

InvenSense Inc
Form 10-Q
August 09, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 June 30, 2013

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 001-35269

INVENSENSE, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: InvenSense Inc - Form 10-Q

Delaware
(State or other jurisdiction of
Incorporation or organization)
01-0789977
(I.R.S. Employer
Identification No.)
1745 Technology Drive San Jose, CA 95110
(Address of principal executive offices and zip code)
(408) 988-7339
(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 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, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Shares Outstanding at July 17, 2013 |
|---------------------------------|-------------------------------------|
| Common Stock, \$0.001 par value | 86,335,017 |

Table of Contents

INVENSENSE, INC.

TABLE OF CONTENTS

| | Page |
|--|-------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements (Unaudited)</u> | 3 |
| <u>Condensed Consolidated Balance Sheets as of June 30, 2013 and March 31, 2013</u> | 3 |
| <u>Condensed Consolidated Statements of Income for the three months ended June 30, 2013 and July 1, 2012</u> | 4 |
| <u>Condensed Consolidated Statements of Comprehensive Income for three months ended June 30, 2013 and July 1, 2012</u> | 5 |
| <u>Condensed Consolidated Statements of Cash Flows for the three months ended June 30, 2013 and July 1, 2012</u> | 6 |
| <u>Notes to Condensed Consolidated Financial Statements</u> | 7 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 20 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 29 |
| <u>Item 4. Controls and Procedures</u> | 29 |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | 30 |
| <u>Item 1A. Risk Factors</u> | 31 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 31 |
| <u>Item 6. Exhibits</u> | 31 |
| <u>SIGNATURES</u> | 32 |

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INVENSENSE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value)

| | June 30, 2013 | March 31, 2013 |
|--|------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 110,224 | \$ 100,843 |
| Short-term investments | 59,767 | 77,040 |
| Accounts receivable | 31,901 | 30,098 |
| Inventories | 33,715 | 23,762 |
| Prepaid expenses and other current assets | 17,658 | 13,302 |
| Total current assets | 253,265 | 245,045 |
| Property and equipment, net | 11,637 | 8,650 |
| Long-term investments | 38,607 | 22,442 |
| Other assets | 3,482 | 2,957 |
| Total assets | \$ 306,991 | \$ 279,094 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 20,819 | \$ 14,464 |
| Accrued liabilities | 8,217 | 7,753 |
| Total current liabilities | 29,036 | 22,217 |
| Long-term liabilities | 7,636 | 6,930 |
| Total liabilities | 36,672 | 29,147 |
| Commitments and contingencies (Note 4) | | |
| Stockholders' equity: | | |
| Preferred stock: | | |
| Preferred stock, \$0.001 par value 20,000 shares authorized, no shares issued and outstanding at June 30, 2013 and March 31, 2013 | | |
| Common stock: | | |
| Common stock, \$0.001 par value 750,000 shares authorized, 86,210 shares issued and outstanding at June 30, 2013, 84,980 shares issued and outstanding at March 31, 2013 | 168,224 | 158,108 |
| Accumulated other comprehensive income (loss) | (16) | 50 |
| Retained earnings | 102,111 | 91,789 |
| Total stockholders' equity | 270,319 | 249,947 |

Edgar Filing: InvenSense Inc - Form 10-Q

| | | |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 306,991 | \$ 279,094 |
|--|------------|------------|

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**INVENSENSE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)****(In thousands, except per share amounts)**

| | Three Months Ended | |
|--|---------------------------|-------------------------|
| | June 30, 2013 | July 1, 2012 |
| Net revenue | \$ 55,910 | \$ 39,202 |
| Cost of revenue | 26,591 | 17,639 |
| Gross profit | 29,319 | 21,563 |
| Operating expenses: | | |
| Research and development | 8,114 | 5,655 |
| Selling, general and administrative | 9,155 | 6,258 |
| Total operating expenses | 17,269 | 11,913 |
| Income from operations | 12,050 | 9,650 |
| Other income, net | 80 | 37 |
| Income before income taxes | 12,130 | 9,687 |
| Income tax provision | 1,808 | 2,036 |
| Net income | \$ 10,322 | \$ 7,651 |
| Net income per share: | | |
| Basic | \$ 0.12 | \$ 0.09 |
| Diluted | \$ 0.12 | \$ 0.09 |
| Weighted average shares outstanding in computing net income per share: | | |
| Basic | 85,038 | 81,184 |
| Diluted | 87,914 | 87,080 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

INVENSENSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

| | Three Months Ended | |
|--|---------------------------|----------------|
| | June 30, | July 1, |
| | 2013 | 2012 |
| Net income | \$ 10,322 | \$ 7,651 |
| Other comprehensive income (loss): | | |
| Unrealized loss on available-for-sale investments, net of tax benefit of \$29 and \$26 for three months ended June 30, 2013 and July 1, 2012, respectively | (66) | (48) |
| Total comprehensive income | \$ 10,256 | \$ 7,603 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**INVENSENSE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In thousands)**

