) \$492,546.69; and
- (b) an amount (the "SUBSCRIPTION AMOUNT") equal to the consideration to be paid by the Vendors in connection with their subscription for 141,538 shares of Immersion common stock (the "IMMERSION SHARES"), provided at Section 2.3 hereunder.

2.3 IRREVOCABLE SUBSCRIPTION.

The Vendors hereby irrevocably undertake to subscribe, at Closing, for the Immersion Shares in the proportions set out in Schedule 2.3. The aggregate consideration to be paid by the Vendors in connection with their subscription of the Immersion Shares is an amount equal to the Subscription

Amount. The Vendors hereby solidarily direct the Purchaser to pay the Subscription Amount on their behalf to Immersion in consideration of the Immersion Shares.

2.4 PAYMENT OF THE PURCHASE PRICE.

Purchaser shall pay the Purchase Price to Vendors as follows:

- (a) An aggregate of \$492,546.69 to the Vendors at Closing in the proportions set out in Schedule 2.4(a) attached hereto by bank

draft, certified cheque or wire transfer of immediately available funds to accounts designated in writing by each Vendor; and

- (b) The Subscription Amount to Immersion and cause the delivery to the Vendors, at Closing, by Immersion of a certificate of Boston EquiServe L.P., transfer agent to Immersion, stating that the certificates representing the Immersion Shares have been issued in the name of the names of the Vendors in the proportions set out in Schedule 2.3. The Vendors acknowledge and agree that the Immersion Shares will not be registered under the Securities Act of 1933, as amended and that the Immersion Shares will be subject to limitations on transfer.

The certificates representing the Immersion Shares will bear the following legend:

"The securities represented hereby have not been registered under the United States Securities Act of 1933, as amended ("ACT"). Such securities may not be transferred unless a registration statement under the Act is in effect as to such transfer or, in the opinion of counsel for Immersion Corporation, such transfer may be made pursuant to Regulation S or an available exemption from registration, or registration under the Act is unnecessary in order for such transfer to comply with the Act. In addition, hedging transactions may not be conducted except in compliance with the Act."

2.5 TREATMENT OF CORPORATION OPTIONS.

Immediately following Closing, all options to purchase common shares in the share capital of Corporation outstanding and unexercised as of the Closing and granted pursuant to Corporation's 2000 Stock Option Plan (respectively, the "CORPORATION OPTIONS" and the "OPTION PLAN"), shall cease to represent a right to acquire common shares in the share capital of Corporation and shall be converted into options to acquire shares of common stock of Immersion, par value US \$0.01 per share ("IMMERSION COMMON STOCK"), subject to the terms and conditions set forth in the Option Plan; provided, however, that immediately after Closing, (i) such Corporation Options shall be exercisable for that number of whole shares of Immersion Common Stock equal to the number of common shares in the share capital of Corporation underlying such Corporation Option immediately prior to Closing multiplied by 0.2, rounded down to the nearest whole number of shares of Immersion Common Stock, and (ii) the per share exercise price for the shares of Immersion Common Stock issuable upon exercise of such assumed Corporation Option shall be equal to five times the exercise price of the Corporation Option. The exercise price of the Corporation Options is US \$6.375 per share.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF VENDORS

3.1 INDIVIDUAL REPRESENTATIONS AND WARRANTIES OF VENDORS.

Each Vendor individually represents and warrants as to himself or itself, as the case may be, as follows to Purchaser and acknowledges and confirms that Purchaser is relying upon such representations and warranties in connection with the purchase by Purchaser of the Purchased Shares:

- (a) INCORPORATION AND QUALIFICATION. To the extent Vendor is a corporation or a partnership, it is a corporation duly incorporated, organized, in good standing and existing under its jurisdiction of incorporation or a partnership duly formed and constituted and existing under the laws of its formation, as the case may be, and has the corporate power to own and operate its property, carry on its business and enter into and perform its obligations under this Agreement;
- (b) VALIDITY OF AGREEMENT. The execution, delivery and performance by him or it, as the case may be, of this Agreement:

- (i) to the extent that Vendor is a corporation or a partnership, have been duly authorized by all necessary corporate action on its part;
 - (ii) do not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition) result in a breach or a violation of, or conflict with, or allow any other Person to exercise any rights under, any of the terms or provisions of any contracts to which it is a party or instruments or, to the extent Vendor is a corporation or partnership, its constating documents or by-laws; and
 - (iii) will not result in the violation of any Law, except where such violation would not have a material adverse effect on the transactions contemplated by this Agreement or the business, operations and assets of Corporation.
- (c) EXECUTION AND BINDING OBLIGATION. This Agreement has been duly executed and delivered by, and constitutes a legal, valid and binding obligation of, enforceable against, him or it, as the case may be, in accordance with its terms;
- (d) TITLE TO PURCHASED SHARES. He or it is the registered and beneficial owner of the number and class of shares set out beside his or its respective name in Schedule 3.1(d), with a good title thereto, free and clear of all Liens. Such shares collectively constitute the Purchased Shares and the Holdco Shares. The Purchased Shares together with the shares in the capital of the Corporation held by Holdco constitute all of the issued and outstanding shares in the capital of the Corporation. Upon Closing, Purchaser will have good and valid title to such Purchased Shares and Holdco Shares, free and clear of all Liens;
- (e) NO OTHER AGREEMENTS TO PURCHASE. Except for Purchaser's right under this Agreement and except as set forth in Schedule 3.1(e), no Person has any written or oral agreement, option or warrant or any right or privilege (whether by Law, pre-emptive or contractual) capable of becoming such for (i) the purchase or acquisition from Vendors

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of any of the Purchased Shares, or (ii) the purchase, subscription, allotment or issuance of any of the unissued shares or other securities of Corporation;

- (f) RESIDENCE OF VENDORS. He or it, as the case may be, is not a non-resident of Canada within the meaning of the Income Tax Act (Canada);
- (g) US PERSON. He or it is not a US Person and is not acquiring a security for the benefit of a US Person.

3.2 REPRESENTATIONS AND WARRANTIES OF VENDORS.

The Vendors (excluding Innovatech and FTTI) solidarily, without the benefit of division or discussion, represent and warrant to Purchaser as provided in this Section 3.2. Vendors acknowledge and confirm that Purchaser is relying upon such representations and warranties in connection with the purchase by Purchaser of the Purchased Shares. Notwithstanding the foregoing, the representations and warranties of Visuaide contained in this Section 3.2 are provided in all cases to its knowledge only.

- (a) INCORPORATION AND QUALIFICATION. Corporation is a corporation incorporated, in good standing and existing under the Laws of its jurisdiction of incorporation and has the corporate power to own and operate its property, carry on its business and enter into and perform its obligations under this Agreement;
- (b) VALIDITY OF AGREEMENT. Except as disclosed in Schedule 3.2(b), the execution, delivery and performance by Vendors of this Agreement do not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition) result in a breach or

a violation of, or conflict with, or allow any other Person to exercise any rights under, or cause any acceleration under or alter the application of, any of the terms or provisions of its constating documents or by-laws or any contracts or instruments to which Corporation is a party or pursuant to which any of its assets or property may be affected;

- (c) REQUIRED AUTHORIZATIONS. There is no requirement to make any filing with, give any notice to, or obtain any Authorization of, any Governmental Entity or Person as a condition to the lawful completion of the transactions contemplated by this Agreement, except for the filings, notifications and Authorizations described in Schedule 3.2(c) or that relate solely to the identity of Purchaser or the nature of the business carried on by Purchaser;
- (d) AUTHORIZED AND ISSUED CAPITAL. The authorized capital of Corporation consists of an unlimited number of Class "A" shares, Class "B" shares and Class "C" shares which 292,324 Class "A" shares and 466,061 Class "B" shares (and no more) have been duly issued and are outstanding as fully paid and non-assessable; such shares constitute all of the Purchased Shares and all the shares held by Holdco in Corporation. All of the Purchased Shares and all of the shares held by Holdco in Corporation have been issued in compliance with all applicable Laws including, without limitation, applicable securities Laws.

Except as set forth in Schedule 3.2(d), there are no outstanding options, securities, loans or notes convertible or exchangeable for any shares or other securities of Corporation;

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- (e) SUBSIDIARIES. Corporation has no subsidiaries and holds no shares or other ownership, equity or proprietary interests in any other Person;
- (f) NO OTHER AGREEMENTS TO PURCHASE. Except for Purchaser's right under this Agreement and except as set forth in Schedule 3.2(f), no Person has any written or oral agreement, option or warrant or any right or privilege (whether by Law, pre-emptive or contractual) capable of becoming such for (i) the purchase or acquisition from Vendors of any of the Purchased Shares, or (ii) the purchase, subscription, allotment or issuance of any of the unissued shares or other securities of Corporation;
- (g) CORPORATE RECORDS. The Corporate Records of Corporation are complete and accurate, and contain copies of all of the articles, by-laws and resolutions passed by the shareholders and directors of Corporation since the date of its incorporation. Other than the Shareholders' Agreement, Corporation have never been subject to, or affected by, any unanimous shareholders agreement;
- (h) CONDUCT OF BUSINESS IN ORDINARY COURSE. Except as disclosed in Schedule 3.2(h), since August 31, 1999, Corporation has carried on its business in the Ordinary Course and, without limiting the generality of the foregoing, Corporation has not:
 - (i) made or assumed any commitment, obligation or liability which is outside the Ordinary Course;
 - (ii) ceased to operate its properties and to carry on its business as heretofore carried on;
 - (iii) sold or otherwise in any way alienated or disposed of any of its assets other than in the Ordinary Course or sold or in any way alienated or disposed of any Intellectual Property whether or not in the Ordinary Course;
 - (iv) split, combined or reclassified any of its shares, or issued redeemed, retired, repurchased or otherwise acquired

shares in its capital or any warrants, rights, bonds, debentures, notes or other corporate security, or reserved, declared, made or paid any dividend, or made any other distributions or appropriations of profits or capital;

- (v) discharged any secured or unsecured obligation or liability (whether accrued, absolute, contingent or otherwise), other than obligations and liabilities discharged in the Ordinary Course;
- (vi) waived or cancelled any material claim, account receivable, trade account, or right outside the Ordinary Course or made any gift;
- (vii) made any change in the rate or form of compensation or remuneration payable or to become payable to any of its shareholders, directors, officers, employees or agents which is outside the Ordinary Course, or accelerated the vesting of any options or provided other equity incentives to its employees;
- (viii) made any change in its accounting principles and practices as utilized in the preparation of the Financial Statements, or granted to any customer any special

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allowance or discount, or changed its pricing, credit or payment policies, other than in the Ordinary Course;

- (ix) made any individual capital expenditure in excess of \$ 50,000;
 - (x) made any loan or advance, or assumed, guaranteed or otherwise became liable with respect to the liabilities or obligations of any Person;
 - (xi) modified its constating instruments, by-laws or capital structure;
 - (xii) removed any auditor;
 - (xiii) purchased or otherwise acquired any corporate security or proprietary, participatory or profit interest in any Person;
 - (xiv) incurred any indebtedness other than to trade creditors in the Ordinary Course; or
 - (xv) authorized, agreed or otherwise committed to any of the foregoing.
- (i) NO MATERIAL ADVERSE CHANGE. Since August 31, 1999, there has not been any material adverse change in the affairs, operations, business, assets or condition of Corporation.
 - (j) COMPLIANCE WITH LAWS. Corporation has conducted and is conducting its business in compliance with all applicable Laws other than acts of non-compliance which, in the aggregate, are not material.
 - (k) AUTHORIZATIONS. Corporation owns, holds, possesses or lawfully uses in the operation of its business, all Authorizations which are necessary for it to conduct its business, as presently conducted or for the ownership and use of its assets in compliance with all applicable Laws.
 - (l) TITLE TO THE ASSETS. Corporation owns (with good title) all of the properties and assets (whether real, personal or mixed and whether tangible or intangible) that it purports to own including all the properties and assets reflected as being owned by Corporation in the financial Books and Records. Corporation is the sole and

unconditional owner of such assets free and clear of all Liens except as disclosed in Schedule 3.2(l).

