

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

IMMERSION CORP

CIK: **1058811** | IRS No.: **943180138** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-27969** | Film No.: **111184758**
SIC: **3577** Computer peripheral equipment, nec

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 30, 2011

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 or organization)*

(I.R.S. Employer Identification No.)

801 Fox Lane, San Jose, California 95131

(Address of principal executive offices)(Zip Code)

(408) 467-1900

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Number of shares of common stock outstanding at October 31, 2011: 28,863,334.

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IMMERSION CORPORATION

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PART I
FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
IMMERSION CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,509	\$ 12,243
Short-term investments	48,979	48,961
Accounts and other receivables (net of allowances for doubtful accounts as of: September 30, 2011 – \$25 and December 31, 2010 – \$97)	779	815
Inventories	579	406
Deferred income taxes	342	342
Prepaid expenses and other current assets	704	3,821
Total current assets	65,892	66,588
Property and equipment, net	1,279	1,931
Intangibles and other assets, net	13,771	12,356
Total assets	<u>\$80,942</u>	<u>\$80,875</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 550	\$ 393
Accrued compensation	2,722	3,507
Other current liabilities	1,129	1,488
Deferred revenue and customer advances	4,459	4,429
Total current liabilities	8,860	9,817
Long-term deferred revenue	14,010	16,494
Deferred income tax liabilities	342	342
Other long-term liabilities	455	538
Total liabilities	23,667	27,191
Commitments and Contingencies (Notes 9 and 16)		
Stockholders' equity:		
Common stock and additional paid-in capital – \$0.001 par value; 100,000,000 shares authorized; shares issued: September 30, 2011 – 31,760,085 and December 31, 2010 – 31,016,812; shares outstanding: September 30, 2011 – 28,940,662 and December 31, 2010 – 28,228,603	181,609	176,515
Accumulated other comprehensive income	139	120
Accumulated deficit	(105,887)	(104,553)
Treasury stock at cost: September 30, 2011 – 2,819,423 shares and December 31, 2010 – 2,788,209 shares	(18,586)	(18,398)
Total stockholders' equity	<u>57,275</u>	<u>53,684</u>

Total liabilities and stockholders' equity

\$80,942

\$80,875

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:				
Royalty and license	\$5,875	\$5,141	\$20,110	\$17,848
Product sales	345	1,217	1,892	6,035
Development contracts and other	275	189	943	848
Total revenues	<u>6,495</u>	<u>6,547</u>	<u>22,945</u>	<u>24,731</u>
Costs and expenses:				
Cost of revenues (exclusive of amortization, impairment, and abandonment of intangibles shown separately below)	192	457	913	2,587
Sales and marketing	1,643	1,813	5,402	6,077
Research and development	2,183	2,007	6,525	6,473
General and administrative	3,195	3,008	9,367	11,808
Amortization and impairment or abandonment of intangibles	324	211	1,016	650
Total costs and expenses	<u>7,537</u>	<u>7,496</u>	<u>23,223</u>	<u>27,595</u>
Operating loss	(1,042)	(949)	(278)	(2,864)
Interest and other income	58	70	172	212
Loss from continuing operations before provision for income taxes	(984)	(879)	(106)	(2,652)
Provision for income taxes	(428)	(336)	(1,289)	(1,098)
Loss from continuing operations	(1,412)	(1,215)	(1,395)	(3,750)
Discontinued operations (Note 11) :				
Gain on sales of discontinued operations net of provision for income taxes of \$0, \$18, \$39 and \$18	0	82	61	143
Net loss	<u>\$(1,412)</u>	<u>\$(1,133)</u>	<u>\$(1,334)</u>	<u>\$(3,607)</u>
Basic and diluted net loss per share				
Continuing operations	(0.05)	(0.04)	(0.05)	(0.13)
Discontinued operations	0.00	0.00	0.00	0.00
Total	<u>\$(0.05)</u>	<u>\$(0.04)</u>	<u>\$(0.05)</u>	<u>\$(0.13)</u>
Shares used in calculating basic and diluted net loss per share	<u>28,918</u>	<u>28,134</u>	<u>28,595</u>	<u>28,087</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	September 30,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$(1,334)	\$(3,607)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	717	842
Amortization and impairment or abandonment of intangibles	1,016	650
Stock-based compensation	2,705	2,430
Allowance (recovery) for doubtful accounts	(25)	(120)
Loss on disposal of equipment	3	90
Loss on divestiture	0	43
Gain on sales of discontinued operations	(61)	(143)
Changes in operating assets and liabilities:		
Accounts and other receivables	61	2,259
Inventories	(173)	860
Prepaid expenses and other current assets	3,117	53
Other assets	(89)	0
Accounts payable	32	(315)
Accrued compensation and other current liabilities	(1,282)	(829)
Deferred revenue and customer advances	(2,454)	(3,583)
Other long-term liabilities	(56)	121
Net cash provided by (used in) operating activities	<u>2,177</u>	<u>(1,249)</u>
Cash flows used in investing activities:		
Purchases of available-for-sale investments	(44,910)	(34,880)
Proceeds from maturities of available-for-sale investments	45,000	30,000
Net proceeds from divestiture	0	964
Additions to intangibles	(2,406)	(1,584)
Proceeds from sale of property and equipment	0	160
Purchases of property and equipment	(84)	(336)
Proceeds from sales of discontinued operations	<u>100</u>	<u>142</u>
Net cash used in investing activities	<u>(2,300)</u>	<u>(5,534)</u>
Cash flows provided by financing activities:		
Issuance of common stock under employee stock purchase plan	145	0
Exercise of stock options	<u>2,244</u>	<u>83</u>
Net cash provided by financing activities	<u>2,389</u>	<u>83</u>
Net increase in cash and cash equivalents	2,266	(6,700)
Cash and cash equivalents:		
Beginning of the period	<u>12,243</u>	<u>19,828</u>
End of the period	<u>\$14,509</u>	<u>\$13,128</u>
Supplemental disclosure of cash flow information:		

Cash paid (received) for taxes	<u><u>\$ (3,302)</u></u>	<u><u>\$6</u></u>
Supplemental disclosure of non-cash investing and financing activities:		
Amounts accrued for property and equipment, and intangibles	<u><u>\$636</u></u>	<u><u>\$377</u></u>
Shares issued under company stock plan	<u><u>\$1,305</u></u>	<u><u>\$34</u></u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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IMMERSION CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2011 (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Immersion Corporation (the “Company”) was incorporated in 1993 in California and reincorporated in Delaware in 1999 and develops, manufactures, licenses, and supports a wide range of hardware and software technologies and products that enhance digital devices with touch interaction.

Principles of Consolidation and Basis of Presentation

The condensed consolidated financial statements include the accounts of Immersion Corporation and its wholly-owned subsidiaries, Immersion Canada Inc., Immersion International, LLC, Immersion Medical, Inc., Immersion Japan K.K., Immersion Taiwan, and Haptify, Inc. All intercompany accounts, transactions, and balances have been eliminated in consolidation.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all information and footnotes necessary for a complete presentation of the financial position, results of operations, and cash flows, in conformity with accounting principles generally accepted in the United States of America. These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements included in the Company’s Annual Report on Form 10-K, for the fiscal year ended December 31, 2010. In the opinion of management, all adjustments consisting of only normal and recurring items necessary for the fair presentation of the financial position and results of operations for the interim periods presented have been included.

The results of operations for the interim periods ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year.

Revenue Recognition

The Company recognizes revenues in accordance with applicable accounting standards, including Accounting Standards Codification (“ASC”) 605-10-S99, “Revenue Recognition” (“ASC 605-10-S99”); ASC 605-25, “Multiple Element Arrangements” (“ASC 605-25”); and ASC 985-605, “Software-Revenue Recognition” (“ASC 985-605”). The Company derives its revenues from three principal sources: royalty and license fees, product sales, and development contracts. As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period. Material differences may result in the amount and timing of revenue for any period based on the judgments and estimates made by management. Specifically, in connection with each transaction, the Company must evaluate whether: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable, and (iv) collectibility is probable. The Company applies these criteria as discussed below.

- *Persuasive evidence of an arrangement exists:* For a license arrangement, the Company requires a written contract, signed by both the customer and the Company. For a stand-alone product sale, the Company requires a purchase order or other form of written agreement with the customer.
- *Delivery has occurred.* The Company delivers software and product to customers physically and also delivers software electronically. For physical deliveries not related to software, the transfer terms typically include transfer of title and risk of loss at the

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Company's shipping location. For electronic deliveries, delivery occurs when the Company provides the customer access codes or "keys" that allow the customer to take immediate possession of the software.

- *The fee is fixed or determinable.* The Company's arrangement fee is based on the use of standard payment terms which are those that are generally extended to the majority of customers. For transactions involving extended payment terms, the Company deems these fees not to be fixed or determinable for revenue recognition purposes and revenue is deferred until the fees become due and payable.
- *Collectibility is probable.* To recognize revenue, the Company must judge collectibility of the arrangement fees, which is done on a customer-by-customer basis pursuant to the credit review policy. The Company typically sells to customers with whom there is a history of successful collection. For new customers, the Company evaluates the customer's financial condition and ability to pay. If it is determined that collectibility is not probable based upon the credit review process or the customer's payment history, revenue is recognized when payment is received.

Royalty and license revenue – The Company recognizes royalty revenue based on royalty reports or related information received from the licensee and when collectibility is deemed probable. The terms of the royalty agreements generally require licensees to give the Company notification of royalties within 30 to 45 days of the end of the quarter during which the sales occur. The Company recognizes license fee revenue for licenses to intellectual property when earned under the terms of the agreements, which is generally recognized when all deliverables including services are completed or recognized on a straight-line basis over the expected term of the license.

Development contracts and other revenue – Development contracts and other revenue is comprised of professional services (consulting services and/or development contracts). Professional services revenues are recognized under the proportional performance accounting method based on physical completion of the work to be performed or completed performance method. A provision for losses on contracts is made, if necessary, in the period in which the loss becomes probable and can be reasonably estimated. Revisions in estimates are reflected in the period in which the conditions become known. To date, such losses have not been significant.

Multiple element arrangements – The Company enters into multiple element arrangements in which customers purchase a time-based license which include a combination of software and/or intellectual property licenses, professional services and in limited cases, post contract customer support. For arrangements that are software based and include software and professional services, the services are generally not essential to the functionality of the software, and customers may purchase consulting services to facilitate the adoption of the Company's technology, but they may also decide to use their own resources or appoint other professional service organizations to perform these services. For these arrangements, including those with post contract customer support, revenue is recognized either over the period of the ongoing obligation which is generally consistent with the contractual term, or when all deliverables including services have been completed.

Product sales – The Company recognizes revenue from the sale of products and the license of associated software if any, and expenses all related costs of products sold, once delivery has occurred and customer acceptance, if required, has been achieved. The Company has determined that the license of software for its medical simulation products is incidental to the product as a whole. The Company typically grants to customers a warranty which guarantees that products will substantially conform to the Company's current specifications for generally twelve months from the delivery date pursuant to the terms of the arrangement. Historically, warranty-related costs have not been significant. Separately priced extended warranty contract revenues are recognized ratably over the contractual period.

Recent Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board ("FASB") ratified Accounting Standards Update ("ASU") 2009-13 (update to ASC 605), "Revenue Arrangements with Multiple

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Deliverables” (“ASU 2009-13 (update to ASC 605)”). This guidance addresses criteria for separating the consideration in multiple-element arrangements. ASU 2009-13 (update to ASC 605) requires companies to allocate the overall consideration to each deliverable by using a best estimate of the selling price of individual deliverables in the arrangement in the absence of vendor-specific objective evidence or other third-party evidence of the selling price. ASU 2009-13 (update to ASC 605) will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 and early adoption will be permitted. The Company adopted ASU 2009-13 (update to ASC 605) as of January 1, 2011, and its application had no impact on the Company’s condensed consolidated financial statements as no material new agreements or materially modified contracts in the nine months ended September 30, 2011 came under this guidance.

In September 2009, the FASB ratified ASU 2009-14 (update to ASC 605), “Certain Revenue Arrangements That Include Software Elements” (“ASU 2009-14 (update to ASC 605)”). ASU 2009-14 (update to ASC 605) provides guidance to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product’s essential functionality. ASC 2009-14 (update to ASC 605) has an effective date that is consistent with ASU 2009-13 (update to ASC 605) above. The Company adopted ASC 2009-14 (update to ASC 605) as of January 1, 2011, and its application had no impact on the Company’s condensed consolidated financial statements as no material new agreements or materially modified contracts in the nine months ended September 30, 2011 came under this guidance.

In June 2011, the FASB ratified ASU 2011-05 “Comprehensive Income (Topic 220): Presentation of Comprehensive Income.” ASU 2011-05 requires that all nonowner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements, eliminating the option to present other comprehensive income in the statement of changes in equity. Under either choice, items that are reclassified from other comprehensive income to net income are required to be presented on the face of the financial statements where the components of net income and the components of other comprehensive income are presented. This amendment is effective for reporting periods beginning after December 15, 2011, and will be applied retrospectively. This amendment will change the manner in which the Company presents comprehensive income.

2. FAIR VALUE MEASUREMENTS

Cash Equivalents and Short-term Investments

The financial instruments of the Company measured at fair value on a recurring basis are cash equivalents and short-term investments. The Company’s cash equivalents and short-term investments are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The Company did not have any transfers between Level 1 and Level 2 fair value measurements during the periods presented.

The types of instruments valued based on quoted market prices in active markets include most U.S. treasury securities and most money market securities. Such instruments are generally classified within Level 1 of the fair value hierarchy.

The types of instruments valued based on quoted prices in markets that are less active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade corporate commercial paper. Such instruments are generally classified within Level 2 of the fair value hierarchy.

The types of instruments valued based on unobservable inputs which reflect the reporting entity’s own assumptions or data that market participants would use in valuing an instrument are generally classified within Level 3 of the fair value hierarchy.

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In January 2010, the FASB ratified ASU 2010-06 "Fair Value Measurements and Disclosures - Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"). ASU 2010-06 requires new disclosures for significant transfers in and out of Level 1 and 2 of the fair value hierarchy and the level of disaggregation of assets or liabilities and the valuation techniques and inputs used to measure fair value. The Company adopted the updated guidance which was effective for the Company's annual reporting period at December 31, 2009, with the exception of new Level 3 activity disclosures, which was adopted January 1, 2011. The adoption of this guidance did not have a material impact on its condensed consolidated results of operations and financial condition.

Financial instruments measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010 are classified based on the valuation technique in the table below:

	September 30, 2011			
	Fair value measurements using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In thousands)			
Assets:				
U.S. Treasury securities	\$ 48,979	\$ 0	\$ 0	\$ 48,979
Money market accounts	11,423	0	0	11,423
Total assets at fair value	<u>\$ 60,402</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$60,402</u>

The above table excludes \$3.1 million of cash held in banks.

	December 31, 2010			
	Fair value measurements using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In thousands)			
Assets:				
U.S. Treasury securities	\$ 48,961	\$ 0	\$ 0	\$ 48,961
Money market accounts	7,356	0	0	7,356
Total assets at fair value	<u>\$ 56,317</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$56,317</u>

The above table excludes \$4.9 million of cash held in banks.

Short-term Investments

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	September 30, 2011			
	Amortized	Gross	Gross	
	Cost	Unrealized	Unrealized	
		Holding	Holding	
		Gains	Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	\$ 48,949	\$ 30	\$ 0	\$ 48,979
Total	\$ 48,949	\$ 30	\$ 0	\$48,979

	December 31, 2010			
	Amortized	Gross	Gross	
	Cost	Unrealized	Unrealized	
		Holding	Holding	
		Gains	Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	\$ 48,942	\$ 19	\$ 0	\$ 48,961
Total	\$48,942	\$ 19	\$ 0	\$48,961

The contractual maturities of the Company's available-for-sale securities on September 30, 2011 and December 31, 2010 were all due within one year.

3. ACCOUNTS AND OTHER RECEIVABLES

	September 30,	December 31,
	2011	2010
	(In thousands)	
Trade accounts receivable	\$ 337	\$ 459
Receivables from vendors and other	442	356
Accounts and other receivables	\$ 779	\$ 815

4. INVENTORIES

	September 30,	December 31,
	2011	2010
	(In thousands)	
Raw materials and subassemblies	\$ 310	\$ 281
Finished goods	269	125
Inventories	\$ 579	\$ 406

5. PROPERTY AND EQUIPMENT

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	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	(In thousands)	
Computer equipment and purchased software	\$ 3,681	\$ 3,807
Machinery and equipment	711	815
Furniture and fixtures	634	630
Leasehold improvements	<u>886</u>	<u>881</u>
Total	5,912	6,133
Less accumulated depreciation	<u>(4,633)</u>	<u>(4,202)</u>
Property and equipment, net	<u>\$ 1,279</u>	<u>\$ 1,931</u>

6. INTANGIBLES AND OTHER ASSETS

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	(In thousands)	
Patents and trademarks	\$ 23,122	\$ 21,074
Other assets	<u>286</u>	<u>295</u>
Gross intangibles and other assets	23,408	21,369
Accumulated amortization of patents and trademarks	<u>(9,637)</u>	<u>(9,013)</u>
Intangibles and other assets, net	<u>\$ 13,771</u>	<u>\$ 12,356</u>

The Company amortizes its intangible assets related to patents and trademarks, over their estimated useful lives, generally 10 years from the date of issuance of the patents and trademarks. Amortization of intangibles excluding impairments or abandonments was as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(In thousands)		(In thousands)	
Amortization of Intangibles - excluding impairments or abandonments	<u>\$ 333</u>	<u>\$ 211</u>	<u>\$ 747</u>	<u>\$ 630</u>

The table below includes estimated remaining annual amortization expense for intangible assets as of September 30, 2011. The table includes patents which are in process and the amounts are subject to change based on management' s estimate.

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	Estimated Amortization Expense
	(In thousands)
Remainder of 2011	\$ 267
2012	1,118
2013	1,326
2014	1,394
2015	1,496
Thereafter	7,884
Total	\$ 13,485

Patents in process included in patents and trademarks were as follows:

	September 30, 2011	December 31, 2010
	(In thousands)	
Patents in process	<u>\$ 8,119</u>	<u>\$ 7,382</u>

7. COMPONENTS OF OTHER CURRENT LIABILITIES AND DEFERRED REVENUE AND CUSTOMER ADVANCES

	September 30, 2011	December 31, 2010
	(In thousands)	
Accrued legal	\$ 380	\$ 543
Income taxes payable	31	55
Other current liabilities	<u>718</u>	<u>890</u>
Total other current liabilities	<u>\$ 1,129</u>	<u>\$ 1,488</u>
Deferred revenue	\$ 4,392	\$ 4,390
Customer advances	<u>67</u>	<u>39</u>
Total deferred revenue and customer advances	<u>\$ 4,459</u>	<u>\$ 4,429</u>

8. LONG-TERM DEFERRED REVENUE

Long-term deferred revenue consisted of the following:

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	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	<u>(In thousands)</u>	
Deferred revenue for Sony Computer Entertainment	\$ 13,384	\$ 15,632
Other deferred revenue	626	862
Long-term deferred revenue	<u>\$ 14,010</u>	<u>\$ 16,494</u>

9. COMMITMENTS

The Company leases several of its facilities under noncancelable operating lease arrangements that expire at various dates through 2016.

On September 16, 2011, the Company entered into a Lease Termination Agreement effective as of December 31, 2011 with respect to the lease of its primary facilities of approximately 48,000 square feet in San Jose, California which was set to expire in June 2014. Pursuant to that agreement, the Company will be paid \$350,000, subject to the Company vacating the premises by December 31, 2011. On September 19, 2011, the Company entered into a new lease agreement for its primary facilities of approximately 33,000 square feet in San Jose, California which expires in December 2016 and can be extended to December 2021.

Minimum future lease payments and non-cancellable unconditional purchase obligations are as follows:

	<u>Operating Leases</u>	<u>Purchase Obligations</u>
	<u>(In thousands)</u>	
2011 (remainder)	\$ 185	\$ 255
2012	362	-
2013	499	-
2014	513	-
2015	507	-
Thereafter	422	-
Total	<u>\$ 2,488</u>	<u>\$ 255</u>

10. STOCK-BASED COMPENSATION

Stock Options and Awards

The Company's equity incentive program is a long-term retention program that is intended to attract, retain, and provide incentives for talented employees, consultants, officers, and directors and to align stockholder and employee interests. The Company may grant options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance shares, performance units, and other stock-based or cash-based awards to employees, officers, directors, and consultants. Under these programs, stock options may be granted at prices not less than the fair market value on the date of grant for stock options. These options generally vest over 4 years and expire from 5 to 10 years from the date of grant. Restricted stock generally vests over one year. RSUs generally vest over 3 years. On June 3, 2011, the Company's stockholders approved the 2011 Equity Incentive Plan (the "2011" Plan) in which 2,300,000 shares were authorized. In addition, 400,000 shares were transferred from the Company's 2007 Equity Incentive Plan (the "2007 Plan") and 2,279,263 shares were transferred from the Company's 2008 Equity Incentive Plan (the "2008 Plan") for a total of 4,979,263 originally available for grant under the 2011 Plan. Under the 2011 Plan, any award other than an option or stock appreciation right shall reduce the common stock shares available for grant by 1.75 shares for every share issued. The 2007 Plan and 2008 Plan have been terminated.

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	September 30, 2011
Common stock shares available for grant	4,860,638
Common stock options outstanding	3,584,975
Restricted stock awards outstanding	18,000
Restricted stock units outstanding	448,540

Employee Stock Purchase Plan

The Company has an 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 2,000 shares in a six-month offering period or purchase stock having a value greater than \$25,000 in any calendar year as measured at the beginning of the offering period. A total of 1,000,000 shares of common stock are reserved for issuance under the ESPP. As of September 30, 2011, 456,891 shares had been purchased since the inception of the ESPP in 1999. Under ASC 718-10, the ESPP is considered a compensatory plan and the Company is required to recognize compensation cost related to the fair value of common stock purchased under the ESPP. Shares purchased under the ESPP for the nine months ended September 30, 2011 are listed below. No shares were purchased under the ESPP for the nine months ended September 30, 2010. The intrinsic value listed below is calculated as the difference between the market value on the date of purchase and the purchase price of the shares.

	Nine months Ended September 30, 2011
Shares purchased under ESPP	28,702
Average price of shares purchased under ESPP	\$ 5.04
Intrinsic value of shares purchased under ESPP	\$ 74,566

Summary of Stock Options

The following table sets forth the summary of option activity under the Company’s stock option plans for the nine months ended September 30, 2011 and year ended December 31, 2010:

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
Beginning outstanding balance	4,000,526	5,041,235
Granted	387,163	662,185
Exercised	(537,520)	(130,135)
Forfeited and cancelled	(265,194)	(1,572,759)
Ending outstanding balance	<u>3,584,975</u>	<u>4,000,526</u>
Aggregate intrinsic value of options exercised	\$ 2,399,000	\$ 308,000
Weighted average fair value of options granted	4.18	3.11

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Information regarding stock options outstanding at September 30, 2011 and December 31, 2010 is summarized below:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Aggregate Intrinsic Value (In millions)</u>
<u>September 30, 2011</u>				
Options outstanding	3,584,975	\$ 6.53	6.02	\$ 2.6
Options vested and expected to vest using estimated forfeiture rates	3,445,690	6.54	5.92	2.5
Options exercisable	2,426,104	7.00	4.92	1.5
<u>December 31, 2010</u>				
Options outstanding	4,000,526	\$ 6.26	6.39	\$ 5.5
Options vested and expected to vest using estimated forfeiture rates	3,798,092	6.32	6.25	5.1
Options exercisable	2,541,701	6.80	5.03	2.9

Summary of Restricted Stock Units

RSU activity for the nine months ended September 30, 2011 and year ended December 31, 2010 was as follows:

	<u>Nine Months Ended September 30, 2011</u>	<u>Year Ended December 31, 2010</u>
Beginning outstanding balance	417,923	198,055
Awarded	243,908	363,928
Released	(156,051)	(69,021)
Forfeited	(57,240)	(75,039)
Ending outstanding balance	<u>448,540</u>	<u>417,923</u>
Weighted average grant date fair value of RSUs granted	\$ 6.61	\$ 5.58
Total fair value of RSUs released	1,146,000	315,000
Total fair value of RSUs remaining unvested	2,682,000	2,804,000

Information regarding RSUs outstanding at September 30, 2011 and December 31, 2010 is summarized below:

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	<u>Number of Shares</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Aggregate Intrinsic Value (In millions)</u>
<u>September 30, 2011</u>			
RSUs outstanding	448,540	1.19	\$ 2.7
RSUs vested and expected to vest using estimated forfeiture rates	361,439	1.16	2.2
<u>December 31, 2010</u>			
RSUs outstanding	417,923	1.13	\$ 2.8
RSUs vested and expected to vest using estimated forfeiture rates	330,038	1.00	2.2

Summary of Restricted Stock Awards

Restricted stock award activity for the nine months ended September 30, 2011 and year ended December 31, 2010 was as follows:

	<u>Nine Months Ended September 30, 2011</u>	<u>Year Ended December 31, 2010</u>
Beginning outstanding balance	18,000	27,000
Awarded	30,000	22,500
Released	(21,000)	(31,500)
Forfeited	(9,000)	0
Ending outstanding balance	<u>18,000</u>	<u>18,000</u>
Weighted average grant date fair value of restricted stock awarded	\$ 6.61	\$ 5.59
Total fair value of restricted stock awards released	159,000	147,000

Stock Plan Assumptions

The assumptions used to value option grants under the Company's Stock Plans were as follows:

<u>Options</u>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Expected life (in years)	4.5	5.2	5.0	5.2
Volatility	70%	67%	69%	67%
Interest rate	0.9%	1.5%	1.7%	2.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%

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Employee Stock Purchase Plan	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Expected life (in years)	0.5	N/A	0.5	N/A
Volatility	40 %	N/A	45 %	N/A
Interest rate	0.2 %	N/A	0.2 %	N/A
Dividend yield	0.0 %	N/A	0.0 %	N/A

Compensation Costs

Total stock-based compensation recognized in the condensed consolidated statements of operations is as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(In thousands)		(In thousands)	
<u>Statement of Operations Classifications</u>				
Cost of product sales	\$0	\$0	\$0	\$10
Sales and marketing	132	155	376	546
Research and development	201	199	639	597
General and administrative	607	542	1,690	1,277
Total	<u>\$ 940</u>	<u>\$ 896</u>	<u>\$ 2,705</u>	<u>\$ 2,430</u>

As of September 30, 2011, there was \$5.4 million related to stock options, restricted stock awards, and RSUs of unrecognized compensation cost, adjusted for estimated forfeitures, granted to the Company's employees and directors. This cost will be recognized over an estimated weighted-average period of approximately 2.48 years for options, 1.90 years for RSUs, and 0.45 years for restricted stock awards. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

Stock Repurchase Program

On November 1, 2007, the Company announced its Board of Directors' authorized the repurchase of up to \$50 million of the Company's common stock. The Company may repurchase its stock for cash in the open market in accordance with applicable securities laws. The timing of and amount of any stock repurchase will depend on share price, corporate and regulatory requirements, economic and market conditions, and other factors. The stock repurchase authorization has no expiration date, does not require the Company to repurchase a specific number of shares, and may be modified, suspended, or discontinued at any time.

During the twelve months ended December 31, 2008, the Company repurchased 2,786,563 shares for approximately \$18.4 million at an average cost of \$6.60 per share net of transaction costs through open market repurchases. During the three and nine months ended September 30, 2011, the Company repurchased 31,214 shares for \$188,000 at an average cost of \$6.02 net of transaction costs through open market repurchases. These amounts are classified as treasury stock on the Company's condensed consolidated balance sheet.

11. DIVESTITURE AND DISCONTINUED OPERATIONS

Divestiture

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On March 30, 2010, the Company entered into and closed an Asset Purchase Agreement, a Transition Services Agreement, and a License Agreement (collectively the “Transaction”) with CAE Healthcare USA (“CAE”). Under the Asset Purchase Agreement, CAE acquired certain assets including inventory, fixed assets, and certain liabilities which included warranty liabilities of the Endoscopy, Endovascular, and Laparoscopy medical simulation product lines used in the field of medical training for approximately \$1.6 million subject to purchase price adjustments for final inventory levels. The agreement also provided for the transfer of certain employees to CAE as well as distribution agreements and customer relationships. Under the transition services agreement, the Company provided certain back-office services to CAE for up to nine months and was being reimbursed for the expenses incurred for such services. Under the license agreement, the Company licensed to CAE the Immersion TouchSense patent portfolio within a specific field of use. As such, revenues and costs for the Endoscopy, Endovascular, and Laparoscopy medical simulation product lines have been included in operating income (loss) in the accompanying condensed consolidated statements of operations through the date of sale. Although the Company has ceased manufacturing these three specific product lines, these operating results have not been reported as discontinued operations. The Company continues to manufacture Virtual IV products, another medical product line, but the primary focus of the Company’s business has changed from simulation product sales to licensing fees. During the nine months ended September 30, 2010, the Company recognized a pre-tax loss of approximately \$43,000 in continuing operations in connection with the asset purchase agreement and the transition services agreement. There was no cost in 2011 related to the CAE transaction. The cost reimbursements received under the Transition Services Agreement were recorded as an off-set to the related operating expense line items. The Company’s license agreement with CAE includes quarterly revenue under the license arrangement which started in July 2010. Under the terms of the Company’s revenue recognition policy for transactions with extended payment terms such as this, the Company recognizes revenue as amounts become due and payable and all revenue recognition criteria are met. In connection with the transaction, the Company agreed to indemnify CAE for certain liabilities, claims, and other specified items in the asset purchase agreement.

Results of Discontinued Operations

On November 17, 2008, the Company announced that it would divest its 3D product line which was part of its Touch segment. During 2009, the Company sold all of its 3D product line including inventory, fixed assets, and intangibles and recorded gains on the sale of discontinued operations of \$187,000 at the time of the sales. Negotiated consideration for the sales was \$2.7 million in the form of cash of \$320,000 and notes receivable of \$2.4 million payable through 2013, for which the proceeds are being recognized when they are received. The Company has abandoned all other 3D operations. Accordingly, the operations of the 3D product line have been classified as discontinued operations, net of income tax, in the condensed consolidated statement of operations for all periods presented. The assets sold consisted primarily of intangible assets that had no carrying value on the Company’s books at the time of sale. In the three and nine months ended September 30, 2011 the Company recorded a gain on sales of discontinued operations net of tax of \$0 and \$61,000 respectively, from payments on notes from the sale of the 3D product line. In the three and nine months ended September 30, 2010 the Company recorded a gain on sale of discontinued operations net of tax of \$82,000 and \$143,000 respectively, from payments on notes from the sale of the 3D product line.

12. INCOME TAXES

Income tax provisions from continuing operations consisted of the following:

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(In thousands)		(In thousands)	
Loss from continuing operations before provision for income taxes	\$ (984)	\$ (879)	\$ (106)	\$ (2,652)
Provision for income taxes	(428)	(336)	(1,289)	(1,098)
Effective tax rate	(43.5)%	(38.2)%	(1216.0)%	(41.4)%

The effective tax rates differ from the statutory rate primarily due to the valuation allowance, foreign withholding taxes, and unrecognized tax benefits. The income tax provision for the three months and nine months ended September 30, 2011 and 2010 are primarily as a result of foreign withholding tax expense.

As of September 30, 2011, the Company had unrecognized tax benefits under ASC 740 "Income Taxes" of approximately \$673,000 including interest of \$45,000. The total amount of unrecognized tax benefits that would affect the Company's effective tax rate, if recognized, was \$244,000. There were no material changes in the amount of unrecognized tax benefits during the nine months ended September 30, 2011. The Company does not expect any material changes to its liability for unrecognized tax benefits during the next twelve months. The Company's policy is to account for interest and penalties related to uncertain tax positions as a component of income tax provision.

Because the Company had net operating loss and credit carryforwards, there are open statutes of limitations in which federal, state, and foreign taxing authorities may examine the Company's tax returns for all years from 1993 through the current period.

The Company maintains a valuation allowance for its entire deferred tax assets at September 30, 2011 and December 31, 2010 as a result of uncertainties regarding the realization of the asset balance due to past losses, the variability of operating results, and near term projected results. In the event that the Company determines the deferred tax assets are realizable, an adjustment to the valuation allowance may increase income in the period such determination is made. The valuation allowance does not impact the Company's ability to utilize the underlying net operating loss carryforwards.

13. NET LOSS PER SHARE

Basic and diluted net loss per share is computed using the weighted average number of common shares outstanding for the period, excluding unvested restricted stock and RSUs. The following is a reconciliation of the numerators and denominators used in computing basic and diluted net loss per share (in thousands, except per share amounts):

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Numerator:				
Loss from continuing operations	\$ (1,412)	\$ (1,215)	\$ (1,395)	\$ (3,750)
Gain from discontinued operations, net of tax	0	82	61	143
Net loss used in computing basic and diluted net loss per share	<u>\$ (1,412)</u>	<u>\$ (1,133)</u>	<u>\$ (1,334)</u>	<u>\$ (3,607)</u>
Denominator:				
Shares used in computation of basic and diluted net loss per share	28,918	28,134	28,595	28,087
Basic and diluted net loss per share from:				
Continuing operations	\$ (0.05)	\$ (0.04)	\$ (0.05)	\$ (0.13)
Discontinued operations	0.00	0.00	0.00	0.00
Total	<u>\$ (0.05)</u>	<u>\$ (0.04)</u>	<u>\$ (0.05)</u>	<u>\$ (0.13)</u>

As of September 30, 2011 and 2010, the Company had securities outstanding that could potentially dilute basic earnings per share in the future, but these were excluded from the computation of diluted net loss per share for the three and nine months ended September 30, 2011 and 2010, since their effect would have been anti-dilutive. These outstanding securities consisted of the following (in thousands):

	September 30,	September 30,
	2011	2010
Outstanding stock options	3,585	4,176
Unvested restricted stock awards	18	18
Unvested RSUs	449	424

14. COMPREHENSIVE LOSS

The following table sets forth the components of comprehensive loss:

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	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Net loss	\$ (1,412)	\$ (1,133)	\$ (1,334)	\$ (3,607)
Change in unrealized losses on short-term investments	(3)	(7)	19	66
Total comprehensive loss	<u>\$ (1,415)</u>	<u>\$ (1,140)</u>	<u>\$ (1,315)</u>	<u>\$ (3,541)</u>

15. SEGMENT REPORTING

The Company develops, manufactures, licenses, and supports a wide range of hardware and software technologies that more fully engage users' sense of touch when operating digital devices. The Company focuses on the following target application areas: mobile communications and consumer electronics, automotive, gaming, commercial and industrial controls, and medical. Through March 31, 2010, the Company managed these application areas under two operating and reportable segments: Touch and Medical. As discussed in Note 11 of the condensed consolidated financial statements, on March 30, 2010 the Company divested its Endoscopy, Endovascular, and Laparoscopy product lines. Management continues to manufacture a limited amount of product, but the primary focus from this part of the business has changed from simulation product sales to primarily a licensing model under which the Company develops and licenses a wide range of haptic-related software and patented technologies and will collect license and royalty revenue. As of April 1, 2010, the Company reorganized into one segment and there is no longer management, development, operations, or administrative personnel specifically for medical operations or product lines.

The Company's chief operating decision maker ("CODM") is the Chief Executive Officer. The CODM allocates resources to and assesses the performance of the Company using information about its revenue and operating loss. Beginning April 1, 2010, there is only one segment that is reported to management.

As the Company has changed its internal structure which caused the Company's reportable segments to change, the Company has restated its previously reported separate segment information from Medical and Touch into only one segment. As such, separate segment information has been eliminated.

16. CONTINGENCIES

In re Immersion Corporation Initial Public Offering Securities Litigation

The Company is involved in legal proceedings relating to a class action lawsuit filed on November 9, 2001 in the U. S. District Court for the Southern District of New York, *In re Immersion Corporation Initial Public Offering Securities Litigation*, No. Civ. 01-9975 (S.D.N.Y.), related to *In re Initial Public Offering Securities Litigation*, No. 21 MC 92 (S.D.N.Y.). The named defendants are the Company and three of its current or former officers or directors (the "Immersion Defendants"), and certain underwriters of its November 12, 1999 initial public offering ("IPO"). Subsequently, two of the individual defendants stipulated to a dismissal without prejudice.

The operative amended complaint is brought on purported behalf of all persons who purchased the Company's common stock from the date of the Company's IPO through December 6, 2000. It alleges

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liability under Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, on the grounds that the registration statement for the IPO did not disclose that: (1) the underwriters agreed to allow certain customers to purchase shares in the IPO in exchange for excess commissions to be paid to the underwriters; and (2) the underwriters arranged for certain customers to purchase additional shares in the aftermarket at predetermined prices. The complaint also appears to allege that false or misleading analyst reports were issued. The complaint does not claim any specific amount of damages.

Similar allegations were made in other lawsuits challenging over 300 other initial public offerings and follow-on offerings conducted in 1999 and 2000. The cases were consolidated for pretrial purposes.

In September 2008, all of the parties to the lawsuits reached a settlement, subject to documentation and approval of the District Court. Subsequently, an underwriter defendant filed for bankruptcy and other underwriter defendants were acquired. On April 2, 2009, final documentation evidencing the settlement was presented to the District Court for approval. On October 6, 2009, the District Court approved the settlement, and the Court subsequently entered a judgment of dismissal. Under the judgment, the Immersion Defendants are not required to contribute to the settlement. Several notices of appeal have been filed by putative class members challenging the settlement. Subsequently, the District Court determined that none of the objectors had standing to appeal. One of the putative objectors has filed a notice of appeal of the determination as to him. The Company intends to defend the lawsuit vigorously.

In re Immersion Corporation Securities Litigation

In September and October 2009, various putative shareholder class action and derivative complaints were filed in federal and state court against the Company and certain current and former Immersion directors and officers.

On September 2, 2009, a securities class action complaint was filed in the United States District Court for the Northern District of California against the Company and certain of its current and former directors and officers. Over the following five weeks, four additional class action complaints were filed. (One of these four actions was later voluntarily dismissed.) The securities class action complaints name the Company and certain current and former Immersion directors and officers as defendants and allege violations of federal securities laws based on the Company's issuance of allegedly misleading financial statements. The various complaints assert claims covering the period from May 2007 through July 2009 and seek compensatory damages allegedly sustained by the purported class members.

On December 21, 2009, these class actions were consolidated by the court as *In Re Immersion Corporation Securities Litigation*. On the same day, the court appointed a lead plaintiff and lead plaintiff's counsel. Following the Company's restatement of its financial statements, lead plaintiff filed a consolidated complaint on April 9, 2010. Defendants moved to dismiss the action on June 15, 2010 and that motion was granted on March 11, 2011. Lead plaintiff filed an amended complaint on April 29, 2011. Defendants moved to dismiss the amended complaint on July 1, 2011.

In re Immersion Corporation Derivative Litigation

On September 15, 2009, a putative shareholder derivative complaint was filed in the United States District Court for the Northern District of California, purportedly on behalf of the Company and naming certain of its current and former directors and officers as individual defendants. Thereafter, two additional putative derivative complaints were filed in the same court.

The derivative complaints arise from the same or similar alleged facts as the federal securities actions and seek to bring state law causes of action on behalf of the Company against the individual defendants for breaches of fiduciary duty, gross negligence, abuse of control, gross mismanagement, breach of contract, waste of corporate assets, unjust enrichment, as well as for violations of federal securities laws. The

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federal derivative complaints seek compensatory damages, corporate governance changes, unspecified equitable and injunctive relief, the imposition of a constructive trust, and restitution. On November 17, 2009, the court consolidated these actions as *In re Immersion Corporation Derivative Litigation* and appointed lead counsel. The court has issued an order staying this action.

Kasmer v. Immersion Corporation

On May 5, 2010, an action was filed in Delaware Chancery Court by a shareholder seeking to enforce a demand to inspect certain of the Company's records pursuant to Section 220 of the Delaware General Corporation Law, as a possible prelude to the shareholder bringing a derivative action. The Company filed an answer on June 14, 2010, questioning whether a proper purpose for the records inspection had been stated and raising other defenses concerning the scope of the demand, among other deficiencies. Following a one-day trial on December 2, 2010, the Court significantly narrowed the scope of the demand and the Company responded accordingly. On October 24, 2011, the shareholder filed a motion seeking to compel further responses to the demand. The Company believes that its responses complied with the Court's ruling and therefore will be opposing the shareholder's motion.

The Company cannot predict the ultimate outcome of the above-mentioned federal and state actions, and it is unable to estimate any potential liability it may incur.

Other Contingencies

From time to time, the Company receives 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. Additionally, periodically, the Company is involved in routine legal matters and contractual disputes incidental to its normal operations. In management's opinion, the resolution of such matters will not have a material adverse effect on the Company's condensed consolidated financial condition, results of operations, or liquidity.

In the normal course of business, the Company provides indemnifications of varying scope to customers against claims of intellectual property infringement made by third parties arising from the use of the Company's intellectual property, technology, or products. Historically, costs related to these guarantees have not been significant, and the Company is unable to estimate the maximum potential impact of these guarantees on its future results of operations.

As permitted under Delaware law, the Company has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at its request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company currently has director and officer insurance coverage that reduces its exposure and enables it to recover a portion of any future amounts paid. Management believes the estimated fair value of these indemnification agreements in excess of applicable insurance coverage is indeterminable.

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

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward-looking statements involve risks and uncertainties. Forward-looking statements are identified by words such as "anticipates," "believes," "expects," "intends," "may," "will," and other similar expressions. However, these words are not the only way we identify forward-looking statements. In addition, any statements, which refer to expectations, projections, or other characterizations

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of future events, or circumstances, are forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, including those set forth below in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors”, those described elsewhere in this report, and those described in our other reports filed with the SEC. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report, and we undertake no obligation to update these forward-looking statements after the filing of this report. You are urged to review carefully and consider our various disclosures in this report and in our other reports publicly disclosed or filed with the SEC that attempt to advise you of the risks and factors that may affect our business.

OVERVIEW

We are a leading provider of haptic technologies that allow people to use their sense of touch more fully when operating a wide variety of digital and other devices. To achieve this heightened interactivity, we develop and license or manufacture a wide range of software technologies and products. While we believe that our technologies are broadly applicable, we are currently focusing our marketing and business development activities on the following target lines of business: mobile communications and consumer electronics, automotive, gaming, commercial and industrial, and medical. As of April 1, 2010, we reorganized from two segments and now we manage these application areas under one operating and reportable segment (See Note 15 to the condensed consolidated financial statements).

In most all of our markets, such as mobile communications and consumer electronics, automotive, gaming, commercial and industrial, and medical, we primarily license our technologies to manufacturers who use them in products sold under their own brand names. In a few markets, such as medical simulation, we have sold products manufactured under our own brand name through direct sales to end users, distributors, or OEMs. From time to time, we have also engaged in development projects for third parties.

On March 30, 2010, we sold certain assets including inventory and fixed assets and certain liabilities of the Endoscopy, Endovascular, and Laparoscopy medical simulation product lines. Since that time we stopped shipping and wound down the sales of these lines of medical simulation products. However, we expect to continue to receive revenue due to our licensing agreements with medical licensees, and we continue to ship Virtual IV medical products.

Our objective is to drive adoption of our touch technologies across markets and applications to improve the user experience with digital devices and systems. We and our wholly owned subsidiaries hold more than 1,200 issued or pending patents in the U.S. and other countries, covering various aspects of hardware and software technologies.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

We believe the following are our most critical accounting policies as they require our significant judgments and estimates in the preparation of our condensed consolidated financial statements:

Revenue Recognition

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We recognize revenues in accordance with applicable accounting standards, including Accounting Standards Codification (“ASC”) 605-10-S99, “Revenue Recognition” (“ASC 605-10-S99”); ASC 605-25, “Multiple Element Arrangements” (“ASC 605-25”); and ASC 985-605, “Software-Revenue Recognition” (“ASC 985-605”). We derive our revenues from three principal sources: royalty and license fees, product sales, and development contracts. As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period. Material differences may result in the amount and timing of our revenue for any period based on the judgments and estimates made by our management. Specifically, in connection with each transaction, we must evaluate whether: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable, and (iv) collectibility is probable. We apply these criteria as discussed below.