| | Three Months Ended | |
|---|---------------------------|-----------------|
| | June 30, | July 1, |
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net income | \$ 10,322 | \$ 7,651 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 675 | 557 |
| Loss on disposal of property and equipment | 1 | |
| Stock-based compensation expense | 2,818 | 1,673 |
| Deferred income tax assets | (52) | (2) |
| Tax effect of employee benefit plans | 2,724 | 1,215 |
| Excess tax benefit from stock-based compensation | (2,724) | (1,215) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,803) | (10,761) |
| Inventories | (9,953) | (7,697) |
| Prepaid expenses and other current assets | (2,301) | (694) |
| Other assets | (500) | 986 |
| Accounts payable | 6,758 | 7,867 |
| Accrued liabilities | 428 | (307) |
| Net cash provided by (used in) operating activities | 6,393 | (727) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (3,954) | (1,586) |
| Proceeds from the sale of property and equipment | 1 | |
| Sales and maturities of available-for-sale investments | 28,526 | 3,126 |
| Purchase of available-for-sale investments | (27,514) | (48,484) |
| Net cash used in investing activities | (2,941) | (46,944) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of warrants | | 81 |
| Proceeds from issuance of common stock | 3,208 | 1,115 |
| Offering costs | | (340) |
| Payments of long-term debt and capital lease obligations | (3) | (7) |
| Excess tax benefit from stock-based compensation | 2,724 | 1,215 |
| Net cash provided by financing activities | 5,929 | 2,064 |
| Net increase (decrease) in cash and cash equivalents | 9,381 | (45,607) |
| Cash and cash equivalents: | | |
| Beginning of period | \$ 100,843 | \$ 153,643 |
| End of period | \$ 110,224 | \$ 108,036 |

Edgar Filing: InvenSense Inc - Form 10-Q

Supplemental disclosures of cash flow information:

| | | | | |
|--|----|-------|----|-----|
| Cash paid for interest | | \$ | 1 | |
| Cash paid for income taxes | \$ | 87 | \$ | 7 |
| Noncash investing and financing activities: | | | | |
| Unpaid purchases of property and equipment | \$ | 1,555 | \$ | 298 |
| Unrealized (loss) gain from available-for-sale investments | \$ | (95) | \$ | 73 |
| Non-cash warrant exercises | | | \$ | 70 |
| Proceeds from the exercise of stock options | \$ | 1,366 | | |
| Unpaid accrued liabilities for offering costs incurred | | | \$ | 164 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Summary of Significant Accounting Policies

Business

InvenSense, Inc. (the Company) was incorporated in California in June 2003 and reincorporated in Delaware in January 2004. The Company designs, develops, markets and sells MEMS gyroscopes for MotionTracking devices in consumer electronics and is dedicated to bringing the best-in-class size, performance and cost solutions to market. Targeting applications in smartphones and tablets, console and portable video gaming devices, digital still and video cameras, smart TVs (including digital set-top boxes, televisions and multi-media HDDs), navigation devices, toys, and health and fitness accessories, the Company delivers leading generation of motion interface solutions based on its advanced multi-axis gyroscope technology.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the fiscal year ended March 31, 2013 included in the Company s Annual Report on Form 10-K filed on June 14, 2013 with the Securities and Exchange Commission (SEC). No material changes have been made to the Company s significant accounting policies since the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2013.

Certain Significant Business Risks and Uncertainties

The Company participates in the high-technology industry and believes that adverse changes in any of the following areas could have a material effect on the Company s future financial position, results of operations, or cash flows: reliance on a limited number of primary customers to support the Company s revenue generating activities; advances and trends in new technologies and industry standards; market acceptance of the Company s products; development of sales channels; strategic relationships, including key component suppliers; litigation or claims against the Company based on intellectual property, patent, product, regulatory, or other factors; and the Company s ability to attract and retain employees necessary to support its growth.

Fiscal Year

The Company s fiscal year is a 52 or 53 week period ending on the Sunday closest to March 31. The Company s most recent fiscal year (Fiscal 2013) ended on March 31, 2013 (March 2013). The first fiscal quarter in each of the two most recent fiscal years ended on June 30, 2013 (three months ended June 30, 2013 or June 2013) and July 1, 2012 (three months ended July 1, 2012 or July 2012), respectively, and each quarter period included 13 weeks.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) and applicable rules and regulations of the SEC regarding interim financial reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

The condensed consolidated balance sheet as of March 31, 2013, included herein was derived from the audited financial statements as of that date, but does not include all disclosures required by GAAP. The unaudited interim condensed consolidated financial statements, in the opinion of management, reflect all normal recurring adjustments necessary to present fairly the Company s financial position, results of operations, comprehensive income and cash flows for the interim periods. The results of operations for the period ended June 30, 2013 is not necessarily indicative of the results to be expected for the fiscal year ending March 31, 2014 or for any future year or interim period.

Basis of Consolidation

All intercompany transactions and balances have been eliminated upon consolidation. The functional currency of each of the Company s subsidiaries is the U.S. dollar. Foreign currency gains or losses are recorded as Other income, net in the condensed consolidated statements of

income.

Table of Contents**INVENSENSE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Use of Estimates**

The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Significant estimates included in the condensed consolidated financial statements and related notes include income taxes, inventory valuation, stock-based compensation and warranty reserves. These estimates are based upon information available as of the date of the consolidated financial statements, and actual results could differ from those estimates.

Concentration of Credit Risk

At June 30, 2013, five customers each accounted for 16%, 14%, 11%, 11% and 10% of total accounts receivable. At July 1, 2012, six customers each accounted for 17%, 16%, 15%, 12%, 11% and 10% of total accounts receivable.

For the three months ended June 30, 2013, three customers each accounted for 26%, 11% and 11% of total net revenue. For the three months ended July 1, 2012, four customers each accounted for 19%, 13%, 12% and 11% of total net revenue.