- (m) LEASES. Corporation is not a party to, or under any agreement to become a party to, any lease with respect to real property other than the Leases, copy of which has been provided to Purchaser. The Leases are in good standing, create a good and valid leasehold estate in the Leased Property thereby demised and are in full force and effect without amendment, except as disclosed in Schedule 3.2(m). The Leases (or a notice in respect of the Leases) has been properly registered in the appropriate land registry office, all rents and additional rents have been paid, no waiver, indulgence or postponement of the lessee's obligations has been granted by the lessor and there exists no event of default under the Leases.
- (n) CONTRACTS. Except for the Contracts described in Schedule 3.2(n) (collectively the "MATERIAL CONTRACTS") the Leases, the Employee Plans, the insurance policies set out in

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Schedule 3.2(w) and the Contracts listed in Schedule 3.2(u), Corporation is not a party to or bound by:

- (i) any distributor, sales, advertising, agency or manufacturer's representative Contract;
 - (ii) any continuing Contract for the purchase of materials, supplies, equipment or services;
 - (iii) any Contract that expires or that may be renewed at the option of any Person other than Corporation, as the case may be, so as to expire more than one year after the date of this Agreement;
 - (iv) any trust indenture, mortgage, promissory note, loan agreement or other Contract for the borrowing of money, any currency exchange, commodities or other hedging arrangement or any leasing transaction of the type required to be capitalized in accordance with GAAP;
 - (v) any Contract for capital expenditures;
 - (vi) any confidentiality, secrecy or non-disclosure Contract or any Contract limiting the freedom of Corporation to engage in any line of business, compete with any other Person, operate its assets at maximum production capacity or otherwise conduct its business;
 - (vii) any Contract pursuant to which Corporation is a lessor of any machinery, equipment, motor vehicles, office furniture, fixtures or other personal property;
 - (viii) any Contract with any Person with whom Corporation or any of or Vendors does not deal at arm's length within the meaning of the Income Tax Act (Canada);
 - (ix) any agreement of guarantee, support, indemnification, assumption or endorsement of, or any similar commitment with respect to, the obligations, liabilities (whether accrued, absolute, contingent or otherwise) or indebtedness of any other Person; or
 - (x) any Contract made out of the Ordinary Course.
- (o) NO BREACH OF MATERIAL CONTRACTS. Corporation has performed all of the obligations required to be performed by it and is entitled to all benefits under, and is not alleged to be in default of any Material Contract to which it is a party. Each of the Material Contracts is in full force and effect, unamended, and there

exists no default or event of default or event, occurrence, condition or act (including the purchase of the Purchased Shares) which, with the giving of notice, the lapse of time or the happening of any other event or condition, would become a default or event of default under any Material Contract. True, correct and complete copies of all Material Contracts have been delivered to Purchaser.

(p) INTELLECTUAL PROPERTY.

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(i) Attached as Schedule 3.2(p)(i) is a list of Intellectual Property owned by or licensed to Corporation in carrying on its businesses. Schedule 3.2(p)(i) also includes complete and accurate particulars of all registrations or applications for registration of the Intellectual Property, as well as particulars (including a description of the underlying agreements) of any interest in the Intellectual Property enjoyed by third parties. Subject only to any third party interests listed in Schedule 3.2(p)(i), Corporation is the beneficial and unconditional owner of its Intellectual Property, free and clear of all Liens, and is not a party to or bound by any Contract or other obligation that limits or impairs its ability to use, sell, transfer, assign or convey, or that otherwise affects, its Intellectual Property, nor has any Person been granted any interest in or right to use all or any portion of the Intellectual Property. For greater certainty, notwithstanding the provisions of any contract, Vendors acknowledge that they have no rights in or to any Intellectual Property developed by the Corporation on its own initiative or on behalf of third parties. Neither of Vendors has knowledge of any infringement or violation of any of its rights or the rights of Corporation in the Intellectual Property. To the knowledge of each of the Vendors, the conduct of the business of Corporation does not infringe upon the patents, trade marks, licences, trade names, business names, copyright or other industrial or intellectual property rights, domestic or foreign, of any other third party.

(ii) EMPLOYEE CONFIDENTIALITY AGREEMENTS. Except as set forth on Schedule 3.2(p)(ii), all current and former employees and consultants of Corporation whose duties or responsibilities relate to Corporation's business have entered into confidentiality, invention assignment and proprietary information agreements with Corporation in the form provided to Purchaser.

(q) BOOKS AND RECORDS. All accounting and financial Books and Records have been fully, properly and accurately kept and completed in all material respects. The Books and Records and other data and information are not recorded, stored, maintained, operated or otherwise wholly or partly dependent upon or held by any means (including any electronic, mechanical or photographic process, whether computerized or not) which are not available to Corporation in the Ordinary Course.

(r) FINANCIAL STATEMENTS. The Financial Statements and the Interim Financial Statements have been prepared in accordance with GAAP applied on a basis consistent with those of previous fiscal years and each fairly, accurately and completely discloses in all material respects (i) the assets, liabilities and obligations (whether accrued, contingent, absolute or otherwise), income, losses, retained earnings, reserves and financial position of Corporation, (ii) the results of operations of Corporation and (iii) the changes in the financial position of Corporation all as at the dates and for the periods therein specified.

True, correct and complete copies of the Financial Statements and the Interim Financial Statements are attached as Schedule 3.2(r).

- (s) NO LIABILITIES. Except as disclosed in Schedule 3.2(s) or reflected or reserved against in the balance sheet forming part of the Interim Financial Statements, Corporation has no liabilities or obligations of any nature (whether absolute, accrued, contingent or

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otherwise) except for current liabilities incurred in the Ordinary Course since August 31, 1999.

- (t) BANK ACCOUNTS AND POWERS OF ATTORNEY. Schedule 3.2(t) is a correct and complete list showing (i) the name of each bank in which Corporation has an account or safety deposit box and the names of all Persons authorized to draw on the account or to have access to the safety deposit box, and (ii) the names of all Persons holding powers of attorney from Corporation. Copies of the powers of attorney have been provided to Purchaser.

- (u) EMPLOYEES. Except as set forth in Schedule 3.2(u):

- (i) there is no collective agreement in force with respect to the employees of Corporation, no collective agreement is currently being negotiated by Corporation, no union or employee bargaining agent holds bargaining rights with respect to any employees of Corporation and there are no current or, to the Vendors' knowledge, threatened attempts to organize or establish any trade union or employee association with respect to Corporation. There is no unfair labour practice complaint pending or, to the Vendors' knowledge, threatened against Corporation and there is no labour strike, slow down, work stoppage or lockout in effect or, to the Vendors' knowledge, threatened against Corporation nor has there been any such event within the past three (3) years; and
- (ii) all amounts due and owing or accrued due but not yet owing for all salary, wages, bonuses, commissions, vacation with pay, pension benefits or other employee benefits have been paid or if accrued are reflected in the Books and Records.

Schedule 3.2(u) contains a correct and complete list of each employee of Corporation whether actively at work or not, their salaries, wage rates, commissions and bonus arrangements, benefits, positions, ages, status as full-time or part-time employees and length of service. No employee of Corporation has any agreement as to length of notice or severance payment required to terminate his or her employment, other than such as results by Law from the employment of an employee without an agreement as to notice or severance.

Schedule 3.2(u) also contains a correct and complete list of each consultant of Corporation (together with their consulting fees) that is actively at work or which has received more than \$20,000 in compensation from the Corporation in the last 12 months.

- (v) EMPLOYEE PLANS.

- (i) Schedule 3.2(v) lists and describes all Employee Plans. Corporation has furnished to the Purchaser true, correct and complete copies of all the Employee Plans as amended as of the date hereof, together with all related documentation including, without limitation, funding and investment management agreements, summary plan descriptions, the most recent actuarial reports, financial statements and asset statements, all material opinions and memoranda (whether externally or internally prepared) and all material correspondence with all regulatory authorities or other relevant persons. No changes have occurred or

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are expected to occur which would materially affect the information contained in the actuarial reports, financial statements or asset statements required to be provided to the Purchaser pursuant to this provision.

- (ii) All of the Employee Plans are and have been established, registered, qualified, invested and administered, in all respects, in accordance with their terms and all Laws, including all Tax Laws where same is required for preferential tax treatment. To the knowledge of Vendors, no fact or circumstance exists that could adversely affect the preferential tax treatment ordinarily accorded to any such Employee Plan.
- (iii) All obligations regarding the Employee Plans have been satisfied, there are no outstanding defaults or violations by any party to any Employee Plan and no Taxes, penalties, or fees are owing or exigible under or in respect of any of the Employee Plans.
- (iv) No Employee Plan is subject to any pending investigation, examination or other proceeding, action or claim initiated by any regulatory authority, or by any other party (other than routine claims for benefits).
- (v) All contributions or premiums required to be paid by Corporation under the terms of each Employee Plan or by Laws have been made in a timely fashion in accordance with Laws and the terms of the Employee Plans. Corporation has no liability (other than liabilities accruing after the Closing Date) with respect to any of the Employee Plans. Contributions or premiums for the period up to the Closing Date have been paid by Corporation even though not otherwise required to be paid until a later date.
- (vi) No commitments to improve or otherwise amend any Employee Plan have been made except as required by applicable Laws.
- (vii) Each Employee Plan which is a funded plan is fully funded as of the Closing Date on both a going concern and a solvency basis pursuant to the actuarial assumptions and methodology utilized in the most recent actuarial valuation therefor.
- (viii) None of the Employee Plans enjoy any special tax status under any Laws, nor have any advance Tax rulings been sought or received in respect of any Employee Plan.
- (ix) No insurance policy or any other agreement affecting any Employee Plan requires or permits a retroactive increase in contributions, premiums or other payments due thereunder. The level of insurance reserves under each insured Employee Plan is reasonable and sufficient to provide for all incurred but unreported claims.
- (x) None of the Employee Plans (other than pension plans) provide benefits to retired employees or to the beneficiaries or dependants of retired employees.
- (xi) No Employee Plan exists that could result in (i) the payment to any person of any money, benefits or other property, (ii) accelerated or increased funding requirements for any Employee Plan or (iii) the acceleration or provision of any other increased rights or benefits to any person as a result of the transactions contemplated by this Agreement.

- (w) INSURANCE. Schedule 3.2(w) contains a list of insurance policies which are maintained by Corporation setting out, in respect of each policy, a description of the type of policy, the name of insurer, the coverage allowance, the expiration date, the annual premium and any pending claims.
- (x) LITIGATION. Except as described in Schedule 3.2(x), there are no (i) actions, suits or proceedings, at law or in equity, by any Person, (ii) arbitration or alternative dispute resolution process, or (iii) any administrative or other proceeding by or before (or to the knowledge of Vendors any investigation by) any Governmental Entity, pending, or, to the knowledge of Vendors, threatened against or affecting Corporation, the business or assets of Corporation. Corporation is not subject to any judgment, order or decree entered in any lawsuit or proceeding nor has Corporation settled any claim prior to being prosecuted in respect of it. Corporation is not the plaintiff or complainant in any action, suit or proceeding.
- (y) TAX MATTERS:
- (i) DEFINITION OF TAXES - For the purposes of this Agreement, the term "TAX" or, collectively, "TAXES" shall mean (A) any and all federal, state, provincial, municipal, local and foreign taxes, assessments and other governmental charges, duties, impositions and liabilities including Canada Pension Plan and Provincial Pension Plan contributions and unemployment insurance contributions and employment insurance contributions and workman's compensation and deductions at source, including taxes based upon or measured by gross receipts, income, profits, sales, capital use and occupation, good and services, and value added, ad valorem, transfer, franchise, withholding, customs duties, payroll, recapture, employment, excise and property taxes, together with all interest, penalties, fines and additions imposed with respect to such amounts and (b) any liability for the payment of any amounts of the type described in clause (A) of this Section 3.2(y)(i) as a result of any express or implied obligation to indemnify any other Person or as a result of any obligations under any agreements or arrangements with any other Person with respect to such amounts and including any liability for taxes of a predecessor entity.
- (ii) COMPUTATION, PREPARATION AND PAYMENT - Corporation has correctly computed all Taxes, prepared and duly and timely filed all federal, state, provincial, municipal, local and foreign returns, estimates, information statements, elections, designations, reports and any other related filings ("TAX RETURNS"), required to be filed by it, has timely paid all Taxes which are or may become due and payable and has made adequate provision in the Financial Statements for the payment of all Taxes which are or may become due and payable for any taxation year ending on or prior to August 31, 1999. Corporation has made adequate and timely installments of Taxes required to be made.
- (iii) ACCRUED TAXES - With respect to any periods for which Tax Returns have not yet been required to be filed or for which Taxes are not yet due and payable, Corporation has only incurred liabilities for Taxes in the Ordinary Course and in a manner and at a level consistent with prior periods. Tax returns, reports, elections, designations and any other filings required to be filed for any period ending up to the Closing Date will correctly be prepared and duly and timely filed by Vendors.
- (iv) STATUS OF ASSESSMENTS - All Tax returns of Corporation have been assessed through and including each of the dates set

forth in Schedule 3.2(y)(iv) annexed hereto, and there are no outstanding waivers of any limitation periods or agreements providing for an extension of time for the filing of any Tax Return or the payment of any Tax by Corporation or any outstanding objections to any assessment or reassessment of Taxes. Any deficiencies proposed as a result of such assessments or reassessments of the Tax returns through and including the dates set forth in Schedule 3.2(y)(iv) annexed hereto have been paid and settled.