Persuasive evidence of an arrangement exists: For a license arrangement, we require a written contract, signed by both the customer and us. For a stand-alone product sale, we require a purchase order or other form of written agreement with the customer.

Delivery has occurred. We deliver software and product to our customers physically and also deliver software electronically. For physical deliveries not related to software, our transfer terms typically include transfer of title and risk of loss at our shipping location. For electronic deliveries, delivery occurs when we provide the customer access codes or “keys” that allow the customer to take immediate possession of the software.

The fee is fixed or determinable. Our arrangement fee is based on the use of standard payment terms which are those that are generally extended to the majority of customers. For transactions involving extended payment terms, we deem these fees not to be fixed or determinable for revenue recognition purposes and revenue is deferred until the fees become due and payable.

Collectibility is probable. To recognize revenue, we must judge collectibility of the arrangement fees, which we do on a customer-by-customer basis pursuant to our credit review policy. We typically sell to customers with whom we have a history of successful collection. For new customers, we evaluate the customer’s financial condition and ability to pay. If we determined that collectibility is not probable based upon our credit review process or the customer’s payment history, we recognize revenue when payment is received.

Royalty and license revenue – We recognize royalty revenue based on royalty reports or related information received from the licensee and when collectibility is deemed probable. The terms of the royalty agreements generally require licensees to give us notification of royalties within 30 to 45 days of the end of the quarter during which the sales occur. We recognize license fee revenue for licenses to our intellectual property when earned under the terms of the agreements, which is generally recognized when all deliverables including services are completed or recognized on a straight-line basis over the expected term of the license.

Development contracts and other revenue – Development contracts and other revenue is comprised of professional services (consulting services and/or development contracts). Professional services revenues are recognized under the proportional performance accounting method based on physical completion of the work to be performed or completed performance method. A provision for losses on contracts is made, if necessary, in the period in which the loss becomes probable and can be reasonably estimated. Revisions in estimates are reflected in the period in which the conditions become known. To date, such losses have not been significant.

Multiple element arrangements – We enter into multiple element arrangements in which customers purchase a time-based license which include a combination of software and/or intellectual property licenses, professional services and in limited cases, post contract customer support. For arrangements that are software based and include software and professional services, the services are generally not essential to the functionality of the software, and customers may purchase consulting services to facilitate the adoption of our technology, but they may also decide to use their own resources or appoint other professional service organizations to perform these services. For these arrangements, including those with post contract customer support, revenue is recognized either over the period of the ongoing obligation which is generally consistent with the contractual term, or when all deliverables including services have been completed.

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Product sales – We recognize revenue from the sale of products and the license of associated software if any, and expense all related costs of products sold, once delivery has occurred and customer acceptance, if required, has been achieved. We have determined that the license of software for the medical simulation products is incidental to the product as a whole. We typically grant our customers a warranty which guarantees that our products will substantially conform to our current specifications for generally twelve months from the delivery date pursuant to the terms of the arrangement. Historically, warranty-related costs have not been significant. Separately priced extended warranty contract revenues are recognized ratably over the contractual period.

Cost of Revenues – Cost of revenues includes both cost of product sales and cost of development contract revenues. Cost of product sales consists primarily of contract manufacturing and other overhead costs. Cost of development contract revenue includes primarily labor related costs relating to these contracts.

Stock-based Compensation – Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period.

Valuation and amortization method – We use the Black-Scholes model, single-option approach to determine the fair value of stock options, stock awards, and ESPP shares. All share-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods. Stock-based compensation expense recognized at fair value includes the impact of estimated forfeitures. We estimate future forfeitures at the date of grant and revise the estimates if necessary, in subsequent periods if actual forfeitures differ from these estimates. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include actual and projected employee stock option exercise behaviors that impact the expected term, our expected stock price volatility over the term of the awards, risk-free interest rate, and expected dividends.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods, or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating results.

The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics not present in our option grants and ESPP shares. Existing valuation models, including the Black-Scholes and lattice binomial models, may not provide reliable measures of the fair values of our stock-based compensation. Consequently, there is a risk that our estimates of the fair values of our stock-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination, or forfeiture of those stock-based payments in the future. Certain stock-based payments, such as employee stock options, may expire and be worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, value may be realized from these instruments that are significantly higher than the fair values originally estimated on the grant date and reported in our financial statements. There currently is no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values.

See Note 10 to the condensed consolidated financial statements for further information regarding stock-based compensation.

Accounting for Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition,

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deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized and are reversed at such time that realization is believed to be more likely than not.

Our judgments, assumptions, and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws, and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. We have established reserves for income taxes to address potential exposures involving tax positions that could be challenged by tax authorities. Although we believe our judgments, assumptions, and estimates are reasonable, changes in tax laws or our interpretation of tax laws and any future tax audits could significantly impact the amounts provided for income taxes in our condensed consolidated financial statements.

Our assumptions, judgments, and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income, such as income from operations or capital gains income. Actual operating results and the underlying amount and category of income in future years could render inaccurate our current assumptions, judgments, and estimates of recoverable net deferred tax assets. Any of the assumptions, judgments, and estimates mentioned above could cause our actual income tax obligations to differ from our estimates, thus materially impacting our financial position and results of operations.

Short-term Investments

Our short-term investments consist primarily of U.S. treasury bills and government agency securities purchased with an original or remaining maturity of greater than 90 days on the date of purchase. We classify all debt securities with readily determinable market values as “available-for-sale”. Even though the stated maturity dates of these debt securities may be one year or more beyond the balance sheet date, we have classified all debt securities as short-term investments as they are available for current operations and reasonably expected to be realized in cash or sold within one year. These investments are carried at fair market value, and using the specific identification method, any unrealized gains and losses considered to be temporary in nature are reported as a separate component of other comprehensive income (loss) within stockholders’ equity.

In April 2009, new accounting guidance revised the impairment model for debt securities by modifying the current intent and ability indicator in determining whether a debt security is other-than-temporarily impaired. For debt securities in an unrealized loss position, we are required to assess whether (i) we have the intent to sell the debt security or (ii) it is more likely than not that we will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, an other-than-temporary impairment on the security must be recognized in earnings equal to the entire difference between its fair value and amortized cost basis.

For debt securities in an unrealized loss position which are deemed to be other-than-temporary where neither of the criteria in the paragraph above are present, the difference between the security’s then-current amortized cost basis and fair value is separated into (i) the amount of the impairment related to the credit loss (i.e. the credit loss component) and (ii) the amount of the impairment related to all other factors (i.e., the non-credit loss component). The credit loss component is recognized in earnings. The non-credit loss component is recognized in accumulated other comprehensive loss. The credit loss component is the excess of the amortized cost of the security over the best estimate of the present value of the cash flows expected to be collected from the debt security. The non-credit component is the residual amount of the other-than-temporary impairment. Prior to the new accounting guidance, in all cases, if an impairment was determined to be other-than-temporary, then an impairment loss was recognized in earnings in an amount equal to the entire difference between the security’s amortized cost basis and its fair value.

When calculating the present value of expected cash flows to determine the credit loss component of the other-than-temporary impairment, we estimate the amount and timing of projected cash flows on a security-by-security basis. These calculations reflect our expectations of the performance of the underlying collateral and of the issuer to meet payment obligations as applicable. The expected cash flows are

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discounted using the effective interest rate of the security prior to any impairment. The amortized cost basis of a debt security is adjusted for credit losses recorded to earnings. The difference between the cash flows expected to be collected and the new cost basis is accreted to investment income over the remaining expected life of the security.

Further information about short-term investments may be found in Note 2 to the condensed consolidated financial statements.

Recovery of Accounts Receivable

We maintain allowances for doubtful accounts for estimated losses resulting from our review and assessment of our customers' ability to make required payments, historical losses, and existing economic conditions. If the financial condition of one or more of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

Inventory Valuation

We reduce our inventory value for estimated obsolete and slow moving inventory in an amount equal to the difference between the cost of inventory and the net realizable value based upon assumptions about future demand and market conditions. If actual future demand and market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Intangible Assets

We have acquired patents and other intangible assets. In addition, we capitalize the external legal, filing, and maintenance fees associated with patents and trademarks. We assess the recoverability of our intangible assets, and we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets that affect our condensed consolidated financial statements. If these estimates or related assumptions change in the future, we may be required to record impairment charges for these assets. We amortize our intangible assets related to patents and trademarks, once they are issued, over their estimated useful lives, generally 10 years. Future changes in the estimated useful life could affect the amount of future period amortization expense that we will incur. During the first nine months ended September 30, 2011, we capitalized costs associated with patents and trademarks of \$2.4 million. Our total amortization expense (exclusive of impairments or abandonments) for the same period was \$747,000.

RESULTS OF OPERATIONS FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

The following discussion and analysis includes our results of operations from continuing operations for the three months and nine months ended September 30, 2011 and 2010. Accordingly, any gain or loss on sale or income tax provision from discontinued operations have been aggregated and reported as a gain or loss from discontinued operations and are not a component of the aforementioned continuing operations discussion. The operating results for the Endoscopy, Endovascular, and Laparoscopy medical simulation product lines have been included in continuing operations in the accompanying condensed consolidated financial statements. Although we have ceased manufacturing these three specific product lines, these operating results have not been reported as discontinued operations. From our medical product lines, we continue to manufacture our Virtual IV product line, but the primary focus from this part of our business has changed from simulation product sales to royalty and license revenue.

Overview

Our revenues decreased by 1% during the third quarter ended September 30, 2011 as compared to the third quarter ended September 30, 2010. The third quarter revenue decrease was primarily due to a 72% decrease in product sales, partially offset by a 14% increase in royalty and license revenue. The decrease in

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product sales was primarily due to a softer market for our products in the medical line of business as well as inventory rebalancing by a specific customer. The increase in royalty and license revenue was mainly due to increased revenue primarily from our gaming and mobility licensees. Our revenues decreased by 7% during the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. The revenue decrease for the nine months ended September 30, 2011 was primarily due to a 69% decrease in product sales primarily due to the divestiture of certain medical product lines to CAE. Partially offsetting this, there was a 13% increase in royalty and license revenue mainly due to increased royalty and license fees primarily from our mobility and gaming lines of business.

On March 30, 2010 we entered into an agreement with CAE and sold certain assets of the Endoscopy, Endovascular, and Laparoscopy medical simulation product lines to CAE for approximately \$1.6 million and had a loss on the transaction of \$43,000 in 2010. The agreement also provided for the transfer of approximately 34 employees and contractors to CAE as well as distribution agreements and customer relationships. Our divestiture of our medical simulation product lines was completed during 2010. However, we expect to continue to receive revenue due to our licensing agreement with CAE and other companies pertaining to haptic-based technology in medical training applications, and we continue to ship Virtual IV medical products.

Our loss from continuing operations was \$1.4 million during the third quarter ended September 30, 2011 as compared to a loss of \$1.2 million for the third quarter ended September 30, 2010. The increased loss was primarily due to higher operating expenses which include an increase in research and development expenses and an increase in foreign withholding taxes resulting from higher royalty revenue from some Asian countries. Our loss from continuing operations was \$1.4 million during the nine months ended September 30, 2011 as compared to a loss from continuing operations of \$3.8 million for the nine months ended September 30, 2010. The decreased loss was primarily due to reduced ongoing expenses from the transfer of product lines to CAE, reductions in personnel, and other cost savings measures.

During the remainder of 2011, we expect royalty and licensing revenues to be the major component of our revenues as our technology continues to be included in more products. Our first quarter revenue is typically higher than all other quarters due to the reporting of holiday sales by our customers in the prior quarter and we expect this seasonality to continue. Also, we expect to continue to make investments in research and developments that are critical to support future growth. Our success could be limited by several factors, including the current macro-economic climate, the timely release of our new technology and our licensees' products, continued market acceptance of our technology and our licensees' products, the introduction of new products by existing or new competitors, and the cost of ongoing litigation. For a further discussion of these and other risk factors, see Part II, Item 1A - "Risk Factors."

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REVENUES	September 30,		Change	% Change
	2011	2010		
(In thousands)				
<u>Three months ended:</u>				
Royalty and license	\$5,875	\$5,141	\$ 734	14%
Product sales	345	1,217	(872)	(72)%
Development contracts and other	275	189	86	46%
Total Revenues	<u>\$6,495</u>	<u>\$6,547</u>	<u>\$ (52)</u>	(1)%
<u>Nine months ended:</u>				
Royalty and license	\$20,110	\$17,848	\$ 2,262	13%
Product sales	1,892	6,035	(4,143)	(69)%
Development contracts and other	943	848	95	11%
Total Revenues	<u>\$22,945</u>	<u>\$24,731</u>	<u>\$ (1,786)</u>	(7)%

Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

Royalty and license revenue – Royalty and license revenue is comprised of royalties earned on sales by our licensees and license fees charged for our intellectual property portfolio. The increase in royalty and license revenue for the three months ended September 30, 2011 compared to the three months ended September 30, 2010 was primarily due to increases in royalty and license revenue from our mobility, gaming, and medical licensees partially offset by decreases from our other licensees.

Royalty and license revenue increased by 38% for gaming customers mainly due to increases in royalties from new and existing customers due to increased units shipped by licensees.

Royalty and license revenue increased by 21% for mobility customers primarily due to increases in mobility units shipped by our licensees. The increase was due to the fact that our technology continues to be included in more phone models and other devices.

We expect royalty and license revenue to be the major component of our future revenue as we focus on our licensing model and as our technology continues to be included in more products.

Product sales – Product sales are comprised primarily of medical products, actuators, design kits, and integrated circuits. The decrease in product sales was due mainly to a \$862,000 decrease in medical product sales due primarily to a reduction in sales of our Virtual IV medical simulator product arising from reduced demand in this market as well as inventory rebalancing by a specific customer. We expect product sales will remain at reduced levels in 2011 primarily as a result of softer demand in this market.

Development contracts and other revenue – Development contracts and other revenue is comprised of revenue on commercial contracts. Development contracts and other revenue increased mainly due to increased engineering contract revenue from our mobility customers. We continue to focus our engineering resources on development efforts that focus on leveraging our existing sales and channel distribution capabilities. Accordingly, we do not expect development contract revenue to be a significant part of total revenues in the future.

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We categorize our geographic information into four major regions: North America, Europe, Far East, and Rest of the World. In the third quarter ended September 30, 2011, revenue generated in North America, Europe, Far East, and Rest of the World represented 40%, 13%, 47%, and 0% of total revenue, respectively, compared to 41%, 14%, 45%, and 0% of total revenue, respectively, for the third quarter ended September 30, 2010. The shift in revenues among regions was mainly due to a decrease in product sales in North America and Europe as a result of a reduction in sales of our Virtual IV and other medical simulator products. This was partially offset by an increase in royalty and license revenue in North America and Europe. The increase in North American royalty and license revenue was primarily from gaming licensees. The increase in European royalty and license revenue was primarily due to increased mobile device revenue. In addition, there was an increase in royalty and license revenue in the Far East. The increase in Far Eastern royalty and license revenue was primarily due to increased royalty and license revenue from licensees of mobile devices, gaming devices, and automotive products offset by a decrease in royalty and license revenue from other licensees.

Nine months Ended September 30, 2011 Compared to Nine months Ended September 30, 2010

Royalty and license revenue – The increase in royalty and license revenue was due to increases in royalty and license revenue generated primarily from mobility, gaming, and medical licensees, partially offset by decreases from our other licensees.

Royalty and license revenue increased by 22% for gaming customers mainly due to increases in royalties from new and existing customers due to increased units shipped by licensees, partially offset by decreases in certain true ups and other one-time payments occurring primarily in the second quarter of 2010. We experience seasonally higher revenue from our gaming customers due to the reporting of holiday sales in the first calendar quarter.

Royalty and license revenue increased by 19% for mobility customers primarily due to increases in units shipped.

Product sales – On March 30, 2010 we entered into an agreement with CAE and sold certain assets and divested the Endoscopy, Endovascular, and Laparoscopy medical simulation product lines to CAE resulting in reduced medical product sales subsequent to that date. The decrease in product sales was due primarily to a \$4.0 million decrease in medical product sales primarily due to the divestiture of these medical simulation product lines in the three months ended March 2010. Revenue for the nine months ended September 30, 2010 for the divested product lines was approximately \$3 million which did not recur in 2011. The decrease in medical product sales was also caused by a reduction in other medical product sales of \$928,000 primarily a decrease in sales of our Virtual IV medical simulator product arising from inventory rebalancing by a specific customer and reduced demand in this market.

Development contracts and other revenue – Development contracts and other revenue increased mainly due to an increase in contracted engineering services mainly from medical customers.

In the nine months ended September 30, 2011, revenue generated in North America, Europe, Far East, and Rest of the World represented 42%, 15%, 43%, and 0% of total revenue, respectively, compared to 37%, 17%, 44%, and 2% of total revenue, respectively, for the nine months ended September 30, 2010. The shift in revenues among regions was mainly due to a decrease in product sales in Europe, the Far East, and Rest of the World as a result of the divestiture of the medical simulation product lines and a decrease in mobile device royalty and license revenue in Europe due to the timing of revenue recognized. These decreases were partially offset by an increase in royalty and license revenue in the Far East. The increase in Far Eastern royalty and license revenue was primarily due to increased royalty and license revenue from licensees of mobile devices partially offset by a decrease in royalty and license revenue from other licensees. In addition, there was an increase in royalty and license revenue in North America partially offset by a decrease in product revenue in North America. The increase in North American royalty and license revenue was primarily due to increased royalty and license revenue from gaming and medical licensees. The decrease in North American product revenue was due to a decrease in sales of our Virtual IV and other medical simulator products.

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<u>COST OF REVENUES</u>	<u>September 30,</u>		<u>Change</u>	<u>% Change</u>
	<u>2011</u>	<u>2010</u>		
	<u>(In thousands)</u>			
Three months ended:				
Cost of revenues	\$ 192	\$ 457	\$(265)	(58)%
% of total revenues	3%	7%	(4)%	
Nine months ended:				
Cost of revenues	\$ 913	\$ 2,587	\$(1,674)	(65)%
% of total revenues	4%	10%	(6)%	

Cost of Revenues – Our cost of revenues (exclusive of amortization and impairment or abandonment of intangibles) consists primarily of direct materials, contract manufacturing, and other overhead costs for product sales, and labor related costs for development contracts and other. The reduced product sales was the major contributor to the overall reduction of cost of revenues for the third quarter ended September 30, 2011 as compared to the third quarter ended September 30, 2010. Specifically, the decrease in cost of revenues for 2011 as compared to 2010 was primarily due to decreased direct material costs, contract manufacturing costs, and related costs of \$254,000. The decrease in direct material, contract manufacturing, related costs, and freight expense of approximately 63% was mainly due to a decrease in related product sales. We expect cost of revenues will remain at reduced levels for the remainder of 2011 primarily as a result of expected continued reduced demand for medical product sales in 2011.

The divestiture of certain medical simulation product lines in 2010 was a major contributor to the overall reduction of cost of revenues for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. Specifically, the decrease in cost of revenues for 2011 as compared to 2010 was primarily due to decreased direct material costs, contract manufacturing, and related costs of \$1.4 million and decreased freight costs of \$174,000. The decrease in direct material, contract manufacturing, related costs, and freight expense of approximately 69% was mainly due to a similar decrease in product sales.

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<u>OPERATING EXPENSES</u>	<u>September 30,</u>		<u>Change</u>	<u>% Change</u>
	<u>2011</u>	<u>2010</u>		
	<u>(\$ In thousands)</u>			
Three months ended:				
Sales and marketing	\$ 1,643	\$ 1,813	\$ (170)	(9)%
% of total revenue	25 %	28 %	(3)%	
Research and development	\$ 2,183	\$ 2,007	\$ 176	9%
% of total revenue	34 %	31 %	3 %	
General and administrative	\$ 3,195	\$ 3,008	\$ 187	6%
% of total revenue	49 %	46 %	3 %	
Amortization and impairment or abandonment of intangibles	\$ 324	\$ 211	\$ 113	54%
% of total revenue	5 %	3 %	2 %	
Nine months ended:				
Sales and marketing	\$ 5,402	\$ 6,077	\$ (675)	(11)%
% of total revenue	24 %	25 %	(1)%	
Research and development	\$ 6,525	\$ 6,473	\$ 52	1%
% of total revenue	28 %	26 %	2 %	
General and administrative	\$ 9,367	\$ 11,808	\$ (2,441)	(21)%
% of total revenue	41 %	48 %	(7)%	
Amortization and impairment or abandonment of intangibles	\$ 1,016	\$ 650	\$ 366	56%
% of total revenue	4 %	3 %	1 %	

Sales and Marketing – Our sales and marketing expenses are comprised primarily of employee compensation and benefits, advertising, public relations, trade shows, market development funds, travel, and an allocation of facilities costs. The decrease in sales and marketing expense for the third quarter ended September 30, 2011 as compared to the third quarter ended September 30, 2010 was primarily due to decreased compensation, benefits, and other related costs of \$240,000 due to decreased sales and marketing headcount and benefits, partially offset by increased marketing, advertising, and public relations costs of \$64,000 due to current marketing initiatives. We expect that sales and marketing expenses will continue to be significant as we continue to invest in sales and marketing to further our focus on building greater market acceptance for our touch technologies.

The decrease in sales and marketing expense for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 was primarily due to the divestiture of the medical simulation product lines, resulting in reduced ongoing expenses. Specifically, the decrease in overall sales and marketing expenses was mainly due to decreased compensation, benefits, and other related costs of \$871,000 primarily due to decreased sales and marketing headcount and decreased travel expense of \$155,000 also due to decreased sales and marketing headcount, partially offset by increased marketing, advertising, and public relations costs of \$386,000.

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Research and Development – Our research and development expenses are comprised primarily of employee compensation and benefits, consulting fees, tooling and supplies, and an allocation of facilities costs. The increase in research and development expenses for the third quarter ended September 30, 2011 as compared to the third quarter ended September 30, 2010 was primarily due to increased compensation, benefits, and other related costs of \$204,000 and increased travel expense of \$43,000 mainly due to increased headcount, partially offset by decreased lab and prototyping expense of \$84,000. We believe that continued significant investment in research and development efforts are critical to our future success, and we expect to make increased investments in areas of research and technology development to support future growth.

The increase in research and development expense for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 was primarily due to increased compensation, benefits, and other related costs of \$142,000 mainly due to increased headcount, partially offset by decreased lab and prototyping expense of \$78,000 and a decreased loss on disposition of fixed assets of \$22,000.

General and Administrative – Our general and administrative expenses are comprised primarily of employee compensation and benefits, legal and professional fees, office supplies, travel, and an allocation of facilities costs. The increase in general and administrative expenses for the third quarter ended September 30, 2011 as compared to the third quarter ended September 30, 2010 was primarily due to increased compensation, benefits, and other related costs of \$232,000, partially offset by decreased legal, professional, and license fee expenses of \$117,000. The increased compensation, benefits, and other related costs was mainly due to increased headcount and increased severance costs for terminated employees. The decreased legal and professional expenses were primarily due to reduced litigation expenses as certain lawsuits were settled during 2010 along with reduced audit, tax, and accounting expenses. We expect that general and administrative expenses will continue to be a significant component of our operating expenses. We will continue to incur costs related to litigation as we continue to assert our intellectual property and contractual rights and defend any lawsuits brought against us.

The decrease in general and administrative expenses for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 was primarily due to decreased legal, professional, and license fee expenses of \$3.3 million, partially offset by increased compensation, benefits, and other related costs of \$918,000. The decreased legal and professional expenses were primarily due to decreased accounting, audit, legal and consulting costs resulting from our internal investigation which was concluded in 2010. A decrease in litigation expenses as certain lawsuits have been settled during 2010 also contributed to the overall reduction in legal and professional expenses. The increased compensation, benefits, and other related costs was primarily due to increased stock compensation expense mainly due to the timing of the expense of stock options granted, increased headcount, and increased severance costs for terminated employees.

Amortization and impairment or abandonment of Intangibles – Our amortization and impairment or abandonment of intangibles is comprised primarily of patent amortization and other intangible amortization along with impairment and write off of abandoned and expired patents. Amortization and impairment or abandonment of intangibles increased for the third quarter ended September 30, 2011 as compared to the third quarter ended September 30, 2010 mainly due to increased amortization due to the increased number of patents. Amortization and impairment or abandonment of intangibles increased for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 mainly due to the write off of abandoned and expired patents along with increased amortization due to the increased number of patents.

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<u>INTEREST AND OTHER INCOME</u>	<u>September 30,</u>		<u>Change</u>	<u>% Change</u>
	<u>2011</u>	<u>2010</u>		
	(In thousands)			
Three months ended:				
Interest and other income	\$ 58	\$ 70	\$ (12)	(17)%
% of total revenue	1%	1%	(0)%	
Nine months ended:				
Interest and other income	\$ 172	\$ 212	\$ (40)	(19)%
% of total revenue	1%	1%	0%	

Interest and Other Income – Interest and other income consist primarily of interest income from cash and cash equivalents and short-term investments, interest on notes receivable, gains on sales of short-term investments, and other income. Interest and other income decreased for the third quarter and nine months ended September 30, 2011 as compared to the third quarter and nine months ended September 30, 2010, primarily as a result of decreased interest income due to reduced interest rates on cash, cash equivalents, and short-term investments.

<u>PROVISION FOR TAXES</u>	<u>September 30,</u>		<u>Change</u>	<u>% Change</u>
	<u>2011</u>	<u>2010</u>		
	(In thousands)			
Three months ended:				
Provision for income taxes	\$(428)	\$(336)	\$ (92)	27%
Loss from continuing operations before income taxes	\$(984)	\$(879)		
Effective tax rate	(43.5)%	(38.2)%		
Nine months ended:				
Provision for income taxes	\$(1,289)	\$ (1,098)	\$ (191)	17%
Loss from continuing operations before income taxes	\$(106)	\$ (2,652)		
Effective tax rate	(1216.0)%	(41.4)%		

Provision for Income Taxes – The income tax provision increased for the third quarter and nine months ended September 30, 2011 compared to the third quarter and nine months ended September 30, 2010 primarily due to increased foreign withholding tax expense as a result of increased revenues in certain Asian countries.

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DISCONTINUED OPERATIONS	September 30,		Change	% Change
	2011	2010		
	(In thousands)			
Three months ended:				
Gain on sales from discontinued operations (net of provision for income taxes)	\$ 0	\$ 82	\$ (82)	(100)%
% of total revenue	0%	1%		
Nine months ended:				
Gain on sales from discontinued operations (net of provision for income taxes)	\$ 61	\$ 143	\$ (82)	(57)%
% of total revenue	0%	1%		

Discontinued Operations – Gain on sales of discontinued operations net of taxes is primarily comprised of additional payments received from the sale in 2009 of our 3D family of products. The decrease in the gain on sales of discontinued operations net of taxes for the third quarter and nine months ended September 30, 2011 compared to the third quarter and nine months ended September 30, 2010 is primarily due to decreased payments received from the sale of our 3D family of products.

LIQUIDITY AND CAPITAL RESOURCES

Our cash, cash equivalents, and short-term investments consist primarily of money market funds and highly liquid commercial paper and U.S. Treasury securities. All of our short-term investments are classified as available-for-sale. The securities are stated at market value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss), within stockholders' equity.

On September 30, 2011, our cash, cash equivalents, and short-term investments totaled \$63.5 million, an increase of \$2.3 million from \$61.2 million on December 31, 2010.

Cash provided by (used in) operating activities

Net cash provided by operating activities during the nine months ended September 30, 2011 was \$2.2 million, an increase of \$3.4 million from the \$1.2 million used in operating activities during the nine months ended September 30, 2010. This reflects an increase of \$3.0 million from a net loss adjusted for non-cash items, including \$2.7 million of non-cash stock-based compensation, \$1.0 million in amortization and impairment or abandonment of intangibles, and \$717,000 in depreciation and amortization of property and equipment. Offsetting this increase, cash decreased by \$844,000 from changes in other operating assets and liabilities including a decrease of \$2.5 million due to a change in deferred revenue and customer advances mainly due to recognition of deferred revenue, a decrease of \$1.3 million due to a change in accrued compensation and other current liabilities, and a decrease of \$173,000 due to a change in inventories. These were offset by an increase in cash from a change in prepaid expenses and other current assets of \$3.1 million primarily reflecting a tax refund received.

Cash used in investing activities

Net cash used in investing activities during the nine months ended September 30, 2011 was \$2.3 million, compared to the \$5.5 million used in investing activities during the nine months ended September 30, 2010, a decreased use of cash of \$3.2 million. Net cash used in investing activities during the current period consisted of purchases of short-term investments of \$44.9 million and a \$2.4 million increase in intangibles primarily due to capitalization of external patent filings and application costs offset by maturities of short-term investments of \$45.0 million.

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Cash provided by financing activities

Net cash provided by financing activities during the nine months ended September 30, 2011 was \$2.4 million compared to the \$83,000 provided during the nine months ended September 30, 2010. Cash provided by financing activities during the nine months ended September 30, 2011 was due to the exercise of stock options and the issuance of common stock under the employee stock purchase plan.

We believe that our cash, cash equivalents, and short-term investments will be sufficient to meet our working capital needs for at least the next twelve months. We expect that there will likely be fewer needs of our working capital in 2011 compared to 2010 due to the divestiture of the medical simulation product lines. Our Board has approved commencing repurchases of our shares of common stock under the previously authorized Stock Repurchase Program which currently has \$31.4 million remaining. We will continue to protect and defend our extensive intellectual property portfolio, which also could result in increased use of cash. We anticipate that capital expenditures for property and equipment for the full year ended December 31, 2011 will be less than \$500,000. We anticipate that capitalization of external patent filing and application costs for the year ended December 31, 2011 will be approximately \$3 million. Cash flows from our discontinued operations have been included in our consolidated statement of cash flows with continuing operations within each cash flow category. The absence of cash flows from discontinued operations is not expected to affect our future liquidity or capital resources. Additionally, if we acquire one or more businesses, patents, or products, our cash or capital requirements could increase substantially. In the event of such an acquisition, or should any unanticipated circumstances arise that significantly increase our capital requirements, we may elect to raise additional capital through debt or equity financing. Any of these events could result in substantial dilution to our stockholders. There is no assurance that such additional capital will be available on terms acceptable to us, if at all.

SUMMARY DISCLOSURES ABOUT CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

On September 16, 2011, we entered into a Lease Termination Agreement effective as of December 31, 2011 with respect to the lease of our primary facilities of approximately 48,000 square feet in San Jose, California which was set to expire in June 2014. Pursuant to that agreement, we will be paid \$350,000, subject to our vacating the premises by December 31, 2011. On September 19, 2011, we entered into a new lease agreement for our primary facilities of approximately 33,000 square feet in San Jose, California which expires in December 2016 and can be extended to December 2021.

The following table reflects a summary of our contractual cash obligations and other commercial commitments as of September 30, 2011 (in thousands):

<u>Contractual Obligations</u>	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More Than 5 Years</u>
Operating Leases	\$ 2,488	\$ 425	\$ 1,005	\$ 952	\$ 106
Purchase Obligations	255	255	0	0	0
Total	<u>\$2,743</u>	<u>\$ 680</u>	<u>\$ 1,005</u>	<u>\$ 952</u>	<u>\$ 106</u>

As of September 30, 2011, we had a liability for unrecognized tax benefits totaling \$673,000 including interest of \$45,000, of which approximately \$244,000 could be payable in cash. Due to the uncertainties related to these tax matters, we are unable to make a reasonably reliable estimate of when cash settlement with a taxing authority will occur. Settlement of such amounts could require the utilization of working capital.

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RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 to the condensed consolidated financial statements for information regarding the effect of new accounting pronouncements on our financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in interest rates and foreign currency exchange rates. Changes in these factors may cause fluctuations in our earnings and cash flows. We evaluate and manage the exposure to these market risks as follows:

Cash Equivalents and Short-term Investments – We have cash equivalents and short-term investments of \$60.4 million as of September 30, 2011, which are subject to interest rate fluctuations. An increase in interest rates could adversely affect the market value of our cash equivalents and short-term investments. A hypothetical 100 basis point increase in interest rates would result in a decrease of approximately \$345,000 in the fair value of our cash equivalents and short-term investments as of September 30, 2011.

We limit our exposure to interest rate and credit risk by establishing and monitoring clear policies and guidelines for our cash equivalents and short-term investment portfolios. The primary objective of our policies is to preserve principal while at the same time maximizing yields, without significantly increasing risk. Our policy's guidelines also limit exposure to loss by limiting the sums we can invest in any individual security and restricting investments to securities that meet certain defined credit ratings. We do not use derivative financial instruments in our investment portfolio to manage interest rate risk.

Foreign Currency Exchange Rates – A substantial majority of our revenue, expense, and capital purchasing activities are transacted in U.S. dollars. However, we do incur certain operating costs for our foreign operations in other currencies but these operations are limited in scope and thus we are not materially exposed to foreign currency fluctuations. Additionally we have some reliance on international and export sales that are subject to the risks of fluctuations in currency exchange rates. Because a substantial majority of our international and export revenues, as well as expenses, are typically denominated in U.S. dollars, a strengthening of the U.S. dollar could cause our products to become relatively more expensive to customers in a particular country, leading to a reduction in sales or profitability in that country. We have no foreign exchange contracts, option contracts, or other foreign currency hedging arrangements and we do not expect to have such arrangements in the foreseeable future.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Based on their evaluation as of September 30, 2011, our management with the participation of our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective to ensure that the information required to be disclosed by us in this quarterly report on Form 10-Q was (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes to internal controls over financial reporting that occurred during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

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

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evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any within Immersion, have been detected.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In re Immersion Corporation Initial Public Offering Securities Litigation

We are involved in legal proceedings relating to a class action lawsuit filed on November 9, 2001 in the U. S. District Court for the Southern District of New York, *In re Immersion Corporation Initial Public Offering Securities Litigation*, No. Civ. 01-9975 (S.D.N.Y.), related to *In re Initial Public Offering Securities Litigation*, No. 21 MC 92 (S.D.N.Y.). The named defendants are Immersion and three of our current or former officers or directors (the “Immersion Defendants”), and certain underwriters of our November 12, 1999 initial public offering (“IPO”). Subsequently, two of the individual defendants stipulated to a dismissal without prejudice.

The operative amended complaint is brought on purported behalf of all persons who purchased our common stock from the date of our IPO through December 6, 2000. It alleges liability under Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, on the grounds that the registration statement for the IPO did not disclose that: (1) the underwriters agreed to allow certain customers to purchase shares in the IPO in exchange for excess commissions to be paid to the underwriters; and (2) the underwriters arranged for certain customers to purchase additional shares in the aftermarket at predetermined prices. The complaint also appears to allege that false or misleading analyst reports were issued. The complaint does not claim any specific amount of damages.

Similar allegations were made in other lawsuits challenging over 300 other initial public offerings and follow-on offerings conducted in 1999 and 2000. The cases were consolidated for pretrial purposes.

In September 2008, all of the parties to the lawsuits reached a settlement, subject to documentation and approval of the District Court. Subsequently, an underwriter defendant filed for bankruptcy and other underwriter defendants were acquired. On April 2, 2009, final documentation evidencing the settlement was presented to the District Court for approval. On October 6, 2009, the District Court approved the settlement, and the Court subsequently entered a judgment of dismissal. Under the judgment, the Immersion Defendants are not required to contribute to the settlement. Several notices of appeal have been filed by putative class members challenging the settlement. Subsequently, the District Court determined that none of the objectors had standing to appeal. One of the putative objectors has filed a notice of appeal of the determination as to him. We intend to defend the lawsuit vigorously.

In re Immersion Corporation Securities Litigation

In September and October 2009, various putative shareholder class action and derivative complaints were filed in federal and state court against us and certain current and former Immersion directors and officers.

On September 2, 2009, a securities class action complaint was filed in the United States District Court for the Northern District of California against us and certain of our current and former directors and officers. Over the following five weeks, four additional class action complaints were filed. (One of these four actions was later voluntarily dismissed.) The securities class action complaints name us and certain current and former Immersion directors and officers as defendants and allege violations of federal securities laws based on our issuance of allegedly misleading financial statements. The various complaints assert claims covering the period

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from May 2007 through July 2009 and seek compensatory damages allegedly sustained by the purported class members.

On December 21, 2009, these class actions were consolidated by the court as *In Re Immersion Corporation Securities Litigation*. On the same day, the court appointed a lead plaintiff and lead plaintiff's counsel. Following our restatement of financial statements, lead plaintiff filed a consolidated complaint on April 9, 2010. Defendants moved to dismiss the action on June 15, 2010 and that motion was granted on March 11, 2011. Lead plaintiff filed an amended complaint on April 29, 2011. Defendants moved to dismiss the amended complaint on July 1, 2011.

In re Immersion Corporation Derivative Litigation

On September 15, 2009, a putative shareholder derivative complaint was filed in the United States District Court for the Northern District of California, purportedly on behalf of us and naming certain of our current and former directors and officers as individual defendants. Thereafter, two additional putative derivative complaints were filed in the same court.

The derivative complaints arise from the same or similar alleged facts as the federal securities actions and seek to bring state law causes of action on behalf of us against the individual defendants for breaches of fiduciary duty, gross negligence, abuse of control, gross mismanagement, breach of contract, waste of corporate assets, unjust enrichment, as well as for violations of federal securities laws. The federal derivative complaints seek compensatory damages, corporate governance changes, unspecified equitable and injunctive relief, the imposition of a constructive trust, and restitution. On November 17, 2009, the court consolidated these actions as *In re Immersion Corporation Derivative Litigation* and appointed lead counsel. The court has issued an order staying this action.

Kasmer v. Immersion Corporation

On May 5, 2010, an action was filed in Delaware Chancery Court by a shareholder seeking to enforce a demand to inspect certain of our records pursuant to Section 220 of the Delaware General Corporation Law, as a possible prelude to the shareholder bringing a derivative action. We filed our answer on June 14, 2010, questioning whether a proper purpose for the records inspection had been stated and raising other defenses concerning the scope of the demand, among other deficiencies. Following a one-day trial on December 2, 2010, the Court significantly narrowed the scope of the demand and we responded accordingly. On October 24, 2011, the shareholder filed a motion seeking to compel further responses to the demand. We believe that our responses complied with the Court's ruling and therefore will be opposing the shareholder's motion.

We cannot predict the ultimate outcome of the above-mentioned federal and state actions, and we are unable to estimate any potential liability we may incur.

ITEM 1A. RISK FACTORS

As previously discussed, our actual results could differ materially from our forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to those discussed below. These and many other factors described in this report could adversely affect our operations, performance and financial condition.

Company Risks

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

The current economic conditions could materially hurt our business in a number of ways including, longer sales and renewal cycles, delays in adoption of our products or technologies, increased risk of competition, higher overhead costs as a percentage of revenue, delays in signing or failing to sign customer agreements, or signing customer agreements with reduced royalty rates. In addition, our customers,

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potential customers, and business partners are facing similar challenges, which could materially and adversely affect the level of business they conduct with us or in the level of sales of products that include our technology. Adverse economic conditions can lead to a reduction in corporate, university, or government budgets for research and development in sectors including the automotive, aerospace, mobility, and medical sectors, which use our products. Sales of our products or technology may be adversely affected by cuts in these research and development budgets.

If we are unable to enter into new licensing arrangements with our existing licensees and with additional third-party manufacturers for our touch-enabling technologies, our royalty revenue may not grow.

Our revenue growth is partially dependent on our ability to enter into new licensing arrangements. Our failure to enter into new or renewal of 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 competition we may face with the internal design teams of existing and potential licensees;

difficulties in persuading product manufacturers to work with us, to rely on us for critical technology, and to disclose to us proprietary product development and other strategies;

difficulties with persuading potential licensees who may have developed their own intellectual property or licensed intellectual property from other parties in areas related to ours to license our technology versus continuing to develop their own intellectual property or license intellectual property from other parties;

challenges in demonstrating the compelling value of our technologies in new applications like mobile phones, portable devices, and touchscreens;

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

difficulties in obtaining new licensees for yet-to-be commercialized technology because their suppliers may not be ready to meet stringent quality and parts availability requirements;

inability to sign new gaming licenses if the video console makers choose not to license third parties to make peripherals for their new consoles or if video console makers no longer require peripherals to play video games; and

reluctance of content developers, mobile phone manufacturers, and service providers to sign license agreements without a critical mass of other such inter-dependent supporters of the mobile phone industry also having a license, or without enough phones in the market that incorporate our technologies.

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

Three customers accounted for approximately 45% and 39% of our total revenues for the third quarter ended September 30, 2011 and 2010, respectively. Three customers accounted for approximately 44% and 34% of our total revenues for the nine months ended September 30, 2011 and 2010, respectively. We cannot be certain that customers that have accounted for significant revenue in past periods, individually or

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as a group, will continue to generate revenue in any future period. If we lose a major customer or group of customers, our revenue could decline if we are unable to replace revenue from other sources.

We had an accumulated deficit of \$106 million as of September 30, 2011, have a history of losses, and may not achieve or maintain profitability in the future.

Since 1997, we have incurred losses in all but six quarters. As of September 30, 2011, we had an accumulated deficit of \$106 million. We need to generate significant ongoing revenue to achieve and maintain consistent profitability. We anticipate that we will continue to incur expenses as we:

continue to develop our technologies;

increase our sales and marketing efforts;

attempt to expand the market for touch-enabled technologies and products and change our business;

protect and enforce our intellectual property;

pursue strategic relationships;

incur costs related to pending litigation;

acquire intellectual property or other assets from third-parties; and

invest in systems and processes to manage our business.

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

We have little or no control or influence on our licensees' design, manufacturing, promotion, distribution, or pricing of their products incorporating our touch-enabling technologies, upon which we generate royalty revenue.

A key part of our business strategy is to license our intellectual property to companies that manufacture and sell products incorporating our touch-enabling technologies. Sales of those products generate royalty and license revenue for us. For the third quarter ended September 30, 2011 and 2010, 90% and 79%, respectively, of our total revenues were royalty and license revenues. For the nine months ended September 30, 2011 and 2010, 88% and 72%, respectively, of our total revenues were royalty and license revenues. We do not control or influence the design, manufacture, quality control, promotion, distribution, or pricing of products that are manufactured and sold by our licensees, nor can we control consolidation within an industry which could either reduce the number of licensing products available or reduce royalty rates for the combined licensees. In addition, we generally do not have commitments from our licensees that they will continue to use our technologies in current or future products. As a result, products incorporating our technologies may not be brought to market, achieve commercial acceptance, or otherwise generate meaningful royalty revenue for us. For us to generate royalty revenue, licensees that pay us per-unit royalties must manufacture and distribute products incorporating our touch-enabling technologies in a timely fashion and generate consumer demand through marketing and other promotional activities. If our licensees' products fail to achieve commercial success or if products are recalled because of quality control problems, our revenues will not grow and could decline.

Peak demand may fluctuate from quarter to quarter for products that incorporate our technologies, especially in the video console gaming and computer gaming peripherals market. If our licensees do not ship products incorporating our touch-enabling technologies in a timely fashion or fail to achieve strong sales, we may not receive related royalty and license revenue.

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We have limited engineering, customer service, technical support, quality assurance and operations resources to design and fulfill favorable product delivery schedules and sufficient levels of quality in support of our different product areas. Products and services may not be delivered in a timely way, with sufficient levels of quality, or at all, which may reduce our revenue.

Engineering, customer service, technical support, quality assurance, and operations resources are deployed against a variety of different projects and programs to provide sufficient levels of quality necessary for channels and customers. Success in various markets may depend on timely deliveries and overall levels of sustained quality and customer service. Failure to provide favorable product and program deliverables and quality and customer service levels, or provide them at all, may disrupt channels and customers, harm our brand, and reduce our revenues.

Catastrophic events, such as natural disasters (including the recent earthquake and tsunami in Japan and the extensive flooding in Thailand), war, and acts of terrorism could disrupt the business of our customers, which could harm our business and results of operations.