Warranty

The Company's warranty agreements are contract and component specific and can be up to three years for selected components. The Company's accrual for anticipated warranty costs has declined primarily due to a decline in the historical volume of product returned under the warranty program. The accrual also includes management's judgment regarding anticipated rates of warranty claims and associated repair costs. The following table summarizes the activity related to the product warranty liability during the three months ended June 30, 2013 and July 1, 2012:

| | Three Months Ended | |
|---|---------------------------|---------------------|
| | June 30, 2013 | July 1, 2012 |
| | (in thousands) | |
| Beginning balance | \$ 123 | \$ 361 |
| Increase (decrease) in provision for warranty | 21 | 53 |
| Less: actual warranty costs | (8) | (13) |
| Ending balance | \$ 136 | \$ 401 |

Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding during the period, which excludes dilutive unvested restricted stock.

Diluted net income per share is computed by dividing net income by the weighted average number of shares outstanding, including unvested restricted stock, certain warrants to purchase common stock and potential dilutive shares from the dilutive effect of outstanding stock options using the treasury stock method.

Table of Contents**INVENSENSE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following table presents the calculation of basic and diluted net income per share:

| | Three Months Ended | |
|--|--|---------------------|
| | June 30, 2013 | July 1, 2012 |
| | (in thousands, except per share data) | |
| Numerator: | | |
| Basic and Diluted: | | |
| Net income | \$ 10,322 | \$ 7,651 |
| Denominator: | | |
| Basic shares: | | |
| Weighted average shares used in computing basic net income per share | 85,038 | 81,184 |
| Diluted shares: | | |
| Weighted average shares used in computing basic net income per share | 85,038 | 81,184 |
| Effect of potentially dilutive securities: | | |
| Stock options and unvested restricted stock | 2,797 | 5,675 |
| Common stock warrants | 79 | 221 |
| Weighted average shares used in computing diluted net income per share | 87,914 | 87,080 |
| Net income per share: | | |
| Basic | \$ 0.12 | \$ 0.09 |
| Diluted | \$ 0.12 | \$ 0.09 |

The following summarizes the potentially dilutive securities outstanding at the end of each period that were excluded from the computation of diluted net income per share for the periods presented as their effect would have been antidilutive:

| | Three Months Ended | |
|--------------------------------------|---------------------------|---------------------|
| | June 30, 2013 | July 1, 2012 |
| | (in thousands) | |
| Employee stock options | 4,906 | 1,583 |
| Unvested restricted stock units | 770 | 13 |
| Total antidilutive securities | 5,676 | 1,596 |

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. ASU No. 2011-02 became effective for fiscal years, and interim periods within those years, beginning after December 15, 2012, which is the Company's fiscal interim

Edgar Filing: InvenSense Inc - Form 10-Q

period ended June 30, 2013 of fiscal year ending March 30, 2014, and the adoption did not impact the Company's financial condition or results of operations.

2. Cash Equivalents and Available-for-sale Investments

At June 30, 2013, of the \$110.2 million of the Company's cash and cash equivalents, \$86.1 million was cash and \$24.1 million was cash equivalents invested in money market funds and commercial paper. Additionally, as of June 30, 2013, the Company had short-term available-for-sale investments of \$59.8 million and long-term available-for-sale investments of \$38.6 million totaling \$98.4 million. Long-term investments as of June 30, 2013 of \$38.6 million had scheduled maturities between one and five years from the balance sheet date.

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

At March 2013, of the \$100.8 million of the Company's cash and cash equivalents, \$77.9 million was cash and \$22.9 million was cash equivalents invested in money market funds. At March 2013, \$60.7 million of the \$100.8 million of cash and cash equivalents were held by our foreign subsidiaries. Additionally, as of March 2013, the Company had short-term available-for-sale investments of \$77.0 million and long-term available-for-sale investments of \$22.4 million totaling \$99.4 million. Long-term investments as of March 2013 of \$22.4 million had scheduled maturities between one and five years from the balance sheet date.

The Company applies the provisions of ASC 820-10, *Fair Value Measurements*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. ASC 820-10 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. The standard describes a fair value hierarchy based on three levels of inputs that may be used to measure fair value. The inputs for the first two levels are considered observable and the last is unobservable and include the following:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; or

Level 3 Unobservable inputs in which there is little or no market data, and as a result, prices or valuation techniques are employed that require inputs that are significant to the fair value measurement.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures certain financial assets and liabilities at fair value. The fair values of our money market funds were derived from quoted market prices as active markets for these instruments exist. The Company chose not to elect the fair value option as prescribed by ASC 825-10-05 *Fair Value Option* for its financial assets and liabilities that had not been previously carried at fair value. Therefore, financial assets and liabilities not carried at fair value, such as accounts payable, are still reported at their carrying values.

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

*Fair value measurements at each reporting date were as follows:***June 2013:**

Assets measured at fair value on a recurring basis were presented in the Company's condensed consolidated balance sheet as of June 30, 2013.

| | June 2013 Balance | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Other Unobservable Inputs Level 3 |
|--------------------------------------|-----------------------------|---|---|---|
| | (in thousands) | | | |
| Money Market Funds | \$ 23,125 | \$ 23,125 | \$ | \$ |
| Corporate Notes and Bonds | 92,539 | | 92,539 | |
| Commercial Paper | 1,000 | | 1,000 | |
| Municipal Notes and Bonds | 3,836 | | 3,836 | |
| U.S. Agency Securities | 1,999 | | 1,999 | |
| Total | \$ 122,499 | \$ 23,125 | \$ 99,374 | \$ |
| Cash equivalents | \$ 24,125 | \$ 23,125 | \$ 1,000 | \$ |
| Short-term investments | 59,767 | | 59,767 | |
| Long-term investments | 38,607 | | 38,607 | |
| Total | \$ 122,499 | \$ 23,125 | \$ 99,374 | \$ |
| | June 2013 Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | June 2013 Estimated FMV |
| Corporate Notes and Bonds | \$ 92,627 | \$ | \$ (88) | \$ 92,539 |
| Municipal Notes and Bonds | 3,842 | | (6) | 3,836 |
| U.S. Agency Securities | 2,000 | | (1) | 1,999 |
| Total Available-for-sale investments | \$ 98,469 | \$ | \$ (95) | \$ 98,374 |
| Cash equivalents | | | | 24,125 |
| Total Aggregate Fair Value | | | | \$ 122,499 |