- (v) WITHHOLDINGS - Corporation has withheld from each payment made to any of its past and present shareholders, directors, officers, employees and agents the amount of all Taxes and other deductions required to be withheld and has paid such amounts when due, in the form required under the appropriate legislation, or made adequate provision for the payment of such amounts to the proper receiving authorities. The amount of Tax withheld but not remitted by Corporation will be retained in its accounts and will be remitted by it to the appropriate authorities when due.
- (vi) COLLECTION AND REMITTANCE - Corporation has collected from each receipt from any of its past and present customers (or other Persons paying amounts to Corporation) the amount of all Taxes (including goods and services tax and provincial sales taxes) required to be collected and has paid and remitted such Taxes when due, in the form required under the appropriate legislation or made adequate provision for the payment of such amounts to the proper receiving authorities. The amount of Tax collected but not remitted by Corporation will be retained in its accounts and remitted by it to the appropriate authorities when due.
- (vii) ASSESSMENTS - Corporation is not or to the knowledge of Vendors will not be subject to any assessments, reassessment, levies, penalties or interest with respect to Taxes which will result in any liability on its part in respect of any period ending on or prior to the Closing Date.
- (viii) JURISDICTIONS OF TAXATION - Corporation has not been and is not currently required to file any returns, reports, elections, designations or other filings with any taxation authority located in any jurisdiction outside Canada or outside the province of Quebec.
- (IX) RELATED PARTY TRANSACTIONS - Corporation has not, or has not been deemed to have for purposes of the Income Tax Act (Canada) (the "ITA"), acquired or had the use of property for proceeds greater than the fair market value thereof from,

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or disposed of property for proceeds less than the fair market value thereof to, or received or performed services for other than the fair market value from or to, or paid or received interest or any other amount other than at a fair market value rate to or from, any Person, firm or corporation with whom it does not deal at arm's length within the meaning of the ITA.

- (x) FORGIVENESS OF DEBT - Corporation has not at any time benefited from a forgiveness of debt or entered into any transaction or arrangement (including conversion of debt into shares of their share capital) which could have resulted in the application of Section 80 and following of the ITA.
- (xi) RESEARCH AND DEVELOPMENT TAX CREDITS AND EXPENDITURES - All

refund of taxes or credits claimed with respect to research and development ("R&D CREDIT OR REFUNDS") were claimed by Corporation in accordance with the provisions of the ITA and the relevant provincial legislation and Corporation satisfied at all relevant times the relevant criteria and conditions entitling it to such R&D Credit or Refunds.

- (xii) R&D EXPENSES - The aggregate amount of expenditures qualifying as research and development expenditures under the ITA incurred in the years ending on or prior to the Closing Date which were not deducted for income tax purposes and are available to be applied against income for years subsequent to the Closing Date is nil for federal income tax purposes and nil for provincial income tax purposes.
- (xiii) TAX RETURNS - Corporation has made available to Purchaser or its legal counsel, copies of all foreign, federal, state, provincial, municipal and local income and all state and local sales and use Tax Returns for Corporation filed for all periods terminating on or after August 31st, 1996.
- (xiv) DEDUCTIBILITY - As of the Closing, there will not be any Contract, plan or arrangement, including but not limited to the provisions of this Agreement, covering any employee or former employee of Corporation that, individually or collectively, could give rise to the payment of any amount that would not be deductible by Corporation as an expense under applicable Law other than reimbursements of a reasonable amount of entertainment expenses and other non-deductible expenses that are commonly paid by similarly situated businesses in reasonable amounts.
- (xv) TAX BASIS -Corporation's tax basis in its assets (and the undepreciated capital cost of such assets) for purposes of determining its future amortization, depreciation and other Federal or Provincial income Tax deductions is accurately reflected on Corporation's Tax Returns and records.
- (z) PAID-UP CAPITAL - The paid-up capital for Tax purposes of each of the Purchased Shares is no less than its stated capital for corporate purposes.

3.3 REPRESENTATIONS AND WARRANTIES OF HOLDCO VENDORS

The Holdco Vendors solidarily, without the benefit of division of discussion, represent and warrant to Purchaser as provided in this Section 3.3. Holdco Vendors acknowledge and confirm that Purchaser is relying upon such representations and warranties in connection with the purchase by Purchaser of the Holdco Shares.

- (a) INCORPORATION AND QUALIFICATION. Holdco is a corporation duly incorporated, in good standing and existing under the laws of its jurisdiction of incorporation and has the corporate power to own and operate its property, carry on its business and enter into and perform its obligations under this Agreement.
- (b) AUTHORIZED AND ISSUED CAPITAL. The authorized capital of Holdco consists of an unlimited number of Class "A" shares, Class "B" shares, Class "C" shares, Class "D" shares, Class "E" shares and Class "F" shares of which 110 Class "A" shares (and no more) have been duly issued and are outstanding as fully paid and non-assessable; such shares constitute all the Holdco Shares. All of the Holdco Shares have been issued in compliance with all applicable Laws including, without limitation, applicable securities laws. There are no outstanding options, securities, loans or notes convertible or exchangeable for any shares or other securities of Holdco.

- (c) NO OTHER AGREEMENTS TO PURCHASE. Except for Purchasers' right under this Agreement, no Person has any written or oral agreement, option or warrant or any right or privilege in (whether by Law, pre-emptive or contractual) capable of becoming such for: (i) the purchase or acquisition from Vendors of any of the Holdco Shares; or (ii) the purchase, subscription, allotment or issuance of any of the unissued shares or other securities of Holdco;
- (d) CORPORATE RECORDS. The Corporate Records of Holdco are complete and accurate, and contain copies of all of the articles, by-laws and resolutions passed by the shareholders and directors of Holdco since the date of its incorporation.
- (e) LIABILITIES. Except as set forth in Schedule 3.3(e) Holdco has no liabilities or obligations of any nature whatsoever, whether direct, indirect, absolute, contingent or otherwise.
- (f) PROPERTY. Holdco has no assets, and has never had any assets other than the shares held by it in Corporation.
- (g) TITLE TO SHARES IN CORPORATION. Holdco is the beneficial owner and holder of record of 200,000 Class "A" shares in the capital of Corporation, free and clear of all Liens. Upon Closing, Holdco will have good and valid title to such shares, free and clear of all Liens.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF PURCHASER

4.1 REPRESENTATIONS AND WARRANTIES OF PURCHASER.

Purchaser and Immersion solidarily, without the benefit of division or discussion, represent and warrant as follows to Vendors and acknowledge and confirm that Vendors are relying on such

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representations and warranties in connection with the sale by Vendors of the Purchased Shares and the Holdco Shares:

- (a) INCORPORATION AND CORPORATE POWER. Each of Immersion and Purchaser is a corporation incorporated, in good standing and existing under the Laws of its jurisdiction of incorporation and has the corporate power and authority to enter into and perform its obligations under this Agreement.
- (b) VALIDITY OF AGREEMENT. The execution, delivery and performance by each of Immersion and Purchaser of this Agreement:
 - (i) have been duly authorized by all necessary corporate action on the part of Immersion and Purchaser;
 - (ii) do not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition) result in a breach or a violation of, or conflict with, any of the terms or provisions of its constating documents or by-laws or any contracts or instruments to which it is a party or pursuant to which any of its assets or property may be affected; and
 - (iii) will not result in the violation of any Law.
- (c) EXECUTION AND BINDING OBLIGATION. This Agreement has been duly executed and delivered by each of Immersion and Purchaser and constitutes a legal, valid and binding obligation of Immersion and Purchaser, enforceable against them in accordance with their respective terms.

ARTICLE 5

COVENANTS OF THE PARTIES

5.1 CONDUCT OF BUSINESS PRIOR TO CLOSING.

- (1) Except as set forth in Schedule 5.1(1), Corporation shall and each of Individual Vendors shall cause Corporation to, during the Interim Period, conduct its business in the Ordinary Course and, without limiting the generality of the foregoing, Corporation shall and each of Individual Vendors shall cause Corporation not to:
- (a) make or assume any commitment, obligation or liability which is outside the Ordinary Course;
 - (b) cease to operate its properties and to carry on its business as heretofore carried on;
 - (c) sell or otherwise in any way alienate or dispose of any of its assets, other than in the Ordinary Course or sell or in any way alienate or dispose of any of its Intellectual Property whether or not on the Ordinary Course;
 - (d) split, combine or reclassify any of its shares, or issue, redeem, retire, repurchase or otherwise acquire shares in its capital or any warrants, rights, bonds, debentures, notes

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or other corporate security, or reserve, declare, make or pay any dividend, or make any other distributions or appropriations of profits or capital;

- (e) discharge any secured or unsecured obligation or liability (whether accrued, absolute, contingent or otherwise), other than obligations and liabilities discharged in the Ordinary Course;
- (f) waive or cancel any material claim, account receivable, trade account or right outside the Ordinary Course or make any gift;
- (g) make any change in the rate or form of compensation or remuneration payable to or to become payable to any of its shareholders, directors, officers, employees or agents which is outside the Ordinary Course or accelerate the vesting of any option or provide other equity incentives to its employees;
- (h) make any change in its accounting principles and practices as utilized in the preparation of the Financial Statements, or grant to any customer any special allowance or discount, or change its pricing, credit or payment policies, other than in the Ordinary Course;
- (i) make any capital expenditure;
- (j) make any loan or advance, or assume, guarantee, endorse or otherwise become liable with respect to the liabilities or obligations of any Person;
- (k) modify its constating instruments, by-laws or capital structure;
- (l) remove any auditor;
- (m) purchase or otherwise acquire any corporate security or proprietary, participatory or profit interest in any Person;
- (n) incur any indebtedness other than to trade creditors in the Ordinary Course; and
- (o) authorize, agree or otherwise commit to any of the foregoing.

5.2 ACCESS FOR DUE DILIGENCE.

- (1) Vendors and Corporation shall (i) permit Purchaser and its employees, counsel, accountants or other representatives, during the Interim Period,

without undue interference to the ordinary conduct of the business of Corporation, to have reasonable access during normal business hours and upon reasonable notice to (a) the premises of Corporation and Holdco (b) the assets and, in particular to any information, including all Books and Records whether retained by Vendors, Corporation, or otherwise, (c) all Contracts (without identification of the parties thereto) and the Lease, and (d) the senior personnel of Corporation, and (ii) furnish to Purchaser or its employees, counsel, accountants or other representatives such financial and operating data and other information with respect to the assets and business of Corporation as Purchaser shall from time to time reasonably request, it being agreed that Corporation shall use its best efforts to deliver to Immersion all of the foregoing information and access to unaudited financial statements of Corporation for the one month period ended January 31, 2000 on or before February 20, 2000. Notwithstanding the foregoing, Immersion shall have access to

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the following material only after it has notified Corporation that it does not intend to exercise its right of termination under Section 6.2(i): (1) technical due diligence regarding the Corporation's hardware and software products, including, but not limited to the PenCAT, TouchDesktop, TouchWare, and TouchWeb products; (2) information regarding the Corporation's "Hub and Spoke" business strategy and (3) copies of the Corporation's patent applications and the file histories for such patent applications.