The production processes and operations of our customers are susceptible to the occurrence of catastrophic events, such as natural disasters (including the recent earthquake and tsunami in Japan), war, and acts of terrorism, all of which are outside of our control. Any such events could cause a serious business disruption to our customers' ability to manufacture, distribute and sell products incorporating our touch-enabling technologies upon which we generate royalty revenue, which disruption may adversely affect our business and results of operation.

We may not be able to continue to derive significant revenues from makers of peripherals for popular video gaming platforms.

A significant portion of our gaming royalty revenues come from third-party peripheral makers who make licensed gaming products designed for use with popular video game console systems from Microsoft, Sony, and Nintendo. Video game console systems are closed, proprietary systems, and video game console system makers typically impose certain requirements or restrictions on third-party peripheral makers who wish to make peripherals that will be compatible with a particular video game console system. If third-party peripheral makers cannot or are not allowed to obtain or satisfy these requirements or restrictions, our gaming royalty revenues could be significantly reduced. Furthermore, should a significant video game console maker choose to omit touch-enabling capabilities from its console system or somehow restrict or impede the ability of third parties to make touch-enabling peripherals, it may very well lead our gaming licensees to stop making products with touch-enabling capabilities, thereby significantly reducing our gaming royalty revenues.

Under the terms of our agreement with Sony, Sony receives a royalty-free license to our worldwide portfolio of patents. This license permits Sony to make, use, and sell hardware, software, and services covered by our patents in its PS1, PS2, and PS3 systems for a fixed license payment. The PS3 console system was launched in late 2006 in the United States and Japan without force feedback capability. Sony has since released new PS3 controllers with vibration feedback. We do not know to what extent Sony will allow third-party peripheral makers to make licensed PS3 gaming products with vibration feedback to interface with the PS3 console. To the extent Sony selectively limits their licensing to leading third-party controller makers to make PS3 controllers with vibration feedback, our licensing revenue from third-party PS3 peripherals will continue to be severely limited. Our third party licensees continue to sell licensed PS2 peripherals. However, U.S. sales of PS2 peripherals continue to decline as more consumers switch to the PS3 console system and other next-generation console systems like the Nintendo Wii and Microsoft Xbox 360.

Both the Microsoft Xbox 360 and Nintendo Wii include touch-enabling capabilities. For the Microsoft Xbox 360 video console system launched in November 2005, Microsoft has, to date, not yet broadly licensed third parties to produce peripherals for its Xbox 360 game console. To the extent Microsoft does not fully license third parties, Microsoft's share of all aftermarket Xbox 360 game controller sales will likely remain high or increase, which we expect will limit our gaming royalty revenue.

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Our business depends in part on access to third-party platforms or technologies, and if the access is withdrawn, denied, or is not available on terms acceptable to us, or if the platforms or technologies change without notice to us, our business and operating results could be adversely affected.

Our product portfolio includes current and future products designed for use with third-party platforms or software. Our business in these categories relies on our access to the platforms of third parties, which can be withdrawn, denied or not be available on terms acceptable to us.

Our access to third-party platforms may require paying a royalty, which lowers our product margins, or may otherwise be on terms that are not acceptable to us. In addition, the third-party platforms or technologies used to interact with our product portfolio can be delayed in production or can change without prior notice to us, which can result in our having lower margins.

If we are unable to access third-party platforms or technologies, or if our access is withdrawn, denied, or is not available on terms acceptable to us, or if the platforms or technologies are delayed or change without notice to us, our business and operating results could be adversely affected.

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

Under the terms of our present agreement with Microsoft, Microsoft receives a royalty-free, perpetual, irrevocable license to our worldwide portfolio of patents. This license permits Microsoft to make, use, and sell hardware, software, and services, excluding specified products, covered by our patents. We will not receive any further revenues or royalties from Microsoft under our current agreement with Microsoft. Microsoft has a significant share of the market for touch-enabled console gaming computer peripherals and is pursuing other consumer markets such as mobile phones, PDAs, and portable music players. Microsoft has significantly greater financial, sales, and marketing resources, as well as greater name recognition and a larger customer base than some of our other licensees. In the event that Microsoft increases its share of these markets, our royalty revenue from other licensees in these market segments might decline.

The market for certain touch-enabling technologies and touch-enabled products is at an early stage and if market demand does not develop, we may not achieve or sustain revenue growth.

The market for certain of our touch-enabling technologies and certain of our licensees' touch-enabled products is at an early stage. If we and our licensees are unable to develop demand for our touch-enabling technologies and touch-enabled products, we may not achieve or sustain revenue growth. We cannot accurately predict the growth of the markets for these technologies and products, the timing of product introductions, or the timing of commercial acceptance of these products.

Even if our touch-enabling technologies and our licensees' touch-enabled products are ultimately widely adopted, widespread adoption may take a long time to occur. The timing and amount of royalties and product sales that we receive will depend on whether the products marketed 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, component customers, and end users about the uses and benefits of our technologies and to persuade software developers to create software that utilizes our technologies. Negative product reviews or publicity about our company, our products, our licensees' products, haptic features, or haptic technology in general could have a negative impact on market adoption, our revenue, and/or our ability to license our technologies in the future.

If we fail to protect and enforce our intellectual property rights, our ability to license our technologies and generate revenues would be impaired.

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Our business depends on generating revenues by licensing our intellectual property rights and by customers selling products that incorporate our technologies. We rely on our significant patent portfolio to protect our proprietary rights. If we are not able to protect and enforce those rights, our ability to obtain future licenses or maintain current licenses and royalty revenue could be impaired. In addition, if a court or the patent office were to limit the scope, declare unenforceable, or invalidate any of our patents, current licensees may refuse to make royalty payments, or they may choose to challenge one or more of our patents. It is also 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; and

effective patent protection may not be available in every country, particularly in Asia, in which we or our licensees do business.

We also rely on licenses, confidentiality agreements, other contractual 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 patented technologies, trademarks, and other proprietary rights would be difficult, expensive, and time-consuming, within and particularly outside of the United States of America.

Litigation regarding intellectual property rights could be expensive, disruptive, and time consuming; could result in the impairment or loss of portions of our intellectual property; and could adversely affect our business.

Intellectual property litigation, whether brought by us or by others against us, has caused us to expend, and may cause us to expend in future periods, significant financial resources as well as divert management's time and efforts. From time to time, we initiate claims against third parties that we believe infringe our intellectual property rights. We intend to enforce our intellectual property rights vigorously and may initiate litigation against parties that we believe are infringing our intellectual property rights if we are unable to resolve matters satisfactorily through negotiation. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming, and difficult to pursue in certain venues, and distracting to management and potential customers and could result in the impairment or loss of portions of our intellectual property. In addition, any litigation in which we are accused of infringement may cause product shipment delays, require us to develop non-infringing technologies, 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 could be enjoined from the continued use of the technologies 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 may not be able to develop non-infringing technologies or license the infringed or similar technologies on a timely and cost-effective basis, our expenses could increase and our revenues could decrease.

While we attempt to avoid infringing known proprietary rights of 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. From time to time, we have received letters from 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 licensees may receive similar letters from these or other companies from time to time. Such letters or

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subsequent litigation may influence our licensees' decisions whether to ship products incorporating our technologies. In addition, such letters may cause a dispute between our licensees and us over indemnification for the infringement claim. Any of these notices, or additional notices that we or our licensees could receive in the future from these or other companies, could lead to litigation against us, either regarding the infringement claim or the indemnification claim.

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 technologies and indemnification to cover any breach of these representations. However, representations may not be accurate and indemnification may not provide adequate compensation for breach of the representations. Intellectual property claims against our licensees, or us, whether or not they have merit, could be time-consuming to defend, cause product shipment delays, require us to pay damages, harm existing license arrangements, or require us or our licensees to cease utilizing the technologies unless we can enter into licensing agreements. Licensing agreements might not be available on terms acceptable to us or at all. Furthermore, claims by third parties against our licensees could also result in claims by our licensees against us for indemnification.

The legal principles applicable to patents and patent licenses continue to change and evolve. Legislation and judicial decisions that make it easier for patent licensees to challenge the validity, enforceability, or infringement of patents, or make it more difficult for patent licensors to obtain a permanent injunction, obtain enhanced damages for willful infringement, or to obtain or enforce patents, may adversely affect our business and the value of our patent portfolio. Furthermore, our prospects for future revenue growth through our royalty and licensing based businesses could be diminished.

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

We have entered into, and we expect to continue to enter into, agreements pursuant to which our licensees are granted rights under our technology and intellectual property. These rights may be granted in certain fields of use, or with respect to certain market sectors or product categories, and may include exclusive rights or sublicensing rights. We refer to the license terms and restrictions in our agreements, including, but not limited to, field of use definitions, market sector, and product category definitions, collectively as "License Provisions."

Due to the continuing evolution of market sectors, product categories, and licensee business models, and to the compromises inherent in the drafting and negotiation of License Provisions, our licensees may, at some time during the term of their agreements with us, interpret License Provisions in their agreements in a way that is different from our interpretation of such License Provisions, or in a way that is in conflict with the rights that we have granted to other licensees. Such interpretations by our licensees may lead to claims that we have granted rights to one licensee which are inconsistent with the rights that we have granted to another licensee.

In addition, after we enter into an agreement, it is possible that markets and/or products, or legal and/or regulatory environments, will evolve in a manner that we did not foresee or was not foreseeable at the time we entered into the agreement. As a result, in any agreement, we may have granted rights that will preclude or restrict our exploitation of new opportunities that arise after the execution of the agreement.

If we fail to develop new or enhanced technologies for new applications and platforms, we may not be able to create a market for our technologies or our technologies may become obsolete, and our ability to grow and our results of operations might be harmed.

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Our initiatives to develop new and enhanced technologies and to commercialize these technologies for new applications and new platforms may not be successful or timely. Any new or enhanced technologies may not be favorably received by consumers and could damage our reputation or our brand. Expanding our technologies could also require significant additional expenses and strain our management, financial, and operational resources.

Moreover, technology products generally have relatively short product life cycles and our current products may become obsolete in the future. Our ability to generate revenues will be harmed if:

we fail to develop new technologies or products;

the technologies we develop infringe on third-party patents or other third-party rights;

our new technologies fail to gain market acceptance; or

our current products become obsolete or no longer meet new regulatory requirements.

Our ability to achieve revenue growth also depends on our continuing ability to improve and reduce the cost of our technologies, to improve their ease of integration in both hardware and software, 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.

The higher cost of products incorporating our touch-enabling technologies may inhibit or prevent their widespread adoption.

Mobile devices, touchscreens, personal computer and console gaming peripherals, and automotive and industrial controls incorporating our touch-enabling technologies can be more expensive than similar competitive products that are not touch-enabled. Although major manufacturers, such as ALPS Electric Co., BMW, LG Electronics, Logitech, Microsoft, Nokia, Samsung, and Sony have licensed our technologies, the greater expense of development and production of products containing our touch-enabling technologies, together with the higher price to the end customer, may be a significant barrier to their widespread adoption and sale. Accordingly, we may not receive a material amount of royalties from more expensive products.

Our customers may have difficulties obtaining the components necessary to manufacture haptic-based products, which could harm our business and results of operations.

In order to manufacture haptic-based products, our customers require components such as actuators and amplifiers. The inability of suppliers to deliver adequate supplies of these components could disrupt our customers' production processes which would harm our business and results of operations. In addition, our newer products require new types of components that we expect will be developed and sold by our ecosystem partners. Failure of our ecosystem partners to bring these products to market in a timely fashion and at attractive price points may affect our ability to secure customers for these newer products which could harm our business and results of operations.

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

We have seen, and believe that we will continue to see, an increase in customers requesting that we develop products that will operate in an "open source" environment. Developing open source compliant products, without imperiling the intellectual property rights upon which our licensing business depends, may prove difficult under certain circumstances, thereby placing us at a competitive disadvantage for new product designs. As a result, our revenues may not grow and could decline.

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Certain terms or rights granted in our license agreements or our development contracts may limit our future revenue opportunities.

While it is not our general practice to sign license agreements that provide exclusive rights for a period of time with respect to a technology, field of use, and/or geography, or to accept similar limitations in product development contracts, we have entered into such agreements and may in the future. Although additional compensation or other benefits may be part of the agreement, the compensation or benefits may not adequately compensate us for the limitations or restrictions we have agreed to as that particular market develops. Over the life of the exclusivity period, especially in markets that grow larger or faster than anticipated, our revenue may be limited and less than what we could have achieved in the market with several licensees or additional products available to sell to a specific set of customers.

The markets in which we participate or may target in the future are intensely competitive, and if we do not compete effectively, our operating results could be harmed.

Our target markets are rapidly evolving and highly competitive. Many of our competitors and potential competitors are larger and have greater name recognition, much longer operating histories, larger marketing budgets, and significantly greater resources than we do, and with the introduction of new technologies and market entrants, we expect competition to intensify in the future. We believe that competition in these markets will continue to be intense and that competitive pressures will drive the price of our products and our licensees' products downward. These price reductions, if not offset by increases in unit sales or productivity, will cause our revenues to decline. If we fail to compete effectively, our business will be harmed. Some of our principal competitors offer their products or services at a lower price, which has resulted in pricing pressures. If we are unable to achieve our target pricing levels, our operating results would be negatively impacted. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins, losses, or the failure of our application suite to achieve or maintain more widespread market acceptance, any of which could harm our business.

We face competition from internal design teams of existing and potential OEM customers. In addition, as a result of their licenses to our patent portfolios, we could face competition from Microsoft and Sony. Our licensees or other third parties may also seek to develop products using our intellectual property or develop alternative designs that attempt to circumvent our intellectual property or that they believe do not require a license under our intellectual property. These potential competitors may have significantly greater financial, technical, and marketing resources than we do, and the costs associated with asserting our intellectual property rights against such products and such potential competitors could be significant. Moreover, if such alternative designs were determined by a court not to require a license under our intellectual property rights, competition from such unlicensed products could limit or reduce our revenues.

Additionally, if haptic technology gains market acceptance, more research by universities and/or corporations or other parties may be performed potentially leading to strong intellectual property positions by third parties in certain areas of haptics or the launch of haptics products before we commercialize our own technology.

Many of our current and potential competitors, including Microsoft, are able to devote greater resources to the development, promotion, and sale of their products and services. In addition, many of our competitors have established marketing relationships or access to larger customer bases, distributors, and other business partners. As a result, our competitors might be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. Further, some potential customers, particularly large enterprises, may elect to develop their own internal solutions. For all of these reasons, we may not be able to compete successfully against our current and future competitors.

Winning business is subject to a competitive selection process that can be lengthy and requires us to incur significant expense, and we may not be selected.

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Our primary focus is on winning competitive bid selection processes, known as “design wins,” so that haptics will be included in our customers’ equipment. These selection processes can be lengthy and can require us to incur significant design and development expenditures. We may not win the competitive selection process and may never generate any revenue despite incurring significant design and development expenditures. Because we typically focus on only a few customers in a product area, the loss of a design win can sometimes result in our failure to get haptics added to new generation products. This can result in lost sales and could hurt our position in future competitive selection processes because we may not be perceived as being a technology leader.

After winning a product design for one of our customers, we may still experience delays in generating revenue from our products as a result of the lengthy development and design cycle. In addition, a delay or cancellation of a customer’s plans could significantly adversely affect our financial results, as we may have incurred significant expense and generated no revenue. Finally, if our customers fail to successfully market and sell their equipment it could materially adversely affect our business, financial condition, and results of operations as the demand for our products falls.

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

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

Our international expansion efforts subject us to additional risks and costs.

We currently have sales personnel in Finland, Japan, Korea, Switzerland, and Taiwan and we intend to expand our international activities. International operations are subject to a number of difficulties and special costs, including:

compliance with multiple, conflicting and changing governmental laws and regulations;

laws and business practices favoring local competitors;

foreign exchange and currency risks;

difficulty in collecting accounts receivable or longer payment cycles;

import and export restrictions and tariffs;

difficulties staffing and managing foreign operations;

difficulties and expense in enforcing intellectual property rights;

business risks, including fluctuations in demand for our products and the cost and effort to conduct international operations and travel abroad to promote international distribution and overall global economic conditions;

multiple conflicting tax laws and regulations;

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political and economic instability; and

an outbreak of hostilities in markets where major customers are located, including Korea.

Our international operations could also increase our exposure to international laws and regulations. If we cannot comply with foreign laws and regulations, which are often complex and subject to variation and unexpected changes, we could incur unexpected costs and potential litigation. For example, the governments of foreign countries might attempt to regulate our products or levy sales or other taxes relating to our activities. In addition, foreign countries may impose tariffs, duties, price controls, or other restrictions on foreign currencies or trade barriers, any of which could make it more difficult for us to conduct our business.

We might be unable to retain or recruit necessary personnel, which could slow the development and deployment of our technologies.

Our technologies are complex and we rely upon the continued service of our existing personnel to support licensees, enhance existing technologies, and develop new technologies. Accordingly, our ability to develop and deploy our technologies and to sustain our revenue growth depends upon the continued service of our management and other key personnel, many of whom would be difficult to replace. Furthermore, we believe that there are a limited number of engineering and technical personnel that are experienced in haptics. Management and other key employees may voluntarily terminate their employment with us at any time upon short notice. The loss of management or key personnel could delay product development cycles or otherwise harm our business.

We believe that our future success will also depend largely on our ability to attract, integrate, and retain sales, support, marketing, and research and development personnel. Competition for such personnel is intense, and we may not be successful in attracting, integrating, and retaining such personnel. Given the protracted nature of if, how, and when we collect royalties on new design contracts, it may be difficult to craft compensation plans that will attract and retain the level of salesmanship needed to secure these contracts. Additionally some of our executive officers and key employees hold stock options with exercise prices above the current market price of our common stock or that are largely vested. Each of these factors may impair our ability to retain the services of our executive officers and key employees.

Our current litigation is expensive, disruptive, and time consuming, and will continue to be, until resolved, and regardless of whether we are ultimately successful, could adversely affect our business.

We are currently a party to various legal proceedings. Due to the inherent uncertainties of litigation, we cannot accurately predict how these cases will ultimately be resolved. We anticipate that currently pending litigation will continue to be costly and that future litigation or investigations will result in additional legal expenses, and there can be no assurance that we will be successful or able to recover the costs we incur in connection with litigation or investigations. We expense litigation and investigatory costs as incurred, and only accrue for costs that have been incurred but not paid to the vendor as of the financial statement date. Litigation and investigations have diverted, and could continue to divert, the efforts and attention of some of our key management and personnel. As a result, until such time as it is resolved or concluded, litigation and investigations could adversely affect our business. Further, any unfavorable outcome could adversely affect our business. For additional background on this and our other litigation, please see Note 16 to the condensed consolidated financial statements and Item 1 “Legal Proceedings” of Part II.

Product liability claims could be time-consuming and costly to defend and could expose us to loss.

Our products or our licensees’ products may have flaws or other defects that may lead to personal or other injury claims. If products that we or our licensees sell cause personal injury, property 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. In addition, even though we have transitioned from the medical products business,

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we could face product liability claims for products that we have sold or that our successors may sell in the future. Defending any claims against us, regardless of merit, would be time-consuming, expensive to defend, and distracting to management, and could result in damages and injure our reputation, the reputation of our technology and services, and/or the reputation of our products, or the reputation of our licensees or their products. This damage could limit the market for our and our licensees' products and harm our results of operations. In addition, if our business liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our business, operating results and financial condition could be adversely affected.

In the past, manufacturers of peripheral products including certain gaming products such as joysticks, wheels, or gamepads, 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. While we have not experienced any product liability claims to date, we could face such claims in the future, which could harm our business and reputation. 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.

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

Any failure to provide high quality and reliable products, whether caused by our own failure or failures of our suppliers or OEM customers, could damage our reputation and reduce demand for our products. Our products have in the past contained, and may in the future contain, undetected errors or defects. Some errors in our products may only be discovered after a product has been shipped to customers. Any errors or defects discovered in our products after commercial release could result in loss of revenue, loss of customers, and increased service and warranty costs, any of which could adversely affect our business.

The nature of some of our products may also subject us to export control regulation by the U.S. Department of State and the Department of Commerce. Violations of these regulations can result in monetary penalties and denial of export privileges.

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

Compliance with directives that restrict the use of certain materials may increase our costs and limit our revenue opportunities.

Our products and packaging must meet all safety, electrical, labeling, marking, or other requirements of the countries into which we ship products or our resellers sell our products. We have to assess each product and determine whether it complies with the requirements of local regulations or whether they are exempt from meeting the requirements of the regulations. If we determine that a product is not exempt and does not comply with adopted regulations, we will have to make changes to the product or its documentation if we want to sell that product into the region once the regulations become effective. Making such changes may be costly to perform and may have a negative impact on our results of operations. In addition, there can be no assurance that the national enforcement bodies of the regions adopting such regulations will agree with our assessment that certain of our products and documentation comply with or are exempt from the regulations. If products are determined not to be compliant or exempt,

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we will not be able to ship them in the region that adopts such regulations until such time that they are compliant, and this may have a negative impact on our revenue and results of operations.

If our facilities were to experience catastrophic loss, our operations would be seriously harmed.

Our facilities could be subject to a catastrophic loss such as fire, flood, earthquake, power outage, or terrorist activity. A substantial portion of our research and development activities, operations, our corporate headquarters, and other critical business operations are located near major earthquake faults in San Jose, California, an area with a history of seismic events. An earthquake at or near our facilities could disrupt our operations and result in large expenses to repair and replace the facility. While we believe that we maintain insurance sufficient to cover most long-term potential losses at our facilities, our existing insurance may not be adequate for all possible losses.

We use contract manufacturers and may have difficulties obtaining the products that we need. This could harm our ability to meet our customers' demand for our products.

We rely on a limited number of contract manufacturers and suppliers for our products. The inability of such contract manufacturers or suppliers to deliver adequate inventory could make it difficult to ship products ordered by our customers. We also have limited influence on contract manufacturers operations. There is risk that the manufacture, quality control, operations, controls, and distribution might not be up to our standards. The occurrence of any of these could harm our business and results of operations.

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

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

We do not expect that our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company will have been detected.

Investment Risks

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

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

These factors include:

the establishment or loss of licensing relationships;

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the timing and recognition of payments under fixed and/or up-front license agreements;

seasonality in the demand for our products or our licensees' products;

the timing of our expenses, including costs related to litigation, stock-based awards, acquisitions of technologies, or businesses;

development in any pending litigation;

the timing of introductions and market acceptance of new products and product enhancements by us, our licensees, our competitors, or their competitors; and

the timing of work performed under development agreements.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our reported results of operations.

A change in accounting standards or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

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

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, and the rules and regulations of The NASDAQ Stock Market. The requirements of these rules and regulations have increased and we expect will continue to increase our legal, accounting and financial compliance costs, will make some activities more difficult, time-consuming and costly and may also place undue strain on our personnel, systems and resources.

Our stock price may fluctuate regardless of our performance.

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

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

Any repurchases pursuant to our stock repurchase program could affect our stock price and add volatility. There can be no assurance that any repurchases will actually be made under the program, nor is

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there any assurance that a sufficient number of shares of our common stock will be repurchased to satisfy the market's expectations. Furthermore, there can be no assurance that any repurchases conducted under the plan will be made at the best possible price. The existence of a stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, we are permitted to and could discontinue our stock repurchase program at any time and any such discontinuation could cause the market price of our stock to decline.

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

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

our board of directors is classified into three classes of directors with staggered three-year terms;

only our chairperson of the board of directors, a majority of our board of directors or 10% or greater stockholders are authorized to call a special meeting of stockholders;

our stockholders can only take action at a meeting of stockholders and not by written consent;

vacancies on our board of directors can be filled only by our board of directors and not by our stockholders;

our restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval; and

advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

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

We may engage in acquisitions that could dilute stockholders' interests, divert management attention, or cause integration problems.

As part of our business strategy, we have in the past and may 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. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating, and pursuing suitable acquisitions, whether or not they are consummated.

If we consummate acquisitions through the issuance of our securities, our stockholders could suffer significant dilution. Acquisitions could also 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;

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failure to realize the anticipated benefits of acquired intellectual property or other assets;

charges associated with amortization of acquired assets or potential charges for write-down of assets associated with unsuccessful acquisitions;

potential intellectual property infringement claims related to newly-acquired product lines; and

potential costs associated with failed acquisition efforts.

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

As our business grows, such growth may place a significant strain on our management and operations and, as a result, our business may suffer.

We plan to continue expanding our business, and any significant growth could place a significant strain on our management systems, infrastructure and other resources. We are in the process of considering implementing additional automated system functionality. If we go forward with these system enhancements, we may encounter problems with the implementation of these systems or we may have difficulties preparing or tracking internal information which could adversely affect our financial results. We will need to continue to invest the necessary capital to upgrade and improve our operational, financial and management reporting systems. If our management fails to manage our growth effectively, we could experience increased costs, declines in product quality, or customer satisfaction, which could harm our business.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Below is a summary of stock repurchases for the quarter ending September 30, 2011. See Note 10 of our condensed consolidated financial statements for information regarding our stock repurchase program.

Program/Period (1)	Shares Repurchased (2)	Average Price Per Share	Approximate Dollar Value that May Yet Be Purchased Under the Program
Beginning approximate dollar value available to be repurchased as of June 30, 2011			\$31,610,649
July 1 – July 31, 2011	0	\$ 0.00	
August 1 – August 31, 2011	0	0.00	
September 1 – September 30, 2011	31,214	6.02	
Total shares repurchased	<u>31,214</u>	\$ 6.02	<u>187,777</u>
Ending approximate dollar value that may be repurchased under the Program as of September 30, 2011			<u>\$31,422,872</u>

(1) On November 1, 2007, our Board of Directors authorized a share repurchase program of up to \$50,000,000. This share repurchase authorization has no expiration date and does not require us to repurchase a specific number of shares. The timing and amount of any share repurchase will depend on the share price, corporate and regulatory requirements, economic and market conditions, and other factors. The repurchase authorization may be modified, suspended, or discontinued at any time.

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(2) All shares were repurchased on the open market as part of the plan publicly announced on November 1, 2007. The repurchases were effected by a single broker in market transactions at prevailing market prices net of transaction costs pursuant to a trading plan designed to satisfy the conditions of Rule 10b5-1 under the Securities and Exchange Act of 1934, as amended.

ITEM 6. EXHIBITS

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

SIGNATURES

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

Date: November 7, 2011

IMMERSION CORPORATION

By /s/ Shum Mukherjee
 Shum Mukherjee
Chief Financial Officer and Principal Accounting Officer

EXHIBIT INDEX

Exhibit Number	Description
10.1	Lease Termination agreement between Super Micro Computer, Inc. and Immersion Corporation dated September 15, 2011.
10.2	Office Lease between Carr NP Properties, L.L.C., and Immersion Corporation dated September 15, 2011.
31.1	Certification of Victor Viegas, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Shum Mukherjee, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Victor Viegas, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Shum Mukherjee, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	Part 1, Item 1 of this Form 10-Q formatted in XBRL.

LEASE TERMINATION AGREEMENT

THIS LEASE TERMINATION AGREEMENT (“AGREEMENT”) IS MADE EFFECTIVE THIS 9TH DAY OF SEPTEMBER 2011, BY AND BETWEEN IMMERSION CORPORATION, A DELAWARE CORPORATION AS (“TENANT”) AND SUPERMICRO COMPUTER, INC., A DELAWARE CORPORATION AS SUCCESSOR-IN-INTEREST TO THE IRVINE COMPANY LLC, A DELAWARE LIMITED LIABILITY COMPANY AS (“LANDLORD”).

1. **RECITALS:** This Agreement is made with references to the following facts and objectives:
 - a. Landlord and Tenant entered into that certain Lease dated for reference purposes only, January 11, 2000 and subsequent First Amendment to Lease dated March 17, 2004 and Second Lease Amendment dated January 15, 2009 (“Lease”), wherein Landlord leased to Tenant, and Tenant hired from Landlord certain premises (the “Premises”) located in the City of San Jose, California described as approximately 47, 668 rentable square feet of a larger building, commonly known as 801 Fox Lane, San Jose, CA.
 - b. The parties wish to terminate the Lease affecting the Premises so that Landlord and Tenant can be released and discharged from further performance of the Lease provisions.
2. **TERMINATION OF LEASE FOR 801 FOX LANE, SAN JOSE, CA:** Upon full execution of this Agreement the Lease shall be fully and finally surrendered and terminated as of December 31, 2011 provided that all of the terms and conditions of this Agreement are adhered to by Tenant and Landlord.
3. **RELEASE OF LIABILITY:** Conditioned on their performance of the provisions of this Agreement, Landlord and Tenant shall as of December 31, 2011, be fully released and discharged from their respective obligations and liabilities arising from or connected with the provisions of the Lease, except as noted below, and except for provisions that survive the expiration or earlier termination of the Lease.
4. **SURRENDER OF PREMISES:** Tenant shall surrender possession of the Premises to Landlord no later than December 31, 2011. Said Premises shall be neat and orderly with all personal property removed, and surrendered to Landlord pursuant to the provisions of Section 15.3 of the Lease; provided, however, that Landlord acknowledges that Tenant shall have no duty to remove any alterations, additions or improvements that Tenant made to the Premises prior to the date of this Agreement. In the event Tenant removes any alterations and/or equipment resulting in damages to the Premises, Tenant shall promptly restore the areas so affected to Landlord’ s sole satisfaction.
5. **CONSIDERATION BY LANDLORD:** Provided that Tenant has vacated the Premises as of December 31, 2011, in consideration for this release contained herein, Landlord shall pay Tenant the sum of THREE HUNDRED FIFTY THOUSAND DOLLARS EXACTLY (\$350,000.00) no later than January 6, 2012.
6. **TENANT’ S REPRESENTATION:** Tenant represents that it has not made any assignment, sublease, transfer, conveyance or any other disposition of the Lease or any interest in the Lease.

7. **MISCELLANEOUS:**

a. Voluntary Agreements:

The parties have read the Agreement and the mutual releases contained herein, and on advice of counsel, they have freely and voluntarily entered into this Agreement.

b. Attorney' s Fees:

If either party commences an action against the other party arising out of or in connection with this Agreement, the prevailing party shall be entitled to recover from the party reasonable attorney' s fees and cost of suit.

c. Security Deposit:

The Security Deposit on file in the amount of \$82,847.00 shall be administered per the terms of the Lease.

d. Successors:

This Agreement shall be binding on and insure to the benefit of the parties and their respective successors in interest.

e. Authority:

The person signing this Agreement on behalf of Tenant or Landlord represents and warrants that such person is duly authorized by Tenant or Landlord to execute this Agreement and that no other signature or authorization is necessary to bind Tenant or Landlord.

f. Entire Agreement:

This Agreement is the entire agreement between the parties concerning the subjects contained in this Agreement.

g. Counterparts:

This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement this 15th day of September, 2011.

TENANT: IMMERSION CORPORATION, A DELAWARE CORPORATION

BY: /s/ Sumanta Mukherjee

NAME: Sumanta Mukherjee

TITLE: Chief Financial Officer

LANDLORD: SUPERMICRO COMPUTER, INC., A DELAWARE CORPORATION

BY: /s/ Robert Aeschliman

NAME: Robert Aeschliman

TITLE: General Counsel

OFFICE LEASE
RIO ROBLES TECHNOLOGY PARK

This Office Lease (this “**Lease**”), dated as of the date set forth in Section 1.1, is made by and between **CARR NP PROPERTIES, L.L.C.**, a Delaware limited liability company (“**Landlord**”), and **IMMERSION CORPORATION**, a Delaware corporation (“**Tenant**”). The following exhibits are incorporated herein and made a part hereof: **Exhibit A** (Outline of Premises); **Exhibit B** (Work Letter); **Exhibit C** (Form of Confirmation Letter); **Exhibit D** (Rules and Regulations); **Exhibit E** (Judicial Reference); **Exhibit F** (Additional Provisions); **Exhibit G** (Hazardous Materials Disclosure Certificate); **Exhibit H** (Form of SNDA); and **Exhibit I** (Existing Personal Property).

BASIC LEASE INFORMATION

<u>TERMS OF LEASE</u>	<u>DESCRIPTION</u>
1. Date:	September 15, 2011
2. Premises.	
2.1 “ Building ”:	30 Rio Robles Drive, San Jose, California.
2.2 “ Premises ”:	Subject to <u>Section 1.1.1</u> , 32,881 rentable square feet of space comprising the entirety of the interior of the Building, the outline and location of which is set forth in Exhibit A .
2.3 “ Property ”:	The Building, the parcel(s) of land upon which it is located, and, at Landlord’s discretion, any parking facilities and other improvements serving the Building and the parcel(s) of land upon which such parking facilities and other improvements are located.
2.4 “ Project ”:	The office/R&D project, consisting of seven (7) buildings, and commonly known as RIO ROBLES TECHNOLOGY PARK , including (i) the Common Areas (as defined in <u>Section 1.2</u> below), and (ii) the land (which is improved with landscaping, above ground and subterranean parking facilities and other improvements) upon which such buildings and the Common Areas are located.
3. Term.	
3.1 Term:	The term of this Lease (the “ Term ”) shall commence on the Commencement Date and end on the Expiration Date (or any earlier date on which this Lease is terminated as provided herein).
3.2 “ Commencement Date ”:	The later of (i) ninety (90) days following the Premises Delivery Dale (as the same may be extended for Landlord Delays (as defined in the Work Letter)) or (ii) January 1, 2012.
3.3 “ Expiration Date ”:	The last day of the sixtieth (60th) full calendar month commencing on or after the Commencement Date.

4. **“Base Rent”**:

Period During Term	Monthly Base Rent Per Rentable Square Foot (rounded to the nearest 100th of a dollar)	Monthly Installment of Base Rent	Annual Base Rent
Commencement Date through last day of 12th full calendar month of Term	\$ 0.95	\$31,236.95	\$374,843.40
13th through 24th full calendar months of Term	\$ 0.98	\$32,174.06	\$386,088.70
25th through 36th full calendar months of Term	\$ 1.01	\$33,139.28	\$397,671.36
37th through 48th full calendar months of Term	\$ 1.04	\$34,133.46	\$409,601.50
49th full calendar month of Term through Expiration Date	\$ 1.07	\$35,157.46	\$421,889.55

Notwithstanding the foregoing, so long as no Default (defined in [Section 19.1](#)) exists, Tenant shall be entitled to an abatement of Base Rent, in the amount of \$124,947.80, which shall be applied, in equal installments of \$31,236.95, to the first 4 monthly installments of Base Rent payable by Tenant under this Lease.

5. Intentionally Omitted.
6. **“Tenant’s Share”**: 100%
7. **“Permitted Use”**: R&D Use (defined below). As used herein, **“R&D Use”** means general office, laboratory, research and development, warehousing, sales, marketing, storage of materials, shipping and receiving, and related purposes.
8. **“Security Deposit”**: \$100,000.00, as more particularly described in [Section 21](#).
 Prepaid Base Rent: \$31,236.95, as more particularly described in [Section 3](#).
 Prepaid Additional Rent: \$12,116.65, as more particularly described in [Section 3](#).
9. **Parking**: One hundred twenty-eight (128) unreserved parking spaces, of which Tenant shall be entitled to designate five (5) reserved spaces as visitor or guest parking, subject to applicable Laws (defined in [Article 5](#)), including any applicable transportation management program applicable to the Project. Such reserved spaces shall be located at or near the front of the Building, and shall be designated by signs or other markings to be installed by Tenant, subject to Landlord’s reasonable approval. Notwithstanding the foregoing, Tenant acknowledges and agrees that Landlord shall have no responsibility to enforce any restrictions on the use of the reserved spaces by other tenants of the Project or their employees or visitors.

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10. Address of Tenant: Before the Commencement Date:
Immersion Corporation
801 Fox Lane
San Jose, CA 95131
Attn: General Counsel
- From and after the Commencement Date:
30 Rio Robles Drive
San Jose, California 95134
Attn: General Counsel
11. Address of Landlord: Carr NP Properties, L.L.C.
2655 Campus Drive, Suite 100
San Mateo, CA 94403
Attn: Market Officer
- with copies to:
Equity Office
2655 Campus Drive, Suite 100
San Mateo, CA 94403
Attn: Managing Counsel
- and
Equity Office
Two North Riverside Plaza
Suite 2100
Chicago, IL 60606
Attn: Lease Administration
12. Broker(s): Jones Lang LaSalle (“**Tenant’ s Broker**”), representing
Tenant, and CB Richard Ellis (“**Landlord’ s Broker**”),
representing Landlord.
13. [Intentionally Omitted.]
14. [Intentionally Omitted.]
15. “**Tenant
Improvements**”: Defined in Exhibit B.
16. “**Guarantor**”: As of the date hereof, there is no Guarantor.

1. PREMISES AND COMMON AREAS.

1.1 The Premises.

1.1.1 Subject to the terms hereof, Landlord hereby leases the Premises to Tenant and Tenant hereby leases the Premises from Landlord. Landlord and Tenant acknowledge that the rentable square footage of the Premises is as set forth in Section 2.2 of the Basic Lease Information. At any time Landlord may deliver to Tenant a notice substantially in the form of **Exhibit C**, as a confirmation of the information set forth therein. Tenant shall execute and return (or, by notice to Landlord, reasonably object to) such notice within five (5) business days after receiving it, and if Tenant fails to do so, Tenant shall be deemed to have executed and returned it without exception.

1.1.2 Landlord shall use commercially reasonable efforts to deliver possession of the Premises to Tenant (the “**Premises Delivery Date**”) immediately following the mutual execution and delivery of this Lease by Landlord and Tenant, and, except as specifically set forth in this Lease, Tenant agrees to accept the Premises in their condition and configuration existing on the date hereof, without any obligation of Landlord to provide or pay for any work or services related to the improvement of the Premises, and without any representation or warranty regarding the condition of the Premises or the Project or their suitability for the conduct of Tenant’ s business; provided, however, that, on the Premises Delivery Date, the Base Building Systems (as defined below), the roof, the foundation and the structural elements of the Premises (collectively, the “**Base Building**”) shall be in good condition and repair. By taking possession of the Premises, Tenant acknowledges that the Premises are then in the condition and configuration required hereunder; provided, however, that if it is determined that the Base Building was

not in good condition and repair as of the Premises Delivery Date (which, for purposes of this Section 1.1.2, shall mean that, as of the Premises Delivery Date, the Base Building is in violation of applicable Laws or that the Base Building Systems are either malfunctioning or are otherwise not operating properly, without regard to Tenant' s proposed use of the Premises and taking into consideration reasonable wear and tear in light of the age and design of the equipment). Landlord shall not be liable to Tenant for any damages, but as Tenant' s sole remedy, Landlord, at no cost to Tenant, shall perform such work or take such other action as may be necessary to place the same in good condition and repair; provided, however, that if Tenant does not give Landlord written notice of any deficiency in the Base Building, including the Base Building Systems, within one hundred eighty (180) days following the Premises Delivery Date, correction of such deficiency shall be governed by the provisions of Article 7 below. For purposes of this Lease, the “**Base Building Systems**” means the base building heating, ventilation and air conditioning units located on the roof of the Building, the base building electrical panel and the base building plumbing and sewer lines stubbed out to the Premises on the Premises Delivery Date and that serve the Premises generally (as distinguished from the portions of such systems that may be installed or modified by Tenant, and any systems, equipment or components that serve a particular portion of the Premises or Tenant' s particular use of the Premises, such as a computer server room, “clean room” or other R&D or laboratory space). Without limiting the foregoing, the Base Building Systems exclude (a) interior lighting (including switches, light bulbs and ballasts), (b) HVAC distribution components and systems (including VAV boxes, ducting, diffusers and distribution lines), (c) fire and life safety systems and equipment located in the Premises, (d) energy management control systems and equipment, (e) security systems, including card key systems, locks and doors, and (f) any interior controls or design features that are customarily installed as part of the leasehold improvements in the Premises.

1.2 **Common Areas.** Tenant may use, in common with Landlord and other parties and subject to the Rules and Regulations (defined in Exhibit D), any portions of the Property that are designated from time to time by Landlord for such use (the “**Common Areas**”).

2. LEASE TERM.

2.1 **Term.** The Term shall commence and, unless ended sooner or extended as herein provided, shall expire on the Commencement Date and Expiration Date, respectively, specified in Section 3 of the Basic Lease Information. Without limiting the foregoing, if the Premises Delivery Date is delayed for any reason, then (a) this Lease shall not be void or voidable by either party, and (b) Landlord shall not be liable to Tenant for any loss or damage resulting therefrom. Landlord shall not be liable for any failure to deliver possession of the Premises resulting from any holdover or unlawful possession by another party; however, Landlord shall use reasonable efforts to obtain possession of the Premises. This Lease shall be a binding contractual obligation effective upon execution and delivery hereof by Landlord and Tenant, notwithstanding the later commencement of the Term. Notwithstanding the foregoing, if the Premises Delivery Date does not occur on or before October 1, 2011 (the “**Premises Delivery Deadline**”), Tenant, as its sole remedy, shall have the right to cancel this Lease by giving written notice of such cancellation to Landlord at any time after the Premises Delivery Deadline and prior to the date Landlord delivers possession of the Premises to Tenant, in which case this Lease shall be cancelled effective fifteen (15) days after Landlord' s receipt of Tenant' s cancellation notice, unless Landlord delivers possession of the Premises to Tenant within said fifteen (15) day period; provided, however, that the Premises Delivery Deadline shall be extended by the number of days that the Premises Delivery Date is delayed due to any Force Majeure (as defined in Section 25.2). In the event of such cancellation by Tenant, neither party shall have any obligations to the other under this Lease, except for obligations arising before such cancellation.

2.2 **Extension Option.**

2.2.1 **Option Term.** Subject to the terms and conditions set forth below, Tenant shall have one (1) option to extend the Term (“**Extension Option**”) for an additional period of five (5) years (the “**Option Term**”). If Tenant properly exercises the Extension Option hereunder, all of the terms, covenants and conditions of this Lease shall continue in full force and effect during the Option Term, including provisions regarding payment of Additional Rent, which shall remain payable on the terms herein set forth, except that (a) the Base Rent payable by Tenant during the Option Term shall be as calculated in accordance with Section 2.2.3 and Section 2.2.4 below, (b) Tenant shall continue to possess and occupy the Premises in their existing condition, “as is” as of the commencement of the Option Term, and subject to the terms of Section 7.1 and Article 11 below. Landlord shall have no obligation to repair, remodel, improve or alter the Premises, to perform any other construction or other work of improvement upon the Premises, or to provide Tenant with any construction or refurbishing allowance whatsoever, and (c) Tenant shall have no further rights to extend the Term of this Lease after the expiration of the Option Term.

2.2.2 **Exercise.** To exercise the Extension Option, Tenant must deliver an unconditional binding notice to Landlord (“**Exercise Notice**”), in accordance with the terms of Section 25.1 below, not sooner than twelve (12) months, nor later than nine (9) months, prior to the Expiration Date, the time of such exercise being of the essence. If Tenant fails to timely give its Exercise Notice, Tenant will be deemed to have waived such Extension Option.

2.2.3 Market Rate Calculation. The Base Rent payable by Tenant for the Premises during the Option Term shall be one hundred percent (100%) of the Market Rate (as defined below) for the Premises, valued as of the commencement of the Option Term, determined in the manner hereinafter provided. As used herein, the term “**Market Rate**” shall mean the annual amount of Base Rent at which tenants, as of the commencement of the Option Term, are leasing non-sublease, non-equity space under then prevailing ordinary rental market practices (*e.g.*, not pursuant to extraordinary rental, promotional deals or other concessions to tenants which deviate from what is the then prevailing ordinary practice), at arm’s length, that is comparable to the Premises within the Project or other comparable first class office/R&D projects in the submarket in which the Project is located (the “**Comparison Projects**”), based upon binding lease transactions for tenants in the Comparison Projects that, where possible, commence or are to commence within six (6) months prior to or within six (6) months after the commencement of the Option Term (“**Comparison Leases**”). Comparison Leases shall include renewal and new non-renewal tenancies, but shall exclude subleases and leases of space subject to another tenant’s expansion rights. Rental rates payable under Comparison Leases shall be adjusted to account for variations between this Lease and the Comparison Leases with respect to: (a) the length of the Option Term compared to the lease term of the Comparison Leases; (b) rental structure, including, without limitation, rental rates per rentable square foot (including type, gross or net, and if gross, adjusting for base year or expense stop), additional rental, escalation provisions, all other payments and escalations; (c) the size of the Premises compared to the size of the premises of the Comparison Leases; (d) free rent, moving expenses and other cash payments, allowances or other monetary concessions affecting the rental rate; (e) the age and quality of construction of the buildings (including compliance with applicable codes); and (f) leasehold improvements and/or allowances, including the amounts thereof in renewal leases, and taking into account, in the case of renewal leases (including this Lease), the value of existing leasehold improvements to the renewal tenant. No consideration shall be given to (i) the fact that Landlord is or is not required to pay a real estate brokerage commission in connection with Tenant’s exercise of its right to extend the Term, or the fact that landlords are or are not paying real estate brokerage commissions in the Comparison Leases, or (ii) any period of rental abatement, if any, granted to tenants in Comparison Leases during the period allotted for the design, permitting and construction of tenant improvements.