The fair values of money market funds were derived from quoted market prices as active markets for these instruments exist. The fair values of corporate notes and bonds, commercial paper, municipal notes and bonds and U.S. Agency Securities were derived from non-binding market consensus prices that are corroborated by observable market data.

Edgar Filing: InvenSense Inc - Form 10-Q

There were no transfers of assets measured at fair value between Level 1 and Level 2 during the three months ended June 30, 2013.

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 2013:

Assets measured at fair value on a recurring basis were presented in the Company's consolidated balance sheet as of March 31, 2013.

| | March 2013 Balance | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Other Unobservable Inputs Level 3 |
|--------------------------------------|---------------------------------|---|---|---|
| | (in thousands) | | | |
| Money Market Funds | \$ 22,860 | \$ 22,860 | \$ | \$ |
| Corporate Notes and Bonds | 94,485 | | 94,485 | |
| Commercial Paper | 2,998 | | 2,998 | |
| U.S. Agency Securities | 1,999 | | 1,999 | |
| Total | \$ 122,342 | \$ 22,860 | \$ 99,482 | \$ |
| Cash equivalents | \$ 22,860 | \$ 22,860 | \$ | \$ |
| Short-term investments | 77,040 | | 77,040 | |
| Long-term investments | 22,442 | | 22,442 | |
| Total | \$ 122,342 | \$ 22,860 | \$ 99,482 | \$ |
| | March 2013 Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | March 2013 Estimated FMV |
| Corporate Notes and Bonds | \$ 94,407 | \$ 78 | \$ | \$ 94,485 |
| Commercial Paper | 2,997 | 1 | | 2,998 |
| U.S. Agency Securities | 2,001 | | (2) | 1,999 |
| Total Available-for-sale investments | \$ 99,405 | \$ 79 | \$ (2) | \$ 99,482 |
| Cash equivalents | | | | 22,860 |
| Total Aggregate Fair Value | | | | \$ 122,342 |

There were no transfers of assets measured at fair value between Level 1 and Level 2 during Fiscal 2013.

3. Balance Sheet Details**Inventories**

Inventories at June 30, 2013 and March 31, 2013 consist of the following:

Edgar Filing: InvenSense Inc - Form 10-Q

| | June 2013 | March 2013 |
|-------------------|----------------|------------|
| | (in thousands) | |
| Work in progress | \$ 26,176 | \$ 18,803 |
| Finished goods | 7,539 | 4,959 |
| Total Inventories | \$ 33,715 | \$ 23,762 |

Table of Contents**INVENSENSE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets at June 30, 2013 and March 31, 2013 consist of the following:

| | June 2013 | March 2013 |
|--|-----------------------|-------------------|
| | (in thousands) | |
| Tax receivable | \$ 8,018 | \$ 6,374 |
| Advance to and receivable from vendors | 3,683 | 2,824 |
| Prepaid expenses | 2,130 | 2,209 |
| Proceeds receivable for taxes from exercise of stock options | 1,997 | |
| Deferred tax assets | 1,008 | 951 |
| Other current assets | 822 | 944 |
| Total prepaid expenses and other current assets | \$ 17,658 | \$ 13,302 |

The Company has agreements with foundry vendors to facilitate and expand capacity for the Company's products. Certain of these agreements require advance payments to these foundry vendors, which are applied at agreed upon rates to subsequent wafer purchases from these vendors. The Company classifies advances expected to be applied towards purchases within 12 months as Prepaid expenses and other current assets and the remaining balances as Other assets on the Company's condensed consolidated balance sheets. The Company believes that the advances to these vendors will be fully applied towards future purchases from these vendors. The Company made no payments to foundry vendors during the three months ended June 30, 2013 or during the three months ended July 1, 2012. During the three months ended July 1, 2012, the Company recognized an impairment loss of \$0.4 million related to one of its vendor advances.

Property and Equipment

Property and equipment at June 30, 2013 and March 31, 2013 consist of the following:

| | June 2013 | March 2013 |
|---|-----------------------|-------------------|
| | (in thousands) | |
| Production and lab equipment | \$ 14,160 | \$ 11,654 |
| Computer equipment and software | 2,314 | 1,124 |
| Equipment under construction | 1,763 | 1,851 |
| Leasehold improvements and furniture and fixtures | 958 | 923 |
| Subtotal | \$ 19,195 | \$ 15,552 |
| Accumulated depreciation and amortization | (7,558) | (6,902) |
| Property and equipment - net | \$ 11,637 | \$ 8,650 |

Depreciation and amortization expense for the three months ended June 30, 2013 and July 1, 2012 was \$0.7 million and \$0.6 million, respectively. Equipment under construction consists primarily of production and lab equipment. Equipment under construction is not subject to depreciation until it is available for its intended use. All of the equipment under construction is expected to be completed and placed in service by the end of fiscal 2014. Capitalized leases consist of office equipment. For the three months ended June 30, 2013 and July 1, 2012, there were

no new capitalized leases.

