

IMMERSION CORP
Form DEF 14A
April 29, 2003

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SCHEDULE 14A
(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

IMMERSION CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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 - 1. Amount Previously Paid:
 - 2. Form, Schedule or Registration Statement No.:
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April 29, 2003

TO THE STOCKHOLDERS OF IMMERSION CORPORATION

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders (the Annual Meeting) of Immersion Corporation (the Company), which will be held at the Silicon Valley Convention Center, 2161 North First Street, San Jose, California 95131, on Tuesday, June 3, 2003, at 9:30 a.m. California time.

Details of the business to be conducted at the Annual Meeting are given in the attached Proxy Statement and Notice of Annual Meeting of Stockholders. In addition to conducting the business affairs of the Company, we will demonstrate several of the leading applications of Immersion s haptic technology.

It is important that your shares be represented and voted at the Annual Meeting. **WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN, DATE AND PROMPTLY RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.** Returning the proxy does NOT deprive you of your right to attend the Annual Meeting. If you decide to attend the Annual Meeting and wish to change your proxy vote, you may do so automatically by voting in person at the meeting.

On behalf of the Board of Directors, I would like to express our appreciation for your continued support for and interest in the affairs of the Company. We look forward to seeing you at the Annual Meeting.

Sincerely,

VICTOR VIEGAS
*President, Chief Executive Officer, Chief Financial
Officer and Director*

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IMMERSION CORPORATION

801 Fox Lane
San Jose, California 95131

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held June 3, 2003**

The Annual Meeting of Stockholders (the "Annual Meeting") of Immersion Corporation (the "Company") will be held at the Silicon Valley Convention Center, 2161 North First Street, San Jose, California 95131, on Tuesday, June 3, 2003, at 9:30 a.m. for the following purposes:

1. To elect three (3) Class I directors to hold office for a three-year term and until their respective successors are elected and qualified;
 2. To ratify the appointment of Deloitte & Touche LLP as the Company's independent public accountants for the fiscal year ending December 31, 2003;
 3. To approve certain provisions of the 1997 Stock Option Plan in order to preserve our ability to deduct in full certain plan-related compensation under Section 162(m) of the Internal Revenue Code; and
 4. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.
- The foregoing items of business are more fully described in the attached Proxy Statement.

Only stockholders of record at the close of business on April 15, 2003 are entitled to notice of, and to vote at, the Annual Meeting and at any adjournments or postponements thereof. A list of such stockholders will be available for inspection by any stockholder, for any purpose relating to the meeting, at the Company's headquarters located at 801 Fox Lane, San Jose, California 95131 during ordinary business hours for the ten-day period prior to the Annual Meeting.

BY ORDER OF THE BOARD OF DIRECTORS,

VICTOR VIEGAS
*President, Chief Executive Officer, Chief Financial
Officer and Director*

San Jose, California
April 29, 2003

IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN, DATE AND PROMPTLY RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE. YOU MAY REVOKE YOUR PROXY AT ANY TIME PRIOR TO THE ANNUAL MEETING. IF YOU DECIDE TO ATTEND THE ANNUAL MEETING AND WISH TO CHANGE YOUR PROXY VOTE, YOU MAY DO SO AUTOMATICALLY BY VOTING IN PERSON AT THE MEETING.

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IMMERSION CORPORATION

**801 Fox Lane
San Jose, California 95131**

**PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS
To Be Held June 3, 2003**

These proxy materials are furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of Immersion Corporation, a Delaware corporation, for the Annual Meeting of Stockholders to be held at the Silicon Valley Convention Center, 2161 North First Street, San Jose, California 95131, on Tuesday, June 3, 2003, at 9:30 a.m. California time, and at any adjournment or postponement of the Annual Meeting. These proxy materials were first mailed to stockholders on or about April 29, 2003.

PURPOSE OF MEETING

The specific proposals to be considered and acted upon at the Annual Meeting are summarized in the accompanying Notice of Annual Meeting of Stockholders. Each proposal is described in more detail in this Proxy Statement.

