



## Q1 '00 Analyst Conference Call

Louis

Welcome to Immersion's Q1-2000 conference call, where we will discuss the recent progress we have made in our business and our quarter-end financial results. I am here today with Vic Viegas our CFO, and we are delighted to report that Q1-2000 was our best revenue quarter ever with total revenue reaching \$2.5MM. Certainly the highlight of our quarter was our recent acquisition of Haptech Technologies of Montreal Canada, a transaction that was successfully completed in March of this year. In the weeks since, Immersion has made great strides integrating the new staff and new technology into our organization. Although significant effort was devoted to this valuable integration, Immersion has maintained our focus on managing our baseline business and therefore has exciting results to report with respect to revenue, earnings, new strategic partnerships, new intellectual property, expanded software support, and the announcement of an exciting new product category using TouchSense technology hand-held gamepads. I will speak first about our performance, then Vic will give a financial overview, and then I will wrap up the call and take questions.

I would like to remind you that all statements made during our conference call, that are not statements of historical fact, constitute "forward looking statements" and are made pursuant to the Safe-Harbor Provision of the Private Securities Litigation Reform Act of 1995. Actual results could vary materially from those contained in forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements are described in our Forms 10K and S-1, our other periodic filings with the SEC, and our press releases.

Let me turn first to our quarterly achievements on the business front. Because Immersion's TouchSense technology is applicable to so many diverse markets and applications, it is helpful to identify our current focal markets and speak of our progress in each separately. We define these internally as the following six market categories: Gaming, Productivity & Web, Automotive, 3D Environments, Medical, and Accessibility. I will now review our progress in each area:

**Gaming:** Q1 was a busy time for Immersion on the gaming front. Early in the quarter we announced a new technology licensing relationship with a major computer hardware manufacturer Kensington/Gravis. Under the terms of this agreement, the parties will work together to launch a new hand-held gaming product supporting Immersion TouchSense technology targeted at the 2000 holiday season. A few weeks ago, at the Game Developers Conference, Kensington/Gravis showed a prototype of this new product, the world's first hand-held gamepad that provides advanced support for the Immersion TouchSense API. The product will be initially targeted at the PC Platform, but because it supports the USB standard and is ideal for living room environments, we expect this new product offering to help pave the way for advanced TouchSense gamepads on gaming consoles.

Speaking of gaming consoles, another important Q1 milestone was that Immersion signed a Middleware Partnership Agreement with Sony Corporation. Under the terms of the agreement, Immersion has been invited to bring our TouchSense technology to the middleware of the PlayStation II platform. This agreement allows Immersion to develop the software infrastructure and developer tools, which will enable PlayStation II game developers to add Immersion TouchSense technology to their software. We see this as a significant opportunity to expand the market for our licensed hardware products. In the weeks since signing this agreement, Immersion has begun work on the technical efforts required to bring TouchSense to the Playstation II platform. We expect to begin recognizing royalty revenue from the emerging PlayStation II platform in calendar year 2001.

Also in Q1, Immersion attended the Game Developers Conference where we unveiled the latest version of our Immersion TouchSense Developer Toolkit. At the show, we distributed over 1800 copies of the new toolkit to software developers for the PC platform, priming the software community for strong support of TouchSense Technology in the next round of titles to be released for the 2000 holiday season.

**Productivity & Web:** Turning beyond gaming to mainstream computing, Immersion continues to make progress around our tactile mouse technologies. As announced last week, Immersion signed an agreement in Q1 to expand our partnership with Logitech, the world's largest mouse maker, related to TouchSense enabled mouse products. Under the terms of this new agreement, the parties will pursue a broader family of TouchSense mouse products targeted at general productivity and web applications. Currently, Logitech is shipping the Wingman Force Feedback Mouse, a tactile mouse targeted primarily at entertainment applications. Because of the narrow marketing focus and \$99 price point, the Wingman mouse has not reached desired penetration into the retail mouse market. Under the new agreement, the parties plan to grow the tactile mouse market by pursuing a family of lower-cost products that are applicable to mainstream users. We expect such lower-cost tactile mouse products to support our drive towards wide penetration of TouchSense technology into the mouse marketplace.

On the content side, Immersion also made major strides in Q1 towards bringing TouchSense Technology to the Internet. As announced last month, Immersion has developed technology that enables tactile sensations to be added to animated web pages that use the popular Flash Technology from Macromedia. Immersion's new web technology for Flash was unveiled at the Flash 2000 conference in March of this year. At that show, Immersion distributed hundreds of copies of our new software tools to web developers, priming the pump for TouchSense enabled web pages expected later this year. We believe this new support for the popular Flash standard opens the door for Immersion TouchSense with mainstream web developers.

**Automotive:** In the automotive space, Immersion has been hard at work developing a range of technologies that support the needs of the Automobile PC. We continue to execute on the development contract signed last year with a major automobile manufacturer. To support the growing interest in our technology from the automobile sector, in Q1 Immersion began hiring business managers with automotive industry experience, to staff our newly formed Automotive Business Group.

**3D Environments:** In Q1, Immersion continued to grow our 3D Interaction Business. Our flagship 3D Product, the MicroScribe had strong sales and continues to live up to its reputation as the most popular 3D digitizing product on the market. In addition, in Q1 Immersion successfully completed a two-year research contract for the US Army focused on adding tactile feedback to complex three-dimensional simulation environments. Looking forward, Immersion sees 3D as becoming increasingly important in many market segments, from entertainment to e-commerce.