Table of Contents**INVENSENSE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Accrued Liabilities**

Accrued liabilities at June 30, 2013 and March 31, 2013 consist of the following:

| | June 2013 | March 2013 |
|----------------------------------|-----------------------|-------------------|
| | (in thousands) | |
| Payroll-related expenses | \$ 3,492 | \$ 2,777 |
| Legal fees | 1,678 | 884 |
| Other accrued liabilities | 1,320 | 819 |
| Former CEO separation costs (1) | 828 | 828 |
| Bonuses | 586 | 2,120 |
| Engineering services | 177 | 106 |
| Warranty reserves | 136 | 123 |
| Income tax payable | | 96 |
| Total accrued liabilities | \$ 8,217 | \$ 7,753 |

- (1) During the third quarter of fiscal year 2013, the Company's founder and CEO resigned. Under the terms of his employment agreement, he will receive severance payments totaling \$828,000 through the end of fiscal year 2014.

4. Commitments and Contingencies**Operating Lease Obligations**

The Company has non-cancelable operating leases for its facilities through fiscal year 2020.

Future minimum lease payments under operating leases as of June 30, 2013 are as follows:

| Fiscal Years Ending: | Amount |
|-----------------------------|-----------------------|
| | (in thousands) |
| 2014 (remainder) | \$ 875 |
| 2015 | 2,631 |
| 2016 | 3,388 |
| 2017 | 3,623 |
| 2018 | 3,733 |
| Beyond | 6,755 |
| Total | \$ 21,005 |

The Company's lease agreements provide for rental payments which have certain lease incentives and graduated rental payments. As a result, the rent expense is recognized on a straight-line basis over the term of the lease. The Company's rental expense under operating leases was approximately \$0.6 million and \$0.5 million for the three months ended June 30, 2013 and July 1, 2012, respectively.

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

401(k) Savings Plan

In November 2004, the Company established a defined contribution savings plan under Section 401(k) of the Internal Revenue Code. This plan covers substantially all employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pretax basis. The Company contributions to the plan may be made at the discretion of the Board of Directors. To date, no contributions have been made to the plan by the Company.

Legal Proceedings

On May 16, 2012, STMicroelectronics, Inc. (STI) filed a patent infringement complaint (ST Microelectronics Patent Litigation I) in the Northern District of California against the Company, alleging infringement of certain of their patents (collectively, the Asserted Patents). STI alleges that certain InvenSense Micro-Electro-Mechanical Systems (MEMS) products and services, including but not limited to InvenSense s ISZ, IXZ, IDG, IMU, ITG, and MPU product lines, infringe one or more claims of the Asserted Patents. The Company intends to contest the case vigorously. On July 9, 2012, the Company filed counterclaims against STI for alleged infringement of certain of the Company s patents. Of the nine Asserted Patents, all patents are now being reexamined by the U.S. Patent & Trademark Office (PTO) at the Company s request. In view of the reexamination proceedings, the Company requested that the Court stay the litigation pending the final outcome of those reexamination proceedings. On February 27, 2013, the Court granted the Company s request and stayed the litigation until final exhaustion of all patent reexamination proceedings, including appeals. As this litigation is still in its early stages and is currently stayed, the Company believes it is not yet possible to assess the merits of the plaintiff s claim and or the amount of damages, if any, that could be awarded in the event of an unfavorable outcome.

On March 11, 2013, STI filed a request with the United States International Trade Commission (ITC) that the ITC institute an investigation under Section 337 of the Tariff Act of 1930 against the Company, Roku, Inc., and Stanley Black & Decker, Inc., concerning the alleged infringement of five patents (collectively, the ITC Patents), three of which were previously asserted in ST Microelectronics Patent Litigation I and two of which are newly asserted patents. STI alleges that certain InvenSense MEMS products and services, including but not limited to InvenSense s ISZ, IMU, ITG, and MPU product lines, infringe one or more claims of the ITC Patents. STI additionally alleges that certain Roku devices that incorporate certain InvenSense MEMS products, including but not limited to the Roku 2 XS, infringe one or more claims of a subset of the ITC Patents. STI additionally alleges that certain Stanley Black & Decker devices that incorporate certain InvenSense MEMS products, including but not limited to the Black & Decker 4v Max Gyro Rechargeable Screwdriver, infringe one or more claims of a subset of the ITC Patents. On April 10, 2013, the ITC instituted this investigation. All five of the ITC patents are in reexamination or subject to inter partes review by the PTO, at the request of the Company. The Company intends to contest this investigation vigorously. On April 30, 2013, the Company filed a request with the ITC to stay proceedings pending final reexamination and inter partes review of the ITC patents. The request to stay was denied without prejudice on May 21, 2013. On July 17, 2013, the ITC issued an order ordering a Markman hearing and amending the procedural schedule for the investigation, in which it set the Marman hearing for September 13, 2013, the fact discovery cutoff date for September 20, 2013, the expert discovery cutoff date for November 20, 2013, the hearing to take place from January 21 to January 31, 2014, and the target date to be August 15, 2014. As this investigation is still in its early stages, the Company believes it is not yet possible to assess the merits of the Complainant s claim.