2.2.4 Base Rent Determination. The Base Rent payable by Tenant for the Premises during the Option Term shall be determined as follows:

(a) If Tenant provides Landlord with its unconditional binding notice of exercise pursuant to Section 2.2.2 above, then, prior to the commencement of the Option Term, Landlord shall deliver to Tenant a good faith written proposal of the Market Rate (“**Landlord’s Initial Proposal**”). Within twenty-one (21) days after receipt of Landlord’s Initial Proposal, Tenant shall notify Landlord in writing (1) that Tenant accepts Landlord’s Initial Proposal or (2) that Tenant elects to submit the determination of Market Rate to arbitration in accordance with Sections 2.2.4(b) through 2.2.4(d) below. If Tenant does not give Landlord a timely notice in response to Landlord’s initial Proposal, Landlord’s Initial Proposal shall be binding upon Tenant.

(b) If Tenant timely elects to submit the determination of Market Rate to arbitration, Landlord and Tenant shall first negotiate in good faith in an attempt to determine the Market Rate. If Landlord and Tenant are able to agree within thirty (30) days following the delivery of Tenant’s notice to Landlord electing arbitration (or if Tenant accepts Landlord’s Initial Proposal), then such agreement shall constitute a determination of Market Rate for purposes of this Section, and the parties shall immediately execute an amendment to this Lease stating the Base Rent for the Option Term. If Landlord and Tenant are unable to agree on the Market Rate within such 30-day negotiating period, then within fifteen (15) days after the expiration of such negotiating period, the parties shall meet and concurrently deliver to each other in envelopes their respective good faith estimates of the Market Rate (set forth on a net effective rentable square foot per annum basis) (respectively, “**Landlord’s Determination**” and “**Tenant’s Determination**”). Landlord’s Determination may be more or less than Landlord’s Initial Proposal. If the higher of such estimates is not more than one hundred five percent (105%) of the lower, then the Market Rate shall be the average of the two. Otherwise, the dispute shall be resolved by arbitration in accordance with Sections 2.2.4(c) and 2.2.4(d) below.

(c) Within seven (7) days after the exchange of estimates, the parties shall select as an arbitrator an independent real estate broker with at least five (5) years of experience in leasing commercial office space in the metropolitan area in which the Project is located (a “**Qualified Appraiser**”). If the parties cannot agree on a Qualified Appraiser, then within a second period of seven (7) days, each shall select a Qualified Appraiser and within ten (10) days thereafter the two appointed Qualified Appraisers shall select an independent Qualified Appraiser and the independent Qualified Appraiser shall be the sole arbitrator. If one party shall fail to select a

Qualified Appraiser within the second seven (7) day period, then the Qualified Appraiser chosen by the other party shall be the sole arbitrator.

(d) Within twenty-one (21) days after submission of the matter to the arbitrator, the arbitrator shall determine the Market Rate by choosing whichever of the estimates submitted by Landlord and Tenant the arbitrator judges to be more accurate. The arbitrator shall notify Landlord and Tenant of its decision, which shall be final and binding. If the arbitrator believes that expert advice would materially assist him, the arbitrator may retain one or more qualified persons to provide expert advice. The fees of the arbitrator and the expenses of the arbitration proceeding, including the fees of any expert witnesses retained by the arbitrator, shall be paid by the party whose estimate is not selected. Each party shall pay the fees of its respective counsel and the fees of any witness called by that party.

(e) Until the matter is resolved by agreement between the parties or a decision is rendered in any arbitration commenced pursuant to this Section 2.2, Tenant's monthly payments of Base Rent shall be in an amount equal to Landlord's determination of the Market Rate. Within ten (10) business days following the resolution of such dispute by the parties or the decision of the arbitrator, as applicable, Tenant shall pay to Landlord, or Landlord shall pay to Tenant, the amount of any deficiency or excess, as the case may be, in the Base Rent theretofore paid.

2.2.5 Rights Personal to Tenant. Tenant's right to exercise the Extension Option is personal to, and may be exercised only by, **IMMERSION CORPORATION**, a Delaware corporation (the "**Original Tenant**") or any assignee of this Lease permitted without Landlord's consent pursuant to Section 14.8 below (a "**Permitted Assignee**"), and only if the Original Tenant or any Permitted Assignee continues to occupy the entire Premises at the time of such exercise. No assignee (other than a Permitted Assignee), and only if the Original Tenant and/or a Permitted Assignee continues to occupy fifty percent (50%) or more of the Premises at the time of such exercise. No assignee or subtenant (other than a Permitted Assignee) shall have any right to exercise the Extension Option granted herein. In addition, if Tenant is in Default at the time it exercises the Extension Option or at any time thereafter until the commencement of the Option Term, Landlord shall have, in addition to all of its other rights and remedies under this Lease, the right (but not the obligation) to terminate the Extension Option and to unilaterally revoke Tenant's exercise of the Extension Option, in which case (this Lease shall expire on the Expiration Date, unless earlier terminated pursuant to the terms hereof, and Tenant shall have no further rights under this Lease to renew or extend the Term.

3. RENT.

3.1 Payment of Rent. Tenant shall pay all Base Rent and Additional Rent (defined below) (collectively, "**Rent**") to Landlord or Landlord's agent, without prior notice or demand or any setoff or deduction, at the place Landlord may designate from time to time. As used herein, "**Additional Rent**" means all amounts, other than Base Rent, that Tenant is required to pay Landlord hereunder. Monthly payments of Base Rent and monthly payments of "Direct Expenses" (defined in Section 4.1) (collectively, "**Monthly Rent**") shall be paid in advance on or before the first day of each calendar month during the Term; provided, however, that the installment of Base Rent for the first full calendar month for which Base Rent is payable hereunder and the installment of Direct Expenses for the first full calendar month for which such Additional Rent is payable hereunder shall be paid upon Tenant's execution and delivery hereof. Except as otherwise provided herein, all other items of Additional Rent shall be paid within 30 days after Landlord's request for payment. Rent for any partial calendar month shall be prorated based on the actual number of days in such month. Without limiting Landlord's other rights or remedies, (a) if any installment of Rent is not received by Landlord or its designee within five (5) business days after its due date, Tenant shall pay Landlord a late charge equal to 5% of the overdue amount; and (b) any Rent that is not paid within 10 days after its due date shall bear interest, from its due date until paid, at the lesser of 12% per annum or the highest rate permitted by Law; provided, however, that not more than once during each twelve (12) month period, Landlord shall give Tenant a notice of delinquency with respect to such late payment of Rent, and a five (5) day grace period before imposing such late charge and/or accruing interest on unpaid Rent. Tenant's covenant to pay Rent is independent of every other covenant herein.

3.2 Additional Rent Upon Default by Tenant. Landlord and Tenant acknowledge that to induce Tenant to enter into this Lease, and in consideration of Tenant's agreement to perform all of the terms, covenants and conditions to be performed by Tenant under this Lease, as and when performance is due during the Term, Landlord has incurred (or will incur) significant costs, including, without limitation, the following: (i) payment of the Allowance (as described in the Tenant Work Letter attached hereto as **Exhibit B** ("**Tenant Work Letter**")), (ii) commissions to Landlord's and/or Tenant's real estate broker, and/or (iii) attorneys' fees and related costs incurred and/or paid by Landlord in connection with the negotiation and preparation of this Lease (collectively, the "**Inducements**"). Landlord and Tenant further acknowledge that Landlord would not have granted the Inducements to Tenant but for Tenant's agreement

to perform all of the terms, covenants, conditions and agreements to be performed by it under this Lease for the entire Term, and that Landlord' s agreement to incur such expenditures and grant such concessions is, and shall remain, conditioned upon Tenant' s faithful performance of all of the terms, covenants, conditions and agreements to be performed by Tenant under this Lease for the entire Term. Accordingly,

if a Default by Tenant shall occur hereunder, Landlord shall be relieved of any unfulfilled obligation to grant Inducements hereunder, or to incur further expenses in connection therewith, and Tenant shall pay, as liquidated damages for Landlord' s granting the Inducements and not as a penalty, within ten (10) days after the occurrence of the Default, as Additional Rent, the amount of those Inducements incurred or granted prior to the date of the default (the "**Pre-Default Inducements**"). Landlord may or, at Tenant' s request, shall, after the occurrence of a Default, forward a statement to Tenant setting forth the amount of the Pre-Default Inducements, but the failure to deliver such a statement shall not be or be deemed to be a waiver of the right to collect the Pre-Default Inducements or to extend the date upon which such amount shall be due and payable. Notwithstanding the foregoing, Landlord shall not be entitled to recover Pre-Default Inducements if, and to the extent that, Tenant proves that such recovery would be duplicative of amounts that Landlord is otherwise entitled to recover pursuant to California Civil Code Sections 1951.2 or 1951.4, as applicable.

4. EXPENSES AND TAXES.

4.1 **General Terms.** In addition to Base Rent, Tenant shall pay, in accordance with Section 4.4, for each Expense Year (defined in Section 4.2.1), an amount equal to the sum of the following (collectively, the "**Direct Expenses**"): (a) Tenant' s Share of Expenses for such Expense Year, plus (b) Tenant' s Share of Taxes for such Expense Year, plus (c) a management fee (the "**Management Fee**") equal to three percent (3%) of the Base Rent payable by Tenant for the applicable Expense Year. The Management Fee, Tenant' s Share of Expenses and Tenant' s Share of Taxes for any partial Expense Year shall be prorated based on the number of days in such Expense Year.

4.2 **Definitions.** As used herein, the following terms have the following meanings:

4.2.1 "**Expense Year**" means each calendar year in which any portion of the Term occurs, the parties acknowledging that Tenant' s payment of Direct Expenses shall begin on the Commencement Date, notwithstanding the later commencement of the payment of Base Rent hereunder.

4.2.2 "**Expenses**" means all expenses, costs and amounts that Landlord pays or accrues during any Expense Year because of or in connection with the ownership, management, maintenance, security, repair, replacement, restoration or operation of the Property. Landlord shall act in a reasonable manner in incurring Expenses. Expenses shall include (i) the cost of supplying all utilities, the cost of operating, repairing, maintaining and renovating the utility, telephone, mechanical, sanitary, storm-drainage, and elevator systems, and the cost of maintenance and service contracts in connection therewith; (ii) the cost of licenses, certificates, permits and inspections, the cost of contesting any Laws that may affect Expenses, and the costs of complying with any governmentally-mandated transportation-management or similar program; (iii) the cost of all insurance premiums and commercially reasonable deductibles; (iv) the cost of landscaping and relamping; (v) the cost of parking-area operation, repair, restoration, and maintenance; (vi) third-party fees and other costs, including consulting fees, legal fees and accounting fees, of all contractors and consultants in connection with the management, operation, maintenance and repair of the Property; (vii) payments under any equipment-rental agreements; (viii) wages, salaries and other compensation, expenses and benefits, including taxes levied thereon, of all persons engaged in the operation, maintenance and security of the Property, and costs of training, uniforms, and employee enrichment for such persons; (ix) the costs of operation, repair, maintenance and replacement of all systems and equipment (and components thereof) of the Property; (x) the cost of janitorial, alarm, security and other services, replacement of wall and floor coverings, ceiling tiles and fixtures in Common Areas, maintenance and replacement of curbs and walkways, repair to roofs and re-roofing; (xi) rental or acquisition costs of supplies, tools, equipment, materials and personal property used in the maintenance, operation and repair of the Property; (xii) the cost of capital improvements or any other items that are (A) intended to effect economies in the operation or maintenance of the Property or reduce current or future Expenses ("**Cost Saving Expenditures**"), (B) enhance the safety or security of the Property or its occupants, (C) replacements or modifications of the nonstructural portions of the Base Building or Common Areas that are required to keep the Base Building or Common Areas in good condition, or (D) required under any Law, excluding any such capital improvements or other items made to remedy a noncompliance with any Laws in effect as of the date of this Lease (based on the current interpretation of such Laws by applicable governmental authorities as of the date of this Lease); and (xiii) payments under any existing or future reciprocal easement agreement, transportation management agreement, cost-sharing agreement or other covenant, condition, restriction or similar instrument affecting the Property.

Notwithstanding the foregoing, Expenses shall not include: (a) capital expenditures not described in clauses (xi) or (xii) above (in addition, any permitted capital expenditure shall be amortized [including reasonable actual or imputed interest on the amortized cost] over a period of time that is the lesser of (1) the useful life of such item in accordance with customary and generally accepted real estate management and accounting principles [“GAAP”], as reasonably determined by Landlord, or (2) in the case of a Cost Saving Expenditure, the period of time that Landlord reasonably estimates will be required for any cost savings resulting from such capital item to equal the cost of such item); (b) depreciation;

(c) debt service on any mortgage or other loan secured by the Property; (d) costs of repairs to the extent Landlord is reimbursed by insurance or condemnation proceeds, and Landlord shall use commercially reasonable efforts to secure any reimbursements to which it is entitled; (e) except as provided in clause (xiii) above, costs of leasing space in the Building, including legal services, brokerage commissions, lease concessions, rental abatements, construction allowances granted to specific tenants and advertising and promotional expenditures; (f) costs of selling, financing or refinancing the Building; (g) fines, penalties or interest resulting from late payment of Taxes or Expenses; or violations of the Property of any governmental rule or authority; (h) organizational expenses of creating or operating the entity that constitutes Landlord; or (i) damages paid to Tenant hereunder or to other tenants of the Building under their respective leases; (j) all rental and other payable items due under any ground or underlying lease; (k) any compensation paid to clerks, attendants, or other persons in commercial concessions operated by Landlord; (l) costs for sculpture, paintings or other objects of art and any extraordinary insurance or security in connection therewith; (m) any items required to be paid directly by Tenant under [Section 4.5](#) below; (n) any line, cost or expense (including reasonable legal expenses and consultants' fees) paid by Landlord in connection with the investigation or monitoring of Hazardous Substances, in connection with any "Remedial Work" (as defined in [Section 28.1.6](#) below), or otherwise incurred by Landlord with respect to Hazardous Substances; provided, however, that the foregoing shall not modify the rights and obligations of the parties under [Article 28](#) of this Lease; (o) costs associated with the operation of the business of the partnership or entity which constitutes the Landlord, as the same are distinguished from the costs of operation of the Project (which shall specifically include, but not be limited to, accounting costs associated with the operation of the Project). Costs associated with the operation of the business of the partnership or entity which constitutes the Landlord include costs of partnership accounting and legal matters, and wages, salaries, fees or fringe benefits ("**Labor Costs**") paid to personnel above the level of general manager (provided, however, that if such individuals provide services directly relating to the operation, maintenance or ownership of the Project that, if provided directly by a general manager or property manager or his or her general support staff, would normally be chargeable as an operating expense of a comparable office project, then the Labor Costs of such individuals may be included in Expenses to the extent of the percentage of their time that is spent providing such services to the Project); (p) Taxes or Excluded Taxes; and (q) costs of maintaining, repairing or replacing the foundation and other structural elements of the Building (including structural elements of the roof), except (1) to the extent the same constitute Expenses pursuant to clause (xii) above or (2) to the extent permitted pursuant to this [Section 4.2.2](#) in connection with a Casualty (as defined in [Article 11](#) below) or a Taking (as defined in [Article 13](#) below).

4.2.3 "**Taxes**" means all federal, state, county or local governmental or municipal taxes, fees, charges, assessments, levies, licenses or other impositions, whether general, special, ordinary or extraordinary, that are paid or accrued during any Expense Year (without regard to any different fiscal year used by such governmental or municipal authority) because of or in connection with the ownership, leasing or operation of the Property. Taxes shall include (a) real estate taxes; (b) general and special assessments; (c) transit taxes; (d) leasehold taxes; (e) personal property taxes imposed upon the fixtures, machinery, equipment, apparatus, systems, appurtenances, furniture and other personal property used in connection with the Property; (f) any tax on the rent, right to rent or other income from any portion of the Property or as against the business of leasing any portion of the Building; (g) any assessment, tax, fee, levy or charge imposed by any governmental agency, or by any non-governmental entity pursuant to any private cost-sharing agreement, in order to fund the provision or enhancement of any fire-protection, street-, sidewalk- or road-maintenance, refuse-removal or other service that is (or, before the enactment of Proposition 13, was) normally provided by governmental agencies to property owners or occupants without charge (other than through real property taxes); and (h) any assessment, tax, fee, levy or charge allocable or measured by the area of the Premises or by the Rent payable hereunder, including any business, gross income, gross receipts, sales or excise tax with respect to the receipt of such Rent. Any costs and expenses (including reasonable attorneys' and consultants' fees) incurred in attempting to protest, reduce or minimize Taxes shall be included in Taxes for the year in which they are incurred. Notwithstanding any contrary provision hereof, Taxes shall be determined without regard to any "green building" credit and shall exclude the following ("**Excluded Taxes**"): (i) all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, and other taxes to the extent applicable to Landlord's general or net income (as opposed to rents, receipts or income attributable to operations at the Property), (ii) any Expenses, and (iii) any items required to be paid by Tenant under [Section 4.5](#), (iv) costs or fees (other than real property taxes) payable in connection with Landlord's right to further develop the Project or any portion thereof, and (v) documentary transfer, stamp or recording taxes (as distinct from real property taxes) attributable to Landlord's transfer of ownership of the Project or any interest of Landlord therein.

4.3 **Allocation.** Landlord, in its reasonable discretion, may equitably allocate Expenses among office, retail or other portions or occupants of the Property. If Landlord incurs Expenses or Taxes for the Property together with another property, Landlord, in its

reasonable discretion, shall equitably allocate such shared amounts between the Property and such other property. In addition, if the Project contains more than one building, then, for purposes of calculating Tenant' s payments pursuant to Section 4.4 below, Expenses shall mean (a) all Expenses equitably allocable to the Building (e.g., repairs

to the roof of the Building), plus (b) a proportionate share of all Expenses that relate to the Building together with other buildings in the Project (or to the Project in general) (e.g., landscaping) (such proportionate share based on the gross rentable area of the Building as a percentage of the gross rentable area of all of the buildings in the Project to which such Expenses relate and, in the event such Expenses relate to all buildings in the Project, such proportionate share shall equal 8.86% [based on the gross rentable area of the Building as a percentage of the gross rentable area of all of the buildings in the Project]).

4.4 Calculation and Payment of Expenses and Taxes.

4.4.1 **Statement of Actual Expenses and Taxes; Payment by Tenant.** Landlord shall use commercially reasonable efforts to give to Tenant, within 120 days after the end of each Expense Year, a statement (the “**Statement**”) setting forth the actual Expenses and Taxes for such Expense Year. If the amount paid by Tenant for such Expense Year pursuant to Section 4.4.2 is less or more than the sum of Tenant’s Direct Expenses for such Expense Year (as such amounts are set forth in such Statement), Tenant shall pay Landlord the amount of such underpayment, or receive a credit in the amount of such overpayment, with or against the Rent then or next due hereunder; provided, however, that if this Lease has expired or terminated and Tenant has vacated the Premises, Tenant shall pay Landlord the amount of such underpayment, or Landlord shall pay Tenant the amount of such overpayment (less any Rent due), within 30 days after delivery of such Statement. Any failure of Landlord to timely deliver the Statement for any Expense Year shall not diminish either party’s rights under this Section 4.

4.4.2 **Statement of Estimated Expenses and Taxes.** Landlord shall endeavor to give to Tenant, for each Expense Year, a statement (the “**Estimate Statement**”) setting forth Landlord’s reasonable estimate of the Direct Expenses (the “**Estimated Direct Expenses**”) for such Expense Year. Upon receiving an Estimate Statement, Tenant shall pay, with its next installment of Base Rent, an amount equal to the excess of (a) the amount obtained by multiplying (i) the sum of the Estimated Direct Expenses (as such amount is set forth in such Estimate Statement), by (ii) a fraction, the numerator of which is the number of months that have elapsed in the applicable Expense Year (including the month of such payment) and the denominator of which is 12, over (b) any amount previously paid by Tenant for such Expense Year pursuant to this Section 4.4.2. Until Landlord delivers a new Estimate Statement (which Landlord may do at any time), Tenant shall pay monthly, with the monthly Base Rent installments, an amount equal to one-twelfth (1/12) of the sum of the Estimated Direct Expenses, as such amount is set forth in the previous Estimate Statement. Any failure of Landlord to timely deliver any Estimate Statement shall not diminish Landlord’s rights to receive payments and revise any previous Estimate Statement under this Section 4.

4.4.3 **Retroactive Adjustment of Taxes.** Notwithstanding any contrary provision hereof, if, after Landlord’s delivery of any Statement, an increase or decrease in Taxes occurs for the applicable Expense Year (whether by reason of reassessment, error, or otherwise), Taxes for such Expense Year shall be retroactively adjusted. If, as a result of such adjustment, it is determined that Tenant has under- or overpaid Tenant’s Share of such Taxes, Tenant shall pay Landlord the amount of such underpayment, or receive a credit in the amount of such overpayment, with or against the Rent then or next due hereunder; provided, however, that if this Lease has expired or terminated and Tenant has vacated the Premises, Tenant shall pay Landlord the amount of such underpayment, or Landlord shall pay Tenant the amount of such overpayment (less any Rent due), within 30 days after such adjustment is made.

4.5 **Charges for Which Tenant Is Directly Responsible.** Tenant shall pay, 10 days before delinquency, any taxes levied against Tenant’s equipment, furniture, fixtures and other personal property located in or about the Premises. If any such taxes are levied against Landlord or its property (or if the assessed value of Landlord’s property is increased by the inclusion therein of a value placed upon such equipment, furniture, fixtures or other personal property of Tenant), Landlord may pay such taxes (or such increased assessment) regardless of their (or its) validity, in which event Tenant, upon demand, shall repay to Landlord the amount so paid. If the Leasehold Improvements (defined in Section 7.1) are assessed for real property tax purposes at a valuation higher than the valuation at which tenant improvements conforming to Landlord’s “building standard” in other space in the Building are assessed, the Taxes levied against Landlord or the Property by reason of such excess assessed valuation shall be deemed taxes levied against Tenant’s personal property for purposes of this Section 4.5. Notwithstanding any contrary provision hereof, Tenant shall pay, 10 days before delinquency, (i) any rent tax, sales tax, service tax, transfer tax or value added tax, or any other tax respecting the rent or services described herein or otherwise respecting this transaction or this Lease; and (ii) any taxes assessed upon the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of any portion of the Property.

4.6 **Books and Records.** Within 60 days after receiving any Statement (the “**Review Notice Period**”), Tenant may give Landlord notice (“**Review Notice**”) stating that Tenant elects to review

Landlord's calculation of the Expenses and/or Taxes for the Expense Year to which such Statement applies and identifying with reasonable specificity the records of Landlord reasonably relating to such matters that Tenant desires to review. Within a reasonable time after receiving a timely Review Notice (and, at Landlord's option, an executed confidentiality agreement as described below). Landlord shall deliver to Tenant, or make available for inspection at a location reasonably designated by Landlord, copies of such records. Within 60 days after such records are made available to Tenant (the "**Objection Period**"), Tenant may deliver to Landlord notice (an "**Objection Notice**") stating with reasonable specificity any objections to the Statement, in which event Landlord and Tenant shall work together in good faith to resolve Tenant's objections. Tenant may not deliver more than one Review Notice or more than one Objection Notice with respect to any Expense Year. If Tenant fails to give Landlord a Review Notice before the expiration of the Review Notice Period or fails to give Landlord an Objection Notice before the expiration of the Objection Period, Tenant shall be deemed to have approved the Statement. If Tenant retains an agent to review Landlord's records, the agent must be with a CPA firm licensed to do business in the State of California and its fees shall not be contingent, in whole or in part, upon the outcome of the review. Tenant shall be responsible for all costs of such review, except as expressly provided below. The records and any related information obtained from Landlord shall be treated as confidential, and as applicable only to the Premises, by Tenant, its auditors, consultants, and any other parties reviewing the same on behalf of Tenant (collectively, "**Tenant's Auditors**"). Before making any records available for review, Landlord may require Tenant and Tenant's Auditors to execute a reasonable confidentiality agreement, in which event Tenant shall cause the same to be executed and delivered to Landlord within 30 days after receiving it from Landlord, and if Tenant fails to do so, the Objection Period shall be reduced by one day for each day by which such execution and delivery follows the expiration of such 30-day period. Notwithstanding any contrary provision hereof, Tenant may not examine Landlord's records or dispute any Statement if any Rent remains unpaid past its due date. If, for any Expense Year, Landlord and Tenant determine that the sum of Tenant's Share of the actual Expenses plus Tenant's Share of the actual Taxes is less or more than the amount reported, Tenant shall receive a credit in the amount of its overpayment against Rent then or next due hereunder, or pay Landlord the amount of its underpayment with the Rent next due hereunder; provided, however, that if this Lease has expired or terminated and Tenant has vacated the Premises, Landlord shall pay Tenant the amount of its overpayment (less any Rent due), or Tenant shall pay Landlord the amount of its underpayment, within 30 days after such determination. Notwithstanding anything contained in this Section to the contrary, if Landlord and Tenant determine that the actual amount of Direct Expenses due for any Expense Year have been overstated by more than five percent (5%), then Landlord shall reimburse Tenant for the third-party costs associated with Tenant's review of Landlord's book and records, up to a maximum of \$5,000 for each such review.

5. USE; COMPLIANCE WITH LAWS.

5.1 Tenant shall not (a) use the Premises for any purpose other than the Permitted Use, or (b) do anything in or about the Premises that violates any of the Rules and Regulations, damages the reputation of the Project, interferes with, injures or annoys other occupants of the Building, or constitutes a nuisance. Tenant, at its expense, shall comply with all Laws relating to (i) the operation of its business at the Project, (ii) the use, condition, configuration or occupancy of the Premises, or (iii) the Tenant Systems (defined in [Section 7.1.1](#)). If, in order to comply with any such Law, Tenant must obtain or deliver any permit, certificate or other document evidencing such compliance, Tenant shall provide a copy of such document to Landlord promptly after obtaining or delivering it. If a change to any Common Area, the Building structure, or any Building system other than a Tenant System becomes required under Law (or any such requirement is enforced) as a result of any Tenant-Insured Improvement (defined in [Section 10.2.2](#)), the installation of any trade fixture, or any particular use (as distinguished from general R&D Use) of the Premises, Tenant, upon demand, shall (x) at Landlord's option, either make such change at Tenant's cost or pay Landlord the cost of making such change, and (y) pay Landlord a coordination fee equal to 3% of the cost of such change. As used herein, "**Law**" means any existing or future law, ordinance, regulation or requirement of any governmental authority having jurisdiction over the Project or the parties.

5.2 Landlord, at its expense (subject to [Article 4](#)), shall cause the Base Building and the Common Areas to comply with all Laws (including the Americans with Disabilities Act ("**ADA**")) to the extent that (a) such compliance is necessary for Tenant to use the Premises for R&D Use in a normal and customary manner and for Tenant's employees and visitors to have reasonably safe access to and from the Premises, or (b) Landlord's failure to cause such compliance would impose liability upon Tenant under Law; provided, however, that Landlord shall not be required to cause such compliance to the extent non-compliance (i) is triggered by any matter that is Tenant's responsibility under [Section 5.1](#) or [7.3](#) or any other provision hereof, or (ii) arises under any provision of the ADA other than Title III thereof. Notwithstanding the foregoing, Landlord may contest any alleged violation in good faith, including by applying for and

obtaining a waiver or deferment of compliance, asserting any defense allowed by Law, and appealing any order or judgment to the extent permitted by Law; provided, however, that, after exhausting any rights to contest or appeal, Landlord shall perform any work necessary to comply with any final order or judgment.

6. SERVICES.

6.1 **Utility Services.** Tenant shall pay directly to the providers thereof, before delinquency, all charges for water, gas, electricity, telephone, sewer service, waste pick-up and any other utilities, materials or services furnished directly to or used by Tenant in or about the Premises (collectively, “**Utility Services**”), including (a) meter, use and/or connection fees, hook-up fees, or standby fees, and (b) penalties for discontinued or interrupted service. Notwithstanding the foregoing, if any Utility Service is not separately provided or metered to the Premises, then the cost of such Utility Service shall be included in Expenses; provided, however, that if Landlord reasonably determines that Tenant is using more than its pro rata share of such Utility Service (as determined based on the rentable square footage of the Premises relative to the total rentable square footage served by such Utility Service), then Landlord, at its option, may (i) require Tenant to pay to Landlord, as Additional Rent, an amount equal to Landlord’s reasonable estimate of the cost of such excess use, and/or (ii) install, at Tenant’s expense, a separate meter to measure Tenant’s use of such Utility Service. Tenant’s electrical usage shall not exceed the capacity of the feeders to the Premises or the risers or wiring installation. Without limiting the foregoing, Tenant shall pay the cost of all Utility Services consumed in connection with the operation of any supplemental or specialty Building Systems (as defined in Section 7.1.1 below) exclusively serving the Premises, including any data center, and Landlord shall have the right to install, at Tenant’s expense, a separate meter to measure Tenant’s use of such Utility Service. Without limiting its obligations, Tenant, at its expense, shall provide all trash disposal, janitorial service and customary cleaning (other than exterior window washing) on a regular basis, and all necessary interior pest control service, so that the Premises is kept neat, broom-clean and pest-free in a first-class manner. Landlord shall provide such janitorial (including exterior window-washing), pest-control and landscaping services for the exterior of the Building and any Common Areas, and such lighting for the Parking Areas (defined in Section 24), as Landlord reasonably determines is appropriate.

6.2 **Service Interruption.** Any interruption or cessation of Utility Services resulting from any cause, including any entry for repairs or any renovation, redecoration or rehabilitation of any area of the Project (each, a “**Service Interruption**”), shall not render Landlord liable to Tenant, constitute a constructive eviction, or excuse Tenant from any obligation hereunder. Notwithstanding the foregoing, if all or a material portion of the Premises is made untenantable or inaccessible for more than five (5) consecutive business days after notice from Tenant to Landlord by a Service Interruption that Landlord can correct through reasonable efforts, then, as Tenant’s sole remedy, Monthly Rent shall abate for the period beginning on the day immediately following such 5-business-day period and ending on the day such Service Interruption ends, but only in proportion to the percentage of the rentable square footage of the Premises made untenantable or inaccessible.

7. REPAIRS AND ALTERATIONS.

7.1 **Repairs.**

7.1.1 **Tenant’s Obligations.** Subject to Section 7.1.4 and Section 11, Tenant, at its expense, shall perform all maintenance and repairs (including replacements) to the Premises, and keep the Premises in good condition and repair, except for reasonable wear and tear and repairs that are Landlord’s express responsibility hereunder. Tenant’s maintenance and repair obligations shall include (a) all leasehold improvements in the Premises, whenever and by whomever installed or paid for, including any Tenant Improvements, any Alterations (defined in Section 7.2), and any leasehold improvements installed pursuant to any prior lease (“**Prior Alterations**”), but excluding the Base Building (the “**Leasehold Improvements**”); (b) all Tenant Systems; and (c) all Lines (defined in Section 23). As used herein, “**Tenant Systems**” means all of the following, to the extent the same exclusively serve the Premises and are located in (or on the roof of) the Building: all heating, ventilation, air-conditioning, plumbing, sewer, drainage, electrical, fire/life-safety, elevator, escalator, security and other systems and equipment, including all electrical facilities, equipment and appliances, including lighting fixtures, lamps, fans, exhaust equipment or systems, and electrical motors), whenever and by whomever installed or paid for. Without limiting the foregoing, Tenant, at its expense, with respect to any Tenant System that is a heating, ventilation and air-conditioning system or a portion thereof (each, a “**Tenant HVAC Unit**”), shall (a) keep such Tenant HVAC Unit in as good working order and condition as exists upon its installation (or, if later, on the date Tenant takes possession of the Premises), subject to normal wear and tear and damage resulting from Casualty (defined in Section 11); (b) maintain in effect, with a contractor reasonably approved by Landlord, a contract for the maintenance and repair of such Tenant HVAC Unit (which contract shall require the contractor, at least once every three (3) months, to (i) inspect such Tenant HVAC Unit and provide to Tenant a report of any defective conditions, together with any recommendations for maintenance, repair or parts-replacement, all in accordance with the manufacturer’s recommendations, and

(ii) replace filters, oil and lubricate machinery, replace parts, adjust drive belts, change oil and perform other preventive maintenance, including annual maintenance of duct work and interior unit drains, and annual caulking of sheet metal and re-caulking of jacks and vents); (c) follow all reasonable recommendation of such contractor; and (d) promptly provide to Landlord a copy of such contract and each report issued thereunder. Tenant shall have the benefit of any warranties available to

Landlord regarding the Tenant Systems to the extent such warranties cover maintenance and repairs for which Tenant is responsible hereunder. If access to the roof of the Building is required in order to perform any of Tenant's obligations under this Section 7.1.1, such access shall be subject to such reasonable rules and procedures as Landlord may impose, and Tenant shall maintain the affected portion of the roof in a clean and orderly condition and shall not interfere with use of the roof by Landlord or any other tenant or licensee. Notwithstanding the foregoing, Landlord may, during the existence of a Default (or, at any time, with respect to the Tenant HVAC Units), perform on Tenant's behalf any of Tenant's obligations under this Section 7.1.1, in which case Tenant shall pay Landlord, upon demand, the cost of such work plus a coordination fee equal to 10% of such cost (or, with respect to the Tenant HVAC Units in the absence of a Default, 3% of such cost).

7.1.2 **Landlord's Obligations.** Subject to Section 7.1.3, Landlord shall perform all maintenance and repairs (including replacements) to, and keep in good condition and repair, (i) the roof and exterior walls and windows of the Building, (ii) the Base Building, and (iii) the Common Areas.

7.1.3 **No Release of Liability.** Nothing in this Section 7.1 shall be deemed to release any Landlord Party (defined in Section 10.1) or Tenant Party (defined in Section 10.1) from liability for any negligence, willful misconduct or breach of this Lease.

7.1.4 **Capital Repairs.** Notwithstanding the provisions of Section 7.1.1 above to the contrary, if, at any time during the Term, any capital repairs, replacements or improvements (as determined in accordance with generally accepted accounting principles) are required to be made to the Tenant Systems for which Tenant is responsible pursuant to Section 7.1.1 (excluding any Tenant Systems installed by or for Tenant and any specialty or supplemental Tenant Systems or any other equipment or facilities relating to the particular use or manner of use of the Premises, including any equipment or facilities serving a computer server room, "clean room" or laboratory space), then, unless such repairs, replacements or improvements are required by the act or omission of Tenant or any Tenant Parties, or any Alterations to the Premises made by or on behalf of Tenant or any Transferee, Landlord shall perform such capital repairs, replacements or improvements and the cost thereof shall be included as an Expense pursuant to Section 4.2.3 above.

7.2 **Alterations.** Tenant may not make any improvement, alteration, addition or change to the Premises or to any mechanical, plumbing or HVAC facilities or other systems serving the Premises (an "Alteration") without Landlord's prior consent, which consent shall be requested by Tenant not less than 30 days before commencement of work and shall not be unreasonably withheld by Landlord, provided it shall be deemed reasonable for Landlord to withhold its consent to any Alteration which could adversely affect the Base Building or is visible from the exterior of the Building (collectively, "Significant Alterations"). Notwithstanding the foregoing, Tenant shall be permitted to make Alterations without Landlord's prior consent, provided that such Alterations (a) cost less than Fifty Thousand Dollars (\$50,000.00) per project and do not constitute Significant Alterations hereunder ("Minor Alterations"), and (b) prior to commencing any such Alterations, Tenant provides Landlord with not less than ten (10) business days' prior written notice thereof, which shall include a copy of any governmental permits required to complete such Alterations. For any Significant Alterations and for any Minor Alterations that require governmental approvals, (a) Tenant, before commencing work, shall deliver to Landlord, and obtain Landlord's approval of, plans and specifications; (b) Landlord, in its discretion, may require Tenant to obtain security for performance satisfactory to Landlord; (c) Tenant shall deliver to Landlord "as built" drawings (in CAD format, if requested by Landlord), completion affidavits, full and final lien waivers, and all governmental approvals; and (d) Tenant shall pay Landlord upon demand (i) Landlord's reasonable out-of-pocket expenses incurred in reviewing the work, and (ii) a coordination fee equal to 3% of the cost of the work; provided, however, that this clause (d) shall not apply to any Tenant Improvements.

7.3 **Tenant Work.** Before commencing any repair or Alteration ("Tenant Work"), Tenant shall deliver to Landlord, and obtain Landlord's approval of, (a) names of contractors, subcontractors, mechanics, laborers and materialmen; (b) evidence of contractors' and subcontractors; insurance; and (c) any required governmental permits; provided, however, that, for Minor Alterations, no prior approval of Tenant's proposed contractors, subcontractors, mechanics, laborers or materialmen shall be required if such persons or entities are selected by Tenant from a list of pre-approved construction personnel provided by Landlord or, at Landlord's option, from a list of construction personnel provided by Tenant and pre-approved by Landlord. Tenant acknowledges that the foregoing is not an exclusive list of the reasons why Landlord may reasonably disapprove a proposed general contractor. Tenant shall perform all Tenant Work (i) in a good and workmanlike manner using materials of a quality reasonably approved by Landlord; (ii) in compliance with any approved plans and specifications, all Laws, the National Electric Code, and Landlord's construction rules and regulations; and (iii) in a manner that does not impair the Base Building. If, as a result of any Tenant Work, Landlord becomes required under Law to perform

any inspection, give any notice, or cause such Tenant Work to be performed in any particular manner, Tenant shall comply with such requirement and promptly provide Landlord with reasonable documentation of such compliance. Landlord' s approval of Tenant' s plans and specifications shall not

relieve Tenant from any obligation under this Section 7.3. In performing any Tenant Work, Tenant shall not use contractors, services, labor, materials or equipment that, in Landlord's reasonable judgment, would disturb labor harmony with any workforce or trades engaged in performing other work or services at the Project.

8. LANDLORD'S PROPERTY. All Leasehold Improvements shall become Landlord's property upon installation and without compensation to Tenant. Notwithstanding the foregoing, except as otherwise notified by Landlord, Tenant, at its expense and before the expiration or earlier termination hereof, shall remove any Tenant-Insured Improvements, repair any resulting damage to the Premises or Building, and restore the affected portion of the Premises to its condition existing before the installation of such Tenant-Insured Improvements (or, at Landlord's election, to a Building-standard tenant-improved condition as determined by Landlord); provided, however, that Tenant shall have no obligation to remove any of the Tenant Improvements constructed pursuant to the Tenant Work Letter, unless the same constitute Specialized Improvements, or any Prior Alterations. If Tenant's request for Landlord's approval of any proposed Alterations contains a request that Landlord identify any portion of such Alterations that Landlord will require Tenant to remove as provided above, then Landlord will, at the time it approves such Alterations, identify such portion of the Alterations, if any, that Landlord will require Tenant to so remove. If Tenant fails to timely perform any work required under the preceding sentence, Landlord may perform such work at Tenant's expense. As used herein, "**Specialized Improvements**" means Tenant-insured Improvements that are not normal and customary general office improvements consistent with a standard office/R&D configuration, including, if the same were to be installed in the Premises, the following: any specialty or supplemental Tenant Systems or other equipment or facilities relating to the use of the Premises for purposes other than general office use, including any equipment or facilities serving a computer server room, "clean room" or laboratory space; internal stairwells; raised floors; meeting rooms (other than a customary number of conference rooms of customary size); classroom facilities; kitchens and cafeterias (as distinguished from customary kitchenette areas); and any areas requiring floor reinforcement or enhanced systems requirements (including library, file or computer rooms if they have any such requirements). In connection with Landlord's approval of the Construction Drawings pursuant to the Tenant Work Letter, Landlord shall identify if any of the Tenant Improvements shown thereon constitute Specialized Improvements.

9. LIENS. Tenant shall keep the Project free from any lien arising out of any work performed, material furnished or obligation incurred by or on behalf of Tenant. Tenant shall remove any such lien within 10 business days after notice from Landlord, and if Tenant fails to do so, Landlord, without limiting its remedies, may pay the amount necessary to cause such removal, whether or not such lien is valid. The amount so paid, together with reasonable attorneys' fees and expenses, shall be reimbursed by Tenant upon demand.

10. INDEMNIFICATION; INSURANCE.

10.1 Indemnification.

10.1.1 **Tenant's Indemnification.** Tenant waives all claims against Landlord, its Security Holders (defined in Section 17), Landlord's managing agent(s), their (direct or indirect) owners, and the beneficiaries, trustees, officers, directors, employees and agents of each of the foregoing (including Landlord, the "**Landlord Parties**") for the following, including if caused by any active or passive act, omission or neglect of any Landlord Party or by any act or omission for which liability without fault or strict liability may be imposed: (i) any damage to person or property (or resulting from the loss of use thereof), except to the extent such damage is caused by the negligence or willful misconduct of any Landlord Party and not covered by (i.e., exceeding the coverage limits) the insurance required to be carried by Tenant hereunder or to the extent such limitation on liability is prohibited by law, or (ii) any failure to prevent or control any criminal or otherwise wrongful conduct by any third party or to apprehend any third party who has engaged in such conduct. Tenant shall indemnify, defend, protect, and hold the Landlord Parties harmless from any obligation, loss, claim, action, liability, penalty, damage, cost or expense (including reasonable attorneys' and consultants' fees and expenses) (each, a "**Claim**") that is imposed or asserted by any third party and arises from (a) any cause in, on or about the Premises, (b) occupancy of the Premises by, or any negligence or willful misconduct of, Tenant, any party claiming by, through or under Tenant, their (direct or indirect) owners, or any of their respective beneficiaries, trustees, officers, directors, employees, agents, contractors, licensees or invitees (including Tenant, the "**Tenant Parties**"), or (c) any breach by Tenant of any representation, covenant or other term contained herein. The foregoing indemnification shall apply regardless of any active or passive negligence of the Landlord Parties and regardless of whether liability without fault or strict liability may be imposed upon the Landlord Parties; provided, however, that, with respect to any Landlord Party, Tenant's obligations under this Section shall be inapplicable (i) to the extent such Claims arise from the negligence or willful

misconduct of such Landlord Party or a breach of this Lease by Landlord, and are not covered by (i.e., exceeding the coverage limits) the insurance required to be carried by Tenant hereunder, or (ii) to the extent such obligations are prohibited by applicable Laws.

10.1.2 **Landlord's Indemnification.** Landlord shall defend, indemnify and hold harmless Tenant from and against all Claims incurred by Tenant to the extent caused by the negligence or willful misconduct of Landlord or other Landlord Party or a breach of this Lease by Landlord and not covered by the insurance required to be carried by Tenant hereunder or otherwise covered by Tenant's indemnity obligations set forth in Section 10.1.1 above.

10.2 **Tenant's Insurance.** Tenant shall maintain the following coverages in the following amounts:

10.2.1 Commercial General Liability Insurance covering claims of bodily injury, personal injury and property damage arising out of Tenant's operations and contractual liabilities, including coverage formerly known as broad form, on an occurrence basis, for limits of liability not less than:

Bodily Injury and Property Damage Liability	\$1,000,000 each occurrence \$2,000,000 annual aggregate
Personal Injury Liability	\$1,000,000 each occurrence \$2,000,000 annual aggregate
Umbrella Liability Coverage	\$10,000,000 each occurrence \$10,000,000 annual aggregate

Umbrella liability insurance may be used to achieve the above minimum liability limits, provided that the policy coverages are absolutely concurrent.