VOTING RIGHTS AND SOLICITATION OF PROXIES

The Company's Common Stock is the only type of security entitled to vote at the Annual Meeting. On April 15, 2003, the record date for determination of stockholders entitled to vote at the Annual Meeting, there were 20,147,196 shares of Common Stock outstanding. Each stockholder of record on April 15, 2003 is entitled to one vote for each share of Common Stock held by such stockholder on April 15, 2003. Shares of Common Stock may not be voted cumulatively in the election of directors. All votes will be tabulated by the inspector of elections appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions, and broker non-votes.

Quorum Required

The Company's bylaws provide that the holders of a majority of the Company's Common Stock issued and outstanding and entitled to vote at the Annual Meeting, present in person or represented by proxy, shall constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes will be counted as present for the purpose of determining the presence of a quorum.

Votes Required

Generally, stockholder approval of a matter, other than the election of directors, requires the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote on the matter. Directors are elected by a plurality of the votes of the shares present in person or by proxy and entitled to vote on the election of directors. Shares voted to abstain on a matter will be treated as entitled to vote on the matter and will thus have the same effect as no votes. Broker non-votes are not counted as entitled to vote on a matter in determining the number of affirmative votes required for approval of the matter, but are counted as present for quorum purposes. The term broker non-votes refers to shares held by a broker in street name, which are present by proxy but are not voted on a matter pursuant to rules prohibiting brokers from voting on non-routine matters without instructions from the beneficial owner of the shares. The election of directors, the ratification of the appointment of independent public accountants and the approval of an amendment to a stock option plan in order to preserve the ability to deduct in full certain plan-related compensation under

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Section 162(m) of the Internal Revenue Code. are generally considered to be routine matters on which brokers may vote without instructions from beneficial owners.

Proxies

Whether or not you are able to attend the Company's Annual Meeting, you are urged to complete and return the enclosed proxy, which is solicited by the Company's Board of Directors and which will be voted as you direct on your proxy when properly completed. In the event no directions are specified, such proxies will be voted as follows: (i) FOR Proposal No. 1, the election of the Board nominees named in this Proxy Statement or otherwise nominated as described in this Proxy Statement; (ii) FOR Proposal No. 2, the ratification of the Company's independent public accounts; (iii) FOR Proposal No. 3, to approve certain provisions of the 1997 Stock Option Plan in order to preserve the Company's ability to deduct in full certain plan-related compensation under Section 162(m) of the Internal Revenue Code; and (iv) in the discretion of the proxy holders as to other matters that may properly come before the Annual Meeting. You may also revoke or change your proxy at any time before the Annual Meeting. To do this, send a written notice of revocation or another signed proxy with a later date before the beginning of the Annual Meeting to Victor Viegas, President, Chief Executive Officer, Chief Financial Officer, and Director of the Company, at the Company's principal executive offices. You may also automatically revoke your proxy by attending the Annual Meeting and voting in person. All shares represented by a valid proxy received prior to the Annual Meeting will be voted.

Solicitation of Proxies

The cost of solicitation of proxies will be borne by the Company, and in addition to soliciting stockholders by mail through its regular employees, the Company may request banks, brokers and other custodians, nominees and fiduciaries to solicit their customers who have stock of the Company registered in the names of a nominee and, if so, will reimburse such banks, brokers and other custodians, nominees and fiduciaries for their reasonable out-of-pocket costs. Solicitation by officers and employees of the Company may also be made of some stockholders in person or by mail or telephone following the original solicitation.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Pursuant to the Company's Amended Certificate of Incorporation (the "Certificate of Incorporation"), the Company's Board is divided into three classes - Class I, II and III directors. Each director is elected for a three-year term of office, with one class of directors being elected at each annual meeting of stockholders. Each director holds office until his successor is elected and qualified or until his earlier death, resignation or removal. In accordance with the Certificate of Incorporation, Class I directors are to be elected at the 2003 Annual Meeting, Class II directors are to be elected at the annual meeting in 2004 and a Class III director is to be elected at the annual meeting in 2005.

Three Class I directors are to be elected to the Board at the 2003 Annual Meeting, to serve until the annual meeting of stockholders to be held in 2006 and until their successors have been elected and qualified, or until their earlier death, resignation or removal.