- (2) No investigations made by or on behalf of Purchaser, whether under this Section 5.2 or any other provision of this Agreement, shall have the effect of waiving, diminishing the scope of, or otherwise affecting any representation or warranty made in this Agreement.

5.3 REQUEST FOR REQUIRED CONSENTS.

Vendors shall use their best efforts to obtain, prior to Closing, all of the Required Consents. Such Required Consents shall be upon such terms as are acceptable to Purchaser, acting reasonably. Purchaser will co-operate in obtaining such Required Consents.

5.4 FILINGS AND REQUIRED CONSENTS.

Each of Vendors and Purchaser, as promptly as practicable after the execution of this Agreement, will (i) make, or cause to be made, all such filings and submissions under all Laws applicable to it, as may be required for it to consummate the purchase and sale of the Purchased Shares in accordance with the terms of this Agreement, and (ii) obtain, or cause to be obtained, all Required Consents necessary or advisable to be obtained by it in order to consummate such transfer. Vendors and Purchaser will coordinate and cooperate with one another in exchanging such information and supplying such assistance as may be reasonably requested by each in connection with the foregoing including, without limitation, providing each other with all notices and information supplied to or filed with any Governmental Entity (except for notices and information which Vendors or Purchaser, in each case acting reasonably, considers highly confidential and sensitive which may be filed on a confidential basis), and all notices and correspondence received from any Governmental Entity.

5.5 NOTICE OF UNTRUE REPRESENTATION OR WARRANTY.

Each Vendor shall promptly notify Purchaser, and Purchaser shall promptly notify Vendors, upon any representation or warranty made by either of them contained in this Agreement becoming untrue or incorrect during the Interim Period. Any such notification shall set out particulars of the untrue or incorrect representation or warranty and details of any actions being taken by the applicable Vendor or Purchaser, as the case may be, to rectify that state of affairs.

5.6 EXCLUSIVE DEALING.

During the Interim Period, Corporation shall not and Vendors and Holdco shall not and shall cause Corporation not to, directly or indirectly, solicit, initiate, or encourage any inquiries or proposals from, discuss or negotiate

with, provide any non-public information to, or consider the merits of any inquiries or proposals from, any Person (other than Purchaser) relating to any transaction involving the sale of any shares of Vendors or Holdco or the sale of the business or assets of Corporation or Holdco.

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5.7 ADDITIONAL COVENANTS.

- (a) Each of Corporation's employees, as of the date hereof, excluding administrative support and accounting personnel, and Hayward will sign a one-year non-competition agreement in favour of Immersion measured from the Closing Date and in the form attached hereto as Schedule 5.7(a) except for the non-competition agreement of Hayward the scope of which shall be agreed to prior to Closing;
- (b) Visuaide covenants and agrees to use its best efforts, promptly after the Closing, to obtain the rights from CITI for Immersion for use of CITI work product. Visuaide further covenants and agrees that any and all language in agreements between Visuaide and the Corporation which in any way impose a restriction or limitation of competition between Visuaide and the Corporation or on the use of the CITI work product in any market or channel, including but not limited to those markets or channels related to persons with disabilities of any kind, will terminate on Closing. Visuaide hereby covenants that the intellectual property relating to improvements made upon the technology subject to such CITI sublicense is wholly owned by Corporation ; and
- (c) The Vendors shall obtain, prior to Closing, a letter of conformity from the Commission de la sante et de la securite du travail attesting that Corporation is in good standing.

ARTICLE 6 CONDITIONS OF CLOSING

6.1 CONDITIONS FOR THE BENEFIT OF PURCHASER.

The purchase and sale of the Purchased Shares is subject to the following conditions to be fulfilled or performed at or prior to the Closing Date, which conditions are for the exclusive benefit of Purchaser and may be waived, in whole or in part, by Purchaser in its sole discretion:

- (a) TRUTH OF REPRESENTATIONS AND WARRANTIES. The representations and warranties of Vendors contained in this Agreement shall be true and correct as of the Closing Date with the same force and effect as if such representations and warranties had been made on and as of such date and Vendors shall have executed and delivered a certificate to that effect. The receipt of such certificate and the Closing shall not constitute a waiver by Purchaser of any of the representations and warranties of Vendors which are contained in this Agreement. Upon the delivery of such certificate, the representations and warranties of Vendors in Article 3 shall be deemed to have been made on and as of the Closing Date with the same force and effect as if made on and as of such date.
- (b) PERFORMANCE OF COVENANTS. Vendors shall have fulfilled or complied with all covenants contained in this Agreement to be fulfilled or complied with by it at or prior to the Closing, and Vendors shall have executed and delivered a certificate to that effect. The receipt of such certificate and the Closing shall not constitute a waiver by Purchaser of any of the covenants of Vendors which are contained in this Agreement.
- (c) REQUIRED CONSENTS. All Required Consents shall have been obtained on terms acceptable to Purchaser, acting reasonably. There shall have been obtained from all appropriate Governmental Entities all approvals and consents necessary in order to

permit the transactions contemplated herein to be completed on the Closing Date. To the extent that a notification is required under the Competition Act (Canada), all applicable waiting periods shall have expired.

- (d) DELIVERIES. Vendors shall deliver or cause to be delivered to Purchaser the following in form and substance satisfactory to Purchaser, acting reasonably:
- (i) share certificates representing the Purchased Shares and Holdco Shares duly endorsed in blank for transfer, or accompanied by irrevocable security transfer powers of attorney duly executed in blank, in either case by the holders of record;
 - (ii) certified copies of (i) the charter documents and by-laws of Corporation and Holdco and each of Vendors that is a corporation, (ii) all resolutions of the shareholders and the board of directors of Corporation and Holdco and each of Vendors that is a corporation approving the entering into and completion of the transaction contemplated by this Agreement; and
 - (iii) a certificate of status, compliance, good standing or like certificate with respect to Corporation and Holdco and Vendors that are corporations issued by appropriate government officials of their respective jurisdictions of incorporation and, in the case of Corporation, of each jurisdiction in which Corporation carries on its business;
 - (iv) the certificates referred to in Section 6.1(a) and Section 6.1(b);
 - (v) an opinion of counsel to Vendors, Holdco and Corporation substantially in the form set forth in Schedule 6.1(d)(v);
 - (vi) a duly executed non-competition agreement in favour of Corporation and Immersion by each of Corporation employees as provided for at Section 5.7(a);
 - (vii) a letter of conformity from the Commission de la sante et de la securite du travail attesting to the good standing of Corporation; and
 - (viii) a duly executed resignation effective as at the Closing of the auditors and each director and officer of Corporation and Holdco specified by Purchaser in writing at least 3 Business Days prior to Closing.
- (e) NO LEGAL ACTION. No action or proceeding shall be pending or threatened by any Person (other than Purchaser) in any jurisdiction, to enjoin, restrict or prohibit any of the transactions contemplated by this Agreement or the right of Corporation to conduct their respective business after Closing on substantially the same basis as heretofore operated.
- (f) NO MATERIAL CHANGE. During the Interim Period, there shall have been no material adverse change in the business, operations, properties, prospects or condition of Corporation.

- (g) CONTINUANCE OF EMPLOYMENT. All employees of Corporation employed on the date hereof shall continue to be employed with Corporation on the Closing Date.

- (h) NON-DISCLOSURE AGREEMENT. The employees of Corporation shall have executed Immersion's standard form of non-disclosure, assignment of inventions and confidentiality agreement.
- (i) EMPLOYMENT AGREEMENTS. Each of Corporation's employees, as of the date hereof, excluding administrative support and accounting personnel, shall have executed an employment agreement with Corporation on terms and conditions substantially conform to those set forth in Schedule 6.1(i).
- (j) TERMINATION OF THE SHAREHOLDERS AGREEMENT. Purchaser shall have received evidence satisfactory to it, acting reasonably, that the Shareholders Agreement of Corporation and the Shareholders Agreement of Holdco have been terminated without any further liability to Corporation or Holdco thereunder.
- (k) CONFIRMATION. Confirmation by Innovatech and FTTI to the effect that all loans or advances that may have been made by either of them to Corporation have been repaid in full.
- (l) LISTING. The Immersion Shares shall have been duly listed for quotation on the National Association of Securities Dealers Automated Quotations National Market Systems.

6.2 TERMINATION BY PURCHASER.

- (i) If Purchaser's due diligence investigation discloses any matter which Purchaser, acting reasonably, considers to be materially adverse to Corporation or Holdco or its decision to acquire the Purchased Shares or Holdco Shares, Purchaser may, on or before February 21, 2000, or
- (ii) If any of the conditions set forth in Section 6.1 have not been fulfilled or waived at or prior to the Closing Date or any obligation or covenant of Vendors to be performed at or prior to Closing has not been observed or performed by such time, Purchaser may,

terminate this Agreement by notice in writing to the Vendors, and in such event Purchaser shall be released from all obligations save and except for its obligations under Sections 10.3, 10.4 and 10.7 which shall survive. Vendors shall only be released from their obligations if the condition or conditions for the non-performance of which Purchaser has terminated this Agreement are not reasonably capable of being performed or caused to be performed by Vendors. If Purchaser waives compliance with any of the conditions, obligations or covenants contained in this Agreement, the waiver will be without prejudice to any of its rights of termination in the event of non-fulfilment, non-observance or non-performance of any other condition, obligation or covenant in whole or in part. Purchaser's right of termination under this Article 6 is in addition to any other rights it may have under this Agreement or otherwise, and the exercise of a right of termination will not be an election of remedies. Except as otherwise provided herein, nothing in Article 6 shall limit or affect any other rights or causes of action Purchaser may have with respect to the representations, warranties, covenants and indemnities in its favour contained in this Agreement.

6.3 CONDITIONS FOR THE BENEFIT OF VENDORS.

The purchase and sale of the Purchased Shares is subject to the following conditions to be fulfilled or performed at or prior to the Closing, which conditions are for the exclusive benefit of Vendors and may be waived, in whole or in part, by Vendors in their sole discretion:

- (a) TRUTH OF REPRESENTATIONS AND WARRANTIES. The representations and warranties of Purchaser and Immersion contained in this Agreement shall be true and correct as of the Closing Date with the same force and effect as if such representations and warranties had been made on and as of such date and Purchaser and Immersion

shall have executed and delivered a certificate to that effect. The receipt of such certificate and the Closing shall not constitute a waiver of the representations and warranties of Purchaser and Immersion which are contained in this Agreement. Upon delivery of such certificate, the representations and warranties of Purchaser and Immersion in Article 4 shall be deemed to have been made on and as of the Closing Date with the same force and effect as if made on and as of such date.

- (b) PERFORMANCE OF COVENANTS. Purchaser and Immersion shall have fulfilled or complied with all covenants contained in this Agreement to be fulfilled or complied with by them at or prior to the Closing Date and Purchaser and Immersion shall have executed and delivered a certificate to that effect. The receipt of such certificate and the Closing shall not constitute a waiver by Vendors of the covenants of Purchaser and Immersion which are contained in this Agreement.
- (c) DELIVERIES. Purchaser and Immersion shall deliver or cause to be delivered to Vendors the following in form and substance satisfactory to Vendors acting reasonably:
 - (i) certified copies of (i) the charter documents and extracts from the by-laws of Purchaser and Immersion relating to the execution of documents and, (ii) all resolutions of the board of directors of Purchaser and Immersion approving the entering into and completion of the transactions contemplated by this Agreement;
 - (ii) a certificate of status, compliance, good standing or like certificate with respect to Purchaser issued by appropriate government official of the jurisdiction of its incorporation; and
 - (iii) the certificates referred to in Section 6.3(a) and Section 6.3(b).