10.2.2 Property Insurance covering (i) all office furniture, trade fixtures, office equipment, free-standing cabinet work, movable partitions, merchandise and all other items of Tenant's property in the Premises installed by, for, or at the expense of Tenant, and (ii) any Leasehold Improvements installed by or for the benefit of Tenant, whether pursuant to this Lease or pursuant to any prior lease or other agreement to which Tenant was a party ("**Tenant-Insured Improvements**"). Such insurance shall be written on a special cause of loss form for physical loss or damage, for the full replacement cost value (subject to reasonable deductible amounts) new without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance, and shall include coverage for damage or other loss caused by fire or other peril, including vandalism and malicious mischief, theft, water damage of any type, including sprinkler leakage, bursting or stoppage of pipes, and explosion, and providing business interruption coverage for a period of one year.

10.2.3 Workers' Compensation statutory limits and Employers' Liability limits of \$1,000,000.

10.3 **Form of Policies.** The minimum limits of insurance required to be carried by Tenant shall not limit Tenant's liability. Such insurance shall be issued by an insurance company that has an A.M. Best rating of not less than A-VIII and shall be in form and content reasonably acceptable to Landlord. Tenant's Commercial General Liability Insurance shall (a) name the Landlord Parties and any other party designated by Landlord ("**Additional Insured Parties**") as additional insureds: and (b) be primary insurance as to all claims thereunder and provide that any insurance carried by Landlord is excess and non-contributing with Tenant's insurance. Landlord shall be designated as a loss payee with respect to Tenant's Property Insurance on any Tenant-Insured Improvements. Tenant shall deliver to Landlord, on or before the Premises Delivery Date and at least 15 days before the expiration dates thereof, certificates from Tenant's insurance company on the forms currently designated "ACORD 25" (Certificate of Liability Insurance) and "ACORD 28" (Evidence of Commercial Property Insurance) or the equivalent. Attached to the ACORD 25 (or equivalent) there shall be an endorsement naming the Additional Insured Parties as additional insureds, and attached to the ACORD 28 (or equivalent) there shall be an endorsement designating Landlord as a loss payee with respect to Tenant's Property Insurance on any Tenant-Insured Improvements, and each such endorsement shall be binding on Tenant's insurance company and shall name Landlord as a "cancellation notice recipient".

10.4 **Subrogation.** Each party waives, and shall cause its insurance carrier to waive, any right of recovery against the other party, any of its (direct or indirect) owners, or any of their respective beneficiaries, trustees, officers, directors, employees or agents for any loss of or damage to property which loss or damage is (or if the insurance required hereunder had been carried, would have been) covered by the waiving party's property insurance. For purposes of this Section 10.4 only, (a) any deductible with respect to a party's insurance shall be deemed covered by, and recoverable by such party under, valid and collectable policies of insurance, and (b) any

contractor retained by Landlord to install, maintain or monitor a fire or security alarm for the Building shall be deemed an agent of Landlord.

10.5 **Additional Insurance Obligations.** Tenant shall maintain such increased amounts of the insurance required to be carried by Tenant under this Section 10, and such other types and amounts of insurance covering the Premises and Tenant's operations therein, as may be reasonably requested by Landlord, but not in excess of the amounts and types of insurance then being required by landlords of buildings comparable to and in the vicinity of the Building.

10.6 **Landlord's Insurance.** Subject to reimbursement as an Expense in accordance with the provisions of Article 4 hereof, Landlord shall procure and maintain in effect throughout the Lease Term commercial general liability insurance, property insurance and/or such other types of insurance as are normally carried by reasonably prudent owners of commercial properties substantially similar to, and in the vicinity of the Project. Such coverages shall be in such amounts, from such companies and on such other terms and conditions as Landlord may from time to time reasonably determine, and Landlord shall have the right, but not the obligation, to change, cancel, decrease or increase any insurance coverages in respect of the Building, add additional forms of insurance as Landlord shall deem reasonably necessary, and/or obtain umbrella or other policies covering both the Building and other assets owned by or associated with Landlord or its affiliates, in which event the cost thereof shall be equitably allocated; provided, however, that Landlord shall, at all times during the Lease Term, maintain "special causes of loss" (or similar) property insurance coverage on the Base Building in the amount of the full replacement value thereof as reasonably estimated by Landlord (without deduction for depreciation), subject to reasonable deductible amounts.

11. CASUALTY DAMAGE.

11.1 **Landlord Repairs.** With reasonable promptness after discovering any damage to the Premises (other than trade fixtures), or to the Common Areas necessary for access to the Premises, resulting from any fire or other casualty (a "Casualty"), Landlord shall notify Tenant of Landlord's reasonable estimate of the time required to substantially complete repair of such damage (the "**Landlord Repairs**"), If, according to such estimate ("**Completion Estimate**"), the Landlord Repairs cannot be substantially completed within 270 days after they are commenced (or, if the Casualty has occurred during the last 12 months of the Term, within such number of days equal to 20% of the balance of the Term remaining on the date of the Casualty), then either party may terminate this Lease upon 60 days' notice to the other party delivered within 10 days after Landlord's delivery of such Completion Estimate. Within 90 days after discovering any damage to the Project resulting from any Casualty, Landlord may, whether or not the Premises is affected, terminate this Lease by notifying Tenant if (i) any Security Holder terminates any ground lease or requires that any insurance proceeds be used to pay any mortgage debt; (ii) any damage to Landlord's property is not fully covered by Landlord's insurance policies, less deductibles; (iii) Landlord decides to rebuild the Building or Common Areas so that it or they will be substantially different structurally or architecturally; or (iv) any owner, other than Landlord, of any damaged portion of the Project does not intend to repair such damage. If this Lease is not terminated pursuant to this Section 11, Landlord shall promptly and diligently perform the Landlord Repairs, subject to reasonable delays for insurance adjustment and other events of Force Majeure. The Landlord Repairs shall restore the Premises (other than trade fixtures) and the Common Areas necessary for access to the Premises to substantially the same condition that existed when the Casualty occurred, except for (a) any modifications required by Law or any Security Holder, and (b) any modifications to the Common Areas that are deemed desirable by Landlord, are consistent with the character of the Project, and do not materially impair access to the Premises. Notwithstanding Section 10.4, Tenant shall assign to Landlord (or its designee) all insurance proceeds payable to Tenant under Tenant's insurance required under Section 10.2 with respect to any Tenant-insured Improvements, and if the estimated or actual cost of restoring any Tenant-Insured Improvements exceeds the insurance proceeds received by Landlord from Tenant's insurance carrier, Tenant shall pay such excess to Landlord within 15 days after Landlord's demand.

11.2 **Outside Restoration Date.** If Landlord does not substantially complete the Landlord Repairs on or before the Outside Restoration Date (defined below), then, provided that the Casualty was not caused by the negligence or willful misconduct of Tenant or any Tenant Party, Tenant may terminate this Lease by notifying Landlord within fifteen (15) days after the Outside Restoration Date. As used herein, "**Outside Restoration Date**" means the date occurring thirty (30) days after the later of (a) the expiration of the time set forth in the Completion Estimate, or (b) the date occurring 270 days after commencement of the Landlord Repairs; provided, however, that the Outside Restoration Date shall be extended to the extent any unreasonable delay in the substantial completion of the Landlord Repairs is caused by Tenant or any Tenant Party. Notwithstanding the foregoing, if Landlord determines in good faith that it will be unable to substantially complete the Landlord Repairs on or before the Outside Restoration Date, Landlord may cease its performance of the Landlord Repairs and notify Tenant (the "**Restoration Date Extension Notice**") of such inability, which Restoration Date

Extension Notice shall set forth the date on which Landlord reasonably believes such substantial completion will occur. Upon receiving the Restoration Date Extension Notice, Tenant may terminate this Lease by notifying Landlord within ten (10) business days after receiving the Restoration Date Extension Notice. If Tenant does not terminate this Lease within such ten (10) business day period, the Outside Restoration Date automatically shall be amended to be the date set forth in the Restoration Date Extension Notice.

11.3 **Rent Abatement.** No Casualty and no restoration performed as required hereunder shall render Landlord liable to Tenant, constitute a constructive eviction, or excuse Tenant from any obligation hereunder; provided, however, that if the Premises or any Common Area necessary for Tenant's access to the Premises is damaged by a Casualty, then, during any time that, as a result of such damage, any portion of the Premises is untenable or inaccessible and is not occupied by Tenant. Monthly Rent shall be abated in proportion to the rentable square footage of such portion of the Premises.

12. **NONWAIVER.** No provision hereof shall be deemed waived by either party unless it is waived by such party expressly and in writing, and no waiver of any breach of any provision hereof shall be deemed a waiver of any subsequent breach of such provision or any other provision hereof. Landlord's acceptance of Rent shall not be deemed a waiver of any preceding breach of any provision hereof, other than Tenant's failure to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of such acceptance. No acceptance of payment of an amount less than the Rent due hereunder shall be deemed a waiver of Landlord's right to receive the full amount of Rent due, whether or not any endorsement or statement accompanying such payment purports to effect an accord and satisfaction. No receipt of monies by Landlord from Tenant after the giving of any notice, the commencement of any suit, the issuance of any final judgment, or the termination hereof shall affect such notice, suit or judgment, or reinstate or extend the Term or Tenant's right of possession hereunder.

13. **CONDEMNATION.** If the entire Building or a portion of the Project is taken for any public or quasi-public use by power of eminent domain or by private purchase in lieu thereof (a "**Taking**") for more than 180 consecutive days, Landlord may terminate this Lease. If more than 10% of the rentable square footage of the Premises is Taken, or access to the Premises is substantially impaired as a result of a Taking, for more than 180 consecutive days, Tenant may terminate this Lease. Any such termination shall be effective as of the date possession must be surrendered to the authority, and the terminating party shall provide termination notice to the other party within 45 days after receiving written notice of such surrender date. Except as provided above in this Section 13, neither party may terminate this Lease as a result of a Taking. Tenant shall not assert any claim for compensation because of any Taking; provided, however, that Tenant may file a separate claim for any Taking of Tenant's personal property or any fixtures that Tenant is entitled to remove upon the expiration hereof, and for moving expenses, so long as such claim does not diminish the award available to Landlord or any Security Holder and is payable separately to Tenant. If this Lease is terminated pursuant to this Section 13, all Rent shall be apportioned as of the date of such termination. If a Taking occurs and this Lease is not so terminated, Monthly Rent shall be abated for the period of such Taking in proportion to the percentage of the rentable square footage of the Premises, if any, that is subject to, or rendered inaccessible by, such Taking.

14. ASSIGNMENT AND SUBLETTING.

14.1 **Transfers.** Tenant shall not, without Landlord's prior consent, assign, mortgage, pledge, hypothecate, encumber, permit any lien to attach to, or otherwise transfer this Lease or any interest hereunder, permit any assignment or other transfer hereof or any interest hereunder by operation of law, enter into any sublease or license agreement, otherwise permit the occupancy or use of any part of the Premises by any persons other than Tenant and its employees and contractors, or permit a Change of Control (defined in Section 14.6) to occur (each, a "**Transfer**"). If Tenant desires Landlord's consent to any Transfer. Tenant shall provide Landlord with (i) notice of the terms of the proposed Transfer, including its proposed effective date (the "**Contemplated Effective Date**"), a description of the portion of the Premises to be transferred (the "**Contemplated Transfer Space**"), a calculation of the Transfer Premium (defined in Section 14.3), and a copy of all existing executed and/or proposed documentation pertaining to the proposed Transfer, and (ii) current financial statements of the proposed transferee (or, in the case of a Change of Control, of the proposed new controlling party(ies)) certified by an officer or owner thereof and any other information reasonably required by Landlord in order to evaluate the proposed Transfer (collectively, the "**Transfer Notice**"). Within 30 days after receiving the Transfer Notice, Landlord shall notify Tenant of (a) its consent to the proposed Transfer, (b) its refusal to consent to the proposed Transfer, or (c) its exercise of its rights under Section 14.4. Any Transfer made without Landlord's prior consent shall, at Landlord's option, be void and shall, at Landlord's option, constitute a Default (defined in Section 19). Tenant shall pay Landlord a fee of \$1,500.00 for Landlord's review of any proposed Transfer, whether or not Landlord consents to it.

14.2 **Landlord's Consent.** Subject to Section 14.4, Landlord shall not unreasonably withhold its consent to any proposed Transfer. Without limiting other reasonable grounds for withholding consent, it shall be deemed reasonable for Landlord to withhold consent to a proposed Transfer if:

14.2.1 The proposed transferee is not a party of reasonable financial strength in light of the responsibilities to be undertaken in connection with the Transfer on the date the Transfer Notice is received; or

14.2.2 The proposed transferee has a character or reputation or is engaged in a business that is not consistent with the quality of the Building or the Project; or

14.2.3 The proposed transferee is a governmental entity or a nonprofit organization; or

14.2.4 In the case of a proposed sublease, license or other occupancy agreement, the rent or occupancy fee charged by Tenant to the transferee during the term of such agreement, calculated using a present value analysis, is less than 75% of the rent being quoted by Landlord or its Affiliate (defined in [Section 14.8](#)) at the time of such Transfer for comparable space in the Project for a comparable term, calculated using a present value analysis; provided, however, that if no comparable space in the Project is available for lease for a comparable term at the time of the proposed Transfer, then the foregoing restriction on the proposed effective rent shall be inapplicable; or

14.2.5 The proposed transferee or any of its Affiliates, on the date the Transfer Notice is received, leases or occupies (or, at any time during the 6-month period ending on the date the Transfer Notice is received, has negotiated with Landlord to lease) space in the Project.

Notwithstanding any contrary provision hereof, (a) if Landlord consents to any Transfer pursuant to this [Section 14.2](#) but Tenant does not enter into such Transfer within six (6) months thereafter, such consent shall no longer apply and such Transfer shall not be permitted unless Tenant again obtains Landlord's consent thereto pursuant and subject to the terms of this [Section 14](#); and (b) if Landlord unreasonably withholds its consent under this [Section 14.2](#), Tenant's sole remedies shall be contract damages (subject to [Section 20](#)) or specific performance, and Tenant waives all other remedies, including any right to terminate this Lease.

14.3 **Transfer Premium.** If Landlord consents to a Transfer, Tenant shall pay Landlord an amount equal to 50% of any Transfer Premium (defined below). As used herein, "Transfer Premium" means (a) in the case of an assignment, any consideration (including payment for Leasehold Improvements) paid by the assignee for such assignment, less any brokerage commissions (not to exceed commissions typically paid in the market at the time of such subletting or assignment) and reasonable attorneys' fees paid by Tenant in connection with the Transfer ("**Recoverable Expenses**"); (b) in the case of a sublease, license or other occupancy agreement, for each month of the term of such agreement, the amount by which all rent and other consideration paid by the transferee to Tenant pursuant to such agreement exceeds the Monthly Rent payable by Tenant hereunder with respect to the Contemplated Transfer Space (less any Recoverable Expenses, as amortized on a monthly, straight-line basis over the term of such agreement); and (c) in the case of a Change of Control, any consideration (including payment for Leasehold Improvements) paid by the new controlling party(ies) to the prior controlling party(ies) on account of this Lease, less any Recoverable Expenses. Payment of Landlord's share of the Transfer Premium shall be made (x) in the case of an assignment or a Change of Control, within 10 days after Tenant or the prior controlling party(ies), as the case may be, receive(s) the consideration described above, and (y) in the case of a sublease, license or other occupancy agreement, with respect to each month of the term of such agreement, within five (5) business days after Tenant receives the rent and other consideration described above.

14.4 **Landlord's Right to Recapture.** Notwithstanding any contrary provision hereof, except in the case of a Permitted Transfer (defined in [Section 14.8](#)), Landlord, by notifying Tenant within 30 days after receiving a Transfer Notice for fifty percent (50%) or more of the rentable square footage of the Premises for substantially the remainder of the Lease Term, may terminate this Lease with respect to the Contemplated Transfer Space as of the Contemplated Effective Date. If the Contemplated Transfer Space is less than the entire Premises, then Base Rent, Tenant's Share, and the number of parking spaces to which Tenant is entitled under [Section 9](#) of the Basic Lease Information shall be deemed adjusted on the basis of the percentage of the rentable square footage of the Premises retained by Tenant. Upon request of either party, the parties shall execute a written agreement prepared by Landlord memorializing such termination.

14.5 **Effect of Consent.** If Landlord consents to a Transfer, (i) such consent shall not be deemed a consent to any further Transfer, (ii) Tenant shall deliver to Landlord, promptly after execution, an executed copy of all documentation pertaining to the Transfer in form reasonably acceptable to Landlord, and (iii) Tenant shall deliver to Landlord, upon Landlord's request, a complete statement, certified by an independent CPA or Tenant's chief financial officer, setting forth in detail the computation of any Transfer Premium. In the case of an assignment, the assignee shall assume in writing, for Landlord's benefit, all of Tenant's obligations hereunder, No Transfer, with

or without Landlord' s consent, shall relieve Tenant or any guarantor hereof from any liability hereunder. Notwithstanding any contrary provision hereof, Tenant, with or without Landlord' s consent, shall not enter into, or permit any party claiming by, through or under Tenant to enter into, any sublease, license or other occupancy agreement that provides for payment based in whole or in part on the net income or profit of the subtenant, licensee or other occupant thereunder.

14.6 **Change of Control.** As used herein, “**Change of Control**” means (a) if Tenant is a closely held professional service firm, the withdrawal or change (whether voluntary, involuntary or by operation of law) of 50% or more of its equity owners within a 12-month period; and (b) in all other cases, any transaction(s) resulting in the acquisition of a Controlling Interest (defined below) by one or more parties that did not own a Controlling Interest immediately before such transaction(s). As used herein, “**Controlling Interest**” means any direct or indirect equity or beneficial ownership interest in Tenant that confers upon its holder(s) the direct or indirect power to direct the ordinary management and policies of Tenant, whether through the ownership of voting securities, by contract or otherwise. Notwithstanding anything to the contrary in this Lease, no Change of Control or change in the Controlling Interest shall be deemed to have occurred through the transfer of ownership of voting securities listed on a recognized securities exchange, or in connection privatizing a publicly-traded company.

14.7 **Effect of Default.** If Tenant is in Default, Landlord is irrevocably authorized, as Tenant’s agent and attorney-in-fact, to direct any transferee under any sublease, license or other occupancy agreement to make all payments under such agreement directly to Landlord (which Landlord shall apply towards Tenant’s obligations hereunder) until such Default is cured. Such transferee shall rely upon any representation by Landlord that Tenant is in Default, whether or not confirmed by Tenant.

14.8 **Permitted Transfers.** Notwithstanding any contrary provision hereof, if Tenant is not in Default, Tenant may, without Landlord’s consent pursuant to Section 14.1, assign this Lease to (a) an Affiliate of Tenant (other than pursuant to a merger or consolidation), (b) a successor to Tenant by merger or consolidation, or (c) a successor to Tenant by purchase of all or substantially all of Tenant’s assets (a “**Permitted Transfer**”), provided that (i) at least 10 business days before the Transfer (or, if prior notice of such Transfer to Landlord is not permitted by securities laws, within ten (10) business days after the effective date of the Transfer), Tenant notifies Landlord of such Transfer and delivers to Landlord any documents or information reasonably requested by Landlord relating thereto, including reasonable documentation that the Transfer satisfies the requirements of this Section 14.8; (ii) in the case of an assignment pursuant to clause (a) or (c) above, the assignee executes and delivers to Landlord, at least 10 business days before the assignment (or, if prior notice of such assignment to Landlord is not permitted by securities laws, within ten (10) business days after the effective date of the assignment), a commercially reasonable instrument pursuant to which the assignee assumes, for Landlord’s benefit, all of Tenant’s obligations hereunder; (iii) in the case of an assignment pursuant to clause (b) above, (A) the successor entity has a net worth (as determined in accordance with GAAP, but excluding intellectual property and any other intangible assets (“**Net Worth**”)) immediately after the Transfer that is not less than the Net Worth of Tenant immediately before the Transfer, and (B) if Tenant is a closely held professional service firm, at least 75% of its equity owners existing 12 months before the Transfer are also equity owners of the successor entity; (iv) the transferee is qualified to conduct business in the State of California; and (v) the Transfer is made for a good faith operating business purpose and not in order to evade the requirements of this Section 14. As used herein, “**Affiliate**” means, with respect to any party, a person or entity that controls, is under common control with, or is controlled by such party.

15. SURRENDER.

15.1 **Required Repairs.** Upon the expiration or earlier termination hereof, and subject to Sections 8 and 11 and this Section 15, Tenant shall surrender possession of the Premises to Landlord in good condition and repair and as thereafter improved by Landlord and/or Tenant, except for reasonable wear and tear and repairs that are Landlord’s express responsibility hereunder. Without limiting the foregoing, Tenant, at its expense, before surrendering the Premises, shall have caused (a) all interior walls of the Premises to have been repaired if marked or damaged; (b) all carpets to have been shampooed and cleaned and all floors to have been cleaned and waxed; (c) all broken, marred or nonconforming acoustical ceiling tiles to have been replaced; and (d) the Tenant Systems (but excluding any Tenant HVAC Unit for which Landlord has assumed the responsibility for repair pursuant to Section 7.1.1) to have been audited, serviced and repaired by a reputable and licensed service firm reasonably acceptable to Landlord, and otherwise put in good order (including replacement of any burned-out or broken light bulbs or ballasts). If Tenant fails to timely perform any work required under this Section 15.1, Landlord may do so, in which case Tenant shall pay Landlord, upon demand, the cost of such work plus a coordination fee equal to 10% of such cost.

15.2 **Required Removal.** Before the expiration or earlier termination hereof, Tenant, without expense to Landlord, shall (a) remove from the Premises all debris and rubbish and all furniture, equipment, trade fixtures, Lines, free-standing cabinet work, movable partitions and other articles of personal property that are owned or placed in the Premises by Tenant or any party claiming by, through or under Tenant (except for any Lines not required to be removed under Section 23), and (b) repair all damage to the Premises

and Building resulting from such removal. If Tenant fails to timely perform such removal and repair, Landlord may do so at Tenant's expense (including storage costs). If Tenant fails to remove such property from the Premises, or from storage, within 30 days after notice from Landlord, any part of such property shall be deemed, at Landlord's option, either (x) conveyed to Landlord without compensation, or (y) abandoned. Notwithstanding anything to the contrary contained in this Lease, in no event shall Tenant be required to remove (i) the Tenant Improvements (other than the Specialized Improvements, if any) or (ii) any Prior Alterations.

16. HOLDOVER. If Tenant fails to surrender the Premises upon the expiration or earlier termination hereof. Tenant' s tenancy shall be subject to the terms and conditions hereof; provided, however, that such tenancy shall be a tenancy at sufferance only, for the entire Premises, and Tenant shall pay Monthly Rent (on a per-month basis without reduction for any partial month) at a rate equal to 150% of the Monthly Rent applicable during the last calendar month of the Term. Nothing in this Section 16 shall limit Landlord' s rights or remedies or be deemed a consent to any holdover. If Landlord is unable to deliver possession of the Premises to a new tenant or to perform improvements for a new tenant as a result of Tenant' s holdover. Tenant shall be liable for all resulting damages, including lost profits, incurred by Landlord, but only to the extent such holdover occurs more than thirty (30) days after notice from Landlord that Landlord has entered into, or will enter into, a lease with such new tenant.

17. SUBORDINATION; ESTOPPEL CERTIFICATES. This Lease shall be subject and subordinate to all existing and future ground or underlying leases, mortgages, trust deeds and other encumbrances against the Building or Project, all renewals, extensions, modifications, consolidations and replacements thereof (each, a “**Security Agreement**”), and all advances made upon the security of such mortgages or trust deeds, unless in each case the holder of such Security Agreement (each, a “**Security Holder**”) requires in writing that this Lease be superior thereto. Upon any termination or foreclosure (or any delivery of a deed in lieu of foreclosure) of any Security Agreement, Tenant, upon request, shall attorn, without deduction or set-off, to the Security Holder or purchaser or any successor thereto and shall recognize such party as the lessor hereunder provided that such party agrees not to disturb Tenant' s occupancy so long as no Default exists. Within 10 business days after request by Landlord, Tenant shall execute such further instruments as Landlord may reasonably deem necessary to evidence the subordination or superiority of this Lease to any Security Agreement. Tenant waives any right it may have under Law to terminate or otherwise adversely affect this Lease or Tenant' s obligations hereunder upon a foreclosure. Within 10 business days after Landlord' s request. Tenant shall execute and deliver to Landlord a commercially reasonable estoppel certificate in favor of such parties as Landlord may reasonably designate, including current and prospective Security Holders and prospective purchasers. The “Additional Provisions” attached hereto as **Exhibit F** are incorporated herein by this reference and made a part hereof.

18. ENTRY BY LANDLORD. At all reasonable times and upon reasonable upon at least twenty-four (24) hours' prior notice to Tenant, or in an emergency, Landlord may enter the Premises to (i) inspect the Premises; (ii) show the Premises to prospective purchasers, current or prospective Security Holders or insurers, or, during the last 9 months of the Term (or while an uncured Default exists), prospective tenants; (iii) post notices of non-responsibility; or (iv) perform maintenance, repairs or alterations. At any time and without notice to Tenant, Landlord may enter the Premises to perform required services. If reasonably necessary, Landlord may temporarily close any portion of the Premises to perform maintenance, repairs or alterations. In an emergency, Landlord may use any means it deems proper to open doors to and in the Premises. No entry into or closure of any portion of the Premises pursuant to this Section 18 shall render Landlord liable to Tenant, constitute a constructive eviction, or excuse Tenant from any obligation hereunder; provided, however, that Landlord shall use commercially reasonable efforts to minimize the disruption to Tenant' s use and enjoyment of the Premises. Notwithstanding the foregoing or any other provision of this Lease, except in the event of an emergency, Landlord Parties must in all events, provided that Tenant makes its representatives available to Landlord, be escorted by such representatives in the Premises. Tenant acknowledges and agrees that, to the extent Tenant does not facilitate Landlord' s access to the Premises or certain portions thereof, Landlord shall be absolved from the obligation to perform any services under this Lease within such portion of the Premises.

19. DEFAULTS; REMEDIES.

19.1 **Events of Default.** The occurrence of any of the following shall constitute a “**Default**”:

19.1.1 Any failure by Tenant to pay any Rent when due unless such failure is cured within five (5) business days after written notice; or

19.1.2 Except where a specific time period is otherwise set forth for Tenant' s cure herein (in which event Tenant' s failure to cure within such time period shall be a Default), and except as otherwise provided in this Section 19.1, any breach by Tenant of any other provision hereof where such breach continues for 30 days after written notice from Landlord; provided that if such breach cannot reasonably be cured within such 30-day period. Tenant shall not be in Default as a result of such breach if Tenant diligently commences

such cure within such period, thereafter diligently pursues such cure, and completes such cure within 60 days after Landlord' s written notice; or

19.1.3 Abandonment or vacation of all or a substantial portion of the Premises by Tenant; or

19.1.4 Any breach by Tenant of Sections 14, 17 or 18 where such breach continues for more than two (2) business days after written notice from Landlord; or

19.1.5 Tenant becomes in material breach or Section 25.3.

If Tenant breaches a particular provision hereof (other than a provision requiring payment of Rent) on three (3) separate occasions during any 12-month period, Tenant's subsequent breach of such provision shall be, at Landlord's option, an incurable Default. The notice periods provided herein are in lieu of, and not in addition to, any notice periods provided by Law, and Landlord shall not be required to give any additional notice in order to be entitled to commence an unlawful detainer proceeding.

19.2 **Remedies Upon Default.** Upon any Default, Landlord shall have, in addition to any other remedies available to Landlord at law or in equity (which shall be cumulative and nonexclusive), the option to pursue any one or more of the following remedies (which shall be cumulative and nonexclusive) without any notice or demand:

19.2.1 Landlord may terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy it may have for possession or arrearages in Rent, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, without being liable for prosecution or any claim or damages therefor; and Landlord may recover from Tenant the following:

(a) The worth at the time of award of the unpaid Rent which has been earned at the time of such termination; plus

(b) The worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(c) The worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such Rent loss that Tenant proves could have been reasonably avoided; plus

(d) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations hereunder or which in the ordinary course of things would be likely to result therefrom, including brokerage commissions, advertising expenses, expenses of remodeling any portion of the Premises for a new tenant (whether for the same or a different use), and any special concessions made to obtain a new tenant; plus

(e) At Landlord's option, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by Law.

As used in Sections 19.2.1(a) and (b), the "**worth at the time of award**" shall be computed by allowing interest at a rate per annum equal to the lesser of (i) the annual "Bank Prime Loan" rate cited in the Federal Reserve Statistical Release Publication G.13(415), published on the first Tuesday of each calendar month (or such other comparable index as Landlord shall reasonably designate if such rate ceases to be published) plus two (2) percentage points, or (ii) the highest rate permitted by Law. As used in Section 19.2.1(c), the "**worth at the time of award**" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus 1%.

19.2.2 Landlord shall have the remedy described in California Civil Code § 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover Rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies hereunder, including the right to recover all Rent as it becomes due.

19.2.3 Landlord shall at all times have the rights and remedies (which shall be cumulative with each other and cumulative and in addition to those rights and remedies available under Sections 19.2.1 and 19.2.2, or any Law or other provision hereof), without prior demand or notice except as required by Law, to seek any declaratory, injunctive or other equitable relief, and specifically enforce this Lease, or restrain or enjoin a violation or breach of any provision hereof.

19.3 **Efforts to Relet.** Unless Landlord provides Tenant with express notice to the contrary, no re-entry, repossession, repair, maintenance, change, alteration, addition, reletting, appointment of a receiver or other action or omission by Landlord shall (a) be construed as an election by Landlord to terminate this Lease or Tenant' s right to possession, or to accept a surrender of the Premises, or

(b) operate to release Tenant from any of its obligations hereunder. Tenant waives, for Tenant and for all those claiming by, through or under Tenant, California Civil Code § 3275 and California Code of Civil Procedure §§ 1174(c) and 1179 and any existing or future rights to redeem or reinstate, by order or judgment of any court or by any legal process or writ, this Lease or Tenant's right of occupancy of the Premises after any termination hereof.

19.4 **Landlord Default.** Landlord shall not be in default hereunder unless it fails to begin within 30 days after notice from Tenant, or fails to pursue with reasonable diligence thereafter, the cure of any breach by Landlord of its obligations hereunder. Before exercising any remedies for a default by Landlord, Tenant shall give notice and a reasonable time to cure to any Security Holder of which Tenant has been notified.

20. LANDLORD EXCULPATION. Notwithstanding any contrary provision hereof, (a) the liability of the Landlord Parties to Tenant shall be limited to an amount equal to the lesser of (i) Landlord's interest in the Building, or (ii) the equity interest Landlord would have in the Building if the Building were encumbered by third-party debt in an amount equal to 80% of the value of the Building (as such value is determined by Landlord); (b) Tenant shall look solely to Landlord's interest in the Building for the recovery of any judgment or award against any Landlord Party; (c) no Landlord Party shall have any personal liability for any judgment or deficiency, and Tenant waives and releases such personal liability on behalf of itself and all parties claiming by, through or under Tenant; and (d) no Landlord Party shall be liable for any injury or damage to, or interference with, Tenant's business, including loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, or for any form of special or consequential damage.

21. SECURITY DEPOSIT.

21.1 **Generally.** Concurrently with its execution and delivery hereof, Tenant shall deposit with Landlord the Security Deposit, if any, as security for Tenant's performance of its obligations hereunder. If Tenant breaches any provision hereof, Landlord may, at its option, without notice to Tenant, apply all or part of the Security Deposit to pay any past-due Rent, cure any breach by Tenant, or compensate Landlord for any other loss or damage caused by such breach. If Landlord so applies any portion of the Security Deposit, Tenant, within five (5) business days after demand therefor, shall restore the Security Deposit to its original amount. The Security Deposit is not an advance payment of Rent or measure of damages. Any unapplied portion of the Security Deposit shall be returned to Tenant within 60 days after the latest to occur of (a) the expiration of the Term, or (b) Tenant's surrender of the Premises as required hereunder. Landlord shall not be required to keep the Security Deposit separate from its other accounts.

21.2 **Reduction of Security Deposit.** Notwithstanding any provision of this Lease to the contrary, the amount of the Security Deposit required to be furnished by Tenant to Landlord hereunder shall be reduced on the fourth (4th) anniversary of the Commencement Date (the **Adjustment Date**"), to equal \$50,000.00; provided, however, that in no event shall any such reduction be permitted hereunder (a) if there has occurred any uncured Default by Tenant under this Lease prior to the Adjustment Date or (b) if Tenant is in default of any of its obligations under this Lease as of the Adjustment Date (unless such default is cured before expiration of the then applicable cure period). In furtherance of the foregoing, within thirty (30) days after the Adjustment Date, Landlord shall, subject to the conditions above, refund to Tenant the excess amount of the Security Deposit equal to \$50,000.00.

22. [INTENTIONALLY OMITTED.]

23. COMMUNICATIONS AND COMPUTER LINES. All Lines installed pursuant to this Lease shall be (a) installed in accordance with Section 7; and (b) clearly marked with adhesive plastic labels (or plastic tags attached to such Lines with wire) to show Tenant's name, suite number, and the purpose of such Lines (i) every six (6) feet outside the Premises (including the electrical room risers and any Common Areas), and (ii) at their termination points. Landlord may designate specific contractors for work relating to vertical Lines. Unless otherwise notified by Landlord, Tenant, at its expense and before the expiration or earlier termination hereof, shall remove all Lines and repair any resulting damage. As used herein, "**Lines**" means all communications or computer wires and cables serving the Premises, whenever and by whomever installed or paid for, including any such wires or cables installed pursuant to any prior lease.

24. PARKING. Tenant may park, free of charge (except as expressly provided below), in the Project's parking areas (the "**Parking Areas**"), in common with other tenants of the Project, upon the following terms and conditions. Tenant shall not use more than the number of unreserved and/or reserved parking spaces set forth in Section 9 of the Basic Lease Information. Tenant shall pay Landlord any fees, taxes or other charges imposed by any governmental or quasi-governmental agency in connection with the Parking Areas, to

the extent such amounts are allocated to Tenant by Landlord. Landlord shall not be liable to Tenant, nor shall this Lease be affected, if any parking is impaired by (or any parking charges are

imposed as a result of) any Law. Tenant shall comply with all rules and regulations established by Landlord from time to time for the orderly operation and use of the Parking Areas, including any sticker or other identification system and the prohibition of vehicle repair and maintenance activities in the Parking Areas. Tenant's use of the Parking Areas shall be at Tenant's sole risk, and Landlord shall have no liability for any personal injury or damage to or theft of any vehicles or other property occurring in the Parking Areas or otherwise in connection with any use of the Parking Areas by Tenant or its employees or invitees. Landlord may alter the size, configuration, design, layout or any other aspect of the Parking Areas, and, in connection therewith, temporarily deny or restrict access to the Parking Areas, in each case without abatement of Rent or liability to Tenant; provided, however, Landlord shall use commercially reasonable efforts to provide adequate alternate parking reasonably acceptable to Tenant. Tenant's parking rights under this Section 24 are solely for the benefit of Tenant's employees and invitees and such rights may not be transferred without Landlord's prior consent, except pursuant to a Transfer permitted under Section 14.

25. MISCELLANEOUS.

25.1 **Notices.** No notice, demand, statement, designation, request, consent, approval, election or other communication given hereunder ("Notice") shall be binding upon either party unless (a) it is in writing; (b) it is (i) sent by certified or registered mail, postage prepaid, return receipt requested, (ii) delivered by a nationally recognized courier service, or (iii) delivered personally; and (c) it is sent or delivered to the address set forth in Section 10 or 11 of the Basic Lease Information, as applicable, or to such other place (other than a P.O. box) as the recipient may from time to time designate in a Notice to the other party. Any Notice shall be deemed received on the earlier of the date of actual delivery or the date on which delivery is refused, or, if Tenant is the recipient and has vacated its notice address without providing a new notice address, three (3) days after the date the Notice is deposited in the U.S. mail or with a courier service as described above.

25.2 **Force Majeure.** If either party is prevented from performing any obligation hereunder by any strike, act of God, war, terrorist act, shortage of labor or materials, governmental action, civil commotion or other cause beyond such party's reasonable control ("**Force Majeure**"). such obligation shall be excused during (and any time period for the performance of such obligation shall be extended by) the period of such prevention; provided, however, that this Section 25.2 shall not (a) permit Tenant to hold over in the Premises after the expiration or earlier termination hereof, or (b) excuse any of Tenant's obligations under Sections 3, 4, 5, 21 or 25.3 or any of Tenant's obligations whose nonperformance would interfere with another occupant's use, occupancy or enjoyment of its premises or the Project.

25.3 **Representations and Covenants.** Tenant represents, warrants and covenants that (a) Tenant is, and at all times during the Term will remain, duly organized, validly existing and in good standing under the Laws of the state of its formation and qualified to do business in the state of California; (b) neither Tenant's execution of nor its performance under this Lease will cause Tenant to be in violation of any agreement or Law; (c) Tenant (and any guarantor hereof) has not, and at no time during the Term will have, (i) made a general assignment for the benefit of creditors, (ii) filed a voluntary petition in bankruptcy or suffered the filing of an involuntary petition by creditors that remained or will remain undischarged for a period of sixty (60) days, (iii) suffered the appointment of a receiver to take possession of all or substantially all of its assets, (iv) suffered the attachment or other judicial seizure of all or substantially all of its assets, (v) admitted in writing its inability to pay its debts as they come due, or (vi) made an offer of settlement, extension or composition to its creditors generally; and (d) no party that (other than through the passive ownership of interests traded on a recognized securities exchange) constitutes, owns, controls, or is owned or controlled by Tenant, any guarantor hereof or any subtenant of Tenant is, or at any time during the Term will be, (i) in violation of any Laws relating to terrorism or money laundering, or (ii) among the parties identified on any list compiled pursuant to Executive Order 13224 for the purpose of identifying suspected terrorists or on the most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website, <http://www.treas.gov/ofac/tllsdn.pdf> or any replacement website or other replacement official publication of such list.

25.4 [Intentionally Omitted.]

25.5 [Intentionally Omitted.]

25.6 **Attorneys' Fees.** In any action or proceeding between the parties, including any appellate or alternative dispute resolution proceeding, the prevailing party may recover from the other party all of its costs and expenses in connection therewith, including reasonable attorneys' fees and costs. Tenant shall pay all reasonable attorneys' fees and other fees and costs that Landlord incurs in

interpreting or enforcing this Lease or otherwise protecting its rights hereunder (a) where Tenant has failed to pay Rent when due, or (b) in any bankruptcy case, assignment for the benefit of creditors, or other insolvency, liquidation or reorganization proceeding involving Tenant or this Lease.

25.7 **Brokers.** Tenant represents to Landlord that it has dealt only with Tenant' s Broker as its broker in connection with this Lease. Tenant shall indemnify, defend, and hold Landlord harmless from all claims of any brokers, other than Tenant' s Broker, claiming to have represented Tenant in connection with this Lease. Landlord represents to Tenant that it has dealt only with Landlord' s Broker as its broker in connection with this Lease. Landlord shall indemnify, defend and hold Tenant harmless from all claims of any brokers, including Landlord' s Broker, claiming to have represented Landlord in connection with this Lease. Tenant acknowledges that any Affiliate of Landlord that is involved in the negotiation of this Lease is representing only Landlord, and that any assistance rendered by any agent or employee of such Affiliate in connection with this Lease or any subsequent amendment or other document related hereto has been or will be rendered as an accommodation to Tenant solely in furtherance of consummating the transaction on behalf of Landlord, and not as agent for Tenant. Landlord shall be responsible for the payment of any and all leasing commissions to Tenant' s Broker and Landlord' s Broker in connection with this Lease. The terms of this Section 25.7 shall survive the expiration or earlier termination of the Lease.

25.8 **Governing Law; WAIVER OF TRIAL BY JURY.** This Lease shall be construed and enforced in accordance with the Laws of the State of California. THE PARTIES WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO TRIAL BY JURY IN ANY LITIGATION ARISING OUT OF OR RELATING TO THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT' S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM FOR INJURY OR DAMAGE OR ANY EMERGENCY OR STATUTORY REMEDY.

25.9 **Waiver of Statutory Provisions.** Each party waives California Civil Code §§ 1932(2) and 1933(4). Tenant waives (a) any rights under (i) California Civil Code §§ 1932(1), 1941, 1942, 1950.7 or any similar Law, or (ii) California Code of Civil Procedure § 1265.130; and (b) any right to terminate this Lease under California Civil Code § 1995.310.

25.10 **Interpretation.** As used herein, the capitalized term "Section" refers to a section hereof unless otherwise specifically provided herein. As used in this Lease, the terms "herein," "hereof," "hereto" and "hereunder" refer to this Lease and the term "include" and its derivatives are not limiting. Any reference herein to "any part" or "any portion" of the Premises, the Property or any other property shall be construed to refer to all or any part of such property. Wherever this Lease requires Tenant to comply with any Law, rule, regulation, procedure or other requirement or prohibits Tenant from engaging in any particular conduct, this Lease shall be deemed also to require Tenant to cause each of its employees, licensees, invitees and subtenants, and any other party claiming by, through or under Tenant, to comply with such requirement or refrain from engaging in such conduct, as the case may be. Wherever this Lease requires Landlord to provide a customary service or to act in a reasonable manner (whether in incurring an expense, establishing a rule or regulation, providing an approval or consent, or performing any other act), this Lease shall be deemed also to provide that whether such service is customary or such conduct is reasonable shall be determined by reference to the practices of owners of buildings that are comparable to the Building in size, age, class, quality and location. Tenant waives the benefit of any rule that a written agreement shall be construed against the drafting party. For purposes hereof, (a) a matter (such as the application or violation of a Law) shall be deemed to result from a particular use (as distinguished from general R&D Use) of the Premises if and only if such matter results from such use and a different R&D Use could be made of the Premises without resulting in such matter; and (b) a matter (such as compliance with a Law) shall be deemed to be required for a particular use (as distinguished from general R&D Use) of the Premises if and only if such matter is required for such use and a different R&D Use could be made of the Premises without requiring such matter.

25.11 **Entire Agreement.** This Lease sets forth the entire agreement between the parties relating to the subject matter hereof and supersedes any previous agreements (none of which shall be used to interpret this Lease). Tenant acknowledges that in entering into this Lease it has not relied upon any representation, warranty or statement, whether oral or written, not expressly set forth herein. This Lease can be modified only by a written agreement signed by both parties.

25.12 **Other.** Landlord, at its option, may cure any Default, without waiving any right or remedy or releasing Tenant from any obligation, in which event Tenant shall pay Landlord, upon demand, the cost of such cure. If any provision hereof is void or unenforceable, no other provision shall be affected. Submission of this instrument for examination or signature by Tenant does not constitute an option or offer to lease, and this instrument is not binding until it has been executed and delivered by both parties. If Tenant is comprised of two or more parties, their obligations shall be joint and several, Time is of the essence with respect to the performance of every provision hereof in which time of performance is a factor. So long as Tenant performs its obligations hereunder, Tenant shall have peaceful and quiet possession of the Premises against any party claiming by, through or under Landlord, subject to the

terms hereof. Landlord may transfer its interest herein, in which event Landlord shall be released from, Tenant shall look solely to the transferee for the performance of, and the transferee shall be deemed to have assumed, all of Landlord' s obligations arising hereunder after the date of such transfer (including the return of any Security Deposit) and Tenant shall attorn to the transferee. No rights to any view or to light

or air over any property are granted to Tenant hereunder. The expiration or termination hereof shall not relieve either party of any obligation that accrued before, or continues to accrue after, such expiration or termination.