**Medical:** In the medical space, Immersion continues to expand our technology for enhancing the realism of surgical simulation systems. In Q1 we attended the Medicine Meets Virtual Reality Conference where we unveiled a new product, The Virtual Laparoscopic Interface II, a device for training doctors on the manual skills associated with laparoscopic and endoscopic surgery. We began taking orders for this new product in Q1. In addition, Immersion announced this quarter that TouchSense Technology was chosen by Stanford University to be part of the real-time medical simulation system being developed for the National Institutes of Health. As announced, Immersion has been hired by Stanford to enable TouchSense tactile feedback across the Next Generation Internet as part of an advanced medical training system.

**Accessibility:** With our recent acquisition of Haptech Technologies, Immersion is now well positioned to use our TouchSense technologies to assist persons with visual impairments. Using simulated touch sensations to make computers accessible to blind and low-vision users has been an area of focus for Haptech Technologies for many years. Their expertise, combined with Immersion's low-cost technologies, should lead to opportunities for making computing, and especially making the Internet, more accessible to the 6.5 million visually impaired consumers in the US. In the weeks since completing the acquisition, we have already made substantial progress integrating the techniques and technologies developed by Haptech with the TouchSense enabled hardware products developed by Immersion. Last month, Immersion attended the CSUN conference where we demonstrated a prototype system, based on Immersion and Haptech technology, for enabling low-vision computer users to interact with web pages and the Windows desktop. The prototype system was very well received by the accessibility community. In fact, as announced today Immersion has formed a strategic partnership with a leading media company in the accessibility space, WeMedia of Manhattan, NY.

Immersion and WeMedia have formed this strategic partnership to create touch-enabled web pages that are uniquely accessible to persons with visual disabilities. These visually impaired users rely on WeMedia.com as a one-stop online community service and e-commerce resource. With Immersion's innovative TouchSense™ technology, these users will be able to have full access to online content, entertainment, and other resources that have, up until this point, been limited. Going forward, Immersion and WeMedia plan to use our partnership to establish Immersion TouchSense as a universal access standard.

Having provided an overview of Immersion's growth from various business perspectives let me turn the floor over to Vic Viegas who will talk in detail about our financial performance. Vic.

Vic

Thank you Louis, as stated in our earnings release, our consolidated net revenues for the first quarter of 2000 increased to a record \$2.5 million, up 31% from \$1.9 million in the first quarter of 1999.

Breaking these numbers down, revenues from technology licensing led the charge, increasing to \$ 884,000 for the first quarter, up 84% from \$481,000 in the first quarter of 1999.

Turning to product sales, including our chip sales, MicroScribe digitizer, our medical products, our arcade products, and other low volume product shipments, revenue for first quarter 2000 increased to \$1.2 million, up 12% from \$1.1 million in the first quarter of 1999.

Turning to development contracts, revenue increased to \$358,000 for the first quarter of 2000, up 16% from \$310,000 for the first quarter of 1999.

In the first quarter of 2000 gross margin increased to 75% from 74% in the first quarter of 1999.

First quarter 2000 operating expenses related to sales and marketing, research and development and general and administrative expenses was \$3.6 million or \$2.2 million higher than the \$1.4 million recorded in the first quarter of 1999. This increase was a result of increased marketing programs, development projects and an increase in administrative expenses related to the increased infrastructure necessary for a public company.

The other expense item in total costs and expenses was amortization of intangibles and deferred stock compensation that increased in the first quarter of 2000 to \$672,000 from \$118,000 in the first quarter of 1999. The increase was primarily due to the increase in purchased patents and technology during 1999 as well as the recent acquisition of Hapttech.

Other income increased to \$760,000 from \$40,000 reflecting the increase in cash and investments from the proceeds received from the recently completed Initial Public Offering.

On the balance sheet side, our cash and cash equivalents balance is now \$29 million with an additional \$20 million in liquid short-term investments. Total debt is \$3.3 million and our stockholders equity balance is \$60 million.

That concludes the financial portion of this conference call – I will turn the floor back to Louis Rosenberg, who will wrap up the conference call and take questions. Louis

Louis

Thanks Vic. In addition to our financial progress, Q1 was also a significant quarter for building Immersion's intellectual property assets. During the quarter Immersion was awarded 5 new patents from the US Patent Office covering a wide range of technologies including advanced tactile feedback technologies for gaming products, medical simulation, and Internet applications. In addition, our technical team was hard at work developing new innovations related to our TouchSense technology, which resulted in the filing of 11 new patent applications in the US and 13 new patent applications abroad. This brings Immersion's total patent portfolio to over 220 issued or pending patents worldwide as of the end of Q1.

Well, I'd like to wrap up this conference call by stressing how excited we all are to have closed another record revenue quarter at Immersion. We feel we are making good progress in the many market segments we are targeting with our TouchSense technology. We hope you join us again next quarter to follow our continuing steps forward. Also, we want to remind you that the annual shareholder's meeting will be held at 10:00am on Monday June 6th.

This concludes our Q1 conference-call report, we would be glad to answer your questions...