Nominees

The nominees for election as the Class I Directors are Steven Blank, Jack Saltich and Victor Viegas. The nominees are presently serving as directors of the Company and Victor Viegas also serves as the Company's President, Chief Executive Officer and Chief Financial Officer. Shares represented by all proxies received by the Board and not so marked as to withhold authority to vote for Messrs. Blank, Saltich and Viegas (by writing Mr. Blank's, Mr. Saltich's and/or Mr. Viegas' name where indicated on the proxy) will be voted (unless Mr. Blank, Mr. Saltich and/or Mr. Viegas is unable or unwilling to serve) FOR the election of Mr. Blank, Mr. Saltich and Mr. Viegas. The Board knows of no reason why Mr. Blank, Mr. Saltich and/or

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Mr. Viegas would be unable or unwilling to serve, but if such should be the case, proxies may be voted for the election of another nominee(s) of the Board.

The information below sets forth the current members of the Board of Directors, including the nominees for Class I Directors:

Name	Age	Class of Director	Principal Occupation	Director Since
Steven Blank	49	I	Private Investor	1996
Jack Saltich	59	I	President, Chief Executive Officer, Director, Three Five Systems, Inc.	2002
Victor Viegas	46	I	President, Chief Executive Officer, Chief Financial Officer, Immersion Corporation	2002
John Hodgman	48	III	Chief Executive Officer, Chairman, Cygnus, Inc.	2002
Jonathan Rubinstein	46	II	Senior Vice President of Hardware Engineering, Apple Computer, Inc.	1999
Robert Van Naarden	56	II	Chief Executive Officer, AuthentiDate, Inc.	2002

Nominees to Serve as Directors for a Term Expiring at the 2006 Annual Meeting of Stockholders (Class I Directors):***Steven Blank***

Mr. Blank has served as a member of the Board since October 1996. From November 1996, until August 1999, Mr. Blank served as Executive Vice President of Marketing for E.piphany, an enterprise software company that Mr. Blank co-founded. From February 1993 to October 1996, Mr. Blank served as Chief Executive Officer of Rocket Science Games, a video game software company. From February 1990 to January 1993, Mr. Blank served as Vice President of Marketing of SuperMac, a supplier of Macintosh peripherals. Since April 2002, Mr. Blank has served as a director of Macrovision Corporation, a company that develops and licenses rights management and copy protection technologies.

Jack Saltich

Mr. Saltich has served as a member of the Board since January 2002. Since July 1999, Mr. Saltich has served as the President, Chief Executive Officer and a Director of Three-Five Systems Inc., a technology company specializing in the design, development and manufacturing of custom displays and display systems employing liquid crystal display (LCD) and liquid crystal on silicon (LCoS™) microdisplay technology. From April 1996 until August 1999, Mr. Saltich served as Vice-President and General Manager of Advanced Micro Device's European Center in Dresden Germany, and from 1993 until 1996 he was responsible for establishing AMD's first 200 mm wafer manufacturing facility. Mr. Saltich received both a B.S. and an M.S. in electrical engineering from the University of Illinois. In 2002, Mr. Saltich was awarded an honorary Ph.D. from the University of Illinois. He also completed all course work towards a Doctorate in electrical engineering at Arizona State University.

Victor Viegas

Mr. Viegas has served as a member of the Board since October 23, 2002. Mr. Viegas has served as the Company's Chief Executive Officer, Chief Financial Officer, President and Director since October 2002, having served as President, Chief Financial Officer and Chief Operating Officer from February 2002. From August 1999 until February 2002, Mr. Viegas served as the Company's Chief Financial Officer and Vice President, Finance. From June 1996 to August 1999, he served as Vice President, Finance and Administration and Chief Financial Officer of Macrovision Corporation, a developer and licensor of video and software copy

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protection technologies. From October 1986 to June 1996, he served as Vice President of Finance and Chief Financial Officer of Balco Incorporated, a manufacturer of advanced automotive service equipment. He holds a B.S. in Accounting and a M.B.A. from Santa Clara University. Mr. Viegas is also a Certified Public Accountant in the State of California.

