



Improving Life and Lifestyle

Medical, Computing and Entertainment, 3D Capture and Interaction, and Automotive.



Founded in 1993, Immersion Corporation develops and licenses advanced hardware and software technologies that allow people to engage their sense of touch to better interact with the digital world around them.

Immersion's haptic technologies can be applied to virtually every digital experience, including personal computing, entertainment, medical training, automotive interfaces, and three-dimensional (3D) simulation. Immersion's patented TouchSense™ technology dramatically improves computer users' performance and productivity by unlocking their sense of touch and enabling them to actually feel what they see and do on the computer screen. Immersion and its wholly owned subsidiaries hold over 85 issued patents worldwide.

To Our Valued

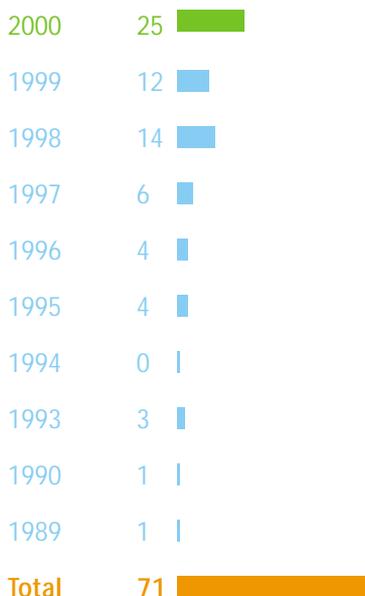
To Our Valued Shareholders

To Our Valued Shareholders

Fiscal year 2000 was a time of significant growth and progress for Immersion Corporation. During the year, we expanded our presence and market leadership across the globe, made several strategically critical acquisitions, doubled the number of employees, tripled the number of offices, grew our patent portfolio, and launched several exciting new products. All of these achievements have helped to further Immersion's reach in important new and emerging marketplaces and resulted in record revenues for 2000.

Immersion's
Growing
Patent Portfolio

Issued U.S. Patents



Where We Started

Before we recap Immersion's financial performance for 2000 and discuss where the Company is headed in the future, we'd first like to remind you of where we started from last year. After going public and taking major strides to forge a strong organization capable of managing and sustaining growth, we set our sights on fiscal year 2000 and established a number of high-level goals.

We said we wanted to achieve market leadership in the lucrative medical and scientific simulation marketplaces. We said we wanted to further our inroads into the burgeoning desktop computing, Web productivity, and 3D technology fields. And we said we wanted to pioneer our patented haptics technologies into new industries, like automotive, where engaging the sense of touch could literally improve peoples' lives and lifestyles.

What We've Accomplished

By any measure, 2000 marked a year of tremendous accomplishments and growth. Overall, we're extremely pleased with Immersion's progress and believe we've established a solid foundation from which the Company can achieve market penetration and leadership in a fiscally sound and sustainable way.

For example, the strategic acquisitions of Haptic Technologies, Inc. (Haptech), HT Medical Systems, and Virtual Technologies, Inc. (VTi) increase our presence in key new markets and, most importantly, add valuable human resources, experience, and intellectual capital in the field of haptics.

Through the acquisition of Haptech, Immersion gained a wholly-owned subsidiary based in Montreal, Canada. In addition, Immersion acquired a number of Haptech's issued and pending patents, as well as hardware and software applications—including TouchWeb™, a technology for making the Internet accessible to visually impaired users.

Immersion's
Revenues (100Ks)

Q1		
2000	00	
1999	00	
Q2		
2000	00	
1999	00	
Q3		
2000	00	
1999	00	
Q4		
2000	00	
1999	00	
Totals		
2000	00	
1999	00	

For the fiscal year ended December 31, 2000, Immersion's total revenues increased XX percent to \$XX.0 million, compared with \$XX.0 million in fiscal year 1999. Immersion's 2000 revenues were comprised of the following: \$XXX million in royalty revenue, which was \$XXX million or XXX percent higher than 1999 royalty revenue; 2000 product sales of \$XXX million, which was \$XXX or XX percent higher than 1999 product sales; and 2000 royalty revenue of \$XXX million, which was \$XXX or XXX percent higher than our 1999 royalty revenue.

