

**Immersion Corporation 4Q 2014 Earnings – Prepared Remarks**  
**February 26, 2015**

**Jennifer Jarman, Investor Relations**

Good afternoon and thank you for joining us today on Immersion’s fourth quarter and fiscal 2014 conference call. This call is also being broadcast live over the web and can be accessed from the investor relations section of the company’s website at [www.immersion.com](http://www.immersion.com). With me on today’s call are Vic Viegas, President and CEO, and Paul Norris, CFO.

During this call, we may make forward-looking statements which may include projected financial results or operating metrics; business strategies; anticipated future products; anticipated market demand or opportunities; and other forward-looking topics. These statements are subject to risks, uncertainties, and assumptions. Accordingly, actual results could differ materially. For a listing of the risks that could cause this, please see our latest Form 10-Q filed with the SEC as well as the factors identified in the press release we issued today after market close.

Additionally, please note that during this call, we may discuss non-GAAP financial measures. For each non-GAAP financial measure discussed, a presentation of the most directly comparable GAAP financial measure and a reconciliation of the differences between the non-GAAP financial measure discussed and the most directly comparable GAAP financial measure is available in today’s press release.

With that said, I’ll turn the call over to chief executive officer, Vic Viegas.

***Vic Viegas, President and Chief Executive Officer***

Thanks, Jennifer, and thanks everyone for joining us this afternoon.

We are pleased with the accomplishments Immersion made throughout 2014, which resulted in record revenues and continued profitability, a stronger customer base across our vertical markets, and the introduction of new haptic solutions targeted toward the broader mobile video and advertising ecosystem.

In the last quarter of 2014, we generated record fourth quarter revenues of \$13.6 million, reflecting growth of 13% from the year ago period and representing the eighth quarter in a row that our quarterly revenues set a record for the quarter. Aided by these Q4 results, our annual revenue for 2014 totaled \$52.9 million, which is an all-time high for Immersion, up 12% from 2013. Net Income for the fourth quarter was \$1.0 million, representing Immersion's eighth straight quarter of profitability.

In 2014, our customers adopted innovative new haptic use cases in their products, as they and other technology leaders increasingly recognize the value haptics brings to the consumer experience. We also achieved key milestones that have established the foundation for future growth in the immediate and long term. These milestones include:

- Renewing important existing mobile license relationships such as our agreement with LG Electronics in Korea and entering into new agreements with key mobile OEMs such as Huawei in China and, since the end of the year, Meizu and Gionee in China.
- Launching our TouchSense Engage solution for mobile video and advertisers to create haptic content with Showtime as our launch partner, promoting its award winning television show. More recently, we announced further progress in our worldwide content and media initiative through our first tactile video program in China with LeTV. In addition to these announced relationships, we have numerous activities underway with game developers, video developers, social media services, ad agencies, ad networks and mobile app publishers and developers.
- Continuing design wins in our auto business, including new implementations and broader deployments with Audi, Mercedes, Acura, Cadillac and Lexus, as well as new agreements with major tier suppliers Continental & Tokai Rika.
- Investing in our organization to capitalize on growing business opportunities and strengthening our executive team and Board of Directors, with the addition of Jason Patton to lead our mobile content and media business, Mahesh Sundaram to lead our worldwide sales efforts, and Dave Habiger and John Veschi to add their knowledge and expertise to our Board.

In a few minutes, I'll discuss our recent business developments and expectations for 2015, but first, I'll ask Paul to review the details of our fourth quarter and fiscal 2014 financials.

Paul?

*Paul Norris, Chief Financial Officer*

Thanks, Vic.

Revenues for the December quarter were \$13.6 million, a record for Q4 and up 13% from revenues of \$12.1 million in the year-ago period. Revenues from royalties and licenses of \$13.3 million were up 15% from royalty revenues of \$11.6 million in the fourth quarter of 2013. Of these amounts, in the December quarter of 2014, variable royalties based on shipping volumes and per unit prices totaled \$5.9 million, and fixed payment license fees totaled \$7.4 million. This compares to variable royalties of \$3.8 million and fixed license fees of \$7.8 million in the December quarter last year.

While revenue mix per line of business is expected to fluctuate on a quarterly basis due to seasonality patterns, for the fourth quarter of 2014, a breakdown by line of business as a percentage of total revenues was as follows:

- 63% from Mobility;
- 28% from Gaming;
- 5% from Auto; and
- 4% from Medical.