26. RIGHTS RESERVED TO LANDLORD. Notwithstanding any contrary provision hereof, provided that the same does not unreasonably interfere with Tenant' s use of the Premises or the Parking Areas, Landlord may, without liability to Tenant, (a) make repairs or alterations to the Project, and in doing so transport any required material through the Premises, close entrances, doors, corridors, elevators and other facilities in the Project, open any ceiling in the Premises, and temporarily suspend services or use of Common Areas, all during normal business hours (provided, however, that, upon Tenant' s request, Landlord, to the extent reasonably practicable, shall perform such work after normal business hours if Tenant pays all resulting overtime and other incremental expense increases resulting therefrom); (b) install, use and maintain through the Premises, pipes, conduits, wires and ducts serving the Premises and/or Project; (c) install, operate, maintain and repair any satellite dish, antennae, equipment, or other facility on the roof of the Building or use the roof in any other manner, and permit any entity selected by Landlord to undertake the foregoing; and (d) take any other action that Landlord deems reasonable in connection with the operation, maintenance or preservation of the Building or the Project. In addition, Landlord reserves all rights not expressly granted to Tenant hereunder.

27. SIGNAGE.

27.1 Signage Rights. Tenant shall not, without Landlord' s prior approval, place on any portion of the Premises any sign, placard, lettering, banner, display, graphic, decor or other advertising or communicative material that is visible from outside the Building; provided, however, that subject to this Section 27, Tenant, at its expense, may install the following signage which may identify the Original Tenant and, to the extent permitted below, a Permitted Signage Transferee (collectively, "**Signage**"): (i) one (1) sign on any existing monument sign for the Premises, and (ii) one (1) sign on the exterior of the Building. The graphics, materials, size, color, design, lettering, lighting (if any), specifications and exact location of the Signage (collectively, the "**Signage Specifications**") shall be subject to Landlord' s approval, which shall not be unreasonably withheld provided that the same are consistent with Landlord's signage standards in effect at the time ("**Signage Criteria**"). In addition, the Signage and Signage Specifications shall be subject to Tenant' s receipt of all required governmental permits and approvals, and shall be subject to all applicable Laws and the Signage Criteria. Tenant hereby acknowledges that, notwithstanding Landlord' s approval of the Signage and/or Signage Specifications, Landlord has made no representation or warranty to Tenant that Tenant will be able to obtain such approvals and permits. Tenant shall pay all costs associated with the Signage, including costs of design, construction, permitting, installation, maintenance, repair and removal. Tenant shall maintain the Signage in good condition and repair during the Term. Before the expiration or earlier termination hereof, Tenant shall remove the Signage and repair any damage to the Building and/or Project (including any fading or discoloration) caused by the Signage or its removal.

27.2 Rights Personal to Tenant; Occupancy Requirement. Tenant' s rights under Section 27.1 are personal to, and may be exercised only by, the Original Tenant and not by any assignee, subtenant, licensee or other transferee of Original Tenant' s interest in this Lease; provided, however, that such rights may be transferred to and exercised by any such transferee (a "**Permitted Signage Transferee**") that (a) acquires its interest in or under this Lease solely through one or more Permitted Transfers originating with Original Tenant; (b) occupies at least 50% of the Premises; and (c) does not have a name or logo that (i) in Landlord' s reasonable judgment (taking into consideration the level and visibility of the Signage), is materially inconsistent with the quality of the Project or would otherwise reasonably offend a landlord of a building comparable to the Project, or (ii) conflicts with any contractual or legal obligation of Landlord. Notwithstanding any contrary provision hereof, if at any time the entirety of the Premises is not occupied by Original Tenant and/or a Permitted Signage Transferee, then Tenant' s (and any Permitted Signage Transferee' s) rights under Section 27.1 shall terminate and Tenant shall remove the Signage in accordance with Section 27.1.

28. HAZARDOUS MATERIALS AND MOLD.

28.1 Hazardous Materials.

28.1.1 Definitions. As used herein, the following terms shall have the following meanings:

(a) "**Hazardous Material**" means any material or substance that is now or hereafter defined or regulated by any Law or governmental authority thereunder as radioactive, toxic, hazardous, or waste, or a chemical known to the State of California to cause

cancer or reproductive toxicity, including (i) petroleum and any of its constituents or byproducts, (ii) radioactive materials, (iii) asbestos in any form or condition, and (iv) substances or materials regulated by any of the following, as amended from time to time, and any rules promulgated thereunder: the Comprehensive Environmental

Response Compensation and Liability Act of 1980, 42 U.S.C. §§9601 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. §§6901, et seq.; the Toxic Substances Control Act, 15 U.S.C. §§2601, et seq.; the Clean Water Act, 33 U.S.C. §§1251 et seq.; the Clean Air Act, 42 U.S.C. §§7401 et seq.; The California Health and Safety Code; The California Water Code; The California Labor Code; The California Public Resources Code; or The California Fish and Game Code.

(b) Tenant shall be deemed to “Use” a quantity of Hazardous Material if any Tenant Party brings upon, produces, treats, stores, handles, discharges, disposes of, or otherwise uses such quantity of such Hazardous Material in or about the Premises or Project.

(c) “**Disclosure Certificate**” means a Hazardous Materials Disclosure Certificate substantially in the format of

Exhibit G.

28.1.2 **Use of Hazardous Materials.** Tenant shall not Use any quantity of any Hazardous Material (other than quantities and types of office and janitorial supplies typically associated with general office use) unless (a) such Use is described in the most recent Disclosure Certificate provided by Tenant to Landlord, and (b) Landlord has approved such Use. Landlord shall provide Tenant with notice approving or disapproving of any proposed Use of any quantity of any Hazardous Material within 30 days after receiving a Disclosure Certificate describing such proposed Use (provided that Tenant does not submit a new Disclosure Certificate to Landlord more frequently than once per calendar year). Landlord may withhold or condition such approval in its sole and absolute discretion. If the Disclosure Certificate attached as **Exhibit G** (which is hereby provided by Tenant to Landlord) describes one or more specific Use(s) of one or more specific quantities of one or more specific Hazardous Materials, Landlord hereby approves such Use(s) for purposes of this Section 28.1.2.

28.1.3 **Compliance with Law; Indemnification.** Without limiting its obligations, Tenant, at its expense, shall (a) cause any Use of Hazardous Materials by Tenant to comply with Law, including by obtaining and complying with all governmental permits necessary for such compliance; and (b) indemnify, defend and hold the Landlord Parties harmless from and against any Claims (including diminution in value of the Premises or Project, damages for the loss or restriction on use of leasable space or of any amenity of the Premises or Project, damages arising from any adverse impact on marketing of space in the Project, Remedial Work (defined below), and amounts paid in settlement of Claims) arising from any such Use.

28.1.4 **Inspection.** Landlord, at its option, may, at any time (but not more than once in any calendar year unless Landlord has Reasonable Cause (defined below)), enter the Premises and perform such inspections, tests and investigations as may be reasonably necessary to determine whether Tenant is in compliance with the provisions of this Section 28.1 (a “**Compliance Inspection**”); provided, however, that Landlord shall not conduct a Compliance Inspection more frequently than once in any calendar year unless Landlord has Reasonable Cause (defined below)). Tenant shall reimburse to Landlord the costs of any Compliance Inspection within 30 days after Landlord’s demand; provided, however, that Landlord shall pay such costs if (a) Landlord does not have Reasonable Cause for such Compliance Inspection, and (b) the most recent Disclosure Certificate provided by Tenant pursuant to Section 28.1.2 states that Tenant’s current and proposed future Uses of Hazardous Materials are limited to de minimis amounts of Hazardous Materials customarily used in office buildings. For purposes hereof, Landlord shall be deemed to have “**Reasonable Cause**” for a Compliance Inspection if and only if (x) Landlord has reasonable cause to believe that Tenant has breached any provision of this Section 28.1, or (y) such Compliance Inspection is required by any governmental agency.

28.1.5 **Landlord Notification.** Tenant shall promptly provide Landlord with complete copies of all documents, correspondence and other written materials submitted or received by or on behalf of Tenant concerning environmental issues at the Premises or the Project, including any written material relating to any actual or potential release, discharge, spill, investigation, compliance, cleanup or abatement of Hazardous Materials or any actual or potential cause of action, claim or legal proceeding relating thereto. Tenant shall use commercially reasonable efforts, within 24 hours after discovering any unauthorized release, spill or discharge of Hazardous Materials in, on, or about the Premises or Project, to provide notice to Landlord fully describing such event. Without limiting the foregoing, Tenant, within 24 hours of receiving any warning, notice of violation, permit suspension or similar disciplinary measure relating to Tenant’s actual or alleged failure to comply with any Law or permit relating to Hazardous Materials, shall provide notice to Landlord of the same.

28.1.6 **Remedial Work.** If any investigation or monitoring of site conditions or any clean-up, containment, restoration, removal or remediation of Hazardous Materials at or about the Premises or Project (collectively, “**Remedial Work**”) is required by Law (or is otherwise necessary to render the Premises suitable for unrestricted use) as a result of any Use of Hazardous Materials by any Tenant Party, then Tenant, at Landlord’ s option, shall either perform such Remedial Work at Tenant’ s cost or pay Landlord, within 30 days after demand, the cost of performing such Remedial Work. All Remedial Work performed by Tenant shall be performed in compliance with applicable Laws, by contractors

approved by Landlord, under the supervision of a consulting engineer approved by Landlord, and otherwise in accordance with Section 7.3. Tenant shall reimburse Landlord, within 30 days after demand, Landlord's reasonable attorneys' and experts' fees and costs incurred in connection with monitoring or reviewing any Remedial Work.

28.2 **Mold.** Because mold spores are present essentially everywhere and mold can grow in almost any moist location. Tenant acknowledges the necessity of adopting and enforcing good housekeeping practices, ventilation and vigilant moisture control within the Premises (particularly in kitchen areas, janitorial closets, bathrooms, in and around water fountains and other plumbing facilities and fixtures, break rooms, in and around outside walls, and in and around HVAC systems and associated drains) for the prevention of mold (such measures, "**Mold Prevention Practices**"). Without limiting its obligations. Tenant, at its expense, shall keep and maintain the Premises in good order and condition in accordance with the Mold Prevention Practices and acknowledges that the control of moisture, and prevention of mold within the Premises, are integral to its obligations under this Lease, Without limiting the foregoing, Tenant shall promptly notify Landlord if it observes, suspects, has reason to believe that any Mold Conditions (as defined below) exist at the Premises, or if Tenant receives any notice from a governmental agency of complaints regarding the indoor air quality at the Premises. Notwithstanding anything to the contrary in this Lease, Tenant shall not be responsible for, and upon request. Landlord at its sole cost, shall take all actions necessary to investigate, identify, and remediate any mold to the extent that such remediation is necessitated by any condition arising from Landlord's failure to perform any repair, replacement or improvement which is Landlord's obligation to perform under the provisions of this Lease. As used herein, "**Mold Conditions**" mean, collectively, the presence of mold or any other conditions at the Premises that reasonably could be expected to cause or result from mold or fungus, including observed or suspected instances of water damage, condensation, seepage, leaks or any other water penetration (from any source, internal or external), mold growth, mildew, repeated complaints of respiratory ailments or eye irritation by Tenant's employees or any other occupants of the Premises.

28.3 **Surrender.** At the expiration or earlier termination hereof, Tenant, without limiting its obligations, shall surrender the Premises to Landlord free of (a) any Hazardous Materials placed in, about or near the Premises by any Tenant Party, and (b) any Mold Condition caused or exacerbated by any gross negligence, willful misconduct, or breach of this Lease of or by any Tenant Party.

29. EXISTING PERSONAL PROPERTY.

29.1 **Right to Use.** During the Term of this Lease, Tenant shall have the right, without additional charge, to the exclusive use and possession of the existing furniture and other personal property in the Premises as of the date of this Lease (the "**Existing Personal Property**"), subject to the terms and conditions contained in this Article 29; provided, however, that, prior to the Premises Delivery Date, Landlord shall remove (or cause to be removed), at no cost to Tenant, all cubicles and associated furniture located within the cubicles from the Premises. Landlord and Tenant agree that the lease of the Existing Personal Property to Tenant under this Article 29 is and is intended to be a true lease (and not a lease intended as security or a lease in the nature of a security interest). Except as provided in Section 29.4 below, all right, title or interest in the Existing Personal Property shall be in and remain with Landlord and no right, title or interest in the Existing Personal Property shall pass to Tenant other than the right to possess and use the Existing Personal Property for the Term of this Lease.

29.2 **Tenant's Obligations.** Tenant shall, at its sole expense, repair and maintain each item of the Existing Personal Property in the same condition as when received, ordinary wear and tear excepted.

29.3 **Disclaimer.** Tenant acknowledges that Landlord is not the manufacturer or supplier of the Existing Personal Property, nor the agent thereof, and that Landlord makes no express or implied representations or warranties as to any matter whatsoever, including without limitation, the merchantability of the Existing Personal Property, its fitness for a particular purpose, its design or condition, its capacity or durability, the quality of the material or workmanship in the manufacture or assembly of the Existing Personal Property, and Landlord hereby disclaims any such warranty. Landlord is not responsible for any repairs or service to the Existing Personal Property, defects therein or failures in the operation thereof.

29.4 **End of Lease Term.** Upon the expiration or earlier termination of this Lease (other than, at Landlord's option, a termination of this Lease pursuant to Section 19.2.1 above), Landlord will, at Tenant's option, transfer to Tenant all of Landlord's right, title and interest in the Existing Personal Property, without warranty or representation of any kind, except that Landlord is the owner of the Existing Personal Property and that the transfer thereof to Tenant will be free and clear of any liens or encumbrances. Landlord shall,

upon Tenant' s request, execute and deliver to Tenant a bill of sale effecting any such transfer, at which time Tenant will pay Landlord one dollar (\$1.00) for the transfer of Existing Personal Property. If Tenant elects not to have Landlord transfer the Existing Personal Property to Tenant as provided above, Tenant shall have no obligation to remove the Existing Personal Property from the Premises at the expiration or earlier termination of this Lease.

30. EXTERIOR EQUIPMENT PAD.

30.1 **License.** If, as of the Date of this Lease, there exists an exterior equipment pad serving the Premises (the “**Equipment Pad**”), then Landlord hereby grants to Tenant a license (the “**Equipment Pad License**”), at Tenant’s sole cost and expense (subject to application of the Tenant Improvement Allowance pursuant to the Tenant Work Letter), but otherwise without charge, to install and maintain certain equipment on the Equipment Pad to serve Tenant’s business in the Premises (collectively, “**Tenant’s Exterior Equipment**”), subject to, and in accordance with, the terms and conditions contained in Section 7 and this Section 30.

30.2 **General Requirements.** The Equipment Pad License is subject to the following requirements:

30.2.1 The type, size, and quality of Tenant’s Exterior Equipment, the substances to be stored in Tenant’s Exterior Equipment, the precise location of Tenant’s Exterior Equipment, all safety, monitoring, and related equipment, the method and manner of installation, and all other matters material to the installation of Tenant’s Exterior Equipment, including, without limitation, all Building penetrations, are subject to Landlord’s prior written approval.

30.2.2 Tenant’s contractor for installation of Tenant’s Exterior Equipment shall be subject to Landlord’s prior approval, and such contractor must provide evidence of insurance reasonably satisfactory to Landlord prior to commencing work in or about the Building.

30.2.3 Tenant’s Exterior Equipment must be installed in a good and workmanlike manner and in accordance with all Applicable Requirements, and in accordance with plans and specifications approved in advance by Landlord. Without limiting the generality of the foregoing, such plans and specifications must include for Landlord’s approval, (i) an elevation showing the location of penetrations, and planned methods of waterproofing the penetrations; and (ii) details on screening Tenant’s Exterior Equipment and the enclosure. The giving of any approval by Landlord shall not eliminate any of Tenant’s obligations under this Lease, including, without limitation. Tenant’s obligation to obtain all required permits and to secure compliance with all Applicable Requirements. Tenant agrees to pay, within thirty (30) days after receipt of an invoice therefor, Landlord’s actual out-of-pocket costs incurred in payments to third parties with respect to Landlord’s review and approval of the plans and specifications.

30.2.4 Tenant shall provide Landlord with reasonable advance notice prior to commencing installation of Tenant’s Exterior Equipment or other work on or to Tenant’s Exterior Equipment from time to time, and agrees to afford Landlord the opportunity to be present for all such work.

30.2.5 After the initial installation of Tenant’s Exterior Equipment hereunder, Tenant shall not make any alteration, addition or improvement thereto, or to the substances stored therein, without first obtaining Landlord’s prior written approval thereof; and any such alterations, additions or improvements shall be subject to all the conditions and restrictions that apply to the original Tenant’s Exterior Equipment, including, without limitation, the requirement that Tenant furnish Landlord with detailed plans and specifications relating to the proposed alterations, additions or improvements.

30.2.6 Tenant, at its expense, shall at all times keep Tenant’s Exterior Equipment in good order, condition and repair, and the location and the areas immediately surrounding same neat and clean. With respect to all operations relating to Tenant’s Exterior Equipment, Tenant shall conduct its business and control its agents, employees and invitees in such manner as not to create any nuisance, or interfere with, annoy or disturb any other licensee or tenant of the Project or Landlord in its operation of the Project.

30.3 **Compliance With Laws.** Tenant shall accept the designated location for Tenant’s Exterior Equipment, in its condition and “as-built” configuration existing on the date of this Lease. Landlord has made no representations or promise as to the suitability or effectiveness of such location for Tenant’s proposed use, or as to any Applicable Requirements applicable to Tenant’s proposed use of Tenant’s Exterior Equipment, or as to the condition of (or alteration or improvement of) the location for Tenant’s Exterior Equipment. Tenant, at its sole cost and expense, shall comply with all Applicable Requirements applicable to the installation, maintenance, operation and use of Tenant’s Exterior Equipment. Without limiting the generality of the foregoing, Tenant shall be responsible for obtaining any building permits, and any licenses, consents, approvals or permits which may be required by any federal, state and local agencies or governmental authorities required for the installation, maintenance, operation and removal of Tenant’s Exterior Equipment,

shall provide copies of the same to Landlord, and shall, at all times during the term of the Exterior Equipment License, comply with all requirements of any such agency or authority.

30.4 **Damage to Building**. Any damage to the Building resulting from the installation, operation, maintenance or removal of Tenant' s Exterior Equipment, including without limitation, leakage or water damage, shall be repaired by Tenant, at Tenant' s sole cost and expense; provided, however, that to the extent Tenant fails to make such repairs after applicable notice and cure periods (except in an emergency, in which event Landlord shall furnish Tenant with reasonable notice in light of the circumstances), Landlord may make such repairs, in which event Tenant shall reimburse Landlord for the reasonable cost thereof within thirty (30) days following receipt of a reasonably detailed invoice therefor.

30.5 **Ownership of Tenant' s Exterior Equipment; Removal and Restoration**. Tenant' s Exterior Equipment shall be Tenant' s property and Tenant shall, at its own expense, remove Tenant' s Exterior Equipment not later than the expiration or earlier termination of this Lease, repair all damage to the Building caused by such removal, and restore the affected portion of the Building to its condition existing before the installation of such Tenant' s Exterior Equipment. If Tenant fails to complete the removal, repair or restoration required by this Section 30.5 before the expiration or earlier termination of this Lease, (i) Landlord may do so and may charge the cost thereof to Tenant, and (ii) for purposes of Section 16 above, Tenant shall be deemed to be in holdover in the Premises without Landlord' s consent until such work is completed.

30.6 **Insurance; Indemnity**.

30.6.1 Tenant shall cause the insurance policies required to be maintained pursuant to Section 10 to cover Tenant' s Exterior Equipment and any Claims arising in connection with the presence, use, operation, installation, repair, maintenance, or removal of Tenant' s Exterior Equipment.

30.6.2 Subject to Section 10 of the Lease, Tenant hereby agrees to protect, defend, indemnify and hold Landlord and the other Landlord Parties, and each of them, harmless from and against any and all Claims arising from or connected in any way with Tenant' s Exterior Equipment or the operations of Tenant or any Tenant Parties in connection therewith, including, without limitation, (i) any violation of Applicable Requirements, and (ii) any personal injuries or property damage; provided, however, that, with respect to any Landlord Party, Tenant' s obligations under this Section shall be inapplicable (1) to the extent such Claims arise from the gross negligence or willful misconduct of such Landlord Party, or (2) to the extent such obligations are prohibited by applicable Laws. The foregoing indemnity shall survive the expiration or earlier termination of this Lease.

30.7 **Rights Personal to Tenant**. Tenant' s rights under this Section 30 are personal to the Original Tenant and any Permitted Transferee, and shall not be transferable or assignable, whether voluntarily or involuntarily, whether by operation of law or otherwise, either in connection with an assignment of this Lease, or a sublease of all or part of the Premises, or otherwise to any person or entity, other than to Permitted Transferee. Any purported transfer of any license hereunder, other than to a Permitted Transferee, shall be void and a material default under the Lease.

[SIGNATURES ARE ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be executed the day and date first above written.

LANDLORD:

CARR NP PROPERTIES, L.L.C.,

a Delaware limited liability company

By: /s/ Todd Hedrick

Name: Todd Hedrick

Title: Senior Vice President

TENANT:

IMMERSION CORPORATION,

a Delaware corporation

By: /s/ Victor Viegas

Name: Victor Viegas

Title: Chief Executive Officer
[chairman] [president] [vice-president]

By: /s/ Sumanta Mukherjee

Name: Sumanta Mukherjee

Title: Chief Financial Officer
*[secretary] [assistant secretary] [chief
financial officer] [assistant treasurer]*

EXHIBIT A

30 RIO ROBLES DRIVE, SAN JOSE, CA

OUTLINE OF PREMISES

See Attached

Exhibit A

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EXHIBIT B

30 RIO ROBLES DRIVE, SAN JOSE, CA

WORK LETTER

As used in this **Exhibit B** (this “**Work Letter**”), the following terms shall have the following meanings: “**Agreement**” means the lease of which this Work Letter is a part. “**Tenant Improvements**” means all improvements to be constructed in the Premises pursuant to this Work Letter. “**Tenant Improvement Work**” means the construction of the Tenant Improvements, together with any related work (including demolition) that is necessary to construct the Tenant Improvements.

1 ALLOWANCE.

1.1 **Allowance.** Tenant shall be entitled to a one-time tenant improvement allowance (the “**Allowance**”) in the amount of \$10.00 per rentable square foot of the Premises to be applied toward the Allowance items (defined in Section 1.2 below). Tenant shall be responsible for all costs associated with the Tenant improvement Work, including the costs of the Allowance Items, to the extent such costs exceed the lesser of (a) the Allowance, or (b) the aggregate amount that Landlord is required to disburse for such purpose pursuant to this Work Letter. Notwithstanding any contrary provision of this Agreement, if Tenant fails to use the entire Allowance within one (1) year following the Premises Delivery Date, the unused amount shall revert to Landlord and Tenant shall have no further rights with respect thereto.

1.2 **Disbursement of Allowance.**

1.2.1 **Allowance Items.** Except as otherwise provided in this Work Letter, the Allowance shall be disbursed by Landlord only for the following items (the “**Allowance Items**”): (a) the fees of the Architect (defined in Section 2.1 below) and the Engineers (defined in Section 2.1 below), and any fees reasonably incurred by Landlord for review of the Plans (defined in Section 2.1 below) by Landlord’s third party consultants; (b) plan-check, permit and license fees relating to performance of the Tenant Improvement Work; (c) the cost of performing the Tenant Improvement Work, including after hours charges, testing and inspection costs, hoisting and trash removal costs, and contractors’ fees and general conditions; (d) the cost of any change to the base, shell or core of the Premises or Building required by the Plans (including if such change is due to the fact that such work is prepared on an unoccupied basis), including all direct architectural and/or engineering fees and expenses incurred in connection therewith; (e) the cost of any change to the Plans or Tenant Improvement Work required by Law; (f) sales and use taxes; (g) any out-of-pocket costs expended by Landlord in connection with the performance of the Tenant Improvement Work. If, after payment of the Final Retention by Landlord to Tenant in accordance with Section 1.2.2.2, there remains any unused portion of the Allowance (the “**Unused Allowance**”) the Unused Allowance shall be disbursed by Landlord for the following items (the “**Unused Allowance Items**”): (a) equipment and facilities related to Lines; (b) Signage; and (c) furniture, fixtures and equipment for the Premises.

1.2.2 **Disbursement.** Subject to the provisions of this Work Letter, Landlord shall make monthly disbursements of the Allowance for Allowance Items, and thereafter the Unused Allowance for the Unused Allowance Items, and shall authorize the release of monies for Tenant’s benefit as follows:

1.2.2.1 **Monthly Disbursements.** On or before the 10th day of each calendar month during the performance of the Tenant Improvement Work (or such other date as Landlord may designate), Tenant shall deliver to Landlord: (i) a request for payment of the Contractor (defined in Section 3.1 below), approved by Tenant, in AIA G-702/G-703 format or another format reasonably acceptable to Landlord, showing the schedule of values, by trade, of percentage of completion of the Tenant Improvement Work, detailing the portion of the work completed and the portion not completed; (ii) invoices from all of Tenant’s Agents (defined in Section 3.1.2 below) for labor rendered and materials delivered to the Premises; and (iii) executed conditional mechanic’s lien releases from all of Tenant’s Agents (along with unconditional mechanic’s lien releases with respect to payments made pursuant to Tenant’s prior submission hereunder) which shall comply with the appropriate provisions, as reasonably determined by Landlord, of California Civil Code Section 3262(d). Tenant’s request for payment shall be deemed Tenant’s acceptance and approval of the work furnished and/or the materials supplied as set forth in Tenant’s payment request. Thereafter, Landlord shall deliver a check to Tenant, made jointly payable to the Contractor and Tenant, in the amount of the lesser of (a) the amount requested by Tenant pursuant to the preceding

sentence, less a 10% retention (the aggregate amount of such retentions to be known as the “**Final Retention**”), or (b) the amount of any remaining portion of the Allowance (not including the Final Retention), provided that Landlord does not dispute any request for payment based on any failure of the work to comply with the Approved Construction Drawings (defined in Section 2.4 below) or otherwise to be of the required quality, or for any other reason. Landlord’ s payment of such amounts shall not be deemed Landlord’ s approval or acceptance of the work furnished or materials supplied as described in Tenant’ s payment request.

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1.2.2.2 **Final Retention.** Subject to the provisions of this Work Letter, a check for the final Retention shall be delivered by Landlord to Tenant following the latest to occur of (a) the completion of the Tenant Improvement Work; (b) Tenant's delivery to Landlord of (i) property executed mechanic's lien releases in compliance with California Civil Code Sections 3262(d) and 3262(d)(4), (ii) a certificate from the Architect, in a form reasonably acceptable to Landlord, certifying that the Tenant Improvement Work has been substantially completed, and (iii) evidence that all required governmental approvals required for Tenant to legally occupy the Premises have been obtained; (c) Tenant's performance of its obligations under clause (i) of the third sentence of Section 3.3 below; or (d) Tenant's compliance with Landlord's standard "close-out" requirements regarding city approvals, closeout tasks, the general contractor, financial close-out matters, and tenant vendors.

2 PLANS.

2.1 **Selection of Architect/Plans.** Tenant shall retain Fennie & Mehl as the architect/space planner (the "**Architect**") and engineering consultants reasonably approved by Landlord (the "**Engineers**") to prepare all architectural plans for the Premises and all engineering working drawings relating to the structural, mechanical, electrical, plumbing, HVAC, life-safety, and sprinkler work in the Premises. The plans and drawings to be prepared by the Architect and the Engineers hereunder shall be referred to herein collectively as the "**Plans**." All Plans shall (a) comply with the drawing format and specifications reasonably required by Landlord, (b) be consistent with Landlord's requirements for avoiding aesthetic, engineering or other conflicts with the design and function of the balance of the Building, and (c) otherwise be subject to Landlord's approval, which shall not be unreasonably withheld. Tenant shall cause the Architect to verify, in the field, the dimensions and conditions as shown on the relevant portions of the base Building plans, and Landlord shall have no responsibility in connection therewith. Landlord's review of the Plans and approval of the Approved Construction Drawings (defined in Section 2.3 below) shall be for its sole benefit and shall not create or imply any obligation on the part of Landlord to review the same for Tenant's benefit, whether with respect to quality, design, compliance with Law or any other matter. Accordingly, notwithstanding any review of the Plans by Landlord or any of its space planners, architects, engineers or other consultants, and notwithstanding any advice or assistance that may be rendered to Tenant by Landlord or any such consultant. Landlord shall not be liable for any error or omission in the Plans or have any other liability relating thereto. Without limiting the foregoing, Tenant shall be responsible for ensuring (x) that all elements of the design of the Plans comply with Law and are otherwise suitable for Tenant's use of the Premises, and (y) that no Tenant Improvement impairs any system or structural component of the Building, and Landlord's approval of the Construction Drawings (defined in Section 2.3 below) shall not relieve Tenant from such responsibility.

2.2 **Space Plan.** Tenant shall cause the Architect to prepare a space plan for the Tenant Improvement Work, including a layout and designation of all offices, rooms and other partitioning, and equipment to be contained in the Premises, together with their intended use (the "**Space Plan**"), and shall deliver four (4) copies of the Space Plan, signed by Tenant, to Landlord for its approval, Landlord shall provide Tenant with notice approving or reasonably disapproving the Space Plan within five (5) business days after the later of Landlord's receipt thereof or the mutual execution and delivery of this Agreement. If Landlord disapproves the Space Plan, Landlord's notice of disapproval shall describe with reasonable specificity the basis for such disapproval and the changes that would be necessary to resolve Landlord's objections. If Landlord disapproves the Space Plan, Tenant shall cause the Space Plan to be modified and resubmitted to Landlord for its approval. Such procedure shall be repeated as necessary until Landlord has approved the Space Plan. At Landlord's option, before submitting the Construction Drawings, Tenant shall supply Landlord with intermediate stages of the Plans.

2.3 **Construction Drawings.** After Landlord approves the Space Plan, Tenant shall cause the Architect and the Engineers to complete the architectural, engineering and final architectural working drawings for the Tenant Improvement Work in a form that is sufficient to enable subcontractors to bid on the work and to obtain all applicable permits (collectively, the "**Construction Drawings**"), and shall deliver four (4) copies of the Construction Drawings, signed by Tenant, to Landlord for its approval. Notwithstanding the foregoing, at Tenant's option, the Construction Drawings may be prepared in two phases (first the architectural drawings, then engineering drawings consistent with the previously provided architectural drawings), provided that each phase shall be subject to Landlord's approval. Landlord shall provide Tenant with notice approving or reasonably disapproving the Construction Drawings (or the applicable component thereof) within ten (10) business days after the later of Landlord's receipt thereof or the mutual execution and delivery of this Agreement. If Landlord disapproves the Construction Drawings (or any component thereof), Landlord's notice of disapproval shall describe with reasonable specificity the basis for such disapproval and the changes that would be necessary to resolve Landlord's objections. If Landlord disapproves the Construction Drawings (or any component thereof), Tenant shall cause the

Construction Drawings to be modified and resubmitted to Landlord for its approval. Such procedure shall be repeated as necessary until Landlord has approved the Construction

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Drawings (or the applicable component thereof). Tenant shall not commence the Tenant Improvement Work until after the Construction Drawings are approved by Landlord. No revision may be made to the approved Construction Drawings (the “**Approved Construction Drawings**”) without Landlord’s prior consent, which shall not be unreasonably withheld.

2.4 **Permits.** Tenant shall submit the Approved Construction Drawings to the appropriate municipal authorities and otherwise apply for and obtain from such authorities all applicable building permits necessary to allow the Contractor to commence and complete the performance of the Tenant Improvement Work (the “**Permits**”). Tenant shall coordinate with Landlord in order to allow Landlord, at its option, to take part in all phases of the permitting process and shall supply Landlord, as soon as possible, with all plan check numbers and dates of submittal. Notwithstanding any contrary provision of this Section 2.4, Tenant, and not Landlord or its consultants, shall be responsible for obtaining any Permit or certificate of occupancy; provided, however, that Landlord shall cooperate with Tenant in executing permit applications and performing other ministerial acts reasonably necessary to enable Tenant to obtain any Permit or certificate of occupancy. Tenant shall not commence construction until all Permits are obtained.

3 CONSTRUCTION.

3.1 Selection of Contractors.

3.1.1 **The Contractor.** Tenant shall retain a general contractor (the “**Contractor**”) to perform the Tenant Improvement Work. The Contractor shall be selected by Tenant, by notice to Landlord, from a list of general contractors provided by Landlord or, at Landlord’s option, from a list of general contractors provided by Tenant and approved by Landlord; provided, however, that DPR Construction and Novo Construction are hereby approved by Landlord. For purposes of this Section 3.1.1, Landlord’s approval of a proposed general contractor shall not be considered unreasonably withheld if such general contractor (a) does not have trade references reasonably acceptable to Landlord, (b) does not maintain insurance as required under the terms of the Lease, (c) cannot be bonded for the work in an amount equal to 150% of the Final Costs (defined in Section 3.2.1 below), (d) does not provide current financial statements reasonably acceptable to Landlord, or (e) is not licensed as a contractor in the state/municipality in which the Premises is located. Tenant acknowledges that the foregoing is not an exclusive list of the reasons why Landlord may reasonably disapprove a proposed general contractor.

3.1.2 **Tenant’s Agents.** All subcontractors, laborers, materialmen and suppliers used by Tenant (such subcontractors, laborers, materialmen, and suppliers, together with the Contractor, to be referred to herein collectively as “**Tenant’s Agents**”) must be approved by Landlord. Such approval shall not be unreasonably withheld; provided, however, that Landlord may require Tenant to retain certain subcontractors designated by Landlord.

3.2 Construction.

3.2.1 **Construction Contract; Final Costs.** Tenant shall not enter into a construction contract with the Contractor (the “**Contract**”) unless it complies with Section 3.2.3 below and has been reviewed and approved by Landlord, which approval shall not be unreasonably withheld. Before commencing construction of the Tenant Improvement Work, Tenant shall deliver to Landlord a detailed breakdown of the schedule of values, by trade, of the final costs that will be or have been incurred, as set forth more particularly in Section 1.2.1 above, in connection with the performance of the Tenant Improvement Work and that form the basis for the amount of the Contract (the “**Final Costs**”). If the Final Costs exceed the Allowance, then, concurrently with its delivery to Landlord of the Final Costs, and before commencing performance of the Tenant Improvement Work, Tenant shall deliver to Landlord cash in the amount of such excess (the “**Over-Allowance Amount**”). Any Over-Allowance Amount shall be disbursed by Landlord before the Allowance and pursuant to the same procedure as the Allowance. If, after being delivered to Landlord, the Final Costs increase, Tenant shall, at Landlord’s option, either (a) deliver any resulting Over-Allowance Amount (or any resulting increase in the Over-Allowance Amount) to Landlord immediately upon Landlord’s request, or (b) pay any such amount directly to the Contractor, but only after providing Landlord with, and obtaining Landlord’s approval of, the documents described in clauses (i), (ii), (iii) and (iv) of Section 1.2.2.1 above.

3.2.2 **Landlord’s General Conditions for Tenant Improvement Work.** The Tenant Improvement Work shall be performed in a good and workmanlike manner and in strict accordance with the Approved Construction Drawings. Tenant shall cause Tenant’s Agents to submit to Landlord schedules of all work relating to the Tenant Improvement Work, whereupon Landlord, within five (5) business days, shall inform Tenant’s Agents of any necessary changes thereto, and Tenant shall cause Tenant’s Agents to

adhere to such corrected schedule. Tenant shall abide by all rules established by Landlord relating to the performance of the Tenant Improvement Work, including rules relating to the use of freight, loading dock and service elevators; any required shutdown of utilities (including life-safety systems); storage of materials; and coordination of work with other tenants' contractors.

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3.2.3 **Warranty of Contractor.** Tenant shall cause the Contractor to agree to be responsible for (a) the repair, replacement and/or removal, without additional charge, of any portion of the Tenant Improvement Work that is or becomes defective, in workmanship, materials or otherwise, on or before the date occurring one (1) year after the later to occur of (i) completion of the Tenant Improvement Work, or (ii) the Commencement Date; and (b) the repair of any damage to the Building and/or Common Areas resulting from such repair, replacement and/or removal. Such agreement shall be expressly set forth in the Contract and, by its terms, shall inure to the benefit of both Landlord and Tenant as their respective interests may appear, and shall be enforceable by either Landlord or Tenant. Upon Landlord's request, Tenant shall provide Landlord with any assignment or other assurance that may be necessary to enable Landlord to enforce such agreement directly against the Contractor.

3.2.4 **Insurance Requirements.** Tenant shall carry "Builder's All Risk" insurance in an amount approved by Landlord covering the Tenant Improvement Work, together with such other insurance as Landlord may reasonably require.

3.2.5 **Compliance.** The Tenant Improvement Work shall comply in all respects with (i) all applicable Laws; (ii) all applicable standards of the American Insurance Association (formerly, the National Board of Fire Underwriters) and the National Electrical Code; and (iii) all applicable building material manufacturer's specifications. Without limiting the foregoing, if, as a result of Tenant's performance of the Tenant Improvement Work, Landlord becomes required under Law to perform any inspection or give any notice relating to the Premises or the Tenant Improvement Work, or to ensure that the Tenant Improvement Work is performed in any particular manner, Tenant shall comply with such requirement on Landlord's behalf and promptly thereafter provide Landlord with reasonable documentation of such compliance.

3.2.6 **Inspection by Landlord.** Notwithstanding any contrary provision of the Lease, Landlord, at any time without notice to Tenant, may, at Landlord's sole cost and expense, enter the Premises to inspect the Tenant Improvement Work. Neither Landlord's performance of such inspection nor its failure to perform such inspection shall result in a waiver of any of Landlord's rights hereunder or be deemed to imply Landlord's approval of the Tenant Improvement Work. If, by notice to Tenant, Landlord reasonably identifies any defect in the Tenant Improvement Work, Tenant shall promptly cause the Contractor to correct such defect at no expense to Landlord. Notwithstanding any contrary provision of this Agreement, if a defect in the Tenant Improvement Work so identified by Landlord might adversely affect any system or structural component of the Building, the curtain wall or exterior appearance of the Building, or any other tenant's use of the Building, or might give rise to liability on the part of Landlord to any third party, then (a) Landlord may, upon prior written notice to Tenant and at Tenant's expense, (subject to reimbursement from the Allowance), take such action (including suspension of the Tenant Improvement Work) as Landlord reasonably deems necessary to correct such defect, and (b) until such defect is corrected, Landlord shall have no obligation to disburse any portion of the Allowance.

3.2.7 **Meetings.** Commencing upon execution of this Agreement, Tenant shall hold weekly meetings with the Architect and the Contractor regarding the progress of the preparation of Plans, the obtaining of the Permits, and the performance of the Tenant Improvement Work. Such meetings shall be held at a location designated by Landlord and at a reasonable time of which Tenant shall provide Landlord with at least three (3) business days' prior notice. Landlord may attend such meetings, and, upon Landlord's request, Tenant shall cause Tenant's Agents to attend such meetings. Tenant shall cause minutes of such meetings to be prepared and copies thereof to be delivered promptly to Landlord. One such meeting per month shall include a review of the Contractor's current request for payment.

3.3 **Tenant's Covenants.** Within 10 days after completing the Tenant Improvement Work, Tenant shall cause a Notice of Completion to be recorded in the office of the Recorder of the county in which the Building is located, in accordance with California Civil Code § 3093 or any successor statute, and shall furnish a copy thereof to Landlord upon such recordation. If Tenant fails to do so, Landlord may execute and file the same on behalf of Tenant as Tenant's agent for such purpose, at Tenant's expense. Within 30 days after completing the Tenant Improvement Work, (a) Tenant shall cause the Architect and the Contractor to (i) update the Approved Construction Drawings as necessary to reflect all changes made to the Approved Construction Drawings during the course of construction, (ii) certify to the best of their knowledge that the updated drawings are true and correct, which certification shall survive the expiration or termination of the Lease, and (iii) deliver to Landlord two (2) CD ROMS of such updated drawings in accordance with Landlord's CAD Format Requirements (defined below); and (b) Tenant shall deliver to Landlord copies of all warranties, guaranties, and operating manuals and information relating to the improvements, equipment, and systems in the Premises. For purposes hereof, "**Landlord's CAD Format Requirements**" shall mean (w) the version is no later than current Autodesk version of AutoCAD plus the

most recent release version, (x) files must be unlocked and fully accessible (no “cad-lock”, read-only, password protected or “signature” files), (y) files must be in “.dwg” format, and (z) if the data was electronically in a non-Autodesk product, then files must be converted into “.dwg” files when given to Landlord.

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4 MISCELLANEOUS. Notwithstanding any contrary provision of this Agreement, if Tenant fails to perform any of its obligations under this Agreement before the Tenant Improvement Work is completed, then (a) Landlord' s obligations under this Work Letter shall be excused, and Landlord may cause the Contractor to cease performance of the Tenant Improvement Work, until such failure is cured, and (b) Tenant shall be responsible for any resulting delay in the completion of the Tenant Improvement Work. This Work Letter shall not apply to any space other than the Premises.

5 LANDLORD DELAY. If (and only to the extent that) Tenant fails to substantially complete the Tenant Improvement Work within 90 days after the Premises Delivery Date (the "**Construction Period**"), the Commencement Date shall be delayed one (1) day for each day that Tenant is actually and reasonably prevented from substantially completing the Tenant Improvement Work by the expiration of the Construction Period as a direct result of (a) Landlord' s failure to approve or disapprove an item requiring Landlord' s approval within the time period specified in this Work Letter or (b) Landlord' s material interference or wrongful suspension of Tenant' s construction of the Tenant Improvement Work (each, a "**Landlord Delay**"); provided that no period of Landlord Delay shall commence until Tenant shall have provided written notice to Landlord specifying the facts and circumstances alleged to constitute such Landlord Delay, and the same shall continue without cure or correction for one (1) business day following such notice.

Exhibit B

5

EXHIBIT C

30 RIO ROBLES DRIVE, SAN JOSE, CA

CONFIRMATION LETTER

_____, 2011

To: _____

Re: Office Lease (the "**Lease**") dated September 15, 2011, between **CARR NP PROPERTIES, L.L.C.**, a Delaware limited liability company ("**Landlord**"), and **IMMERSION CORPORATION**, a Delaware corporation ("**Tenant**"), concerning the building located at 30 Rio Robles Drive, San Jose, California.

Lease ID: _____
Business Unit Number: _____

Dear _____:

In accordance with the Lease, Tenant accepts possession of the Premises and confirms the following:

1. The Commencement Date is _____ and the Expiration Date is _____.
2. The exact number of rentable square feet within the Premises is 32,881 square feet, subject to Section 1.1.1 of the Lease.
3. Tenant's Share, based upon the exact number of rentable square feet within the Premises, is 100%, subject to Section 1.1.1 of the Lease.

Please acknowledge the foregoing by signing all three (3) counterparts of this letter in the space provided below and returning two (2) fully executed counterparts to my attention. Please note that, pursuant to Section 2.1.1 of the Lease, if Tenant fails to execute and return (or, by notice to Landlord, reasonably object to) this letter within five (5) days after receiving it. Tenant shall be deemed to have executed and returned it without exception.

"Landlord":

CARR NP PROPERTIES, L.L.C.
Delaware limited liability company

By: _____
Name: _____
Title: _____

Agreed and Accepted as of _____, 20__.

"Tenant":

IMMERSION CORPORATION
a Delaware corporation

By: _____
Name: _____

Title: _____

Exhibit C

1

EXHIBIT D

30 RIO ROBLES DRIVE, SAN JOSE, CA

RULES AND REGULATIONS

Tenant shall comply with the following rules and regulations (as modified or supplemented from time to time, the “**Rules and Regulations**”). Landlord shall not be responsible to Tenant for the nonperformance of any of the Rules and Regulations by any other tenants or occupants of the Project. In the event of any conflict between the Rules and Regulations and the other provisions of this Lease, the latter shall control.

1. Tenant shall not alter any lock or install any new or additional locks or bolts on any doors or windows of the Premises without obtaining Landlord’s prior consent. Tenant shall bear the cost of any lock changes or repairs required by Tenant. Two (2) keys will be furnished, by Landlord for the Premises, and any additional keys required by Tenant must be obtained from Landlord at a reasonable cost to be established by Landlord. Upon the termination of this Lease, Tenant shall restore to Landlord all keys of stores, offices and toilet rooms furnished to or otherwise procured by Tenant, and if any such keys are lost, Tenant shall pay Landlord the cost of replacing them or of changing the applicable locks if Landlord deems such changes necessary.