On March 12, 2013, STI filed a patent infringement complaint in the Northern District of California against the Company, alleging infringement of the two patents that were newly asserted in the ITC Investigation (collectively, the Newly Asserted Patents) that were not previously asserted in ST Microelectronics Patent Litigation I. STI alleges that certain InvenSense MEMS products and services, including but not limited to InvenSense s ISZ, IMU, ITG, and MPU product lines, infringe one or more claims of the Newly Asserted Patents. The Company intends to contest the case vigorously. On April 11, 2013, before the Company was required to respond to the Complaint, the Company requested that the Court stay the litigation, as required by statute, in view of the co pending investigation in the ITC of the Newly Asserted Patents. On April 16, 2013, the Court granted the Company s request, staying the litigation until the determination of the ITC becomes final. As this litigation is still in its early stages and is currently stayed, the Company believes it is not yet possible to assess the merits of the plaintiff s claim and or the amount of damages, if any, that could be awarded in the event of an unfavorable outcome.

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

On May 14, 2013, the Company brought a lawsuit against STI in federal court in the Eastern District of Texas, alleging that STI infringes three of the Company's patents. The Company seeks to prevent STI's unauthorized use of the Company's patents and to be awarded monetary damages. On July 17, 2013, STI filed a motion to dismiss for improper venue, or in the alternative, to transfer the litigation to federal court in the Northern District of California. On July 30, 2013, the Company filed an unopposed request with the Court to file its response to STI's motion to dismiss by August 19, 2013.

The Company indemnifies certain customers, distributors, suppliers and subcontractors for attorney fees and damages and costs awarded against such parties in certain circumstances in which the Company's products are alleged to infringe third-party intellectual property rights, including patents, registered trademarks or copyrights. Indemnification costs are charged to operations as incurred. There were no indemnification costs for the three months ended June 30, 2013 and July 1, 2012.

5. Stockholders' Equity

Stock Plans

In July 2011, the Company's Board of Directors and its stockholders approved the establishment of the 2011 Stock Incentive Plan (the "2011 Plan"). The 2011 Plan provides for annual increases in the number of shares available for issuance there under on the first business day of each fiscal year, beginning with the Company's fiscal year following the year of this offering, equal to four percent (4%) of the number of shares of the Company's common stock outstanding as of such date, which resulted in an annual increase of 3.4 million shares for fiscal year 2014.

Under the Company's 2004 Stock Incentive Plan and 2011 Stock Incentive Plan (the "Plans"), the Board of Directors may grant either incentive stock options, nonqualified stock options, or stock awards to eligible persons, including employees, nonemployees, members of the Board of Directors, consultants and other independent advisors who provide services to the Company. As of June 30, 2013, the Company has reserved for issuance under the Plans a total of 22.9 million shares (including additional shares subject to automatic increase provisions under the 2011 Plan).

Incentive stock options may only be granted to employees and at an exercise price of no less than fair value on the date of grant. Nonqualified stock options may be granted at an exercise price of no less than 100% of fair value on the date of grant. For owners of more than 10% of the Company's common stock, options may only be granted for an exercise price of not less than 110% of fair value, and these options generally expire 10 years from the date of grant. Stock options may be exercisable immediately but subject to repurchase. Stock options vest over the period determined by the Board of Directors, generally four years.

Table of Contents**INVENSENSE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

Stock option activities of the Company under the Plans are as follows (in thousands, except per share amounts):

| | Options Available for Grant | Options Issued and Outstanding | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Term (In Years) | Aggregate Intrinsic Value |
|---|-----------------------------------|--------------------------------------|---|--|---------------------------------|
| Balance March 31, 2013 | 10,198 | 10,495 | \$ 7.65 | 7.49 | 38,135 |
| Increase to stock option pool | 3,399 | | | | |
| Options granted (weighted-average fair value of \$4.26 per share) | (540) | 540 | \$ 11.82 | | |
| Options exercised | | (1,220) | \$ 3.75 | | |
| Options canceled | 223 | (223) | \$ 9.02 | | |
| Balance June 30, 2013 | 13,280 | 9,592 | \$ 8.36 | 7.90 | 67,863 |
| June 30, 2013 | | | | | |
| Vested and expected to vest | | 8,522 | \$ 8.07 | 7.77 | 62,745 |
| Exercisable June 30, 2013 | | 3,129 | \$ 4.33 | 5.99 | 34,753 |

Valuation of Stock-Based Awards

The Company applies the provisions of ASC 718-10 Compensation Stock Compensation which establishes the accounting for stock-based awards based on the fair value of the award measured at grant date. Accordingly, stock-based compensation cost is recognized in the condensed consolidated statements of income as a component of both cost of revenues and operating expenses over the requisite service period. ASC 718-10 requires tax benefits in excess of compensation cost to be reported as a financing cash flow rather than as a reduction of taxes paid. The determination of the fair value of stock-based payment awards on the date of grant using the Black-Scholes option pricing model is affected by the volatilities of a peer group of companies based on industry, stage of life cycle, size and financial leverage, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends. Variables to be determined include expected volatility, estimated term and risk-free interest rate.

The aggregate intrinsic value of the stock options exercised during the three months ended June 30, 2013 and July 1, 2012 was \$11.5 million and \$6.0 million respectively. The aggregate intrinsic value was calculated as the difference between the exercise price of the stock options and the estimated fair market value of the underlying common stock at the date of exercise.

The number of options expected to vest takes into account an estimate of expected forfeitures. The remaining unamortized stock-based compensation expense, reduced for estimated forfeitures and related to non-vested options, was \$18.6 million, and \$18.7 million at June 30, 2013 and March 31, 2013 respectively, and, for both periods will be amortized over a weighted-average remaining period of approximately 3.2 years. Total unrecognized expense will be adjusted for future changes in estimated forfeitures.