6.4 TERMINATION BY VENDORS.

If any of the conditions set forth in Section 6.3 have not been fulfilled or waived at or prior to the Closing Date or any obligation or covenant of Purchaser or Immersion to be performed at or prior to the Closing Date has not been observed or performed by such time, the Vendors may terminate this Agreement by notice in writing to Purchaser, and in such event Vendors shall be released from all obligations hereunder save and except for their obligations under Sections 10.3, 10.4 and 10.7 which shall survive. Purchaser and Immersion shall only be released from its obligations if the condition or conditions for the non-performance of which Vendors have terminated this Agreement are not reasonably capable of being performed or caused to be performed by Purchaser or Immersion. If Vendors waive compliance with any of the conditions, obligations or covenants contained in this

Agreement, the waiver will be without prejudice to any of their rights of termination in the event of non-fulfilment, non-observance or non-performance of any other condition, obligation or covenant in whole or in part. The Vendors' right of termination under this Article 6 is in addition to any other rights they may have under this Agreement or otherwise, and the exercise of a right of termination will not be an election of remedies. Except as otherwise provided herein, nothing in Article 6 shall limit or affect any other rights or causes of action the Vendors may have with respect to the representations, warranties, covenants and indemnities in their favour contained in this Agreement.

ARTICLE 7 CLOSING

7.1 DATE, TIME AND PLACE OF CLOSING.

The completion of the transaction of purchase and sale contemplated by

this Agreement shall take place at the offices of Stikeman Elliott, 1155 Rene-Levesque Blvd. West, Suite 4000, Montreal, Quebec, at 10:00 a.m. (Montreal time) on the Closing Date or at such other place, on such other date and at such other time as may be agreed upon in writing between Vendors and Purchaser.

ARTICLE 8
INDEMNIFICATION

8.1 INDIVIDUAL VENDORS INDEMNIFICATION IN FAVOUR OF PURCHASER.

Subject to Sections 8.5 and 8.6, Individual Vendors shall indemnify and save each of Immersion, Purchaser and Corporation harmless of and from any loss, liability, claim, damage (including direct, indirect, incidental and consequential damage) or expense (whether or not involving a third-party claim) including legal expenses (collectively, "DAMAGES") suffered by, imposed upon or asserted against Immersion, Purchaser or Corporation as a result of, in respect of, connected with, or arising out of, under, or pursuant to:

- (a) any failure of Individual Vendors to perform or fulfil any covenant of Individual Vendors under this Agreement or any failure of Corporation to perform or fulfil any of its covenants under this Agreement;
- (b) any breach or inaccuracy of any representation or warranty given by Individual Vendors in Sections 3.1 and 3.2 in this Agreement;
- (c) any liabilities or obligations of Corporation for Taxes due, together with any penalties or interest, in connection with any period ending on or prior to the Closing Date; and
- (d) any liabilities or obligations of Corporation of any nature whatsoever existing on or arising after the Closing Date in respect of any fact, condition or circumstance existing or occurring on or prior to the Closing Date.

8.2 INDEMNIFICATION BY VISUAIDE, INNOVATECH AND FTTI IN FAVOUR OF PURCHASER

Subject to Sections 8.5 and 8.6, Visuaide, Innovatech and FTTI shall indemnify and save each of Immersion, Purchaser and Corporation harmless of and from any Damages suffered by, imposed upon

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or asserted against Immersion, Purchaser or Corporation as a result of, in respect of, connected with, or arising out of, under, or pursuant to

- (a) any failure of Visuaide, Innovatech or FTTI to perform or fulfil any of its covenants under this Agreement; or
- (b) any breach or inaccuracy of any of its representations or warranties given in this Agreement.

8.3 INDEMNIFICATION BY HOLDCO VENDORS IN FAVOUR OF PURCHASER

Subject to Sections 8.5 and 8.6, Holdco Vendors shall indemnify and save each of Immersion, Purchaser, Holdco and Corporation harmless of and from any Damages suffered by, imposed upon or asserted against Immersion, Purchaser, Holdco or Corporation as a result of, in respect of, connected with, or arising out of, under, or pursuant to:

- (a) any breach or inaccuracy of any representation or warranty given by Holdco Vendors in Section 3.3;
- (b) any failure of Holdco to perform or fulfil any of its covenants under this Agreement; and
- (c) any liabilities or obligations of Holdco of any nature whatsoever existing on or arising after the Closing Date in respect of any fact, condition or circumstance existing or occurring on or prior to the Closing Date.

8.4 PURCHASER INDEMNIFICATION IN FAVOUR OF VENDORS.

Subject to Section 8.5, Purchaser and Immersion shall solidarily indemnify and save Vendors harmless of and from any Damages suffered by, imposed upon or asserted against Vendors as a result of, in respect of, connected with, or arising out of, under or pursuant to:

- (a) any failure of Purchaser or Immersion to perform or fulfil any covenant of Purchaser or Immersion under this Agreement; and
- (b) any breach or inaccuracy of any representation or warranty given by Purchaser or Immersion contained in this Agreement.

8.5 TIME LIMITATIONS.

(1) The representations and warranties of Vendors contained in this Agreement shall survive the Closing and, notwithstanding the Closing and any investigation made by or on behalf of Purchaser, shall continue for a period of 18 months after the Closing, except that:

- (a) the representations and warranties set out in Sections 3.1(c), 3.1(d), 3.1(e), 3.1(f), 3.1(g), 3.2(a), 3.2(d), 3.2(f) and 3.3 (and the corresponding representations and warranties set out in the certificate to be delivered pursuant to Section 6.1(a) (the "VENDOR'S CLOSING CERTIFICATE")) shall survive the Closing and continue in full force and effect without limitation of time;

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- (b) the representations and warranties set out in Sections 3.2(v) and 3.2(y) (and the corresponding representations and warranties set out with Vendor's Certificate) shall survive for a period of 30 days after the expiration of the statute of limitations applicable to claims relating to such matters; and
- (c) a claim for any breach of any of the representations and warranties of Vendors contained in this Agreement involving fraud or fraudulent misrepresentation shall survive and continue in full force and effect without limitation of time.

(2) The representations and warranties of Purchaser and Immersion contained in this Agreement shall survive the Closing and, notwithstanding the Closing and any investigation made by or on behalf of Vendors, shall continue for a period of 18 months after the Closing except that:

- (a) the representation and warranty set out in Sections 4.1 (c) shall survive the Closing and continue in full force and effect without limitation of time; and
- (b) a claim for any breach of any representations and warranties of Purchaser and Immersion contained in this Agreement involving fraud or fraudulent misrepresentation shall survive and continue in full force and effect without limitation of time.

(3) The obligations of indemnification set out in Sections 8.1, 8.2, 8.3 and 8.4 shall survive the Closing and continue in full force and effect without limitation of time, except for the obligation of indemnification arising from any incorrectness in, or breach of, any representation or warranty made by Vendors or Purchaser and Immersion, as the case may be, which in each case shall be subject to the limitations regarding survival of representations and warranties set forth in Sections 8.5(1) or 8.5(2) as the case may be.

8.6 LIMITATION ON DAMAGES.

(1) The covenants of each of the Vendors in Section 2.1, the covenants of Visuaide, Innovatech and FTTI contained in this Agreement and the representations and warranties of each Vendor in Section 3.1 and of Visuaide in Section 3.2 are individual representations, warranties and covenants of each such Vendor (collectively, the "INDIVIDUAL REPRESENTATIONS AND COVENANTS"). This means that the particular Vendor

making the Individual Representations and Covenants will be solely liable for such Individual Representations and Covenants as they pertain to himself or itself, but not to the other Vendors. The remainder of the representations, warranties (collectively the "COLLECTIVE REPRESENTATIONS") and covenants (the "COLLECTIVE Covenants") in this Agreement are made solidarily by Vendors making such representation and warranty or covenant. This means that the Vendors making the representation and warranty or covenant will be solidarily liable to Purchaser for any Collective Representation and any Collective Covenant to the extent provided in Article 8.

- (2) Other than Damages suffered by Purchaser as a result of a breach or inaccuracy of the representations and warranties contained in Sections 3.1, 3.2(a), 3.2(d), 3.2(f), 3.2(y) and 3.3 all of which shall not be subject to the following limitation, Vendors shall have no liability for indemnification pursuant to Section 8.1 as a result of a breach by Vendors of the Collective Representations until the aggregate of the total of all Damages suffered by Purchaser as a result of a breach by Vendors of its Collective Representations exceeds \$50,000 after which Vendors' liability for indemnification shall commence from the first dollar of such Damages.

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8.7 OBLIGATION TO REIMBURSE

The amount of any Damages suffered or incurred by a party being indemnified hereunder (the "INDEMNIFIED PARTY") shall accrue interest at a rate per annum equal to the Prime Rate, plus two percent from the date it is determined that the Indemnified Party incurs any such Damages until payment in full by the Party providing for indemnification hereunder (the "INDEMNIFYING PARTY").

8.8 NOTIFICATION.

Promptly upon obtaining knowledge thereof, the Indemnified Party shall notify the Indemnifying Party of any cause which the Indemnified Party has determined has given or could give rise to indemnification under this Article 8. The omission so to notify the Indemnifying Party shall not relieve the Indemnifying Party from any duty to indemnify and hold harmless which otherwise might exist with respect to such cause unless (and only to that extent) the omission to notify materially prejudices the ability of the Indemnifying Party to exercise its right to defend provided in this Article 8.

8.9 DEFENSE OF THIRD PARTY CLAIM.

- (1) If any legal proceeding shall be instituted or any claim or demand shall be asserted by a third party against the Indemnified Party (each a "THIRD PARTY CLAIM"), then the Indemnifying Party shall have the right, after receipt of the Indemnified Party's notice under Section 8.8 and upon giving notice to the Indemnified Party within five calendar days of such receipt, to defend the Third Party Claim at its own cost and expense with counsel of its own selection, provided that:
- (a) the Indemnified Party shall at all times have the right to fully participate in the defense at its own expense;
 - (b) the Third Party Claim seeks only monetary damages and does not seek any injunctive or other relief against the Indemnified Party;
 - (c) the Indemnifying Party unconditionally acknowledges in writing its obligation to indemnify and hold the Indemnified Party harmless with respect to the Third Party Claim;
 - (d) legal counsel chosen by the Indemnifying Party is satisfactory to the Indemnified Party, acting reasonably; and
 - (e) if the amount of the Third Party Claim is greater than \$500,000 inclusive of reasonably estimated interest and costs, then the Indemnifying Party shall deliver a letter of credit, surety bond or similar security in form and substance satisfactory to the Indemnified Party, acting reasonably, in the amount by which such

Third Party Claim exceeds \$500,000 as security for the payment of amounts payable by the Indemnifying Party to the Indemnified Party pursuant hereto.

Amounts payable by the Indemnifying Party pursuant to a Third Party Claim shall be paid in accordance with the terms of the settlement or, the judgment, as applicable, but in any event prior to the expiry of any delay for a judgment to become executory.