The acquisition of industry leader HT Medical Systems—now called Immersion Medical—was an important step in the growth of our company because it expanded Immersion's reach in and commitment to the high-end medical simulation and instrumentation marketplace. In addition to the time-to-market advantages of combining HT's recognized expertise in medical procedures and medical simulation with Immersion's leading haptics technologies, this merger resulted in Immersion acquiring several issued and pending medical simulation patents. The VTi merger was completed during 2000 and the company is now a wholly owned subsidiary of Immersion. With this acquisition, Immersion assumed VTi's portfolio of issued and pending patents in the field of whole-hand sensing, tactile feedback, and real-time 3D-interaction technologies. VTi will continue to sell its popular CyberGlove® line of whole-hand-interaction gloves and 3D-interaction software products. VTi will also work with Immersion to market these innovative products into a higher volume consumer arena.

These acquisitions not only helped to stimulate our growth and presence in new and emerging markets, they also helped position the Company to better service its expanding customer and partner base. In fact, while Immersion began the year with 55 employees in one location, it finished the year with over 170 employees located in offices in San Jose, California; Palo Alto, California; Gaithersburg, Maryland; and Montreal, Canada.

Fiscal 2000 was an important year at Immersion for a number of other reasons. For example, former IBM Executive Robert G. O'Malley joined Immersion as President and Chief Executive Officer in October of 2000. O'Malley was previously President of Intermec Technologies, Inc., CEO of Pinacor, Inc., President of MicroAge, Inc., and General Manager of IBM's PC Desktop Systems. Dr. Louis Rosenberg, who has served as Chairman, CEO, and President since founding the company in 1993, will continue to serve as Chairman and maintain a full time, active role at Immersion.

Moreover, Immersion achieved a number of major customer, partner, and product milestones in 2000, including the addition of BMW Corporation as a TouchSense licensee, the introduction of two new tactile mice products from our partner Logitech; the signing of a Middleware partnership agreement with Sony to become the middleware provider for the PlayStation 2 platform; the launch of a new hand-held gamepad product by Kensington/Gravis; the introduction of a new 3D scanning product called LightScribe 3D; and a multitude of product announcements by various licensees regarding new TouchSense-enabled gaming devices. In fact, our long-standing partnership with Logitech resulted in over 1 million TouchSense-license devices shipping during 2000.

2000 Financial Recap

For the fiscal year ended December 31, 2000, Immersion's total revenues increased XX percent to \$XX.0 million, compared with \$XX.0 million in fiscal year 1999. Immersion's 2000 revenues were comprised of the following: \$XXX million in royalty revenue, which was \$XXX million or XXX percent higher than 1999 royalty revenue; 2000 product sales of \$XXX million, which was \$XXX or XX percent higher than 1999 product sales; and 2000 royalty revenue of \$XXX million, which was \$XXX or XXX percent higher than our 1999 royalty revenue. Pro forma net loss, excluding amortization of intangibles and deferred stock compensation and acquisition related charges, was XXX million for the period ended December 31, 2000 or \$XXX per diluted share compared to \$XXX million for the period ended December 31, 2000 or \$XXX per diluted share.



On the balance sheet side, Immersion's cash and cash equivalents balance grew to \$XXX million in 2000 along with an additional \$XXX in liquid short-term investments. Immersion's current total debt is \$XX million, and stockholders equity balance is \$XX million.

Where We're Going

Looking back on 2000, we're pleased with the results and excited about the progress we've made as well as the strong foundation we've built for the future—in terms of Immersion's ability to manage and execute its business model and our ability to grow the business and leverage new market opportunities.



More importantly, as we look forward to 2001 and beyond, we're even more excited about the work we're doing to deliver on our ultimate goal—becoming the world leader in the field of haptics and proliferating our TouchSense technologies across key markets to ultimately deliver the sense of touch into every PC desktop, computing interface, hospital and learning institution, and automobile in the world.

Stay tuned for more exciting news about Immersion's haptics technologies in 2001. And thank you for your continued support.

Sincerely,

A handwritten signature in black ink, appearing to read "R. O'Malley".