2. Landlord may prescribe the weight, size and position of all safes and other heavy property brought into the Building and also the times and manner of moving the same in and out of the Building. Safes and other heavy objects shall, if considered necessary by Landlord, stand on supports of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property. Any damage to the Building, its contents, occupants or invitees resulting from Tenant’s moving or maintaining any such safe or other heavy property shall be the sole responsibility and expense of Tenant (notwithstanding Sections 7 and 10.4 of this Lease).

3. Employees of Landlord shall not perform any work or do anything outside their regular duties unless under special instructions from Landlord.

4. No sign, advertisement, notice or handbill shall be exhibited, distributed, painted or affixed by Tenant on any part of the Premises or the Building without Landlord’s prior consent. Tenant shall not disturb, solicit, peddle or canvass any occupant of the Project.

5. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed, and no foreign substance shall be thrown therein. Notwithstanding Sections 7 and 10.4 of this Lease, Tenant shall bear the expense of any breakage, stoppage or damage resulting from any violation of this rule by Tenant or any of its employees, agents, contractors, invitees or licensees.

6. Except in connection with Alterations permitted by the Lease, Tenant shall not overload the floor of the Premises, or mark, drive nails or screws or drill into the partitions, woodwork or drywall of the Premises, or otherwise deface the Premises, without Landlord’s prior consent. Tenant shall not purchase bottled water, ice, towel, linen, maintenance or other like services from any person not approved by Landlord.

7. [Intentionally Omitted.]

8. No inflammable, explosive or dangerous fluids or substances shall be used or kept by Tenant in the Premises or about the Project, except for such substances as are typically found in similar premises used for general office purposes and are being used by Tenant in a safe manner and in accordance with all Laws. Without limiting the foregoing, Tenant shall not, without Landlord’s prior consent, use, store, install, disturb, spill, remove, release or dispose of, within or about the Premises or any other portion of the Project, any asbestos-containing materials or any solid, liquid or gaseous material now or subsequently considered toxic or hazardous under the provisions of 42 U.S.C. Section 9601 et seq. or any other applicable environmental Law. Tenant shall comply with all Laws pertaining to and governing the use of these materials by Tenant and shall remain solely liable for the costs of abatement and removal. No burning candle or other open flame shall be ignited or kept by Tenant in the Premises or about the Project.

9. Tenant shall not, without Landlord' s prior consent, use any method of heating or air conditioning other than one approved by Landlord.

10. Tenant shall not use or keep any foul or noxious gas or substance in or on the Premises, or occupy or use the Premises in a manner offensive or objectionable to Landlord or other occupants of the Project by reason of noise, odors or vibrations, or interfere with other occupants or those having business therein, whether by the use of any musical instrument, radio, CD player or otherwise. Tenant shall not throw anything out of doors, windows or skylights or down passageways.

Exhibit D

1

11. Tenant shall not bring into or keep within the Project, the Building or the Premises any animals (other than service animals), birds, aquariums, or, except in areas designated by Landlord, bicycles or other vehicles.

12. No cooking shall be done in the Premises, nor shall the Premises be used for lodging, for living quarters or sleeping apartments, or for any improper, objectionable or immoral purposes. Notwithstanding the foregoing, Underwriters' laboratory-approved equipment and microwave ovens may be used in the Premises for heating food and brewing coffee, tea, hot chocolate and similar beverages for employees and invitees, provided that such use complies with all Laws.

13. The Premises shall not be used for manufacturing or for the storage of merchandise except to the extent such storage may be incidental to the Permitted Use. Tenant shall not occupy the Premises as an office for a messenger-type operation or dispatch office, public stenographer or typist, or for the manufacture or sale of liquor, narcotics or tobacco, or as a medical office, a barber or manicure shop, or an employment bureau, without Landlord's prior consent. Tenant shall not engage or pay any employees in the Premises except those actually working for Tenant in the Premises, nor advertise for laborers giving an address at the Premises.

14. Landlord may exclude from the Project any person who, in Landlord's judgment, is intoxicated or under the influence of liquor or drugs, or who violates any of these Rules and Regulations.

15. Tenant shall not loiter in any Common Areas for the purpose of smoking tobacco products or for any other purpose, nor in any way obstruct such areas, and shall use them only as a means of ingress and egress for the Premises.

16. Tenant shall store all its trash and garbage inside the Premises. No material shall be placed in the trash or garbage receptacles if, under Law, it may not be disposed of in the ordinary and customary manner of disposing of trash and garbage in the vicinity of the Building. All trash, garbage and refuse disposal shall be made only through entryways and elevators provided for such purposes at such times as Landlord shall designate. Tenant shall use commercially reasonable efforts to comply with Landlord's recycling program, if any.

17. Tenant shall comply with all customary and reasonable safety, fire protection and evacuation procedures and regulations established by Landlord or any governmental agency.

18. Any persons employed by Tenant to do janitorial work shall be subject to Landlord's prior consent, and Tenant shall be responsible for all acts of such persons.

19. No awning or other projection shall be attached to the outside walls of the Building without Landlord's prior consent. Other than Landlord's Building-standard window coverings, no curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises. All electrical ceiling fixtures hung in the Premises or spaces along the perimeter of the Building must be fluorescent and/or of a quality, type, design and a warm white bulb color approved in advance by Landlord. Neither the interior nor exterior of any windows shall be coated or otherwise sunscreens without Landlord's prior consent. Tenant shall abide by Landlord's regulations concerning the opening and closing of window coverings.

20. Tenant shall not obstruct any sashes, sash doors, skylights, windows or doors that reflect or admit light or air into the halls, passageways or other public places in the Building, nor shall Tenant place any bottles, parcels or other articles on the windowsills.

21. Tenant must comply with requests by Landlord concerning the informing of their employees of items of importance to the Landlord.

22. Tenant must comply with the State of California "No-Smoking" law set forth in California Labor Code Section 6404.5 and with any local "No-Smoking" ordinance that is not superseded by such law.

23. Landlord shall have no obligation to provide guard service or other security measures for the benefit of the Premises or the Project. Tenant assumes all responsibility for the protection of Tenant and its agents, employees, contractors and invitees, and the property thereof, from acts of third parties, including responsibility for keeping doors locked and other means of entry to the Premises closed, whether or not Landlord, at its option, elects to provide security protection for any portion of the Project. Tenant further assumes

the risk that any safety or security device, service or program that Landlord elects, in its sole and absolute discretion, to provide may not be effective, or may malfunction or be

Exhibit D

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circumvented by an unauthorized third party, and Tenant shall, in addition to its other insurance obligations under this Lease, obtain its own insurance coverage to the extent Tenant desires protection against losses resulting from such occurrences. Tenant shall cooperate in any reasonable safety or security program developed by Landlord or required by Law.

24. All office equipment of an electrical or mechanical nature shall be placed by Tenant in the Premises in settings approved by Landlord, to absorb or prevent any vibration, noise or annoyance.

25. Tenant shall not use any hand trucks except those equipped with rubber tires and rubber side guards.

26. No auction, liquidation, fire sale, going-out-of-business or bankruptcy sale shall be conducted in the Premises without Landlord's prior consent.

27. Without Landlord's prior consent, Tenant shall not use the name of the Project or Building or use pictures or illustrations of the Project or Building in advertising or other publicity or for any purpose other than as the address of the business to be conducted by Tenant in the Premises.

Landlord may from time to time modify or supplement these Rules and Regulations in a manner that, in Landlord's reasonable judgment, is appropriate for the management, safety, care and cleanliness of the Premises, the Building, the Common Areas and the Project, for the preservation of good order therein, and for the convenience of other occupants and tenants thereof. Landlord may waive any of these Rules and Regulations for the benefit of any tenant, but no such waiver shall be construed as a waiver of such Rule and Regulation in favor of any other tenant nor prevent Landlord from thereafter enforcing such Rule and Regulation against any tenant.

Exhibit D

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EXHIBIT E

30 RIO ROBLES DRIVE, SAN JOSE, CA

JUDICIAL REFERENCE

IF THE JURY-WAIVER PROVISIONS OF SECTION 25.8 OF THIS LEASE ARE NOT ENFORCEABLE UNDER CALIFORNIA LAW, THE PROVISIONS SET FORTH BELOW SHALL APPLY.

It is the desire and intention of the parties to agree upon a mechanism and procedure under which controversies and disputes arising out of this Lease or related to the Premises will be resolved in a prompt and expeditious manner. Accordingly, except with respect to actions for unlawful or forcible detainer or with respect to the prejudgment remedy of attachment, any action, proceeding or counterclaim brought by either party hereto against the other (and/or against its officers, directors, employees, agents or subsidiaries or affiliated entities) on any matters arising out of or in any way connected with this Lease, Tenant's use or occupancy of the Premises and/or any claim of injury or damage, whether sounding in contract, tort, or otherwise, shall be heard and resolved by a referee under the provisions of the California Code of Civil Procedure, Sections 638 – 645.1, inclusive (as same may be amended, or any successor statute(s) thereto) (the "**Referee Sections**"). Any fee to initiate the judicial reference proceedings and all fees charged and costs incurred by the referee shall be paid by the party initiating such procedure (except that if a reporter is requested by either party, then a reporter shall be present at all proceedings where requested and the fees of such reporter - except for copies ordered by the other parties - shall be borne by the party requesting the reporter); provided however, that allocation of the costs and fees, including any initiation fee, of such proceeding shall be ultimately determined in accordance with Section 25.6 of this Lease. The venue of the proceedings shall be in the county in which the Premises is located. Within 10 days of receipt by any party of a request to resolve any dispute or controversy pursuant to this **Exhibit E**, the parties shall agree upon a single referee who shall try all issues, whether of fact or law, and report a finding and judgment on such issues as required by the Referee Sections. If the parties are unable to agree upon a referee within such 10-day period, then any party may thereafter file a lawsuit in the county in which the Premises is located for the purpose of appointment of a referee under the Referee Sections. If the referee is appointed by the court, the referee shall be a neutral and impartial retired judge with substantial experience in the relevant matters to be determined, from Jams/Endispute, Inc., ADR Services, Inc. or a similar mediation/arbitration entity approved by each party in its sole and absolute discretion. The proposed referee may be challenged by any party for any of the grounds listed in the Referee Sections. The referee shall have the power to decide all issues of fact and law and report his or her decision on such issues, and to issue all recognized remedies available at law or in equity for any cause of action that is before the referee, including an award of attorneys' fees and costs in accordance with this Lease. The referee shall not, however, have the power to award punitive damages, nor any other damages that are not permitted by the express provisions of this Lease, and the parties waive any right to recover any such damages. The parties may conduct all discovery as provided in the California Code of Civil Procedure, and the referee shall oversee discovery and may enforce all discovery orders in the same manner as any trial court judge, with rights to regulate discovery and to issue and enforce subpoenas, protective orders and other limitations on discovery available under California Law. The reference proceeding shall be conducted in accordance with California Law (including the rules of evidence), and in all regards, the referee shall follow California Law applicable at the time of the reference proceeding. The parties shall promptly and diligently cooperate with one another and the referee, and shall perform such acts as may be necessary to obtain a prompt and expeditious resolution of the dispute or controversy in accordance with the terms of this **Exhibit E**. In this regard, the parties agree that the parties and the referee shall use best efforts to ensure that (a) discovery be conducted for a period no longer than 6 months from the date the referee is appointed, excluding motions regarding discovery, and (b) a trial date be set within 9 months of the date the referee is appointed. In accordance with Section 644 of the California Code of Civil Procedure, the decision of the referee upon the whole issue must stand as the decision of the court, and upon the filing of the statement of decision with the clerk of the court, or with the judge if there is no clerk, judgment may be entered thereon in the same manner as if the action had been tried by the court. Any decision of the referee and/or judgment or other order entered thereon shall be appealable to the same extent and in the same manner that such decision, judgment, or order would be appealable if rendered by a judge of the superior court in which venue is proper hereunder. The referee shall in his/her statement of decision set forth his/her findings of fact and conclusions of law. The parties intend this general reference agreement to be specifically enforceable in accordance with the Code of Civil Procedure. Nothing in this **Exhibit E** shall prejudice the right of any party to obtain provisional relief or other equitable remedies from a court of competent jurisdiction as shall otherwise be available under the Code of Civil Procedure and/or applicable court rules.

Exhibit E

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EXHIBIT F

30 RIO ROBLES DRIVE, SAN JOSE, CA

ADDITIONAL PROVISIONS

Capitalized terms used in this Exhibit not otherwise defined herein shall have the meaning given such terms in the Lease to which this Exhibit is attached (the “Lease”).

1. Provisions Required Under Existing Security Agreement. Notwithstanding any contrary provision of the Lease:

A. Permitted Use. No portion of the Premises shall be used for any of the following uses: any pornographic or obscene purposes, any commercial sex establishment, any pornographic, obscene, nude or semi-nude performances, modeling, materials, activities, or sexual conduct or any other use that, as of the time of the execution hereof, has or could reasonably be expected to have a material adverse effect on the Property or its use, operation or value.

B. Subordination and Attornment.

1. This Lease shall be subject and subordinate to any Security Agreement (as defined in Article 18 of this Lease) (other than a ground lease) existing as of the date of mutual execution and delivery of this Lease (as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time, an “**Existing Security Agreement**”) or any loan document secured by any Existing Security Agreement (an “**Existing Loan Document**”). In the event of the enforcement by any Security Holder of any remedy under any Existing Security Agreement or Existing Loan Document, Tenant shall, at the option of the Security Holder or of any other person or entity succeeding to the interest of the Security Holder as a result of such enforcement, attorn to the Security Holder or to such person or entity and shall recognize the Security Holder or such successor in the interest as lessor under this Lease without change in the provisions thereof; provided, however, the Security Holder or such successor in interest shall not be liable for or bound by (i) any payment of an installment of rent or additional rent which may have been made more than thirty (30) days before the due date of such installment, (ii) any act or omission of or default by Landlord under this Lease (but the Security Holder, or such successor, shall be subject to the continuing obligations of Landlord to the extent arising from and after such succession to the extent of the Security Holder’s, or such successor’s, interest in the Property), (iii) any credits, claims, setoffs or defenses which Tenant may have against Landlord, or (iv) any obligation under this Lease to maintain a fitness facility at the Property, Tenant, upon the reasonable request by the Security Holder or such successor in interest, shall execute and deliver an instrument or instruments confirming such attornment. Notwithstanding the foregoing, in the event the Security Holder shall have entered into a separate subordination, attornment and non-disturbance agreement directly with Tenant governing Tenant’s obligation to attorn to the Security Holder or such successor in interest as lessor, the terms and provisions of such agreement shall supersede the provisions of this Subsection.

2. Prior to the Commencement Date, Landlord shall obtain from the Security Holder of the Existing Security Agreement, for the benefit of Tenant, a non-disturbance agreement, in substantially the form attached to the Lease as Exhibit H (“**SNDA**”), providing generally that as long as Tenant is not in Default under this Lease, this Lease will not be terminated if such Security Holder acquires title to the Building or Project by reason of foreclosure proceedings, acceptance of a deed in lieu of foreclosure, or termination of the leasehold interest of Landlord, provided that Tenant attorns to such Security Holder in accordance with its requirements. Except for making such commercially reasonable efforts, Landlord will be under no duty or obligation hereunder with respect to the Existing Security Agreement, nor will the failure or refusal of the Security Holder of any Existing Security Agreement to grant a non-disturbance agreement render Landlord liable to Tenant, or affect this Lease, in any manner. In the event Landlord obtains a non-disturbance agreement hereunder for the benefit of Tenant, the parties acknowledge that Subsection (1) of this Section 1.B shall not apply and the terms and provisions of such non-disturbance agreement shall supersede the provisions of that Subsection. In addition, in the event of any conflict between the provisions of the non-disturbance agreement and the provisions of Section 1.C below, the provisions of the non-disturbance agreement shall control.

C. Proceeds.

1. As used herein, “**Proceeds**” means any compensation, awards, proceeds, damages, claims, insurance recoveries, causes or rights of action (whenever accrued) or payments which Landlord may receive or to which Landlord may become entitled with respect to

the Property or any part thereof (other than payments received in connection with any liability or loss of rental value or business interruption insurance) in connection with any Taking of, or any casualty or other damage or injury to, the Property or any part thereof.

Exhibit F

1

2. Nothing in this Lease shall be deemed to entitle Tenant to receive and retain Proceeds except those that may be specifically awarded to it in condemnation proceedings because of the Taking of its trade fixtures and its leasehold improvements which have not become part of the Property and such business loss as Tenant may specifically and separately establish. Nothing in the preceding sentence shall be deemed to expand any right Tenant may have under this Lease to receive or retain any Proceeds.

3. Nothing in this Lease shall be deemed to prevent Proceeds from being held and disbursed by any Security Holder under any Existing Loan Documents in accordance with the terms of such Existing Loan Documents. However, if, in the event of any casualty or partial Taking, any obligation of Landlord under this Lease to restore the Premises or the Building is materially diminished by the operation of the preceding sentence, then Landlord, as soon as reasonably practicable after the occurrence of such casualty or partial Taking, shall provide written notice to Tenant describing such diminution with reasonable specificity, whereupon, unless Landlord has agreed in writing, in its sole and absolute discretion, to waive such diminution, Tenant, by written notice to Landlord delivered within 10 days after receipt of Landlord's notice, shall have the right to terminate this Lease effective 10 days after the date of such termination notice.

Exhibit F

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2.2 If Yes is marked in Section 2.1 above, attach a list of any Hazardous Materials to be used, generated, treated, stored or disposed of in, on or about the Premises, including, for each Hazardous Material, the applicable hazard class, the maximum quantity(ies) to be present on or about the Premises at any given time; estimated annual throughput; the proposed

Exhibit G

1

location(s) and method of storage (excluding nominal amounts of ordinary household cleaners and janitorial supplies that are not regulated by any Law as a Hazardous Material); and the proposed location(s), method(s) and estimated frequency of, and the proposed contractors or subcontractors for, treatment or disposal. Existing tenants should attach a list setting forth the information requested above and such list should include actual data from on-going operations and the identification of any variations in such information from the prior year's certificate.

3. STORAGE TANKS AND SUMPS

Is any above or below ground storage or treatment of gasoline, diesel, petroleum, or other Hazardous Materials in tanks or sumps proposed in, on or about the Premises? Existing tenants should describe any such actual or proposed activities.

Yes No

If yes, please explain: _____

4. WASTE MANAGEMENT

4.1 Has your company been issued an EPA Hazardous Waste Generator I.D. Number? Existing tenants should describe any additional identification numbers issued since the previous certificate.

Yes No

4.2 Has your company filed a biennial or quarterly reports as a hazardous waste generator? Existing tenants should describe any new reports filed.

Yes No

If yes, attach a copy of the most recent report filed.

5. WASTEWATER TREATMENT AND DISCHARGE

5.1 Will your company discharge wastewater or other wastes to:

_____ storm drain? _____ sewer?
_____ surface water? _____ no wastewater or other wastes discharged.

Existing tenants should indicate any actual discharges. If so, describe the nature of any proposed or actual discharge(s).

5.2 Will any such wastewater or waste be treated before discharge?

Yes No

If yes, describe the type of treatment proposed to be conducted. Existing tenants should describe the actual treatment conducted.

6. AIR DISCHARGES

6.1 Do you plan for any air filtration systems or stacks to be used in your company's operations in, on or about the Premises that will discharge into the air; and will such air emissions be monitored? Existing tenants should indicate whether or not there are any such air filtration systems or stacks in use in, on or about the Premises which discharge into the air and whether such air emissions are being monitored.

Yes No

If yes, please describe: _____

6.2 Do you propose to operate any of the following types of equipment, or any other equipment requiring an air emissions permit? Existing tenants should specify any such equipment being operated in, on or about the Premises.

_____ Spray booth(s) _____ Incinerator(s)
_____ Dip tank(s) _____ Other (Please describe)
_____ Drying oven(s) _____ No Equipment Requiring Air Permits

If yes, please describe: _____

6.3 Please describe (and submit copies of with this Hazardous Materials Disclosure Certificate) any reports you have filed in the past 36 months with any governmental or quasi-governmental agencies or authorities related to air discharges or clean air requirements and any such reports which have been issued during such period by any such agencies or authorities with respect to you or your business operations.

7. HAZARDOUS MATERIALS DISCLOSURES

7.1 Has your company prepared or will it be required to prepare a Hazardous Materials management plan ("**Management Plan**") or Hazardous Materials Business Plan and Inventory ("**Business Plan**") pursuant to Fire Department or other governmental or regulatory agencies' requirements? Existing tenants should indicate whether or not a Management Plan is required and has been prepared.

Yes No

If yes, attach a copy of the Management Plan or Business Plan. Existing tenants should attach a copy of any required updates to the Management Plan or Business Plan.

7.2 Are any of the Hazardous Materials, and in particular chemicals, proposed to be used in your operations in, on or about the Premises listed or regulated under Proposition 65? Existing tenants should indicate whether or not there are any new Hazardous Materials being so used which are listed or regulated under Proposition 65.

Yes No

If yes, please explain: _____

8. ENFORCEMENT ACTIONS AND COMPLAINTS

8.1 With respect to Hazardous Materials, has your company ever been subject to any agency enforcement actions, administrative orders, or consent decrees or has your company received requests for information, notice or demand letters, or any other inquiries regarding its operations? Existing tenants should indicate whether or not any such actions, orders or decrees have been, or are in the process of being, undertaken or if any such requests have been received.

Yes No

If yes, describe the actions, orders or decrees and any continuing compliance obligations imposed as a result of these actions, orders or decrees and also describe any requests, notices or demands, and attach a copy of all such documents, Existing tenants should describe and attach a copy of any new actions, orders, decrees, requests, notices or demands not already delivered to Landlord pursuant to the provisions of Section 28.2 of the Lease.

8.2 Have there ever been, or are there now pending, any lawsuits against your company regarding any environmental or health and safety concerns?

Yes No

If yes, describe any such lawsuits and attach copies of the complaint(s), cross-complaint(s), pleadings and other documents related thereto as requested by Landlord. Existing tenants should describe and attach a copy of any new complaint(s), cross-complaint(s), pleadings and other related documents not already delivered to Landlord pursuant to the provisions of Section 28.2 of the Lease.

8.3 Have there been any problems or complaints from adjacent tenants, owners or other neighbors at your company's current facility with regard to environmental or health and safety concerns? Existing tenants should indicate whether or not there have been any such problems or complaints from adjacent tenants, owners or other neighbors at, about or near the Premises and the current status of any such problems or complaints.

Yes No

If yes, please describe. Existing tenants should describe any such problems or complaints not already disclosed to Landlord under the provisions of the signed Lease and the current status of any such problems or complaints.

9. PERMITS AND LICENSES

Attach copies of all permits and licenses issued to your company with respect to its proposed operations in, on or about the Premises, including, without limitation, any Hazardous Materials permits, wastewater discharge permits, air emissions permits, and use permits or approvals. Existing tenants should attach copies of any new permits and licenses as well as any renewals of permits or licenses previously issued.

The undersigned hereby acknowledges and agrees that this Hazardous Materials Disclosure Certificate is being delivered to Landlord in connection with the evaluation of a Lease and, if such Lease is executed, will be attached thereto as an exhibit. The undersigned further acknowledges and agrees that if such Lease is executed, this Hazardous Materials Disclosure Certificate may be required to be updated from time to time in accordance with Section 28.1.1 of the Lease. The undersigned further acknowledges and

agrees that the Landlord and its partners, lenders and representatives may rely upon the statements, representations, warranties, and certifications made herein and the truthfulness thereof in entering into the Lease and the continuance thereof throughout the term of the Lease, as it may be extended.

Exhibit G

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Tenant hereby certifies, represents and warrants that the information contained in this certificate is true and correct.

(PROSPECTIVE) TENANT:

IMMERSION CORPORATION

a Delaware corporation

By: _____

Title: _____

Exhibit G

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EXHIBIT H

30 RIO ROBLES DRIVE, SAN JOSE, CA

FORM OF SNDA

RECORDING REQUESTED BY
WHEN RECORDED RETURN TO

Bryan Cave LLP
1201 West Peachtree Street, NW, 14th Floor
Atlanta, Georgia 30309
Attention: Tia L. Cottey, Esq.

APN: _____

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

IMMERSION CORPORATION,
a Delaware corporation,

Tenant

AND

U.S. BANK, National Association,
successor-in-interest to Wells Fargo Bank, N.A.,
successor-in-interest to LaSalle Bank National Association,
as Trustee for the registered holders of Deutsche Mortgage & Asset Receiving Corporation,
COMM 2006-FL12, Commercial Mortgage Pass-Through Certificates, Series 2006-FL12

Lender

Premises: 30 Rio Robles Drive, San Jose, California

Dated: as of _____, 2011

Exhibit H

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SUBORDINATION,
NON-DISTURBANCE AND ATTORNMENT AGREEMENT

THIS AGREEMENT ("Agreement") made as of this ____ day of _____, 2011, between U.S. Bank, National Association, successor-in-interest to Wells Fargo Bank, N.A., successor-in-interest to LaSalle Bank National Association, as Trustee for the registered holders of Deutsche Mortgage & Asset Receiving Corporation, COMM 2006-FL12, Commercial Mortgage Pass-Through Certificates, Series 2006-FL12 ("Lender") and IMMERSION CORPORATION, a Delaware corporation, having an address at 30 Rio Robles Drive, San Jose, California (hereinafter called "Tenant").

RECITALS:

WHEREAS, by a Lease Agreement dated as of September 15, 2011 (the "Lease"), between CARR NP Properties L.L.C., a Delaware limited liability company (hereinafter called "Landlord"), as landlord, and Tenant, as tenant, Landlord leased to Tenant certain premises located at 30 Rio Robles Drive, San Jose, California (the "Premises") on the property known as "**RIO ROBLES TECHNOLOGY PARK**," and described in Schedule "A", annexed hereto and made a part hereof (the "Property"); and

WHEREAS, Lender is the current holder of a loan to Landlord, which loan is secured by, among other things, a mortgage or deed of trust encumbering the Property (which mortgage or deed of trust, and all amendments, renewals, increases, modifications, replacements, substitutions, extensions, spreaders and consolidations thereof and all re-advances thereunder and additions thereto, is referred to as the "Security Instrument"); and

WHEREAS, Lender and Tenant desire to confirm their understanding and agreement with respect to the Lease and the Security Instrument.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, Lender and Tenant hereby agree and covenant as follows:

1. The Lease, and all of the terms, covenants, provisions and conditions thereof (including, without limitation, any right of first refusal, right of first offer, option or any similar right with respect to the sale or purchase of the Property, or any portion thereof) is, shall be, and shall at all times remain and continue to be, subject and subordinate in all respects to the lien, terms, covenants, provisions and conditions of the Security Instrument and to all advances and re-advances made thereunder and all sums secured thereby. This provision shall be self-operative, but Tenant shall execute and deliver any additional instruments which Lender may reasonably require to effect such subordination.

2. So long as (i) Tenant is not in default (beyond any period given in the Lease to Tenant to cure such default) in the payment of rent, percentage rent or additional rent or in the performance or observance of any of the other terms, covenants, provisions or conditions of the Lease on Tenant's part to be performed or observed, (ii) Tenant is not in default under this Agreement, and (iii) the Lease is in full force and effect: (a) Tenant's possession of the Premises and Tenant's rights and privileges under the Lease, or any extensions or renewals thereof which may be effected in accordance with any option therefor which is contained in the Lease, shall not be diminished or interfered with by Lender, and Tenant's occupancy of the Premises shall not be disturbed by Lender for any reason whatsoever during the term of the Lease or any such extensions or renewals thereof, and (b) Lender will not join Tenant as a party defendant in any action or proceeding to foreclose the Security Instrument or to enforce any rights or remedies of Lender under the Security Instrument which would cut off, destroy, terminate or extinguish the Lease or Tenant's interest and estate under the Lease (except to the extent required so that Tenant's right to receive or set off any monies or obligations owed or to be performed by any of Lender's predecessors-in-interest shall not be enforceable thereafter against Lender or any of Lender's successors-in-interest). Notwithstanding the foregoing provisions of this paragraph, if it would be procedurally disadvantageous for Lender not to name or join Tenant as a party in a foreclosure proceeding with respect to the Security Instrument, Lender may so name or join Tenant without in any way diminishing or otherwise affecting the rights and privileges granted to, or inuring to the benefit of, Tenant under this Agreement.

3. (A) After notice is given by Lender that the Security Instrument is in default and that the rentals under the Lease should be paid to Lender, Tenant will attorn to Lender and pay to Lender, or pay in accordance with the directions of Lender, all rentals and other monies due and to become due to Landlord under the Lease or otherwise in respect of the Premises. Such payments shall be made regardless of any right of set-off, counterclaim or other defense which Tenant may have against Landlord, whether as the tenant under the Lease or otherwise.

Exhibit H

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(B) In addition, if Lender (or its nominee or designee) shall succeed to the rights of Landlord under the Lease through possession or foreclosure action, delivery of a deed, or otherwise, or another person purchases the Property or the portion thereof containing the Premises upon or following foreclosure of the Security Instrument or in connection with any bankruptcy case commenced by or against Landlord, then, at the request of Lender (or its nominee or designee) or such purchaser (Lender, its nominees and designees, and such purchaser, and their respective successors and assigns, each being a "Successor-Landlord"). Tenant shall attorn to and recognize Successor-Landlord as Tenant's landlord under the Lease, and shall promptly execute and deliver any instrument that Successor-Landlord may reasonably request to evidence such attornment. Upon such attornment, the Lease shall continue in full force and effect as, or as if it were, a direct lease between Successor-Landlord and Tenant upon all terms, conditions and covenants as are set forth in the Lease. If the Lease shall have terminated by operation of law or otherwise as a result of or in connection with a bankruptcy case commenced by or against Landlord or a foreclosure action or proceeding or delivery of a deed in lieu, upon request of Successor-Landlord, Tenant shall promptly execute and deliver a direct lease with Successor-Landlord, which direct lease shall be on substantially the same terms and conditions as the Lease (subject, however, to the provisions of clauses (i)-(v) of this paragraph 3(B)), and shall be effective as of the day the Lease shall have terminated as aforesaid. Notwithstanding the continuation of the Lease, the attornment of Tenant thereunder or the execution of a direct lease between Successor-Landlord and Tenant as aforesaid, Successor-Landlord shall not:

(i) be liable for any previous act or omission of Landlord under the Lease;

(ii) be subject to any off-set, defense or counterclaim which shall have theretofore accrued to Tenant against Landlord;

(iii) be bound by any modification of the Lease, or by any previous prepayment of rent or additional rent made more than one (1) month prior to the date same was due which Tenant might have paid to Landlord, unless such modification or prepayment shall have been expressly approved in writing by Lender;

(iv) be liable for any security deposited under the Lease unless such security has been physically delivered to Lender or Successor-Landlord; and

(v) be liable or obligated to comply with or fulfill any of the obligations of Landlord under the Lease or any agreement relating thereto with respect to the construction of, or payment for, improvements on or above the Premises (or any portion thereof), leasehold improvements, tenant work letters and/or similar items.

4. Tenant agrees that, without the prior written consent of Lender, it shall not (a) amend, modify, terminate or cancel the Lease or any extensions or renewals thereof, (b) tender a surrender of the Lease, (c) make a prepayment of any rent or additional rent more than one (1) month in advance of the due date thereof, or (d) subordinate or permit the subordination of the Lease to any lien subordinate to the Security Instrument. Any such purported action without such consent shall be void as against the holder of the Security Instrument.

5. (A) Tenant shall promptly notify Lender of any default by Landlord under the Lease and of any act or omission of Landlord which would give Tenant the right to cancel or terminate the Lease or to claim a partial or total eviction.

(B) In the event of a default by Landlord under the Lease which would give Tenant the right, immediately or after the lapse of a period of time, to cancel or terminate the Lease or to claim a partial or total eviction, or in the event of any other act or omission of Landlord which would give Tenant the right to cancel or terminate the Lease, Tenant shall not exercise such right (i) until Tenant has given written notice of such default, act or omission to Lender, and (ii) unless Lender has failed, within sixty (60) days after Lender receives such notice, to cure or remedy the default, act or omission or, if such default, act or omission shall be one which is not reasonably capable of being remedied by Lender within such sixty (60) day period, until a reasonable period for remedying such default, act or omission shall have elapsed following the giving of such notice and following the time when Lender shall have become entitled under the Security Instrument to remedy the same (which reasonable period shall in no event be less than the period to which Landlord would be entitled under the Lease or otherwise, after similar notice, to effect such remedy), provided that Lender shall with due diligence give Tenant written notice of its intention to, and shall commence and continue to, remedy such default, act or omission. If Lender cannot reasonably remedy a default, act or omission of Landlord until after Lender obtains possession of the Premises, Tenant may not terminate or cancel the Lease or claim a partial or total eviction by reason of such default, act or omission until the expiration of a reasonable period necessary for the remedy after Lender secures possession of the Premises. To the extent Lender incurs any

expenses or other costs in curing or remedying such default, act or omission, including, without limitation, attorneys' fees and disbursements, Lender shall be subrogated to Tenant' s rights against Landlord.

Exhibit H

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(C) Notwithstanding the foregoing, Lender shall have no obligation hereunder to remedy such default, act or omission.

6. To the extent that the Lease shall entitle Tenant to notice of the existence of any mortgage and the identity of any mortgagee or any ground lessor, this Agreement shall constitute such notice to Tenant with respect to the Security Instrument and Lender.

7. Upon and after the occurrence of a default under the Security Instrument, which is not cured after any applicable notice and/or cure periods, Lender shall be entitled, but not obligated, to exercise the claims, rights, powers, privileges and remedies of Landlord under the Lease, and shall be further entitled to the benefits of, and to receive and enforce performance of, all of the covenants to be performed by Tenant under the Lease as though Lender were named therein as Landlord.

8. Anything herein or in the Lease to the contrary notwithstanding, in the event that a Successor-Landlord shall acquire title to the Property or the portion thereof containing the Premises, Successor-Landlord shall have no obligation, nor incur any liability, beyond Successor-Landlord's then interest, if any, in the Property, and Tenant shall look exclusively to such interest, if any, of Successor-Landlord in the Property for the payment and discharge of any obligations imposed upon Successor-Landlord hereunder or under the Lease, and Successor-Landlord is hereby released or relieved of any other liability hereunder and under the Lease. Tenant agrees that, with respect to any money judgment which may be obtained or secured by Tenant against Successor-Landlord, Tenant shall look solely to the estate or interest owned by Successor-Landlord in the Property, and Tenant will not collect or attempt to collect any such judgment out of any other assets of Successor-Landlord.

9. Notwithstanding anything to the contrary in the Lease, Tenant agrees for the benefit of Landlord and Lender that, except as permitted by, and fully in accordance with, applicable law, Tenant shall not generate, store, handle, discharge or maintain in, on or about any portion of the Property, any asbestos, polychlorinated biphenyls, or any other hazardous or toxic materials, wastes and substances which are defined, determined or identified as such (including, but not limited to, pesticides and petroleum products if they are defined, determined or identified as such) in any federal, state or local laws, rules or regulations (whether now existing or hereafter enacted or promulgated), or any judicial or administrative interpretation of any thereof, including any judicial or administrative interpretation of any thereof, including any judicial or administrative orders or judgments.

10. If the Lease provides that Tenant is entitled to expansion space, Successor-Landlord shall have no obligation, nor any liability, for failure to provide such expansion space if a prior landlord (including, without limitation, Landlord), by reason of a lease or leases entered into by such prior landlord with other tenants of the Property, has precluded the availability of such expansion space.

11. Except as specifically provided in this Agreement, Lender shall not, by virtue of this Agreement, the Security Instrument or any other instrument to which Lender may be a party, be or become subject to any liability or obligation to Tenant under the Lease or otherwise.

12. (A) Tenant acknowledges and agrees that this Agreement satisfies and complies in all respects with the provisions of Article 18 and Exhibit F of the Lease, and that this Agreement supersedes (but only to the extent inconsistent with) the provisions of such Article and any other provision of the Lease relating to the priority or subordination of the Lease and the interests or estates created thereby to the Security Instrument.

(B) Tenant agrees to enter into a subordination, non-disturbance and attornment agreement with any lender which shall succeed Lender as lender with respect to the Property, or any portion thereof, provided that such agreement is substantially similar to this Agreement. Tenant does herewith irrevocably appoint and constitute Lender as its true and lawful attorney-in-fact in its name, place and stead to execute such subordination, non-disturbance and attornment agreement, without any obligation on the part of Lender to do so. This power, being coupled with an interest, shall be irrevocable as long as the Indebtedness secured by the Security Instrument remains unpaid. Lender agrees not to exercise its rights under the preceding two sentences if Tenant promptly enters into the subordination, non-disturbance and attornment agreement as required pursuant to the first sentence of this subparagraph (B).

13. (A) Any notice required or permitted to be given by Tenant to Landlord shall be simultaneously given also to Lender, and any right to Tenant dependent upon notice shall take effect only after notice is so given. Performance by Lender shall satisfy any conditions of the Lease requiring performance by Landlord, and Lender shall have a reasonable time to complete such performance as provided in Paragraph 5 hereof.

(B) All notices or other communications required or permitted to be given to Tenant or to Lender pursuant to the provisions of this Agreement shall be in writing and shall be deemed given

Exhibit H

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only if mailed by United States registered mail, postage prepaid, or if sent by nationally recognized overnight delivery service (such as Federal Express or United States Postal Service Express Mail), addressed as follows:

to Tenant, at the following address: _____

to Lender, at the following address: U.S. Bank, National Association, as Trustee for the registered holders of Deutsche Mortgage & Asset Receiving Corporation, COMM 2006-FL12, Commercial Mortgage Pass-Through Certificates, Series 2006-FL12
c/o Bank of America, N.A.
Capital Markets Servicing Group
900 West Trade Street, Suite 650
Charlotte, North Carolina 28255

or to such other address or number as such party may hereafter designate by notice delivered in accordance herewith. All such notices shall be deemed given three (3) business days after delivery to the United States Post office registry clerk if given by registered mail, or on the next business day after delivery to an overnight delivery courier.

14. This Agreement may be modified only by an agreement in writing signed by the parties hereto, or their respective successors-in-interest. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto, and their respective successors and assigns. The term "Lender" shall mean the then holder of the Security Instrument. The term "Landlord" shall mean the then holder of the landlord's interest in the Lease. The term "person" shall mean an individual, joint venture, corporation, partnership, trust, limited liability company, unincorporated association or other entity. All references herein to the Lease shall mean the Lease as modified by this Agreement, and to any amendments or modifications to the Lease which are consented to in writing by Lender. Any inconsistency between the Lease and the provisions of this Agreement shall be resolved, to the extent of such inconsistency, in favor of this Agreement.

15. Tenant hereby represents to Lender as follows:

- (a) The Lease is in full force and effect, and has not been further amended.
- (b) There has been no assignment of the Lease or subletting of any portion of the premises demised under the Lease.
- (c) There are no oral or written agreements or understandings between Landlord and Tenant relating to the premises demised under the Lease or the Lease transaction except as set forth in the Lease.
- (d) The execution of the Lease was duly authorized and the Lease is in full force and effect, and to the best of Tenant's knowledge there exists no default (beyond any applicable grace period) on the part of either Tenant or Landlord under the Lease.
- (e) There has not been filed by or against Tenant, nor to the best of the knowledge and belief of Tenant is there threatened against Tenant, any petition under the bankruptcy laws of the United States.
- (f) To the best of Tenant's knowledge, there is no present assignment, hypothecation or pledge of the Lease or rents accruing under the Lease by Landlord, other than pursuant to the Security Instrument.

16. Whenever, from time to time, reasonably requested by Lender (but not more than three (3) times during any calendar year), Tenant shall execute and deliver to or at the direction of Lender, and without charge to Lender, one or more written certifications, in a form acceptable to Tenant, the then-current status of all of the matters set forth in Paragraph 15 above, and any other information Lender may reasonably require to confirm the current status of the Lease.

17. BOTH TENANT AND LENDER HEREBY IRREVOCABLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT.

Exhibit H

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18. This Agreement shall be governed by and construed in accordance with the laws of the State in which the Property is located.

[The remainder of this page is left intentionally blank.]

Exhibit H

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IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

LENDER:

**U.S. BANK, NATIONAL ASSOCIATION,
SUCCESSOR-IN-INTEREST TO WELLS
FARGO BANK, N.A., SUCCESSOR-IN-
INTEREST TO LASALLE BANK, NATIONAL
ASSOCIATION, AS TRUSTEE FOR THE
REGISTERED HOLDERS OF DEUTSCHE
MORTGAGE & ASSET RECEIVING
CORPORATION, COMM 2006-FL12,
COMMERCIAL MORTGAGE PASS-THROUGH
CERTIFICATES, SERIES 2006-FL12**

By: Berkadia Commercial Mortgage LLC,
as Master Servicer

By: Bank of America, N.A.,
as Sub-Servicer

By: _____
Name: _____
Title: _____

TENANT

IMMERSION CORPORATION,
a Delaware corporation

By: _____
Name: _____
Title: _____

AGREED AND CONSENTED TO:
LANDLORD:

CARR NP PROPERTIES, L.L.C., a Delaware
limited liability company

By: _____
Name: _____
Title: _____

Exhibit H

STATE OF _____)
) Ss
COUNTY OF _____)

On _____, before me, _____, Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument, and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

(Seal)
Notary Public

STATE OF _____)
) Ss
COUNTY OF _____)

On _____, before me, _____, Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument, and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

(Seal)
Notary Public

Exhibit H

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STATE OF _____)
) Ss
COUNTY OF _____)

On _____, before me, _____, Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument, and acknowledged to me that he/she/they executed the same in his/her/their authorized capacities), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Notary Public (Seal)

Exhibit H
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SCHEDULE A

Legal Description of Property

Exhibit H
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EXHIBIT I

30 RIO ROBLES DRIVE, SAN JOSE, CA

EXISTING PERSONAL PROPERTY

All personal property, including, without limitation, any furniture and chairs, data wiring, telephone system (including switch and handsets), racks, generator, UPS, lab benches, fencing, and security system, located in the Premises as of the date of this Lease except for the following:

All cubicles

All furniture located within the cubicles

Exhibit I

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

I, Victor Viegas, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Immersion Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and
5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: November 7, 2011

/s/ Victor Viegas

Victor Viegas

Chief Executive Officer

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

I, Shum Mukherjee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Immersion Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and
5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: November 7, 2011

/s/ Shum Mukherjee

Shum Mukherjee

Chief Financial Officer

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

In connection with the Quarterly Report of Immersion Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Victor Viegas, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

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

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

/s/ Victor Viegas

Victor Viegas
Chief Executive Officer

November 7, 2011

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

In connection with the Quarterly Report of Immersion Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Shum Mukherjee, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

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

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

/s/ Shum Mukherjee

Shum Mukherjee
Chief Financial Officer

November 7, 2011

**Condensed Consolidated
Balance Sheets
(Parenthetical) (USD \$)
In Thousands, except Share
data**

Sep. 30, 2011 Dec. 31, 2010

Condensed Consolidated Balance Sheets

<u>Accounts and other receivables, allowances for doubtful accounts</u>	\$ 25	\$ 97
<u>Common stock, par value</u>	\$ 0.001	\$ 0.001
<u>Common stock, shares authorized</u>	100,000,000	100,000,000
<u>Common stock, shares issued</u>	31,760,085	31,016,812
<u>Common stock, shares outstanding</u>	28,940,662	28,228,603
<u>Treasury stock, shares</u>	2,819,423	2,788,209

**Condensed Consolidated
Statements Of Operations
(USD \$)
In Thousands, except Per
Share data**

3 Months Ended 9 Months Ended
Sep. 30, Sep. 30, Sep. 30, Sep. 30,
2011 2010 2011 2010

Revenues:

<u>Royalty and license</u>	\$ 5,875	\$ 5,141	\$ 20,110	\$ 17,848
<u>Product sales</u>	345	1,217	1,892	6,035
<u>Development contracts and other</u>	275	189	943	848
<u>Total revenues</u>	6,495	6,547	22,945	24,731

Costs and expenses:

<u>Cost of revenues (exclusive of amortization, impairment, and abandonment of intangibles shown separately below)</u>	192	457	913	2,587
<u>Sales and marketing</u>	1,643	1,813	5,402	6,077
<u>Research and development</u>	2,183	2,007	6,525	6,473
<u>General and administrative</u>	3,195	3,008	9,367	11,808
<u>Amortization and impairment or abandonment of intangibles</u>	324	211	1,016	650
<u>Total costs and expenses</u>	7,537	7,496	23,223	27,595
<u>Operating loss</u>	(1,042)	(949)	(278)	(2,864)
<u>Interest and other income</u>	58	70	172	212
<u>Loss from continuing operations before provision for income taxes</u>	(984)	(879)	(106)	(2,652)
<u>Provision for income taxes</u>	(428)	(336)	(1,289)	(1,098)
<u>Loss from continuing operations</u>	(1,412)	(1,215)	(1,395)	(3,750)

Discontinued operations (Note 11) :

<u>Gain on sales of discontinued operations net of provision for income taxes of \$0, \$18, \$39 and \$18</u>	0	82	61	143
<u>Net loss</u>	\$ (1,412)	\$ (1,133)	\$ (1,334)	\$ (3,607)

Basic and diluted net loss per share

<u>Continuing operations</u>	\$ (0.05)	\$ (0.04)	\$ (0.05)	\$ (0.13)
<u>Discontinued operations</u>	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<u>Total</u>	\$ (0.05)	\$ (0.04)	\$ (0.05)	\$ (0.13)
<u>Shares used in calculating basic and diluted net loss per share</u>	28,918	28,134	28,595	28,087

**Document And Entity
Information**

**9 Months Ended
Sep. 30, 2011 Oct. 31, 2011**

Document And Entity Information

<u>Document Type</u>	10-Q	
<u>Amendment Flag</u>	false	
<u>Document Period End Date</u>	Sep. 30, 2011	
<u>Document Fiscal Year Focus</u>	2011	
<u>Document Fiscal Period Focus</u>	Q3	
<u>Entity Registrant Name</u>	IMMERSION CORP	
<u>Entity Central Index Key</u>	0001058811	
<u>Current Fiscal Year End Date</u>	--12-31	
<u>Entity Filer Category</u>	Accelerated Filer	
<u>Entity Common Stock, Shares Outstanding</u>		28,863,334

**Intangibles And Other
Assets**

**9 Months Ended
Sep. 30, 2011**

**Intangibles And Other
Assets**

Intangibles And Other Assets

6. INTANGIBLES AND OTHER ASSETS

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	(In thousands)	
Patents and trademarks	\$ 23,122	\$ 21,074
Other assets	<u>286</u>	<u>295</u>
Gross intangibles and other assets	23,408	21,369
Accumulated amortization of patents and trademarks	<u>(9,637)</u>	<u>(9,013)</u>
Intangibles and other assets, net	<u>\$ 13,771</u>	<u>\$ 12,356</u>

The Company amortizes its intangible assets related to patents and trademarks, over their estimated useful lives, generally 10 years from the date of issuance of the patents and trademarks. Amortization of intangibles excluding impairments or abandonments was as follows:

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(In thousands)		(In thousands)	
Amortization of Intangibles - excluding impairments or abandonments	<u>\$ 333</u>	<u>\$ 211</u>	<u>\$ 747</u>	<u>\$ 630</u>

The table below includes estimated remaining annual amortization expense for intangible assets as of September 30, 2011. The table includes patents which are in process and the amounts are subject to change based on management's estimate.