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- (2) The Indemnifying Party shall not be permitted to compromise and settle or to cause a compromise and settlement of any Third Party Claim, without the prior written consent of the Indemnified Party, unless:
 - (a) the terms of the compromise and settlement require only the payment of money and do not require the Indemnified Party to admit any wrongdoing or take or refrain from taking any action; and
 - (b) the Indemnified Party receives, as part of the compromise and settlement, a legally binding and enforceable unconditional satisfaction or release, which is in form and substance satisfactory to the Indemnified Party, acting reasonably, from any and all obligations or liabilities it may have with respect to the Third Party Claim.
- (3) If the Indemnifying Party fails:
 - (a) within ten calendar days from receipt of the notice of a Third Party Claim to give notice of its intention to defend the Third Party Claim in accordance with Section 8.9(1), or
 - (b) to comply at any time with any of SubSections 8.9(1)(c) or 8.9(1)(e),then the Indemnifying Party shall be deemed to have waived its right to defend the Third Party Claim and the Indemnified Party shall have the right (but not the obligation) to undertake or to cause Corporation to undertake the defense of the Third Party Claim and compromise and settle the Third Party Claim on behalf, for the account and at the risk and expense of the Indemnifying Party.
- (4) Where the defence of a Third Party Claim is being undertaken and controlled by the Indemnifying Party, the Indemnified Party will use its reasonable efforts to make available to the Indemnifying Party those employees whose assistance, testimony or presence is necessary to assist the Indemnifying Party in evaluating and defending any such claims. However, the Indemnifying Party shall be responsible for the expense associated with any employees made available by the Indemnified Party to the Indemnifying Party pursuant to this Section 8.9(4), which expense shall be equal to an amount to be mutually agreed upon per person per hour or per day for each day or portion thereof that the employees are assisting the Indemnifying Party and which expenses shall not exceed the actual cost to the Indemnified Party associated with the employees.
- (5) With respect to any Third Party Claim at the request of the Indemnifying Party, the Indemnified Party shall make available to the Indemnifying Party or its representatives on a timely basis all documents, records and other materials in the possession of the Indemnified Party, at the expense of the Indemnifying Party, reasonably required by the Indemnifying Party for its use in defending any such claim and shall otherwise cooperate on a timely basis with the Indemnifying Party in the defence of such claim.
- (6) With respect to any Third Party Claim in respect of income, corporate, sales, excise, or other tax or other liability enforceable by Lien against the property of the Indemnified Party, the Indemnifying Party's right to so defend the Proceeding shall only apply after payment of the re-assessment.

ARTICLE 9
POST-CLOSING COVENANTS

9.1 CONFIDENTIALITY.

After the Closing, Vendors will keep confidential and will not use or disclose any information in their possession or under their control relating to Corporation or their respective business, unless such information is or becomes generally available to the public other than as a result of a disclosure by Vendors in violation of this Agreement.

9.2 COMPENSATION AND BENEFITS.

For at least twelve (12) months following Closing, the employees of Corporation shall be entitled to receive compensation and benefits no less favourable than their current compensation and benefits which are set forth in Schedule 3.2(u). Immersion acknowledges that Corporation's Board of Directors approved salary increases for certain of Corporation's employees on January 11, 2000. These increases in salary are described in Section 5 of the minutes of the Remuneration Committee dated November 8, 1999. Immersion agrees to accept these new salary levels, but only on the condition that such salary increases shall commence as of the Closing and that such salary increases shall not be deemed to have been effective during any period prior to the Closing. Following the Closing, employees shall be eligible to participate in Immersion's Stock Purchase Plan. Immersion acknowledges and agrees that salary increases for Ramstein and Mather have already become effective and are being paid.

9.3 VISUAIDE

Visuaide and Immersion agree to discuss in good faith a strategic relationship related to the visually impaired

9.4 FURTHER ASSURANCES.

From time to time after the Closing Date, each Party shall, at the request of any other Party, execute and deliver such additional conveyances, transfers and other assurances as may be reasonably required to effectively transfer the Purchased Shares to Purchaser and carry out the intent of this Agreement.

ARTICLE 10
MISCELLANEOUS

10.1 NOTICES.

Any notice, direction or other communication given under this Agreement shall be in writing and given by delivering it or sending it by facsimile or other similar form of recorded communication addressed:

(a) to Purchaser and Immersion at:

IMMERSSION CORPORATION
2158 Paragon Drive
San Jose, California
95131

Attention: Craig Factor

Telephone: (408) 467-1900
Facsimile: (408) 467-1901

with a copy to HELLER EHRMAN WHITE &
McAULIFFE at:

525 University Avenue
Suite 1100, Palo Alto California
943011908

Attention: Sarah O'Dowd
Telephone: (650) 324-7045
Facsimile: (650) 324-0638

with a copy to Stikeman Elliott at:

1155 Rene-Levesque Blvd West
Suite 4000
Montreal, Quebec
H3B 3V2

Attention: John W. Leopold
Telephone: (514) 397-3000
Facsimile: (514) 397-3222

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(b) to Mather at:

5037 St. Andre
Montreal, Quebec
H2J 3A5

Telephone: (514) 987-9800
Facsimile: (514) 987-9808

with copy to McCarthy Tetrault at:

Le Windsor
1170, Peel Street
5th, Floor
Montreal, Quebec
H3B 4S8

Attention: Peter S. Martin
Telephone: (514) 397-4111
Facsimile: (514) 875-6246

(c) to Ramstein at:

4275 Garnier
Montreal, Quebec
H2J 3R7

Telephone: (514) 987-9800
Facsimile: (514) 987-9808

with copy to McCarthy Tetrault at:

Le Windsor
1170, Peel Street
5th, Floor
Montreal, Quebec
H3B 4S8

Attention: Peter S. Martin
Telephone: (514) 397-4111

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Facsimile: (514) 875-6246

(d) to Hayward at:

2277 Harvard
Montreal, Quebec
H4A 2W1

Telephone: (514) 987-9800
Facsimile: (514) 987-9808

with copy to McCarthy Tetrault at:

Le Windsor
1170, Peel Street
5th, Floor
Montreal, Quebec
H3B 4S8

Attention: Peter S. Martin
Telephone: (514) 397-4111
Facsimile: (514) 875-6246

(e) to Canonico at:

750, Versaille,
Montreal, Quebec
H3C 1Z4

Telephone: (514) 987-9800
Facsimile: (514) 987-9808

with copy to McCarthy Tetrault at:

Le Windsor
1170, Peel Street
5th, Floor
Montreal, Quebec
H3B 4S8

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Attention: Peter S. Martin
Telephone: (514) 397-4111
Facsimile: (514) 875-6246

(f) to Gregorio at:

7353 Dunver Crescent
Verdun, Quebec
H4H 2H6

Telephone: (514) 987-9800

Facsimile: (514) 987-9808

with copy to McCarthy Tetrault at:

Le Windsor
1170, Peel Street
5th, Floor
Montreal, Quebec
H3B 4S8

Attention: Peter S. Martin

Telephone: (514) 397-4111

Facsimile: (514) 875-6246

(g) to Pare at:

253 Acres
Kirkland, Quebec
H9H 4M1

Telephone: (514) 987-9800

Facsimile: (514) 987-9808

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with copy to McCarthy Tetrault at:

Le Windsor
1170, Peel Street
5th, Floor
Montreal, Quebec
H3B 4S8

Attention: Peter S. Martin

Telephone: (514) 397-4111

Facsimile: (514) 875-6246

(h) to Innovatech at:

2020 University St., Suite 1527
Montreal, Quebec
H3A 2A5

Attention: Hubert Manseau

Telephone: (514) 864-2929

Facsimile: (514) 864-4220

with copy to McCarthy Tetrault at:

Le Windsor
1170, Peel Street
5th, Floor
Montreal, Quebec
H3B 4S8

Attention: Peter S. Martin

Telephone: (514) 397-4111
Facsimile: (514) 875-6246

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(i) to FTTI at:

255 Saint-Jacques St. West
Montreal, Quebec
H2Y 1M6

Attention: John Simons

Telephone: (514) 845-3806
Facsimile: (514) 845-3810

with copy to McCarthy Tetrault at:

Le Windsor
1170, Peel Street
5th, Floor
Montreal, Quebec
H3B 4S8

Attention: Peter S. Martin

Telephone: (514) 397-4111
Facsimile: (514) 875-6246

(j) to Visuaide at:

841 boul. Jean Paul Vincent
Longueuil, Quebec
J4G 1R3

Attention: Gilles Pepin
Telephone: (450) 463-1717
Facsimile (450) 463-0120

(k) to Holdco at: Immersion Corporation

IMMERSION CORPORATION
2158 Paragon Drive
San Jose, California
95131

Attention: Craig Factor
Telephone: (408) 467-1900
Facsimile: (408) 467-1901

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With a copy to Heller Ehrman White & McAuliffe at:

525 University Avenue Suite 1100
Palo Alto, California
943011908

Attention: Sarah O'Dowd
Telephone: (650) 324-7045
Facsimile (650) 324-0638

With a copy to Stikeman Elliott at:

1155 Rene-Levesque Blvd West
Suite 4000
Montreal, Quebec

H3B 3V2

Attention: John W. Leopold
Telephone: (514) 397-3000
Facsimile: (514) 397-3222

(1) to Corporation at: IMMERSION CORPORATION
2158 Paragon Drive
San Jose, California
95131

Attention: Craig Factor
Telephone: (408) 467-1900
Facsimile: (408) 467-1901

With a copy to Heller Ehrman White & McAuliffe at:
525 University Avenue Suite 1100
Palo Alto, California
943011908

Attention: Sarah O'Dowd
Telephone: (650) 324-7045

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Facsimile: (650) 324-0638

With a copy to Stikeman Elliott at
1155 Rene-Levesque Blvd West
Suite 4000
Montreal, Quebec
H3B 3V2

Attention: John W. Leopold

Telephone: (514) 397-3000
Facsimile: (514) 397-3222

Any such communication shall be deemed to have been validly and effectively given (i) if personally delivered, on the date of such delivery if such date is a Business Day and such delivery was made prior to 4:00 p.m. (Montreal time) and otherwise on the next Business Day, or (ii) if transmitted by facsimile or similar means of recorded communication on the Business Day following the date of transmission. Any Party may change its address for service from time to time by notice given in accordance with the foregoing and any subsequent notice shall be sent to such Party at its changed address.

10.2 TIME OF THE ESSENCE.

Time shall be of the essence of this Agreement.

10.3 BROKERS.

Vendors shall indemnify and save harmless Immersion, Purchaser and Corporation from and against any and all claims, losses and costs whatsoever for any commission or other remuneration payable or alleged to be payable to any broker, agent or other intermediary who purports to act or have acted for such Vendors, or Corporation. Purchaser and Immersion shall solidarily indemnify and save harmless Vendors from and against any and all claims, losses and costs whatsoever for any commission or other remuneration payable or alleged to be payable to any broker, agent or other intermediary who purports to act or have acted for Purchaser. These indemnities shall not be subject to any of the limitations set out in Article 8 of this Agreement.

10.4 ANNOUNCEMENTS.

The Vendors, Holdco and Corporation shall not make any announcement regarding the transaction contemplated herein without the prior written consent of Immersion, and shall disclose the transaction only to such of their employees

and professional advisers who have a need to know. Purchaser and Immersion shall consult with the Corporation prior to any press release or public statement or announcement (a "PUBLIC STATEMENT") with respect to the transaction contemplated in this Agreement unless such Public Statement is required by Law or by any stock exchange, in which case the Party required to make the Public Statement shall be free to make such Public Statement.

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10.5 IMMERSION GUARANTEE.

Immersion hereby unconditionally and irrevocably guarantees the performance and fulfilment by Purchaser of its obligations and covenants under this Agreement, and acknowledges that there is solidarity between Purchaser and Immersion in respect of this guarantee. Immersion hereby waives any benefit of division and discussion.

10.6 THIRD PARTY BENEFICIARIES.

Vendors and Purchaser intend that this Agreement shall not benefit or create any right or cause of action in, or on behalf of, any Person other than the Parties to this Agreement and no Person, other than the Parties to this Agreement shall be entitled to rely on the provisions of this Agreement in any action, suit, proceeding, hearing or other forum.

10.7 EXPENSES.

Purchaser and Immersion shall pay for its own fees and expenses and Vendors shall pay for their own fees and expenses and the fees and expenses of Corporation, incident to the negotiation, preparation and execution of this Agreement and the agreements contemplated hereby, including, without limitation, legal and accounting fees and expenses; provided that Immersion agrees to pay the reasonable attorneys' fees of Corporation and Vendors in an amount not to exceed \$50,000 in the event that Closing occurs.

10.8 ADVANCES.

Promptly after the date hereof, Immersion will loan to Corporation an amount not to exceed \$300,000 which, in the event that Closing does not occur, shall be repaid in totality by Corporation to Immersion on March 31, 2000 at the latest.