Gross profit was \$13.5 million, or 99% of revenues, compared to gross profit of \$12.0 million in the fourth quarter of 2013.

Turning now to our operating expenses:

Excluding cost of revenues, total GAAP operating expenses were \$12.3 million in the fourth quarter of 2014, compared to \$11.3 million in the year-ago period.

Operating expenses in the fourth quarter of 2014 include non-cash charges related to depreciation and amortization of \$148 thousand, and stock-based compensation of \$1.2 million. Of the non-cash charges, \$378 thousand were included in Sales & Marketing, \$307 thousand in Research & Development, and \$687 thousand in G&A expense. Litigation-related expense for the quarter was \$1.0 million, up from \$627 thousand in the fourth quarter of 2013.

Net income for the fourth quarter of 2014 was \$1.0 million, or \$0.04 per diluted share, compared to net income of \$37.4 million, or \$1.26 per share, in the fourth quarter of 2013. The higher net income in the fourth quarter of 2013 was largely due to our release of substantially all of our Federal deferred income tax valuation allowance in that quarter, resulting in a one-time benefit for income taxes of \$36.8 million.

As a reminder, in addition to normal GAAP metrics, we use Non-GAAP Net Income and Non-GAAP Earnings per Share to track our business performance. We define Non-GAAP Net Income as GAAP Net Income less Stock-Based Compensation. We define Non-GAAP Earnings per Share as Non-GAAP Net Income per fully-diluted share.

Non-GAAP Net Income in the December 2014 quarter was \$2.3 million, compared to Non-GAAP Net Income of \$38.6 million in the same period last year, with last year's figure again benefiting from the release of our tax valuation allowance in 2013.

Turning to the 2014 fiscal year, our revenues were \$52.9 million, up 12% from revenues of \$47.5 million for fiscal 2013. Full year revenues from royalties and licensing were \$51.8 million in 2014, up 12% from \$46.2 million in 2013, driven primarily by increased gaming revenues, but also aided by revenue increases in our mobility, automotive, and medical lines of business. Of these amounts, in 2014 variable royalties based on shipping volumes and per unit prices totaled \$21.6 million, and fixed payment license fees totaled \$30.2 million. This compares to variable royalties of \$19.5 million and fixed license fees of \$26.7 million in 2013.

For the 2014 fiscal year, a breakdown by line of business as a percentage of total revenues was as follows:

- 60% from Mobility;
- 27% from Gaming;
- 8% from Medical; and
- 5% from Auto.

Gross profit for the year was \$52.5 million, up from gross profit of \$47.0 million, in 2013.

Operating expenses, excluding cost of revenues, were \$46.5 million in 2014, compared to \$43.4 million in 2013.

Net income for the year was \$4.1 million, or \$0.14 per diluted share, compared to net income of \$40.2 million in 2013, or \$1.37 per share, which was driven largely by the \$36.5 million one-time valuation allowance release.

Non-GAAP Net Income for 2014 was \$9.4 million, compared to Non-GAAP Net Income of 44.8 million in 2013, again with the 2013 number largely driven by the \$36.5 million valuation allowance release.

Overall, our 2014 revenues were within the upper half of our revised annual guidance and over 98% of the lower end of our original guidance for the year, while our Non-GAAP Net Income was within the range of both our initial and revised guidance for the year.

Our cash portfolio, including cash and short-term investments, was \$57.4 million as of December 31, 2014, down from \$71.1 million exiting 2013. The decrease was driven by our activities under our stock repurchase program, as we purchased 1.5 million shares of Immersion stock for \$15.0 million over the course of 2014, with \$3.0 million being spent to buy back approximately 377 thousand shares during the fourth quarter. Also during the fourth quarter of 2014, the Board increased the amount of our authorized Stock Repurchase Program by \$30 million, leaving approximately \$34.4 million remaining at the end of the year. Management and the Board remain

very confident in our business fundamentals and future prospects, continue to believe that our stock is attractively priced, and expect to continue to execute opportunistically to buy back shares under our authorized Stock Repurchase Program.

As of February 24, 2015, based on ongoing operations and payments received under new and existing agreements, and taking into account our share repurchases, our cash portfolio totaled \$79.8 million.