Director Serving for a Term Expiring at the 2005 Annual Meeting of Stockholders (Class III Director):

John Hodgman

Mr. Hodgman has served as a member of the Board since January 2002. Mr. Hodgman is the Chief Executive Officer, President, and Chairman of the Board of Cygnus, Inc., a medical company focused on the development, manufacturing and commercialization of new and improved glucose monitoring devices. He also served as President of Cygnus Diagnostics where he was responsible for the commercialization efforts for the GlucoWatch monitor, which recently received FDA clearance. He joined Cygnus in August 1994 as Vice President, Finance and Chief Financial Officer. Mr. Hodgman holds a B.S. degree from Brigham Young University and an M.B.A. degree from the University of Utah.

Directors Serving for a Term Expiring at the 2004 Annual Meeting of Stockholders (Class II Directors):

Jonathan Rubinstein

Mr. Rubinstein has served as a member of the Board since October 1999. Since February 1997, Mr. Rubinstein has served as Senior Vice President of Hardware Engineering at Apple Computer, Inc., a personal computer company. From August 1993 to August 1996, Mr. Rubinstein was Executive Vice President and Chief Operating Officer of Fire Power Systems, a developer and manufacturer of Power PC-based computer systems. Mr. Rubinstein received a B.S. and an M.S. in electrical engineering from Cornell University and an M.S. in computer science from Colorado State University.

Robert Van Naarden

Mr. Van Naarden has served as a member of the Board since October 23, 2002. Since July 2000, Mr. Van Naarden has served as the President and Chief Executive Officer of AuthentiDate, Inc., a software services business start-up. From August 1996 to July 2000, Mr. Van Naarden was the Vice President, Sales, Marketing and Professional Services of Sensar, Inc., a developer and supplier of iris identification products and services for the banking industry. Mr. Van Naarden received a B.S. in physics and a B.S. in electrical engineering from the University of Pittsburgh and a M.S. in electrical engineering/ computer science from Northeastern University.

Vote Required

If a quorum is present and voting, the three nominations for Class I director receiving the highest number of votes will be elected as Class I directors. Abstentions and broker non-votes have no effect on the vote.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE
FOR THE CLASS I DIRECTOR NOMINEES LISTED HEREIN.**

Board of Directors Meetings and Committees

During the year ended December 31, 2002, the Board held seven meetings. Each of the current directors attended at least 75% of the total number of meetings of the Board and meetings held by all committees of the Board on which each such director served during the year. The Board has a standing Audit Committee, Compensation Committee, Executive Committee and Nomination/ Governance Committee.

Audit Committee

The Audit Committee met six times in 2002. The Audit Committee reviews with the Company's independent public accountants the scope and timing of its audit services and any other services that the auditor is asked to perform, the auditor's report on the Company's consolidated

financial statements following

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completion of its audit, and the Company's policies and procedures with respect to internal accounting and financial controls. In addition, the Audit Committee makes annual recommendations to the Board regarding the appointment of the independent public accountants for the upcoming year. The members of the Audit Committee are Messrs. Blank, Hodgman and Saltich.

Compensation Committee

The Compensation Committee met three times in 2002. The Compensation Committee reviews and approves the compensation of the Company's executives and administers the Company's stock plans. The members of the Compensation Committee are Messrs. Blank and Rubinstein.

Executive Committee

The Executive Committee did not meet during 2002. The Executive Committee exercises certain powers of the Board during intervals between meetings of the Board. The members of the Executive Committee during 2002 were Messrs. Blank and Rubinstein, and O Malley. As a result of his resignation from the Board of Directors effective February 1, 2003, Mr. O Malley ceased to be a member of the Executive Committee.

Nomination/ Governance Committee

The Nomination/ Governance committee met two times in 2002. The purpose of this committee is to recommend candidates for Board positions to the Board of Directors for consideration. In addition, this committee periodically reviews policies of the Company and the compliance of senior executives of the Company with respect to these policies. The members of the Nomination/ Governance committee during 2002 were Messrs. Blank, Hodgman, O Malley, Rubinstein and Saltich. As a result of his resignation from the Board of Directors effective February 1, 2003, Mr. O Malley ceased to be a member of the Nomination/ Governance committee.