Robert G. O'Malley
President and Chief Executive Officer

A handwritten signature in black ink, appearing to read "Louis Rosenberg".

Dr. Louis Rosenberg
Chairman of the Board



Enhancing life
by increasing
realism, and
minimizing risk.

"The synergies of Immersion and HT Medical bring together the most advanced technology and industry leadership available to deliver the promise of improved medical care and training through realistic medical simulation systems. This is a welcomed event in the medical industry."

—Dale Wahlstrom,
Vice President and General Manager
Medtronic, Inc.

Immersion Medical

Immersion's TouchSense is being used by leading developers of virtual-reality medical and scientific simulations, including Integrated Surgical Systems, Lockheed, Marconi Medical Systems, Medtronic, Mentice Medical Simulation, VP Medical, and many others. In addition to developing and marketing its own medical simulation products, Immersion also works with a broad range of customers to develop a variety of innovative virtual reality simulations for procedures such as hysteroscopy, laser prostate surgery, bronchoscopy, epidurals, ureteroscopy, catheterization, and others.

Immersion Medical, formerly HT Medical and now a subsidiary of Immersion Corporation, is the leader in developing, manufacturing, and marketing medical simulators that recreate realistic healthcare environments. These simulators enable healthcare providers to practice procedures in an environment that poses no immediate risks to patients, where mistakes have no dire consequences, animal use is avoided, and performance standards for specific procedures are raised.

Immersion Medical has collaborated with the medical community to create the most comprehensive medical training and assessment tools that exist. Healthcare professionals can choose from a range of medical situations while experiencing real-life sight, sounds, and touch sensations. Using advanced 3D computer graphics, high-fidelity sound, and state-of-the-art tactile feedback, these medical simulations virtually reproduce the real experience.

As the use of complex, minimally invasive medical procedures continues to rise, simulators that can accurately reproduce the tactile feel of these procedures will play an increasingly important role in medical training. To meet these needs, Immersion Medical produces three comprehensive simulators:



The CathSim® Vascular Access Simulator—developed to train healthcare practitioners and students in intravenous therapy procedures.

The PreOp™ Endoscopy Simulator—which includes three types of endoscopic procedures:



Flexible Bronchoscopy, Flexible Sigmoidoscopy and Colonoscopy.

The PreOp™ Endovascular Simulator—which allows clinicians to practice endovascular procedures such as pacemaker leads placement, angiography and angioplasty.

Immersion and Stanford University

Stanford University Medical Center is using Immersion Medical's PreOp Flexible Sigmoidoscopy Simulator to train its medical students in gastroenterology and hepatology procedures. "The simulation enables us to teach students concepts which are very difficult to get across in a lecture," said Jacques Van Dam, M.D., Ph.D., Professor of Medicine at Stanford University School of Medicine and Clinical Chief, Division of Gastroenterology and Hepatology at Stanford University Medical Center.

"When trainees use the system, they put their abstract knowledge to use in a realistic and interactive environment," continues Van Dam. "More importantly, they get to make their mistakes on a computer model, not a patient. Their strengths and weaknesses can be assessed objectively before they perform an actual procedure, and their training needs can better be identified. With this system, we can teach without risk, and we will be able to objectively measure clinician competence."

Immersion and St. Mary's Hospital, London

Doctors at the Imperial College School of Medicine at St. Mary's Hospital, London, UK, are currently working with Immersion Medical's PreOp Flexible Bronchoscopy and PreOP Flexible Sigmoidoscopy Simulators. This department, which has an international reputation for its work in medical/surgical skills assessment, was recently honored by the award of a Queen's Anniversary Prize for Excellence in Higher and Further Education.



Enhancing lifestyle through a more intuitive, tactile sensory experience.

Games and Entertainment

In the computer games and entertainment market, Immersion is the recognized leader and pioneer of force-feedback technology, as evidenced by our growing community of customers and partners that represent a veritable “who’s who” list of industry luminaries—including Gravis, Lionhead, Logitech, Microsoft, Saitek, Sony, and SpectraVideo. Immersion’s patented TouchSense technology uniquely enables software and hardware developers to bring realism into the gaming experience by providing real-life tactile sensations for users of joysticks, gamepads, steering wheels, mice, and other game controllers.