10.9 SHAREHOLDERS AGREEMENT.

The Vendors hereby consent to the transactions contemplated herein and waive any right of first refusal or other rights they may have with respect to the sale of the Purchased Shares, whether such rights arise from the Shareholders Agreement of Corporation or from any other agreement.

The Holdco Vendors hereby consent to the transactions contemplated herein and waive any right of first refusal or other rights they may have with respect to the sale of the Holdco Shares, whether such rights arise from the Shareholders Agreement of or from any other agreement.

10.10 AMENDMENTS.

This Agreement may only be amended, supplemented or otherwise modified by written agreement signed by the Parties.

10.11 WAIVER.

(1) No waiver of any of the provisions of this Agreement shall be deemed to constitute a waiver of any other provision (whether or not similar), nor shall such waiver be binding unless executed in writing by the Party to be bound by the waiver.

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(2) No failure on the part of a Party to exercise, and no delay in exercising any right under this Agreement shall operate as a waiver of such right; nor shall any single or partial exercise of any such right preclude any other or further exercise of such right or the exercise of any other right.

10.12 NON-MERGER.

Except as otherwise expressly provided in this Agreement, the covenants, representations and warranties shall not merge on and shall survive the Closing and, notwithstanding such Closing and any investigation made by or on behalf of any Party, shall continue in full force and effect. Closing shall not prejudice any right of one Party against any other Party in respect of anything done or omitted under this Agreement or in respect of any right to damages or other remedies.

10.13 ENTIRE AGREEMENT.

This Agreement together with the agreements referred to herein constitutes the entire agreement between the Parties with respect to the transactions contemplated in this Agreement and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties. There are no representations, warranties, covenants, conditions or other agreements, express or implied, collateral, statutory or otherwise, between the Parties in connection with the subject matter of this Agreement except as specifically set forth herein and therein and neither Vendors nor Purchaser has relied or is relying on any other information, discussion or understanding in entering into and completing the transactions contemplated in this Agreement.

10.14 SUCCESSORS AND ASSIGNS.

This Agreement shall become effective when executed by the Parties and after that time shall be binding upon and enure to the benefit of the parties and their respective successors and permitted assigns. Neither this Agreement nor any of the rights or obligations under this Agreement shall be assignable or transferable by Vendors without the prior written consent of the Purchaser which shall not be unreasonably withheld. Purchaser may assign and transfer this Agreement and any of its rights and obligations under this Agreement to an Affiliate without the prior written consent of the Vendors, provided that Purchaser shall not by reason of any such assignment and transfer be released from its obligations hereunder.

10.15 SEVERABILITY.

If any provision of this Agreement shall be determined by an arbitrator or any court of competent jurisdiction to be illegal, invalid or unenforceable, that provision shall be severed from this Agreement and the remaining provisions shall continue in full force and effect.

10.16 GOVERNING LAW.

This Agreement shall be governed by and interpreted and enforced in accordance with the Laws of the Province of Quebec and the federal Laws of Canada applicable therein.

10.17 COUNTERPARTS.

This Agreement may be executed in any number of counterparts (including counterparts by facsimile) and all such counterparts taken together shall be deemed to constitute one and the same instrument.

CORPORATION

HAPTIC TECHNOLOGIES INC.

By: /s/ Alain Pare

Authorized Signing Officer

HOLDCO

9039-4115 QUEBEC, INC.

By: /s/ Mathew Mather

Authorized Signing Officer

SHAREHOLDERS OF CORPORATION AND HOLDCO:

By: /s/ Mathew Mather

Mathew Mather

By: /s/ Christophe Ramstein

Christophe Ramstein

By: /s/ Vincent Hayward

Vincent Hayward

By: /s/ Vincent Canonico

Vincent Canonico

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By: /s/ Pedro Gregorio

Pedro Gregorio

By: /s/ Alain Pare

Alain Pare

SOCIETE INNOVATECH DU GRAND MONTREAL

By: /s/ Hubert Manseau

Authorized Signing Officer

FONDS EN TRANSFERTS DE TECHNOLOGIES
INDUSTRIELLES, by its General Partner,
90271602 QUEBEC, INC.

By: /s/ Bernard Hamel

Authorized Signing Officer

VISUAIDE INC.

By: -----
Authorized Signing Officer

PURCHASER

511220 N.B. INC.

By: /s/ Victor Viegas

Authorized Signing Officer

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IMMERSION

IMMERSION CORPORATION

By: /s/ Victor Viegas

Authorized Signing Officer

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING SUCH SECURITIES, THE SALE IS MADE IN ACCORDANCE WITH RULE 144 UNDER THE ACT, OR THE COMPANY RECEIVES AN OPINION OF COUNSEL FOR THE HOLDER OF THESE SECURITIES REASONABLY SATISFACTORY TO THE COMPANY, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SUCH ACT.

Void after June 6, 2002

IMMERSION HUMAN INTERFACE CORPORATION
COMMON STOCK PURCHASE WARRANT

THIS CERTIFIES THAT, for value received, Intel Corporation, a Delaware corporation (the "Holder") is entitled to purchase one hundred thirteen thousand (113,000) shares of Common Stock ("Shares") of Immersion Human Interface Corporation, a California corporation, at a price of \$0.15 per share ("Warrant Price"), subject to adjustments as provided for in Section 5 and all other terms and conditions set forth in this Warrant.

1. Definitions. As used herein, the following terms, unless the context otherwise requires, shall have the following meanings:

(a) "Act" shall mean the Securities Act of 1933, as amended, or any successor federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

(b) "Commission" shall mean the Securities and Exchange Commission, or any other Federal agency at the time administering the Act.

(c) "Company" shall mean IMMERSION HUMAN INTERFACE CORPORATION, a California corporation, and any corporation which shall succeed to or assume the obligations of IMMERSION HUMAN INTERFACE CORPORATION, under this Warrant.

(d) "Common Stock" shall mean shares of the Company's Common Stock.

(e) "Date of Grant" shall mean June 6, 1997.

(f) "Holder" shall mean any person who shall at the time be the registered holder of this Warrant.

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(g) "Purchase Agreement" shall mean that certain Series C Preferred Stock and Common Stock Warrant Purchase Agreement dated June 6, 1997.

2. Issuance of Warrant and Consideration Therefor. This Warrant is issued in consideration of the Holder's willingness to enter into commercial relationships with the Company.

3. Term. Subject to Section 5 below, the purchase right represented by this Warrant is exercisable only during the period commencing upon the Date of Grant and ending on June 6, 2002 (the "Exercise Period").

4. Method of Exercise and Payment.

(a) Method of Exercise. During the Exercise Period and subject to compliance with all applicable Federal and state securities laws, the purchase right represented by this Warrant may be exercised, in whole or in part and from time to time, by the Holder by (i) surrender of this Warrant and delivery of the Notice of Exercise or Conversion (the form of which is attached hereto as

Exhibit A), duly executed, at the principal office of the Company and (ii) payment to the Company of the aggregate Warrant Price for the Shares being purchased pursuant to one of the payment methods permitted under Section 4(c) below.

(b) Conversion. In lieu of exercising this Warrant or any portion hereof, Holder shall have the right to convert this Warrant or any portion hereof during the Exercise Period into shares of Common Stock by executing and delivering to the Company, at its principal office, the written Notice of Exercise or Conversion in the form attached hereto as Exhibit A, specifying the portion of the Warrant to be converted, and accompanied by this Warrant. The number of Shares to be issued upon such conversion shall be that number of shares equal to the quotient by dividing (x) the value of the converted portion of the Warrant at the time the conversion right is exercised (determined by subtracting the aggregate Warrant Price for the Shares represented by the portion of the Warrant to be converted from the aggregate fair market value) by (y) fair market value of one Share. Any portion of this Warrant that is converted shall be immediately canceled. The fair market value shall be determined pursuant to Section 4(d).

(c) Method of Payment. Payment shall be made either (1) by check drawn on a United States bank and for United States funds made payable to the Company, (2) by wire transfer of United States funds for the account of the Company, (3) by cancellation of indebtedness of the Holder, (4) shares of stock of the Company valued at fair market value as determined pursuant to Section 4(d), or (5) by payment of stock held in a public company with a value equal to the average of the closing price of such stock for each of the fifteen (15) consecutive trading days ending three (3) business days prior to the Exercise Date.

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(d) Fair Market Value. If the Shares are traded in a public market, the fair market value of the Shares shall be the closing price of the Shares reported for the business day immediately before Holder delivers its Notice of Exercise/Conversion to the Company. If the Shares are not traded in a public market, the Board of Directors of the Company shall determine fair market value in its reasonable good faith judgment.

(e) Investment Letter. Upon exercise or conversion of the Warrant hereof, Holder shall either (i) execute and deliver to the Company an investment letter in the form attached hereto as Exhibit B, or (ii) deliver to the Company an opinion of counsel for Holder reasonably satisfactory to the Company, stating that such exercise or conversion is exempt from the registration and prospectus delivery requirements of the Act.

(f) Delivery of Certificate. In the event of any exercise of the purchase right represented by this Warrant, certificates for the Shares so purchased shall be delivered to the Holder within fifteen (15) days of delivery of the Notice of Exercise and, unless this Warrant has been fully exercised or has expired, a new warrant representing the portion of the Shares with respect to which this Warrant shall not then have been exercised shall also be issued to the Holder within such fifteen (15) day period.

(g) No Fractional Shares. No fractional shares shall be issued in connection with any exercise hereunder, but in lieu of such fractional shares the Company shall make a cash payment therefor upon the basis of the fair market value per Common Stock as of the date of exercise.

5. Sale, Merger, or Consolidation of the Company.

(a) "Acquisition". For the purpose of this Warrant, "Acquisition" means any sale, license, or other disposition of all or substantially all of the assets (including intellectual property) of the Company, or any reorganization, consolidation, or merger of the Company where the holders of the Company's securities before the transaction beneficially own less than 50% of the outstanding voting securities of the surviving entity after the transaction.

(b) Assumption of Warrant. If, upon the closing of any Acquisition

the successor entity assumes the obligations of this Warrant, then this Warrant shall be exercisable for the same securities, cash, and property as would be payable for the Shares issuable upon exercise of this Warrant as if such Shares were outstanding on the record date for the Acquisition and subsequent closing. The Warrant Price shall be adjusted accordingly.

(c) Non-Assumption. If upon the closing of any Acquisition the successor entity does not assume the obligations of this Warrant and Holder has not otherwise exercised or converted this Warrant, then this Warrant shall be deemed to have been automatically converted

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pursuant to Section 4(b) and thereafter Holder shall participate in the Acquisition on the same terms as other holders of the same class of securities of the Company.

6. Adjustment of Warrant Price and Number of Shares. The number of securities issuable upon the exercise of this Warrant and the Warrant Price shall be subject to adjustment from time to time upon the occurrence of certain events, as follows:

(a) Stock Splits, Stock Dividends and Combinations. In case the Company shall at any time subdivide the outstanding shares of Common Stock, or shall issue a stock dividend on its outstanding Common Stock, the Warrant Price in effect immediately prior to such subdivision or the issuance of such stock dividend shall be proportionately decreased, and the number of Shares shall be proportionately increased, and in case the Company shall at any time combine the outstanding shares of Common Stock, the Warrant Price in effect immediately prior to such combination shall be proportionately increased, and the number of Shares shall be proportionately decreased, effective at the close of business on the date of such subdivision, stock dividend or combination, as the case may be.

(b) Reclassification, Exchange or Substitution. Upon any reclassification, exchange, substitution, or other event that results in a change of the number and/or class of the securities issuable upon exercise of this Warrant, Holder shall be entitled to receive, upon exercise of this Warrant, the number and kind of securities and property that Holder would have received for the Shares if this Warrant had been exercised immediately before such reclassification, exchange, substitution, or other event. The provisions of this Section 6(b) shall similarly apply to successive reclassifications, exchanges, substitutions, or other events.

(c) Adjustments for Combinations, Etc. If the outstanding Shares are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased.