Director Compensation

Directors who are not employees of Immersion receive \$2,500 for attending the quarterly Board meetings. Directors are also entitled to reimbursement of reasonable travel expenses associated with Board and Committee meetings. In addition each non-employee director of the Company is granted an option to purchase 40,000 shares of common stock under the Company's 1997 Stock Option Plan on the date the director first becomes a member of the Board. Non-employee Board members also receive annual option grants to purchase 10,000 shares of the Company's common stock. Subject to continued service to the Company, options granted to directors vest as to 25% of the shares on the first anniversary of their grant date, with the remaining portion vesting as to 2.083% per month thereafter.

In 2002, the Company granted options to purchase the Company's common stock to its directors. The options granted to Mr. O Malley and Mr. Viegas, each of whom were the Company's employee directors at the time of the grant, are described in the Summary Compensation Table. The options granted to Messrs. Blank, Hodgman, Rubinstein, Saltich and Van Naarden, the non-employee directors of the Company, are described in the following table.

	Date of Grant	Shares Subject to Option	Exercise Price Per Share
Steven Blank	07/24/02	10,000	\$ 1.20
John Hodgman	02/15/02	40,000	\$ 2.35
	07/24/02	10,000	\$ 1.20
Jonathan Rubinstein	07/24/02	10,000	\$ 1.20
Jack Saltich	02/15/02	40,000	\$ 2.35
	07/24/02	10,000	\$ 1.20
Robert Van Naarden	10/23/02	40,000	\$ 1.76

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The following table presents information concerning compensation earned during the years ended December 31, 2002, 2001 and 2000 by each person who served as the Company's chief executive officer in 2002, the Company's three other most highly compensated executive officers in 2002, and two former executive officers of the Company who would have been among the four most highly compensated executive officers of the Company but for the fact that they were no longer employed by the Company as of December, 2002 (collectively, the Named Executive Officers). In accordance with the rules of the Securities and Exchange Commission (the SEC), the compensation described in this table does not include perquisites and other personal benefits received by these executive officers that do not exceed the lesser of \$50,000 or 10% of the total salary and bonus reported for these officers.

Summary Compensation Table

Name & Principal Position	Fiscal Year	Annual Compensation		Long Term Compensation		
		Salary	Bonus(1)	Restricted Stock Awards(2)	Securities Underlying Options	Other Compensation
Victor Viegas	2002	\$ 163,440			50,000	
President, Chief Executive Officer and Chief Financial Officer(3)	2001	\$ 153,709			133,600	
	2000	\$ 150,206	\$ 18,750			
Dean Chang, Ph.D.	2002	\$ 128,730	\$ 2,500		20,000	\$ 17,000(4)
Chief Technology Officer, Vice President Technology Adoption and Partner Services	2001	\$ 116,765	\$ 11,000		16,000	
	2000	\$ 116,471	\$ 7,000			
Richard Stacey	2002	\$ 168,591	\$ 5,000		125,000	
Vice President and General Manager, Immersion Medical, Inc.	2001	\$ 146,635	\$ 18,751		13,700	
	2000	\$ 153,174	\$ 32,020		20,457	
Former Executive Officers:						
Robert O Malley	2002	\$ 207,139			75,000	
Former Chairman and Chief Executive Officer(5)	2001	\$ 216,593	\$ 150,000(6)		15,000	
	2000	\$ 42,244			500,000	
J. Stuart Mitchell	2002	\$ 184,423			20,000	
Former Executive Vice President, Business Groups(7)	2001	\$ 168,708	\$ 26,030		15,000	
	2000	\$ 151,287	\$ 114,193		100,000	
Rodney Hilton	2002	\$ 322,944	\$ 440,000(9)		50,000	
Former President, Immersion Medical, Inc.(8)	2001	\$ 185,286	\$ 235,832(10)		130,000	
	2000	\$ 151,879	\$ 20,000	\$ 582,258(11)	17,280	

(1) Bonuses are reported in the year earned, even if actually paid in a subsequent year.

(2) All figures in this column represent the value of restricted awards at the date of grant.

(3) Mr. Viegas was appointed Chief Executive Officer in October 2002.

(4) Represents tuition reimbursement earned by Dr. Chang in 2002.

(5) Mr. O Malley was appointed President and Chief Executive Officer in October 2000. Mr. O Malley did not earn any compensation from the Company prior to October 2000. Mr. O Malley and the Company agreed to terminate his employment as Chief Executive Officer

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effective October 23, 2002. Mr. O Malley remained a full-time employee of the Company until December 31, 2002. Mr. O Malley and the Company agreed to terminate his position as Chairman effective February 1, 2003. See Employment Contracts and Change in Control Arrangements.