By integrating TouchSense technology into their hardware peripherals, and by authoring TouchSense sensations within game software, Immersion’s partners are adding high-quality tactile sensations that correspond to events and environments within the computer game world. These sensations add the missing sense of touch to visual and audio effects, bringing a whole new dimension of realism to the gaming experience.

“In Black & White, traditional icons and menus are replaced by an interface that closely resembles our natural interactions in the real-world. We view the Black & White hand as an extension of your own hand. Adding tactile sensations has strengthened that illusion of reality behind the screen.”

—Peter Molyneux
Managing Director, Lionhead
Desktop and Web Productivity



For example, Lionhead Studios, one of the world’s most respected computer game developers, is using TouchSense technology to incorporate a fully featured library of tactile sensations into its new release, Black & White. This eagerly anticipated game is scheduled for release in Spring 2001 from Electronic Arts. Using a TouchSense-enabled computer mouse—such as the iFeel Mouse and iFeel MouseMan from Logitech—Black & White users can now feel a wide range of physical sensations that have been incorporated into the game. For example, they can experience the sensation of fish nibbling at their hands as they feed them or of their heartbeat quickening as their spell powers charge.



Immersion TouchSense is being used by the world's most prominent software and hardware developers—including Logitech, Kensington, Microsoft, Primax, and Scitech—to unlock the sense of touch within a variety of computing platforms, computer mice, and Web environments. These industry leaders are enabling computer users to feel their cursors move around on their desktop; feel the physical forces while using educational, gaming, and entertainment software; and feel their way around a Web page. TouchSense-enabled devices are even being developed to make computers more accessible to the visually impaired.

For example, Logitech—the international market leader in human interface devices for the PC—has incorporated Immersion's TouchSense technology to enable its computer mice products to simulate the sense of touch. Logitech's new family of computer mice, the iFeel™ Mouse and iFeel™ MouseMan®, incorporate Immersion's new Inertial Harmonic Drive hardware design and Immersion Desktop software to enable users to “touch” images, objects and desktop elements displayed on a computer screen.

A mouse enabled with Immersion's TouchSense allows the cursor to become an extension of the hand, enabling users to physically feel their interactions with menus, icons, windows, and other standard user interface elements. On the Web, users can feel buttons, hyperlinks, check-boxes, and other standard controls. In addition, Immersion TouchSense now supports the Flash and Shockwave standards from Macromedia, allowing Web developers to add compelling touchable content to animated content on the Web. Immersion provides a broad suite of software development tools designed to allow the easy incorporation of touch in a variety of desktop and Web applications. These tools are provided through Immersion's Web Development Kit (WDK) and Software Development Kit (SDK) and easily available to developers on Immersion's Web site.



“Immersion's innovative touch-enabling technology is the next step in the long awaited evolution of the computer mouse as an intuitive user interface. Adding Immersion's TouchSense technology to our computer mice will greatly enhance the value and range of products we can offer to our customers.”

*—Brian Yang
Vice President, Information
Appliance Device Division,
Primax Electronics Ltd.*



Enhancing
lifestyle
by engaging
the sense
of touch.

Immersion in Automotive

Immersion's haptics-based feedback and tactile interaction capabilities are pioneering a revolutionary new approach to automotive control design. In fact, it won't be long before you find dashboard controls delivering more just "On" and "Off" switches or slider controls to your fingertips.

Case in point: BMW has already licensed Immersion's TouchSense technology to create the automobile industry's first single intuitive control device for use in BMW's new automobile lines. In addition, ALPS Electric, the world's largest electronics components manufacturer, is a strategic partner and preferred supplier of TouchSense enabled controls to the automotive industry.

"When BMW began development of the 7-series iDrive concept, Immersion's Touch-Sense technology provided a programmable controller capable of varying its feel depending on the context of the user interface. The result is an intuitive system which offers increased functionality and improved ergonomics."

*—Hans-Georg Frischkorn
Senior Vice President, BMW*

"VTi's CyberGlove enables an intuitive interface that allows scientist to easily and naturally manipulate three dimensional visualization elements. This in turn provides a more efficient mechanism for them to perform their research."