7. Rights of Shareholders. No Holder shall be entitled to vote or receive dividends or be deemed the holder of Common Stock or any other securities of the Company which may at any time be issuable on the exercise of this Warrant for any purpose, nor shall anything contained herein be construed to confer upon the Holder, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, consolidation, merger, transfer of assets or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until this Warrant shall have been exercised and the Common Stock issuable upon exercise hereof shall have become deliverable, as provided herein.

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8. Replacement of Warrants. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company at its expense shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor.

9. Exchange of Warrant. Subject to the other provisions of this Warrant, on surrender of this Warrant for exchange, properly endorsed and subject to the provisions of this Warrant with respect to compliance with the Act, the Company at its expense shall issue to or on the order of the Holder a new warrant or warrants of like tenor, in the name of the Holder or as the Holder (on payment by the Holder of any applicable transfer taxes) may direct, for the number of Common Stock issuable upon exercise thereof.

10. Transferability. Subject to such restrictions on transfer as may be contained in this Warrant or in the Purchase Agreement of even date herewith, this Warrant is transferable on the books of the Company at its principal office by the above named holder of record in person or by duly authorized attorney, upon surrender of this Warrant properly endorsed. The Company may treat the holder of record of this Warrant as the absolute owner hereof for all purposes and shall not be affected by any notice to the contrary.

11. Reservation of Shares. The Corporation at all times shall reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the exercise of this Warrant such number of shares of Common Stock as from time to time shall be sufficient to effect the exercise of this Warrant.

12. Expiration. Subject to Section 5 above, the right to exercise or convert this Warrant shall expire at 5:00 P.M. California time, on June 6 2002.

Dated: June 6, 1997

IMMERSION HUMAN INTERFACE
CORPORATION

By: /s/ Louis B. Rosenberg

Louis B. Rosenberg, President

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EXHIBIT A

NOTICE OF EXERCISE OR CONVERSION

Date: _____, 19__

Immersion Human Interface Corporation
2158 Paragon Drive
San Jose, CA 95131

Attention: _____
Dear M _____ :

The undersigned hereby elects to exercise or convert the enclosed Warrant dated _____, 1997 issued to it by Immersion Human Interface Corporation (the "Company").

The undersigned elects to:

/_/ Exercise the Warrant and to purchase thereunder _____ shares of the Common Stock of the Company (the "Shares") at an exercise price of \$0.15 per Share, or an aggregate purchase price of _____ Dollars (\$ _____) (the "Purchase Price"). Pursuant to the terms of the Warrant, the undersigned has delivered the Purchase Price herewith in full, of which Purchase Price, \$ _____ is to be paid by tender of _____ shares of the Company's Common Stock which are delivered herewith in form suitable for transfer.

/_/ Convert the value of _____ shares of the Common Stock issuable pursuant to the Warrant.

Very truly yours,

Warrant Holder

By: _____

Title: _____

Accepted and Acknowledged:

Immersion Human Interface Corporation

By: _____

Dated: _____, 19__

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EXHIBIT B

THIS AGREEMENT MUST BE COMPLETED, SIGNED AND RETURNED TO IMMERSION HUMAN INTERFACE CORPORATION ALONG WITH THE SUBSCRIPTION FORM BEFORE THE COMMON STOCK ISSUABLE UPON EXERCISE OF THE WARRANT DATED JUNE ____, 1997 WILL BE ISSUED.

INVESTMENT LETTER

_____, 19__

Immersion Human Interface Corporation
2158 Paragon Drive
San Jose, CA 95131

Attention: _____

Gentlemen:

The undersigned, _____ ("Purchaser"), intends to acquire up to _____ shares of the Common Stock (the "Stock") of Immersion Human Interface Corporation (the "Company") from pursuant to the exercise of certain warrants to purchase stock held by the Purchaser. The Stock will be issued to Purchaser in a transaction not involving a public offering and pursuant to an exemption from registration under the Securities Act of 1933, as amended (the "1933 Act") and applicable state securities laws. In connection with such purchase and in order to comply with the exemptions from registration relied upon by the Company, Purchaser represents, warrants and agrees as follows:

The Purchaser is an accredited investor within the meaning of Rule 501 under the 1933 Act and has such knowledge and experience in financial and business matters that the Purchaser is capable of evaluating the merits and risks of the purchase of the Stock and of protecting Purchaser's interests in connection therewith.

Purchaser is acquiring the Stock for its own account, to hold for

investment, and Purchaser shall not make any sale, transfer or other disposition of the Stock in violation of the 1933 Act or the General Rules and Regulations promulgated thereunder by the Securities and Exchange Commission (the "SEC") or in violation of any applicable state securities law.

Purchaser has been advised that the Stock has not been registered under the 1933 Act or state securities laws on the ground that this transaction is exempt from registration, and that reliance by Intel on such exemptions is predicated in part on Purchaser's representations set forth in this letter.

Purchaser has been informed that under the 1933 Act, the Stock must be held indefinitely unless it is subsequently registered under the 1933 Act or unless an exemption from such

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registration (such as Rule 144) is available with respect to any proposed transfer or disposition by Purchaser of the Stock. Purchaser further agrees that Intel may refuse to permit Purchaser to sell, transfer or dispose of the Common Stock (except as permitted under Rule 144) unless there is in effect a registration statement under the 1933 Act and any applicable state securities laws covering such transfer, or unless Purchaser furnishes an opinion of counsel reasonably satisfactory to counsel for the Company, to the effect that such registration is not required.

Purchaser also understands and agrees that there will be placed on the certificate(s) for the Stock, or any substitutions therefor, a legend stating in substance:

"THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING SUCH SECURITIES, THE SALE IS MADE IN ACCORDANCE WITH RULE 144 UNDER THE ACT, OR THE COMPANY RECEIVES AN OPINION OF COUNSEL FOR THE HOLDER OF THESE SECURITIES REASONABLY SATISFACTORY TO THE COMPANY, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SUCH ACT."

Purchaser has carefully read this letter and has discussed its requirements and other applicable limitations upon Purchaser's resale of the Stock with Purchaser's counsel.

Very truly yours,

Purchaser

By

Title

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November 15, 1999

VIA OVERNIGHT COURIER

Wolfgang Hausen
Senior Vice President, General Manager
Logitech, Inc.
6505 Kaiser Drive
Fremont California 94555-3615

RE: MARKETING DEVELOPMENT FUND LETTER AGREEMENT

Dear Wolfgang,

On behalf of Immersion, I am pleased to offer Logitech, Inc., support for a Marketing Development Fund ("MDF") which will be used to support Logitech's launch and promotion of the Wingman Force Feedback Mouse and subsequent force feedback mouse products. In order to enable Logitech to evangelize this important new class of peripheral devices and because Logitech is Immersion's first-to-market strategic partner with respect to force feedback cursor control devices, Immersion agrees to reimburse Logitech up to a total of one million U.S. dollars, US\$1,000,000, for the MDF subject to the terms set forth below.

QUARTERLY REIMBURSEMENTS: For a period of five calendar quarters, beginning the first calendar quarter of 2000 and terminating at the end of the first calendar quarter of 2001 (the "MDF Period"), Immersion agrees to reimburse Logitech up to US\$200,000 per quarter for certain promotional activities undertaken by Logitech to launch and promote Logitech's Wingman Force Feedback Mouse and other force feedback mouse products (Immersion's reimbursement is intended for, but is not required to be used by, Logitech's Control Device Business Unit). All but the first US\$200,000 to be reimbursed to Logitech by Immersion pursuant to the MDF is contingent on Immersion's successful completion of an underwritten public offering before January 1, 2000.

REIMBURSEMENT PROCEDURE: Within thirty days of the end of the applicable calendar quarter during the MDF Period, Logitech will submit a reimbursement request to Immersion. Such reimbursement request will include a reasonably detailed summary of each promotional activity for which Logitech is requesting reimbursement, and receipts for third party expenses incurred by Logitech. Subject to the conditions described below, Immersion shall reimburse Logitech for an amount equal to but not exceeding US\$200,000 within forty-five days of the end of the applicable quarter within the MDF Period.

Immersion's quarterly reimbursement obligations will be subject to the following conditions:

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TO INDICATE THAT A PORTION OF THE EXHIBIT HAS BEEN OMITTED
AND FILED SEPARATELY WITH THE COMMISSION.

Future Version of Force Feedback Mouse. In order to remain eligible for quarterly MDF reimbursements, Logitech must agree in good faith to commit to a product roadmap for a new version of the force feedback mouse positioned for use as a [*] and [*] product. The new version of the force feedback mouse will be launched under a new name other than Wingman (i.e. MouseMan) and will contain a [*]. In addition, in order to remain eligible for quarterly MDF reimbursements, Logitech must meet the following milestones:

- (A) on or before [*], Logitech must publicly announce the new version (new SKU) of the force feedback mouse product; and

(B) on or before [**], Logitech's new version (new SKU) of the force feedback mouse product must be available in commercial quantities through internet distribution and through retail distribution.

Immersion and Logitech may agree to modify the milestone schedule described above by means of a written amendment signed by both parties setting forth a new milestone schedule.

Promotional Campaigns. Only third party expenses that are incurred by Logitech specifically to fund promotional campaigns that are reasonably calculated to promote Logitech's force feedback mice products shall be eligible for reimbursement from Immersion under the MDF. In addition, MDF funds may only be used to reimburse moneys spent by Logitech on projects mutually agreed upon as confirmed in writing by email in advance. Immersion and Logitech agree to work together in good faith in order to approve reimbursable projects expeditiously.

Use of MDF Funds. Logitech's expenditure of funds will only be reimbursed by Immersion if Logitech has used such funds to pay third parties who have provided services or products specifically targeted at promoting Logitech's force feedback mouse products properly marked with Immersion's FEELit logo (or successor replacement logo). Immersion can not and will not reimburse Logitech for funds used to pay Logitech employees or for Logitech's internal projects.

Force Feedback Product Commitment. To be eligible for each quarterly reimbursement, Logitech must remain reasonably committed to the success of its new version of the force feedback mouse product positioned for the [**] and [**] market and to allocate reasonably sufficient marketing, manufacturing, and engineering resources to these force feedback products. For clarification, Logitech will maintain the Wingman version of the product until the new version (non-Wingman) is available, at which point Logitech may chose to market only a single SKU. Of course Logitech is free to pursue multiple SKUs if it so desires.

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Marketing Collateral. To be eligible for each quarterly reimbursement, Logitech must include the Immersion brand logo and slogan on those marketing materials that reference or depict force feedback functionality or force feedback products. This includes but is not limited to product datasheets, advertisements, web pages, and trade show promotions.

If Logitech is in material noncompliance with the conditions set forth above in whole or in part, then Immersion will notify Logitech in writing and will not be responsible for subsequent reimbursements to the extent of such noncompliance.

This letter agreement is the entire agreement between Logitech and Immersion related to the MDF, and supersedes all prior statements, proposals or agreements, whether written or oral, with respect to the subject matter herein and may be modified only by a writing executed by an authorized representative of Immersion. This letter agreement is governed by the laws of the State of California without application of its conflicts of law principles.

We look forward to working with you on these marketing efforts. We are happy to make this contribution to your force feedback mouse efforts, and are confident that by working together we can achieve the goal of bringing feel to every desktop.

Sincerely,

/s/ LOUIS ROSENBERG

Louis Rosenberg, Ph.D.
President & CEO

Please sign below to indicate Logitech's understanding and agreement with the terms described above and return a copy of this letter agreement to me at

Immersion.

Acknowledged and Agreed

/s/ WOLFGANG HAUSEN

Wolfgang Hausen
S.V.P., General Manager
Logitech, Inc.

CONFIDENTIAL TREATMENT REQUESTED - THE SYMBOL `[*]' IS USED
TO INDICATE THAT A PORTION OF THE EXHIBIT HAS BEEN OMITTED
AND FILED SEPARATELY WITH THE COMMISSION.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-94997 of Immersion Corporation on Form S-8 of our reports dated February 4, 2000, appearing in this Annual Report on Form 10-K of Immersion Corporation for the year ended December 31, 1999.

DELOITTE & TOUCHE LLP

San Jose, California
March 23, 2000

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