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- (6) Represents relocation bonus earned by Mr. O Malley in 2001 as part of the employment agreement Mr. O Malley entered into with the Company in October 2000.
- (7) Mr. Mitchell and the Company agreed to terminate his employment as Executive Vice President, Business Groups effective October 31, 2002.
- (8) Mr. Hilton and the Company agreed to terminate his employment as President of Immersion Medical effective April 19, 2002.
- (9) Represents a bonus earned by Mr. Hilton in 2002 as part of his employment agreement entered into with the Company in August 2001.
- (10) Represents amounts paid to Mr. Hilton in connection with the Company's integration of Immersion Medical and the subsequent management of its operations.
- (11) Represents 37,565 shares of restricted common stock awarded on September 29, 2000, with a fair market value \$15.50 per share on the date of grant. These shares had a value of \$43,951 as of December 31, 2002. All 37,565 shares vested on February 13, 2001.

Option Grants in Fiscal Year Ended December 31, 2002

The following table presents information with respect to stock options granted during the fiscal year ended December 31, 2002 to the Named Executive Officers.

Stock Option Grants in the Last Fiscal Year

Name	No. of Securities Underlying Options Granted (#)(1)	Percent of Total Options Granted to Employees During Period(%)	Exercise Price (\$/Share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Appreciation for Option Term(2)	
					5%	10%
Victor Viegas	50,000	1.72	\$2.35	02/15/12	\$ 73,832	\$ 187,105
Dean Chang, Ph.D.	20,000	.69	\$2.35	02/15/12	\$ 29,533	\$ 74,842
Richard Stacey	25,000	.86	\$2.35	02/15/12	\$ 36,916	\$ 93,553
	50,000	1.72	\$2.74	04/24/12	\$ 86,159	\$ 218,343
	50,000	1.72	\$1.20	11/19/12	\$ 37,765	\$ 95,704
Robert O Malley	75,000(3)	2.58	\$2.35	02/15/12	\$ 110,748	\$ 280,658
J. Stuart Mitchell	20,000(4)	.69	\$2.35	02/15/12	\$ 29,533	\$ 74,842
Rodney Hilton	50,000	1.72	\$2.35	02/15/12	\$ 73,832	\$ 187,105

- (1) Except as noted in the footnotes below, options granted pursuant to the Company's 1997 Stock Option Plan generally vest at a rate of 25% of the underlying shares 12 months after the date of grant, and 2.0833% monthly thereafter over the next 36 months, and have a maximum term of ten years measured from the option grant date, subject to earlier termination in the event of the optionee's cessation of service with the Company.
- (2) The potential realizable value represents the hypothetical gains of the options granted based on assumed annual compound stock appreciation rates over the exercise price per share (before taxes). Actual gains, if any, on stock option exercises are dependent on the future performance of the Company's Common Stock. There can be no assurance that any of the value reflected in this table will be achieved.
- (3) Effective January 1, 2003 seventy-five percent or 56,250 options immediately vested pursuant to Mr. O Malley's employment agreement entered into with the Company in November 2001. The options will remain exercisable until August 1, 2003 pursuant to the January 2003 amendment to his November 2001 employment agreement.
- (4) Effective November 1, 2002 this option became fully vested and will remain exercisable until October 31, 2003 pursuant to the separation agreement entered into between Mr. Mitchell and the Company in October 2002.

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There were no exercises of options by any of the Named Executive Officers during the fiscal year ended December 31, 2002. The following table presents information for the Named Executive Officers concerning the value of exercisable and unexercisable options held as of December 31, 2002 by the Named Executive Officers:

Name	Number of Securities Underlying Options at Fiscal Year End		Value of Unexercised In-The-Money Options at Fiscal Year End\$(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Victor Viegas	528,650	219,850	\$	\$
Dean Chang, Ph.D.	125,463	42,626	\$45,058	\$
Richard Stacey	34,975	138,039	\$ 6,110	\$
Robert O Malley	513,175	76,825	\$	\$
J. Stuart Mitchell	470,826		\$	\$