*—Stephen Maher
Scientific Visualization Studio,
NASA Goddard Space Flight Center*

Immersion in 3D Technology

Through the recent acquisition of Vti—now a wholly owned subsidiary of Immersion—Immersion now offers to its developers a suite of state-of-the-art, whole-hand sensing, tactile feedback and real-time 3D-interaction technologies that allow the user to "reach in" and physically interact with simulated computer content. These technologies are intended for mechanical CAD evaluation, simulation-based training and 3D e-commerce.

In addition, Immersion's recently announced new product, LightScribe 3D is a breakthrough solution for animators, Web designers and developers. Lightscribe 3D utilizes the most advance computer vision technologies and is licensed exclusively from Geometrix Inc. Lightscribe 3D combines automation and artistic interaction into a workflow that simplifies the creation of 3D interactive Web content.

Finally, Immersion's award-winning MicroScribe-3D products enables engineers, animators, industrial designers, filmmakers, video game developers, architects, scientists, and others to construct detailed 3D computer models by simply tracing the surface features of real physical objects.

Board of Directors

Louis Rosenberg, Ph.D.
*Chairman of the Board,
Immersion Corporation*

Mr. Robert O'Malley
President, Immersion Corporation

Steven Blank
*Co-Founder and Former Executive
Vice President of Marketing,
E.piphany*

Charles M. Boesenberg
*Former President and CEO,
Integrated Systems, Inc*

Jonathan Rubinstein
*Senior Vice President of Hardware
Engineering, Apple Computer, Inc.*

Corporate Officers

Mr. Robert O'Malley
President and CEO

Victor Viegas
*Vice President, Finance and Chief
Financial Officer*

J. Stuart Mitchell
*Executive Vice President,
Business Groups*

Mr. Bruce Schena
Vice President and CTO

Kenneth Martin
Vice President of Engineering

Corporate Legal Counsel

Heller Ehrman White &
McAuliffe LLP
*525 University Avenue
Palo Alto, CA 94301*

Independent Auditors

Deloitte & Touche
*60 South Market Street, Suite 800
San Jose, California 95113*

Transfer Agent

BankBoston NA
*c/o Boston Equiserve
150 Royall Street
Canton, Massachusetts 02021*

Stockholder Information

A copy of the Company's Form 10-K, as filed with the Securities and Exchange Commission for the year ended December 31, 2000, is available without charge upon written request to:

Immersion Corporation, Attn:
Investor Relations, 2158 Paragon
Drive, San Jose, CA 95131.

*The Company's Form 10-K, other
general financial information, and
news about Immersion's products
are also available on the
Company's Web site at
www.immersion.com.*

Annual Meeting

*The Immersion Corporation
Annual Meeting of Shareholders
will be held XXXXXXXX at XXXXXX
a.m. at the XXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXX.*

Market Information—Common Stock

*The Company's Common Stock has
been traded over-the-counter on
the NASDAQ National Market
under the symbol "IMMR" since
the Company's initial public offer-
ing on November 12, 1999.*

*At XXX, XX, 2001, there were
approximately XXX stockholders of
record of the Company's Common
Stock. The Company's does not
expect to pay any cash dividends
on its capital stock in the foresee-
able future.*

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*All statements contained herein, as
well as oral statements that may be
made by Immersion or by officers,
directors or employees of Immersion
acting on Immersion's behalf, that
are not statements of historical fact,
constitute "forward-looking state-
ments" and are made pursuant to the
Safe-Harbor provisions of the Private
Securities Litigation Reform Act of
1995.*

*Such forward-looking statements
involve known and unknown risks,
uncertainties and other factors that
could cause the actual results of
Immersion to be materially different
from the historical results or from any
future results expressed or implied by
such forward-looking statements. Such
risks and uncertainties are outlined in
Immersion's Prospectus dated
November 12, 1999 included in its
Registration Statement on Form S-1
filed with the Securities and Exchange
Commission. These factors may not
constitute all factors that could cause
actual results to differ materially from
those discussed in any forward-looking
statement. The Company is not obli-
gated to revise or update any forward-
looking statements in order to reflect
events or circumstances that may
arise after the date of this release.*

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Immersion