Based on our current outlook, we expect revenues for 2015 to be in the range of \$56 to \$60 million, reflecting growth of 6% to 13% over the prior year. Assuming an effective tax rate of 35%, we expect Non-GAAP Net Income for 2015 to be in the range of \$4 to \$8 million, which results in Non-GAAP earnings per share of \$0.13 to \$0.27, assuming 30 million diluted shares outstanding.

With that, I'll turn it back over to Vic.

***Vic Viegas, President and Chief Executive Officer***

Thanks, Paul.

As I mentioned earlier, we've been pleased with the accomplishments Immersion has made in 2014, which have resulted in a broader global footprint and customer base, as well as record revenues and profitability. During the year, we strengthened our IP and software solutions and grew our team to help us execute on the wealth of opportunities we see in 2015. I'd like to review those accomplishments with you, and share our outlook.

As the leading innovator in haptics, we've established a strong IP portfolio and industry leading software solutions based on our innovations. Through our 20 year history, we have evangelized the power and capabilities of haptics in different consumer markets, including console gaming, mobile UI, games, ads and video, as well as automotive HMI, virtual reality and wearables. Many of our ideas are ahead of their time. We understand that as a forward thinking innovation company, we are the torchbearers for haptics, and have a responsibility to seed the market with

ideas and work with partners to realize our vision. That is one of the reasons why 2014 was an exciting point in time in the company's history. During the year, we saw many of our new and existing customers adopt haptics in areas beyond touch confirmation. Industry leading customers such as Samsung created rich tactile experiences in its Note 4 S Pen, using haptics to not only improve the usability of this important feature, but also using haptics to create realistic textures for drawing. Huawei, in its Honor 6 phone, used haptics to enhance novel aspects of differentiated applications, like feeling the glass crack in the mirror application, and enhancing the retro and physical feel of the camera. These are just a few of the growing high value use cases that are gaining traction in popular mobile applications today. We are excited to see increasing market adoption of haptics in other applications, such as camera, weather, themes, navigation and e-commerce.

Even as Immersion customers are deploying haptics in richer and more advanced ways in order to improve the usability of new features and differentiate their products, other industry leading companies are increasingly recognizing the value that touch feedback can bring to digital experiences. For example:

- Microsoft released its new xBox controller with haptic features in the trigger, doubling the number of actuators in the device in order to further cement haptics as a must-have feature for the console gaming market.
- Amazon, who had not previously included actuator technology in its tablets and e-readers, released its flagship Kindle Voyage e-reader in September with a high fidelity actuator that enables the Page Press feature, allowing readers to feel a lifelike page-turning sensation as they flip through book pages without even raising their fingers from the device.
- Apple, a design leader renowned for creating products through a user-centric approach, has not only released the iPhone 6 and 6 Plus with a high quality custom actuator, but has emphasized how haptics will be used to enhance communications and user experience in the soon-to-be-released Apple Watch. Apple's highly-publicized Taptic Engine uses haptics to communicate with the user gently and unobtrusively, and the company's

leadership has touted the compelling nature of well-designed haptics as critical to the Apple Watch experience.

- As the long-time torchbearer for haptic technology, we welcome these innovations and see them as validation of Immersion's evangelism for haptics. These new applications represent an opportunity for us to license IP, enhance more experiences with our solutions, and bring haptics to a broader audience.

Beyond our traditional markets, 2014 saw the first in-market application of our TouchSense Engage solution, which allows video creators, game developers and advertisers to add tactile effects to their mobile content. The Showtime Homeland trailer, which ran in both the Showtime and Slate apps in September, was the first ever tactile advertisement, a result of years of Immersion innovation and technology development. The innovative ad received a great amount of press and was honored in the Google Creative Sandbox as an innovative campaign for Android, and Showtime reported exciting engagement metrics as a result of their haptic ad, including a 502% increase over the industry average in click through rate.

Having established the viability and effectiveness of Immersion's technology with the Showtime Ad, we've now deepened and expanded our engagement with various content creators, technology platforms and advertisers around the world. We recently announced an agreement with LeTV to launch the first trial program of tactile content in China, and see opportunities around the world with content producers and distributors who want to enrich the mobile viewing experience with haptics.