	<u>Estimated</u> <u>Amortization</u> <u>Expense</u> <u>(In thousands)</u>
Remainder of 2011	\$ 267
2012	1,118
2013	1,326
2014	1,394
2015	1,496
Thereafter	<u>7,884</u>
Total	<u>\$ 13,485</u>

Patents in process included in patents and trademarks were as follows:

	September 30, 2011	December 31, 2010
	(In thousands)	
Patents in process	<u>\$ 8,119</u>	<u>\$ 7,382</u>

**Divestiture And
Discontinued Operations**

**9 Months Ended
Sep. 30, 2011**

[Divestiture And
Discontinued Operations](#)
[Divestiture And Discontinued
Operations](#)

11. DIVESTITURE AND DISCONTINUED OPERATIONS

Divestiture

On March 30, 2010, the Company entered into and closed an Asset Purchase Agreement, a Transition Services Agreement, and a License Agreement (collectively the "Transaction") with CAE Healthcare USA ("CAE"). Under the Asset Purchase Agreement, CAE acquired certain assets including inventory, fixed assets, and certain liabilities which included warranty liabilities of the Endoscopy, Endovascular, and Laparoscopy medical simulation product lines used in the field of medical training for approximately \$1.6 million subject to purchase price adjustments for final inventory levels. The agreement also provided for the transfer of certain employees to CAE as well as distribution agreements and customer relationships. Under the transition services agreement, the Company provided certain back-office services to CAE for up to nine months and was being reimbursed for the expenses incurred for such services. Under the license agreement, the Company licensed to CAE the Immersion TouchSense patent portfolio within a specific field of use. As such, revenues and costs for the Endoscopy, Endovascular, and Laparoscopy medical simulation product lines have been included in operating income (loss) in the accompanying condensed consolidated statements of operations through the date of sale. Although the Company has ceased manufacturing these three specific product lines, these operating results have not been reported as discontinued operations. The Company continues to manufacture Virtual IV products, another medical product line, but the primary focus of the Company's business has changed from simulation product sales to licensing fees. During the nine months ended September 30, 2010, the Company recognized a pre-tax loss of approximately \$43,000 in continuing operations in connection with the asset purchase agreement and the transition services agreement. There was no cost in 2011 related to the CAE transaction. The cost reimbursements received under the Transition Services Agreement were recorded as an off-set to the related operating expense line items. The Company's license agreement with CAE includes quarterly revenue under the license arrangement which started in July 2010. Under the terms of the Company's revenue recognition policy for transactions with extended payment terms such as this, the Company recognizes revenue as amounts become due and payable and all revenue recognition criteria are met. In connection with the transaction, the Company agreed to indemnify CAE for certain liabilities, claims, and other specified items in the asset purchase agreement.

Results of Discontinued Operations

On November 17, 2008, the Company announced that it would divest its 3D product line which was part of its Touch segment. During 2009, the Company sold all of its 3D product line including inventory, fixed assets, and intangibles and recorded gains on the sale of discontinued operations of \$187,000 at the time of the sales. Negotiated consideration for the sales was \$2.7 million in the form of cash of \$320,000 and notes receivable of \$2.4 million payable through 2013, for which the proceeds are being recognized when they are received. The Company has abandoned all other 3D operations. Accordingly, the operations of the 3D product line have been classified as discontinued operations, net of income tax, in the condensed consolidated statement of operations for all periods presented. The assets sold consisted primarily of intangible assets that

had no carrying value on the Company's books at the time of sale. In the three and nine months ended September 30, 2011 the Company recorded a gain on sales of discontinued operations net of tax of \$0 and \$61,000 respectively, from payments on notes from the sale of the 3D product line. In the three and nine months ended September 30, 2010 the Company recorded a gain on sale of discontinued operations net of tax of \$82,000 and \$143,000 respectively, from payments on notes from the sale of the 3D product line.

Fair Value Measurements

9 Months Ended
Sep. 30, 2011

[Fair Value Measurements](#)

[Fair Value Measurements](#)

2. FAIR VALUE MEASUREMENTS

Cash Equivalents and Short-term Investments

The financial instruments of the Company measured at fair value on a recurring basis are cash equivalents and short-term investments. The Company's cash equivalents and short-term investments are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The Company did not have any transfers between Level 1 and Level 2 fair value measurements during the periods presented.

The types of instruments valued based on quoted market prices in active markets include most U.S. treasury securities and most money market securities. Such instruments are generally classified within Level 1 of the fair value hierarchy.

The types of instruments valued based on quoted prices in markets that are less active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade corporate commercial paper. Such instruments are generally classified within Level 2 of the fair value hierarchy.

The types of instruments valued based on unobservable inputs which reflect the reporting entity's own assumptions or data that market participants would use in valuing an instrument are generally classified within Level 3 of the fair value hierarchy.

In January 2010, the FASB ratified ASU 2010-06 "Fair Value Measurements and Disclosures – Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"). ASU 2010-06 requires new disclosures for significant transfers in and out of Level 1 and 2 of the fair value hierarchy and the level of disaggregation of assets or liabilities and the valuation techniques and inputs used to measure fair value. The Company adopted the updated guidance which was effective for the Company's annual reporting period at December 31, 2009, with the exception of new Level 3 activity disclosures, which was adopted January 1, 2011. The adoption of this guidance did not have a material impact on its condensed consolidated results of operations and financial condition.

Financial instruments measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010 are classified based on the valuation technique in the table below:

September 30, 2011			
Fair value measurements using			
Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(In thousands)			

Assets:

U.S.				
Treasury securities	\$ 48,979	\$ 0	\$ 0	\$ 48,979
Money market accounts	11,423	0	0	11,423
Total assets at fair value	<u>\$ 60,402</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$60,402</u>

The above table excludes \$3.1 million of cash held in banks.

December 31, 2010
Fair value measurements using

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In thousands)			

Assets:

U.S. Treasury securities	\$ 48,961	\$ 0	\$ 0	\$ 48,961
Money market accounts	7,356	0	0	7,356
Total assets at fair value	<u>\$ 56,317</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$56,317</u>

The above table excludes \$4.9 million of cash held in banks.

Short-term Investments

September 30, 2011

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
	(In thousands)			

U.S. Treasury securities	\$ 48,949	\$ 30	\$ 0	\$ 48,979
Total	<u>\$ 48,949</u>	<u>\$ 30</u>	<u>\$ 0</u>	<u>\$48,979</u>

December 31, 2010

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
	(In thousands)			

U.S. Treasury securities	\$ 48,942	\$ 19	\$ 0	\$ 48,961
Total	<u>\$48,942</u>	<u>\$ 19</u>	<u>\$ 0</u>	<u>\$48,961</u>

The contractual maturities of the Company's available-for-sale securities on September 30, 2011 and December 31, 2010 were all due within one year.

**Long-Term Deferred
Revenue**

**9 Months Ended
Sep. 30, 2011**

[Long-Term Deferred
Revenue](#)

[Long-Term Deferred Revenue](#)

8. LONG-TERM DEFERRED REVENUE

Long-term deferred revenue consisted of the following:

	September 30, 2011	December 31, 2010
	(In thousands)	
Deferred revenue for Sony Computer		
Entertainment	\$ 13,384	\$ 15,632
Other deferred		
revenue	626	862
Long-term deferred		
revenue	<u>\$ 14,010</u>	<u>\$ 16,494</u>

Net Loss Per Share

**9 Months Ended
Sep. 30, 2011**

[Net Loss Per Share](#)

[Net Loss Per Share](#)

13. NET LOSS PER SHARE

Basic and diluted net loss per share is computed using the weighted average number of common shares outstanding for the period, excluding unvested restricted stock and RSUs. The following is a reconciliation of the numerators and denominators used in computing basic and diluted net loss per share (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Numerator:				
Loss from continuing operations	\$ (1,412)	\$ (1,215)	\$ (1,395)	\$ (3,750)
Gain from discontinued operations, net of tax	0	82	61	143
Net loss used in computing basic and diluted net loss per share	<u>\$ (1,412)</u>	<u>\$ (1,133)</u>	<u>\$ (1,334)</u>	<u>\$ (3,607)</u>
Denominator:				
Shares used in computation of basic and diluted net loss per share	28,918	28,134	28,595	28,087
Basic and diluted net loss per share from:				
Continuing operations	\$ (0.05)	\$ (0.04)	\$ (0.05)	\$ (0.13)
Discontinued operations	0.00	0.00	0.00	0.00
Total	<u>\$ (0.05)</u>	<u>\$ (0.04)</u>	<u>\$ (0.05)</u>	<u>\$ (0.13)</u>

As of September 30, 2011 and 2010, the Company had securities outstanding that could potentially dilute basic earnings per share in the future, but these were excluded from the computation of diluted net loss per share for the three and nine months ended September 30, 2011 and 2010, since their effect would have been anti-dilutive. These outstanding securities consisted of the following (in thousands):

	September 30, 2011	September 30, 2010
Outstanding stock options	3,585	4,176
Unvested restricted stock awards	18	18
Unvested RSUs	449	424

Commitments

**9 Months Ended
Sep. 30, 2011**

[Commitments](#)
[Commitments](#)

9. COMMITMENTS

The Company leases several of its facilities under noncancelable operating lease arrangements that expire at various dates through 2016.

On September 16, 2011, the Company entered into a Lease Termination Agreement effective as of December 31, 2011 with respect to the lease of its primary facilities of approximately 48,000 square feet in San Jose, California which was set to expire in June 2014. Pursuant to that agreement, the Company will be paid \$350,000, subject to the Company vacating the premises by December 31, 2011. On September 19, 2011, the Company entered into a new lease agreement for its primary facilities of approximately 33,000 square feet in San Jose, California which expires in December 2016 and can be extended to December 2021.

Minimum future lease payments and non-cancellable unconditional purchase obligations are as follows:

	<u>Operating Leases</u>	<u>Purchase Obligations</u>
	(In thousands)	
2011		
(remainder)	\$ 185	\$ 255
2012	362	-
2013	499	-
2014	513	-
2015	507	-
Thereafter	422	-
Total	<u>\$ 2,488</u>	<u>\$ 255</u>

**Components Of Other
Current Liabilities And
Deferred Revenue And
Customer Advances**

9 Months Ended

Sep. 30, 2011

**Components Of Other Current Liabilities And
Deferred Revenue And Customer Advances**

**Components Of Other Current Liabilities And
Deferred Revenue And Customer Advances**

7. COMPONENTS OF OTHER CURRENT LIABILITIES AND
DEFERRED REVENUE AND CUSTOMER ADVANCES

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	<u>(In thousands)</u>	
Accrued legal	\$ 380	\$ 543
Income taxes payable	31	55
Other current liabilities	<u>718</u>	<u>890</u>
Total other current liabilities	<u>\$ 1,129</u>	<u>\$ 1,488</u>
Deferred revenue	\$ 4,392	\$ 4,390
Customer advances	<u>67</u>	<u>39</u>
Total deferred revenue and customer advances	<u>\$ 4,459</u>	<u>\$ 4,429</u>

**Condensed Consolidated
Statements Of Cash Flows
(USD \$)
In Thousands**

**9 Months Ended
Sep. 30, Sep. 30,
2011 2010**

Cash flows from operating activities:

Net loss \$ (1,334) \$ (3,607)

Adjustments to reconcile net loss to net cash provided by (used in) operating activities:

Depreciation and amortization of property and equipment 717 842

Amortization and impairment or abandonment of intangibles 1,016 650

Stock-based compensation 2,705 2,430

Allowance for doubtful accounts (25) (120)

Loss on disposal of equipment 3 90

Loss on divestiture 0 43

Gain on sales of discontinued operations (61) (143)

Changes in operating assets and liabilities:

Accounts and other receivables 61 2,259

Inventories (173) 860

Prepaid expenses and other current assets 3,117 53

Other assets (89) 0

Accounts payable 32 (315)

Accrued compensation and other current liabilities (1,282) (829)

Deferred revenue and customer advances (2,454) (3,583)

Other long-term liabilities (56) 121

Net cash provided by (used in) operating activities 2,177 (1,249)

Cash flows used in investing activities:

Purchases of available-for-sale investments (44,910) (34,880)

Proceeds from maturities of available-for-sale investments 45,000 30,000

Net proceeds from divestiture 0 964

Additions to intangibles (2,406) (1,584)

Proceeds from sale of property and equipment 0 160

Purchases of property and equipment (84) (336)

Proceeds from sales of discontinued operations 100 142

Net cash used in investing activities (2,300) (5,534)

Cash flows provided by financing activities:

Issuance of common stock under employee stock purchase plan 145 0

Exercise of stock options 2,244 83

Net cash provided by financing activities 2,389 83

Net increase in cash and cash equivalents 2,266 (6,700)

Cash and cash equivalents:

Beginning of the period 12,243 19,828

End of the period 14,509 13,128

Supplemental disclosure of cash flow information:

Cash paid (received) for taxes (3,302) 6

Supplemental disclosure of non-cash investing and financing activities:

Amounts accrued for property and equipment, and intangibles

636 377

Shares issued under company stock plan

\$ 1,305 \$ 34

**Accounts And Other
Receivables**

**9 Months Ended
Sep. 30, 2011**

Accounts And Other Receivables

Accounts And Other Receivables

3. ACCOUNTS AND OTHER RECEIVABLES

	September 30, 2011	December 31, 2010
	(In thousands)	
Trade accounts receivable	\$ 337	\$ 459
Receivables from vendors and other	442	356
Accounts and other receivables	<u>\$ 779</u>	<u>\$ 815</u>

Inventories

9 Months Ended
Sep. 30, 2011

Inventories

Inventories

4. INVENTORIES

	September 30, 2011	December 31, 2010
	<u>2011</u>	<u>2010</u>
	(In thousands)	
Raw materials and subassemblies	\$ 310	\$ 281
Finished goods	269	125
Inventories	<u>\$ 579</u>	<u>\$ 406</u>

Income Taxes

9 Months Ended
Sep. 30, 2011

[Income Taxes](#)

[Income Taxes](#)

12. INCOME TAXES

Income tax provisions from continuing operations consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Loss from continuing operations before provision for income taxes	\$ (984)	\$ (879)	\$ (106)	\$ (2,652)
Provision for income taxes	(428)	(336)	(1,289)	(1,098)
Effective tax rate	(43.5)%	(38.2)%	(1216.0)%	(41.4)%

The effective tax rates differ from the statutory rate primarily due to the valuation allowance, foreign withholding taxes, and unrecognized tax benefits. The income tax provision for the three months and nine months ended September 30, 2011 and 2010 are primarily as a result of foreign withholding tax expense.

As of September 30, 2011, the Company had unrecognized tax benefits under ASC 740 "Income Taxes" of approximately \$673,000 including interest of \$45,000. The total amount of unrecognized tax benefits that would affect the Company's effective tax rate, if recognized, was \$244,000. There were no material changes in the amount of unrecognized tax benefits during the nine months ended September 30, 2011. The Company does not expect any material changes to its liability for unrecognized tax benefits during the next twelve months. The Company's policy is to account for interest and penalties related to uncertain tax positions as a component of income tax provision.

Because the Company had net operating loss and credit carryforwards, there are open statutes of limitations in which federal, state, and foreign taxing authorities may examine the Company's tax returns for all years from 1993 through the current period.

The Company maintains a valuation allowance for its entire deferred tax assets at September 30, 2011 and December 31, 2010 as a result of uncertainties regarding the realization of the asset balance due to past losses, the variability of operating results, and near term projected results. In the event that the Company determines the deferred tax assets are realizable, an adjustment to the valuation allowance may increase income in the period such determination is made. The valuation allowance does not impact the Company's ability to utilize the underlying net operating loss carryforwards.

Property And Equipment

9 Months Ended
Sep. 30, 2011

[Property And Equipment](#)
[Property And Equipment](#)

5. PROPERTY AND EQUIPMENT

	September 30, 2011	December 31, 2010
	(In thousands)	
Computer equipment and purchased software	\$ 3,681	\$ 3,807
Machinery and equipment	711	815
Furniture and fixtures	634	630
Leasehold improvements	886	881
Total	5,912	6,133
Less accumulated depreciation	(4,633)	(4,202)
Property and equipment, net	<u>\$ 1,279</u>	<u>\$ 1,931</u>

Segment Reporting

**9 Months Ended
Sep. 30, 2011**

[Segment Reporting](#) [Segment Reporting](#)

15. SEGMENT REPORTING

The Company develops, manufactures, licenses, and supports a wide range of hardware and software technologies that more fully engage users' sense of touch when operating digital devices. The Company focuses on the following target application areas: mobile communications and consumer electronics, automotive, gaming, commercial and industrial controls, and medical. Through March 31, 2010, the Company managed these application areas under two operating and reportable segments: Touch and Medical. As discussed in Note 11 of the condensed consolidated financial statements, on March 30, 2010 the Company divested its Endoscopy, Endovascular, and Laparoscopy product lines. Management continues to manufacture a limited amount of product, but the primary focus from this part of the business has changed from simulation product sales to primarily a licensing model under which the Company develops and licenses a wide range of haptic-related software and patented technologies and will collect license and royalty revenue. As of April 1, 2010, the Company reorganized into one segment and there is no longer management, development, operations, or administrative personnel specifically for medical operations or product lines.

The Company's chief operating decision maker ("CODM") is the Chief Executive Officer. The CODM allocates resources to and assesses the performance of the Company using information about its revenue and operating loss. Beginning April 1, 2010, there is only one segment that is reported to management.

As the Company has changed its internal structure which caused the Company's reportable segments to change, the Company has restated its previously reported separate segment information from Medical and Touch into only one segment. As such, separate segment information has been eliminated.

**Condensed Consolidated
Statements Of Operations
(Parenthetical) (USD \$)
In Thousands**

3 Months Ended **9 Months Ended**
Sep. 30, **Sep. 30,** **Sep. 30,** **Sep. 30,**
2011 **2010** **2011** **2010**

Condensed Consolidated Statements Of Operations

**Gain on sales of discontinued operations, provision for
income taxes**

\$ 0	\$ 18	\$ 39	\$ 18
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Contingencies

**9 Months Ended
Sep. 30, 2011**

[Contingencies](#)
[Contingencies](#)

16. CONTINGENCIES

In re Immersion Corporation Initial Public Offering Securities Litigation

The Company is involved in legal proceedings relating to a class action lawsuit filed on November 9, 2001 in the U. S. District Court for the Southern District of New York, In re Immersion Corporation Initial Public Offering Securities Litigation, No. Civ. 01-9975 (S.D.N.Y.), related to In re Initial Public Offering Securities Litigation, No. 21 MC 92 (S.D.N.Y.). The named defendants are the Company and three of its current or former officers or directors (the "Immersion Defendants"), and certain underwriters of its November 12, 1999 initial public offering ("IPO"). Subsequently, two of the individual defendants stipulated to a dismissal without prejudice.

The operative amended complaint is brought on purported behalf of all persons who purchased the Company's common stock from the date of the Company's IPO through December 6, 2000. It alleges liability under Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, on the grounds that the registration statement for the IPO did not disclose that: (1) the underwriters agreed to allow certain customers to purchase shares in the IPO in exchange for excess commissions to be paid to the underwriters; and (2) the underwriters arranged for certain customers to purchase additional shares in the aftermarket at predetermined prices. The complaint also appears to allege that false or misleading analyst reports were issued. The complaint does not claim any specific amount of damages.

Similar allegations were made in other lawsuits challenging over 300 other initial public offerings and follow-on offerings conducted in 1999 and 2000. The cases were consolidated for pretrial purposes.

In September 2008, all of the parties to the lawsuits reached a settlement, subject to documentation and approval of the District Court. Subsequently, an underwriter defendant filed for bankruptcy and other underwriter defendants were acquired. On April 2, 2009, final documentation evidencing the settlement was presented to the District Court for approval. On October 6, 2009, the District Court approved the settlement, and the Court subsequently entered a judgment of dismissal. Under the judgment, the Immersion Defendants are not required to contribute to the settlement. Several notices of appeal have been filed by putative class members challenging the settlement. Subsequently, the District Court determined that none of the objectors had standing to appeal. One of the putative objectors has filed a notice of appeal of the determination as to him. The Company intends to defend the lawsuit vigorously.

In re Immersion Corporation Securities Litigation

In September and October 2009, various putative shareholder class action and derivative complaints were filed in federal and state court against the Company and certain current and former Immersion directors and officers.

On September 2, 2009, a securities class action complaint was filed in the United States District Court for the Northern District of California against the Company and certain of its current and former directors and officers. Over the following five weeks, four additional class

action complaints were filed. (One of these four actions was later voluntarily dismissed.) The securities class action complaints name the Company and certain current and former Immersion directors and officers as defendants and allege violations of federal securities laws based on the Company's issuance of allegedly misleading financial statements. The various complaints assert claims covering the period from May 2007 through July 2009 and seek compensatory damages allegedly sustained by the purported class members.

On December 21, 2009, these class actions were consolidated by the court as *In Re Immersion Corporation Securities Litigation*. On the same day, the court appointed a lead plaintiff and lead plaintiff's counsel. Following the Company's restatement of its financial statements, lead plaintiff filed a consolidated complaint on April 9, 2010. Defendants moved to dismiss the action on June 15, 2010 and that motion was granted on March 11, 2011. Lead plaintiff filed an amended complaint on April 29, 2011. Defendants moved to dismiss the amended complaint on July 1, 2011.

In re Immersion Corporation Derivative Litigation

On September 15, 2009, a putative shareholder derivative complaint was filed in the United States District Court for the Northern District of California, purportedly on behalf of the Company and naming certain of its current and former directors and officers as individual defendants. Thereafter, two additional putative derivative complaints were filed in the same court.

The derivative complaints arise from the same or similar alleged facts as the federal securities actions and seek to bring state law causes of action on behalf of the Company against the individual defendants for breaches of fiduciary duty, gross negligence, abuse of control, gross mismanagement, breach of contract, waste of corporate assets, unjust enrichment, as well as for violations of federal securities laws. The federal derivative complaints seek compensatory damages, corporate governance changes, unspecified equitable and injunctive relief, the imposition of a constructive trust, and restitution. On November 17, 2009, the court consolidated these actions as *In re Immersion Corporation Derivative Litigation* and appointed lead counsel. The court has issued an order staying this action.

Kasmer v. Immersion Corporation

On May 5, 2010, an action was filed in Delaware Chancery Court by a shareholder seeking to enforce a demand to inspect certain of the Company's records pursuant to Section 220 of the Delaware General Corporation Law, as a possible prelude to the shareholder bringing a derivative action. The Company filed an answer on June 14, 2010, questioning whether a proper purpose for the records inspection had been stated and raising other defenses concerning the scope of the demand, among other deficiencies. Following a one-day trial on December 2, 2010, the Court significantly narrowed the scope of the demand and the Company responded accordingly. On October 24, 2011, the shareholder filed a motion seeking to compel further responses to the demand. The Company believes that its responses complied with the Court's ruling and therefore will be opposing the shareholder's motion.

The Company cannot predict the ultimate outcome of the above-mentioned federal and state actions, and it is unable to estimate any potential liability it may incur.

Other Contingencies

From time to time, the Company receives 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. Additionally, periodically, the Company is involved in routine legal matters and contractual disputes incidental to its normal operations. In management's opinion, the resolution of such matters will not have a material adverse effect on the Company's condensed consolidated financial condition, results of operations, or liquidity.

In the normal course of business, the Company provides indemnifications of varying scope to customers against claims of intellectual property infringement made by third parties arising from the use of the Company's intellectual property, technology, or products. Historically, costs related to these guarantees have not been significant, and the Company is unable to estimate the maximum potential impact of these guarantees on its future results of operations.

As permitted under Delaware law, the Company has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at its request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company currently has director and officer insurance coverage that reduces its exposure and enables it to recover a portion of any future amounts paid. Management believes the estimated fair value of these indemnification agreements in excess of applicable insurance coverage is indeterminable.

Significant Accounting Policies

9 Months Ended
Sep. 30, 2011

Significant Accounting Policies

Significant Accounting Policies

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Immersion Corporation (the "Company") was incorporated in 1993 in California and reincorporated in Delaware in 1999 and develops, manufactures, licenses, and supports a wide range of hardware and software technologies and products that enhance digital devices with touch interaction.

Principles of Consolidation and Basis of Presentation

The condensed consolidated financial statements include the accounts of Immersion Corporation and its wholly-owned subsidiaries, Immersion Canada Inc., Immersion International, LLC, Immersion Medical, Inc., Immersion Japan K.K., Immersion Taiwan, and Haptify, Inc. All intercompany accounts, transactions, and balances have been eliminated in consolidation.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all information and footnotes necessary for a complete presentation of the financial position, results of operations, and cash flows, in conformity with accounting principles generally accepted in the United States of America. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K, for the fiscal year ended December 31, 2010. In the opinion of management, all adjustments consisting of only normal and recurring items necessary for the fair presentation of the financial position and results of operations for the interim periods presented have been included.

The results of operations for the interim periods ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year.

Revenue Recognition

The Company recognizes revenues in accordance with applicable accounting standards, including Accounting Standards Codification ("ASC") 605-10-S99, "Revenue Recognition" ("ASC 605-10-S99"); ASC 605-25, "Multiple Element Arrangements" ("ASC 605-25"); and ASC 985-605, "Software-Revenue Recognition" ("ASC 985-605"). The Company derives its revenues from three principal sources: royalty and license fees, product sales, and development contracts. As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period. Material differences may result in the amount and timing of revenue for any period based on the judgments and estimates made by management. Specifically, in connection with each transaction, the Company must evaluate whether: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee

is fixed or determinable, and (iv) collectibility is probable. The Company applies these criteria as discussed below.

- *Persuasive evidence of an arrangement exists:* For a license arrangement, the Company requires a written contract, signed by both the customer and the Company. For a stand-alone product sale, the Company requires a purchase order or other form of written agreement with the customer.
- *Delivery has occurred.* The Company delivers software and product to customers physically and also delivers software electronically. For physical deliveries not related to software, the transfer terms typically include transfer of title and risk of loss at the Company's shipping location. For electronic deliveries, delivery occurs when the Company provides the customer access codes or "keys" that allow the customer to take immediate possession of the software.
- *The fee is fixed or determinable.* The Company's arrangement fee is based on the use of standard payment terms which are those that are generally extended to the majority of customers. For transactions involving extended payment terms, the Company deems these fees not to be fixed or determinable for revenue recognition purposes and revenue is deferred until the fees become due and payable.
- *Collectibility is probable.* To recognize revenue, the Company must judge collectibility of the arrangement fees, which is done on a customer-by-customer basis pursuant to the credit review policy. The Company typically sells to customers with whom there is a history of successful collection. For new customers, the Company evaluates the customer's financial condition and ability to pay. If it is determined that collectibility is not probable based upon the credit review process or the customer's payment history, revenue is recognized when payment is received.

Royalty and license revenue — The Company recognizes royalty revenue based on royalty reports or related information received from the licensee and when collectibility is deemed probable. The terms of the royalty agreements generally require licensees to give the Company notification of royalties within 30 to 45 days of the end of the quarter during which the sales occur. The Company recognizes license fee revenue for licenses to intellectual property when earned under the terms of the agreements, which is generally recognized when all deliverables including services are completed or recognized on a straight-line basis over the expected term of the license.

Development contracts and other revenue — Development contracts and other revenue is comprised of professional services (consulting services and/or development contracts). Professional services revenues are recognized under the proportional performance accounting method based on physical completion of the work to be performed or completed performance method. A provision for losses on contracts is made, if necessary, in the period in which the loss becomes probable and can be reasonably estimated. Revisions in estimates are reflected in the period in which the conditions become known. To date, such losses have not been significant.

Multiple element arrangements — The Company enters into multiple element arrangements in which customers purchase a time-based license which include a combination of software and/or intellectual property licenses, professional services and in limited cases, post contract customer support. For arrangements that are software based and include software and professional services, the services are generally not essential to the functionality of the software, and customers may purchase consulting services to facilitate the adoption of the Company's technology, but they may also decide to use their own resources or appoint other professional service organizations

to perform these services. For these arrangements, including those with post contract customer support, revenue is recognized either over the period of the ongoing obligation which is generally consistent with the contractual term, or when all deliverables including services have been completed.

Product sales — The Company recognizes revenue from the sale of products and the license of associated software if any, and expenses all related costs of products sold, once delivery has occurred and customer acceptance, if required, has been achieved. The Company has determined that the license of software for its medical simulation products is incidental to the product as a whole. The Company typically grants to customers a warranty which guarantees that products will substantially conform to the Company's current specifications for generally twelve months from the delivery date pursuant to the terms of the arrangement. Historically, warranty-related costs have not been significant. Separately priced extended warranty contract revenues are recognized ratably over the contractual period.

Recent Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board ("FASB") ratified Accounting Standards Update ("ASU") 2009-13 (update to ASC 605), "Revenue Arrangements with Multiple Deliverables" ("ASU 2009-13 (update to ASC 605)"). This guidance addresses criteria for separating the consideration in multiple-element arrangements. ASU 2009-13 (update to ASC 605) requires companies to allocate the overall consideration to each deliverable by using a best estimate of the selling price of individual deliverables in the arrangement in the absence of vendor-specific objective evidence or other third-party evidence of the selling price. ASU 2009-13 (update to ASC 605) will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 and early adoption will be permitted. The Company adopted ASU 2009-13 (update to ASC 605) as of January 1, 2011, and its application had no impact on the Company's condensed consolidated financial statements as no material new agreements or materially modified contracts in the nine months ended September 30, 2011 came under this guidance.

In September 2009, the FASB ratified ASU 2009-14 (update to ASC 605), "Certain Revenue Arrangements That Include Software Elements" ("ASU 2009-14 (update to ASC 605)"). ASU 2009-14 (update to ASC 605) provides guidance to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. ASC 2009-14 (update to ASC 605) has an effective date that is consistent with ASU 2009-13 (update to ASC 605) above. The Company adopted ASC 2009-14 (update to ASC 605) as of January 1, 2011, and its application had no impact on the Company's condensed consolidated financial statements as no material new agreements or materially modified contracts in the nine months ended September 30, 2011 came under this guidance.

In June 2011, the FASB ratified ASU 2011-05 "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." ASU 2011-05 requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements, eliminating the option to present other comprehensive income in the statement of changes in equity. Under either choice, items that are reclassified from other comprehensive income to net income are required to be presented on the

face of the financial statements where the components of net income and the components of other comprehensive income are presented. This amendment is effective for reporting periods beginning after December 15, 2011, and will be applied retrospectively. This amendment will change the manner in which the Company presents comprehensive income.

Stock-Based Compensation

9 Months Ended
Sep. 30, 2011

[Stock-Based Compensation](#) [Stock-Based Compensation](#)

10. STOCK-BASED COMPENSATION

Stock Options and Awards

The Company's equity incentive program is a long-term retention program that is intended to attract, retain, and provide incentives for talented employees, consultants, officers, and directors and to align stockholder and employee interests. The Company may grant options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance shares, performance units, and other stock-based or cash-based awards to employees, officers, directors, and consultants. Under these programs, stock options may be granted at prices not less than the fair market value on the date of grant for stock options. These options generally vest over 4 years and expire from 5 to 10 years from the date of grant. Restricted stock generally vests over one year. RSUs generally vest over 3 years. On June 3, 2011, the Company's stockholders approved the 2011 Equity Incentive Plan (the "2011" Plan) in which 2,300,000 shares were authorized. In addition, 400,000 shares were transferred from the Company's 2007 Equity Incentive Plan (the "2007 Plan") and 2,279,263 shares were transferred from the Company's 2008 Equity Incentive Plan (the "2008 Plan") for a total of 4,979,263 originally available for grant under the 2011 Plan. Under the 2011 Plan, any award other than an option or stock appreciation right shall reduce the common stock shares available for grant by 1.75 shares for every share issued. The 2007 Plan and 2008 Plan have been terminated.

	September 30, 2011
Common stock shares available for grant	4,860,638
Common stock options outstanding	3,584,975
Restricted stock awards outstanding	18,000
Restricted stock units outstanding	448,540

Employee Stock Purchase Plan

The Company has an 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 2,000 shares in a six-month offering period or purchase stock having a value greater than \$25,000 in any calendar year as measured at the beginning of the offering period. A total of 1,000,000 shares of common stock are reserved for issuance under the ESPP. As of September 30, 2011, 456,891 shares had been purchased since the inception of the ESPP in 1999. Under ASC 718-10, the ESPP is considered a compensatory plan and the Company is required to recognize compensation cost related to the fair value of common stock purchased under the ESPP. Shares purchased under the ESPP for the nine months ended September 30, 2011 are listed below. No shares were purchased under the ESPP for the nine months ended September 30, 2010. The intrinsic value listed below is calculated as the difference between the market value on the date of purchase and the purchase price of the shares.

	Nine months Ended September 30, 2011
Shares purchased under ESPP	28,702
Average price of shares purchased under ESPP	\$ 5.04
Intrinsic value of shares purchased under ESPP	\$ 74,566

Summary of Stock Options

The following table sets forth the summary of option activity under the Company's stock option plans for the nine months ended September 30, 2011 and year ended December 31, 2010:

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
Beginning outstanding balance	4,000,526	5,041,235
Granted	387,163	662,185
Exercised	(537,520)	(130,135)
Forfeited and cancelled	(265,194)	(1,572,759)
Ending outstanding balance	<u>3,584,975</u>	<u>4,000,526</u>
Aggregate intrinsic value of options exercised	\$ 2,399,000	\$ 308,000
Weighted average fair value of options granted	4.18	3.11

Information regarding stock options outstanding at September 30, 2011 and December 31, 2010 is summarized below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (In millions)
<u>September 30, 2011</u>				
Options outstanding	3,584,975	\$ 6.53	6.02	\$ 2.6
Options vested and expected to vest using estimated forfeiture rates	3,445,690	6.54	5.92	2.5

Options exercisable	2,426,104	7.00	4.92	1.5
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**December 31,
2010**

Options outstanding	4,000,526	\$ 6.26	6.39	\$ 5.5
Options vested and expected to vest using estimated forfeiture rates	3,798,092	6.32	6.25	5.1
Options exercisable	2,541,701	6.80	5.03	2.9

Summary of Restricted Stock Units

RSU activity for the nine months ended September 30, 2011 and year ended December 31, 2010 was as follows:

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
Beginning outstanding balance	417,923	198,055
Awarded	243,908	363,928
Released	(156,051)	(69,021)
Forfeited	(57,240)	(75,039)
Ending outstanding balance	<u>448,540</u>	<u>417,923</u>
Weighted average grant date fair value of RSUs granted	\$ 6.61	\$ 5.58
Total fair value of RSUs released	1,146,000	315,000
Total fair value of RSUs remaining unvested	2,682,000	2,804,000

Information regarding RSUs outstanding at September 30, 2011 and December 31, 2010 is summarized below:

<u>Number of Shares</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Aggregate Intrinsic Value (In millions)</u>
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September 30,			
2011			
RSUs outstanding	448,540	1.19	\$ 2.7
RSUs vested and expected to vest using estimated forfeiture rates	361,439	1.16	2.2

December 31,			
2010			
RSUs outstanding	417,923	1.13	\$ 2.8
RSUs vested and expected to vest using estimated forfeiture rates	330,038	1.00	2.2

Summary of Restricted Stock Awards

Restricted stock award activity for the nine months ended September 30, 2011 and year ended December 31, 2010 was as follows:

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
Beginning outstanding balance	18,000	27,000
Awarded	30,000	22,500
Released	(21,000)	(31,500)
Forfeited	(9,000)	0
Ending outstanding balance	<u>18,000</u>	<u>18,000</u>
Weighted average grant date fair value of restricted stock awarded	\$ 6.61	\$ 5.59
Total fair value of restricted stock awards released	159,000	147,000

Stock Plan Assumptions

The assumptions used to value option grants under the Company's Stock Plans were as follows:

Options	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Expected life (in years)	4.5	5.2	5.0	5.2
Volatility	70%	67%	69%	67%
Interest rate	0.9%	1.5%	1.7%	2.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%
	Three Months Ended		Nine Months Ended	

Employee Stock Purchase Plan	September 30,		September 30,	
	2011	2010	2011	2010
Expected life (in years)	0.5	N/A	0.5	N/A
Volatility	40 %	N/A	45 %	N/A
Interest rate	0.2 %	N/A	0.2 %	N/A
Dividend yield	0.0 %	N/A	0.0 %	N/A

Compensation Costs

Total stock-based compensation recognized in the condensed consolidated statements of operations is as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Statement of Operations				
Classifications				
Cost of product sales	\$0	\$0	\$0	\$10
Sales and marketing	132	155	376	546
Research and development	201	199	639	597
General and administrative	607	542	1,690	1,277
Total	<u>\$ 940</u>	<u>\$ 896</u>	<u>\$ 2,705</u>	<u>\$ 2,430</u>

As of September 30, 2011, there was \$5.4 million related to stock options, restricted stock awards, and RSUs of unrecognized compensation cost, adjusted for estimated forfeitures, granted to the Company's employees and directors. This cost will be recognized over an estimated weighted-average period of approximately 2.48 years for options, 1.90 years for RSUs, and 0.45 years for restricted stock awards. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

Stock Repurchase Program

On November 1, 2007, the Company announced its Board of Directors' authorized the repurchase of up to \$50 million of the Company's common stock. The Company may repurchase its stock for cash in the open market in accordance with applicable securities laws. The timing of and amount of any stock repurchase will depend on share price, corporate and regulatory requirements, economic and market conditions, and other factors. The stock repurchase authorization has no expiration date, does not require the Company to repurchase a specific number of shares, and may be modified, suspended, or discontinued at any time.

During the twelve months ended December 31, 2008, the Company repurchased 2,786,563 shares for approximately \$18.4 million at an average cost of \$6.60 per share net of transaction costs through open market repurchases. During the three and nine months ended September 30, 2011, the Company repurchased 31,214 shares for \$188,000 at an average cost of \$6.02 net of transaction costs through open market repurchases. These amounts are classified as treasury stock on the Company's condensed consolidated balance sheet.

Comprehensive Loss

**9 Months Ended
Sep. 30, 2011**

[Comprehensive Loss](#)

[Comprehensive Loss](#)

14. COMPREHENSIVE LOSS

The following table sets forth the components of comprehensive loss:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Net loss	\$ (1,412)	\$ (1,133)	\$ (1,334)	\$ (3,607)
Change in unrealized losses on short-term investments	(3)	(7)	19	66
Total comprehensive loss	\$ (1,415)	\$ (1,140)	\$ (1,315)	\$ (3,541)

**Condensed Consolidated
Balance Sheets (USD \$)
In Thousands**

Sep. 30, 2011 Dec. 31, 2010

ASSETS

<u>Cash and cash equivalents</u>	\$ 14,509	\$ 12,243
<u>Short-term investments</u>	48,979	48,961
<u>Accounts and other receivables (net of allowances for doubtful accounts as of: September 30, 2011 - \$25 and December 31, 2010 - \$97)</u>	779	815
<u>Inventories</u>	579	406
<u>Deferred income taxes</u>	342	342
<u>Prepaid expenses and other current assets</u>	704	3,821
<u>Total current assets</u>	65,892	66,588
<u>Property and equipment, net</u>	1,279	1,931
<u>Intangibles and other assets, net</u>	13,771	12,356
<u>Total assets</u>	80,942	80,875

LIABILITIES AND STOCKHOLDERS' EQUITY

<u>Accounts payable</u>	550	393
<u>Accrued compensation</u>	2,722	3,507
<u>Other current liabilities</u>	1,129	1,488
<u>Deferred revenue and customer advances</u>	4,459	4,429
<u>Total current liabilities</u>	8,860	9,817
<u>Long-term deferred revenue</u>	14,010	16,494
<u>Deferred income tax liabilities</u>	342	342
<u>Other long-term liabilities</u>	455	538
<u>Total liabilities</u>	23,667	27,191
<u>Commitments and Contingencies (Notes 9 and 16)</u>		
<u>Stockholders' equity:</u>		
<u>Common stock and additional paid-in capital - \$0.001 par value; 100,000,000 shares authorized; shares issued: September 30, 2011 - 31,760,085 and December 31, 2010 - 31,016,812; shares outstanding: September 30, 2011 - 28,940,662 and December 31, 2010 - 28,228,603</u>	181,609	176,515
<u>Accumulated other comprehensive income</u>	139	120
<u>Accumulated deficit</u>	(105,887)	(104,553)
<u>Treasury stock at cost: September 30, 2011 - 2,819,423 shares and December 31, 2010 - 2,788,209 shares</u>	(18,586)	(18,398)
<u>Total stockholders' equity</u>	57,275	53,684
<u>Total liabilities and stockholders' equity</u>	\$ 80,942	\$ 80,875