We're excited and highly optimistic about the large opportunity for Immersion in mobile. We believe that by showing new uses of haptics in applications and content, we are not only creating greater value for our OEM customers, but also shifting the use of haptics from a simple touch confirmation mechanism to one that excites the senses and engages emotions. We believe tactile effect design will become a critical part of the mobile experience creation process, just as audio and visual design are today. By providing creators with a means for letting users actually feel content, we're changing how content is consumed on the mobile platform.

Also in 2014, Immersion continued its investment in developing the industry leading haptic IP portfolio. During the year, Immersion filed 62 new patent families, and was granted 137 patents worldwide. Our current portfolio boasts approximately 1900 granted and pending patents, and is a testament to the great innovative minds and expertise at Immersion.

With this momentum at our back and a strong foundation beneath us, we're excited to enter 2015 focused on executing on the opportunities in front of us. We believe we have a great team in place to grow our business. Our new Vice President of Sales, Mahesh Sundaram, comes to us from Dolby and Intel, and has a wealth of experience managing and growing IP and licensing business with customers in Asia. Today, we announced a new member to our Board of Directors, John Veschi. John brings experience in creating, managing and monetizing technology IP, having served as the CEO of Rockstar Consortium Inc., and prior to that, the Chief IP Counsel at Nortel. John is a welcome addition whose expertise is highly valued.

With the momentum in the market, a strong team in place and a valuable portfolio of IP and solutions to enable haptic experiences, we're focused on exceeding our financial targets and executing on key initiatives in 2015. I'd like to share our list of seven key priorities for the coming year:

- First, we plan to license new customers and achieve key design wins in our primary verticals.
- Second, we plan to renew expiring customer licenses and expand engagements with our existing customers to bring more models and new use cases for haptics to the market.
- Third, we plan to expand the use of Immersion TouchSense solutions to new applications and experiences. As mobile technologies enable a wider and wider range of applications, haptics becomes of growing importance in the user experience.
- Fourth, we plan to capture, process and communicate analytic data that provides compelling evidence of the value of Immersion TouchSense solutions for OEMs and the content ecosystem.
- Fifth, we plan to expand our pilot programs and engage in commercial deployment of our content and media business in games, social media and mobile ads and video.

- Sixth, we plan to grow our marketing presence around the globe through new and expanded marketing programs. Working with our customers and partners, we will make haptics a more visible part of the consumer experience.
- Finally, we will continue to focus on innovation by building our world class IP portfolio and protect it through appropriate compliance activities.

Next week we will be attending Mobile World Congress in Barcelona, where we will be showcasing new use cases and technologies for haptics in the mobile and wearables space. We're continuing to innovate technology and design concepts to evangelize new and compelling use cases and share our expertise with customers and partners throughout the mobile and wearables ecosystems.

We believe that as we execute our initiatives, we will be able to create increased value and demand for our software and IP. We will continue to invest in Immersion, through ongoing innovation, key resources and our stock buyback program. We also remain confident in the strength of our IP portfolio, the value Immersion brings to the market, and our commitment to protecting our inventions. As part of that effort to protect our inventions, we continue to vigorously pursue our case against HTC in the District Court of Delaware. Earlier this month, the judge in the case issued opinions on claim construction and summary judgment motions denying HTC's summary judgment motion that it did not infringe two of our patents, but invalidating three other of our patents in suit based on procedural grounds. We are pleased with the Court's decision to rule in our favor with respect to two of our strongest patents in suit. While it is always expected that certain patent claims will be trimmed during the course of litigation, we are disappointed in the judge's procedural interpretation regarding three of our patents and we will be vigorously appealing this decision. We remain extremely confident in our case and look forward to our trial which commences on March 23.

To conclude my formal remarks, Immersion achieved record results in 2014, successfully generated momentum for haptics in the market, expanded our footprint with device manufacturers, and made substantial progress in proving the value of our solutions for mobile content providers, technology platforms and advertisers. We have strengthened our management

team, expanded our software solutions and continued our rich history of IP innovation. We are looking forward to executing against the growing opportunities in front of us and look forward to updating you on our progress in the coming year.

As we close out the year, I'd like to thank our dedicated employees around the world. I'd also like to recognize our customers, partners and valued shareholders for your continued support. We look forward to seeing some of you this quarter at Mobile World Congress, upcoming investor conferences, including at the JMP Securities Technology Conference in San Francisco next on Monday, March 2, 2015, or out on the road.

With that said, we will now open up the call to your questions.

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