Weighted-Average Assumptions**Expected Term**

Edgar Filing: InvenSense Inc - Form 10-Q

Prior to the third quarter of fiscal year 2013, the Company use the simplified method described in Staff Accounting Bulletin Topic 14, *Share-Based Payment*, to estimate expected term. Beginning the third quarter of fiscal year 2013, the Company used historical experience to estimate expected term as it believes it had accumulated enough historical data on which to base this estimate. The change to historical data did not result in a significant change in the expected term used in the Black-Sholes computation.

Table of Contents**INVENSENSE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Expected Volatility**

The Company estimates volatility for option grants by evaluating the average historical volatility of peer group companies for the period immediately preceding the option grant for a term that is approximately equal to the option's expected term and by evaluating the average historical volatility of the Company's common stock since the Company's initial public offering in November 2011.

Risk-Free Interest Rate

The Company bases the risk-free interest rate that it uses in the Black-Scholes option pricing model on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options.

Expected Dividend

The Company does not anticipate paying any cash dividends in the foreseeable future and, therefore, uses an expected dividend yield of zero in the Black-Scholes option pricing model.

The Company used the following weighted-average assumptions in determining stock-based compensation expense for option grants made during fiscal 2013, fiscal 2012 and fiscal 2011.

| | Three Months Ended | |
|-------------------------|---------------------------|----------------|
| | June 30, | July 1, |
| | 2013 | 2012 |
| Expected Term | 4.67 years | 6.04 years |
| Volatility | 41.9% | 48.5% |
| Risk-free interest rate | 0.73% | 0.92% |
| Dividend yield | 0% | 0% |

Restricted Stock Units and Restricted Stock

Restricted stock unit and restricted stock activity of the Company under the Plans are as follows (in thousands, except per share amounts):

| Restricted stock unit and restricted stock activity | Shares | Weighted average grant date fair value per share (in thousands) |
|--|---------------|--|
| Nonvested at March 31, 2013 | 806 | \$ 12.05 |
| Granted | 779 | \$ 12.77 |
| Vested | (10) | \$ 13.82 |
| Forfeited | (40) | \$ 12.53 |
| Nonvested at June 30, 2013 | 1,535 | \$ 12.39 |

Restricted stock units and restricted stock granted to employees are generally subject to the employee's continued service to the Company over that period. The fair value of restricted stock units and restricted stock is determined using the fair value of the Company's common stock on the date of the grant. Compensation expense is generally recognized on a straight-line basis over the requisite service period of each grant adjusted for estimated forfeitures. At June 30, 2013, there was approximately \$14.3 million of total unrecognized compensation cost related to restricted stock units and restricted stock, which the Company expects to recognize over a weighted-average period of 3.50 years. The weighted-average

Edgar Filing: InvenSense Inc - Form 10-Q

grant-date fair value per share of restricted stock units and restricted stock awarded in the three months ended June 30, 2013 was \$12.77. The weighted-average grant-date fair value per share of restricted stock units and restricted stock awarded in the three months ended July 1, 2012 was \$13.49.

Table of Contents**INVENSENSE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Stock-Based Compensation Expense**

Total employee stock-based compensation cost for the Company's stock plans for the three months ended June 30, 2013 and July 1, 2012 is as follows:

| | Three Months Ended | |
|---|---------------------------|-----------------|
| | June 30, | July 1, |
| | 2013 | 2012 |
| | (in thousands) | |
| Cost of revenue | \$ 237 | \$ 152 |
| Research and development | 1,072 | 618 |
| Selling, general and administrative | 1,509 | 903 |
| Total stock-based compensation expense | \$ 2,818 | \$ 1,673 |

Common Stock

As of June 30, 2013 and March 31, 2013, common stock reserved for future issuance was as follows (in thousands):

| Common stock reserved for issuance | Number of Shares | |
|---|-------------------------|-------------------|
| | June 2013 | March 2013 |
| Stock Plans: | | |
| Outstanding stock options | 9,592 | 10,495 |
| Outstanding restricted stock units and restricted stock | 1,535 | 806 |
| Reserved for future equity incentive grants | 11,728 | 9,383 |
| | 22,855 | 20,684 |
| Warrants to purchase common stock | 94 | 94 |
| Total common stock reserved for future issuances | 22,949 | 20,778 |

6. Income Taxes

In the three months ended June 30, 2013 and July 1, 2012, the Company recorded an income tax provision of \$1.8 million and \$2.0 million respectively. The Company's estimated 2014 effective tax rate differs from the U.S. statutory rate primarily due to profits earned in jurisdictions where the tax rate is lower than the U.S. tax rate partially offset by the unfavorable effects of non-deductible stock-based compensation expense.

The Company files U.S. federal income tax returns as well as income tax returns in California and various foreign jurisdictions. The Company has not provided for U.S. federal income and foreign withholding taxes on undistributed earnings from non-U.S. operations as of June 30, 2013 because such earnings are to be reinvested indefinitely.

The Company's tax years from 2003 and onwards could be subject to examinations by tax authorities in one or more tax jurisdictions. The Company has recorded \$7.6 million of uncertain tax positions within Long-term liabilities on the condensed consolidated balance sheet as at

Edgar Filing: InvenSense Inc - Form 10-Q

June 30, 2013. The Company does not expect any significant increases or decreases to its unrecognized tax benefits within the next twelve months. While management believes that the Company has adequately provided for all tax positions, amounts asserted by tax authorities could be greater or less than the recorded position. Accordingly, the Company's provisions on federal, state and foreign tax-related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q, the Consolidated Financial Statements and Notes thereto for the year ended March 31, 2013, and with management's discussion and analysis of our financial condition and results of operations included in our Annual Report on Form 10-K with the Securities and Exchange Commission (SEC) on June 14, 2013.

This Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, includes a number of forward-looking statements that involve many risks and uncertainties. Forward-looking statements are identified by the use of the words would, could, will, may, expect, believe, should, anticipate, outlook, if, future, intend, plan, estimate, predict, potential, targets, seek or continue and similar words and phrases, including the negatives of these terms, or other variations of these terms, that denote future events. These forward-looking statements include our expectations as to future sales of consumer electronics devices that could potentially integrate motion processors, our expectation that our products will remain a component of customers' products throughout any such product's life cycle, our belief that users of our products are likely to introduce these products into other devices as well as to adopt our more advanced devices, our belief that certain end-markets pose large growth opportunities for motion processing functionality, our ability to protect our intellectual property in the United States and abroad, our belief in the sufficiency of our cash flows to meet our needs and our future financial and operating results. These statements reflect our current views with respect to future events and our potential financial performance and are subject to risks and uncertainties that could cause our actual results and financial position to differ materially and adversely from what is projected or implied in any forward-looking statements included in this Form 10-Q. These factors include, but are not limited to, the risks referred to under Item 1A. of Part I Risk Factors, included in the Company's Annual Report on Form 10-K filed on June 14, 2013 with the SEC and Item 2 of Part I Management's Discussion and Analysis of Financial Condition and Results of Operations, and discussed elsewhere in this Quarterly Report on Form 10-Q and those discussed in other documents we file with the SEC. We make these forward-looking statements based upon information available on the date of this Form 10-Q, and we have no obligation (and expressly disclaim any such obligation) to update or alter any forward-looking statements, whether as a result of new information or otherwise except as otherwise required by securities regulations.

Overview**Business Overview**

We are the pioneer and a global market leader in devices for the motion interface market that detect and track an object's motion in three-dimensional space. Our MotionTracking devices combine micro-electro-mechanical system, or (MEMS) motion sensors, such as accelerometers, gyroscopes and compasses, with mixed-signal integrated circuits (ICs) and proprietary algorithms and firmware that intelligently process, synthesize and calibrate the output of sensors for use by software applications via an application programming interface (API). Our MotionTracking devices are differentiated by small form factor, high level of integration, performance, reliability and cost effectiveness. While our solutions have broad applicability, we currently target consumer electronics applications such as smartphones and tablets, console and portable video gaming devices, digital still and video cameras, smart TVs (including digital set-top boxes, televisions and multi-media HDDs), navigation devices, toys, and health and fitness accessories. We utilize a fabless model, leveraging current CMOS and MEMS foundries and semiconductor packaging supply chains.

Our current strategy is to continue targeting the consumer electronics market with integrated MotionTracking devices that meet or exceed the performance and cost requirements of consumer electronics manufacturers, are easy to integrate and set industry performance benchmarks. Our ability to secure new customers depends on winning competitive processes, known as design wins. These selection processes are typically lengthy, and, as a result, our sales cycles will vary based on the market served, whether the design win is with an existing or a new customer and whether our product being designed into our customer's device is a first generation or subsequent generation product. Because the sales cycle for our products is long, we can incur design and development support expenditures in circumstances where we do not ultimately recognize any net revenue. We do not receive long-term purchase commitments from any of our customers, all of whom purchase our products on a purchase order basis. While product life cycles in our target market vary by application, once one of our solutions is incorporated into a customer's design, we believe that it will likely remain a component of the customer's product for its life cycle because of the time and expense associated with redesigning the product or substituting an alternative solution. The trend is also supported by the increased likelihood that once a customer introduces one of our products into one of their devices, we believe they are likely to introduce it into others. Additionally, once a customer introduces one of our lower functionality sensors into their platforms, we believe they are more likely to adopt our more advanced integrated MotionTracking devices.

Table of Contents

The history of our product development and sales and marketing efforts is, on a calendar year basis, as follows:

From our inception in 2003 through 2005, we were primarily engaged in the design and development of our analog gyroscopes. In this period, we also developed and refined our fabrication process, which we refer to as our patented fabrication platform.

In 2006, we began volume shipments of our IDG family of integrated X-Y dual-axis analog gyroscopes for the compact digital camera market, the first commercially available sensors of that type. Subsequently, through 2008, we developed and shipped successive generations of these gyroscopes with enhanced performance and reduced die sizes. We began high-volume shipments of our IDG-600 to Nintendo beginning in May 2008.

In 2009, we began shipping enhanced and alternative versions of our single- and dual-axis analog gyroscopes as well as our ITG family of X-Y-Z three-axis digital output gyroscopes. We also significantly accelerated shipments of our products due to the broad market adoption of the Nintendo Wii MotionPlus accessory. In addition, we migrated our manufacturing processes to larger wafer sizes enabling significant cost efficiencies.

In 2010, we began volume shipments of our MPU-3000 family of Motion-Processors consisting of three-axis gyroscopes digital outputs and software development kits, designed to enable faster motion interface application development. In addition, we started shipping our ITG- and IMU-3000 family of products, which address a broader array of consumer applications than our analog products. We also started sampling our MPU-6000 family of integrated six-axis Motion-Processors that integrate a three-axis gyroscope and three-axis accelerometer on one chip used with our MotionApps software platform.

In 2011, we began high-volume shipments of our ITG/IMU/MPU-3000 family of Motion-Processors for the portable gaming, smart TV, smartphone and tablet markets. In addition, we began volume shipments of our MPU-6000 family of six-axis motion processors for the smartphone and tablet markets. We also introduced our IDG-2020 and IXZ-2020 families of dual-axis gyroscopes, which address the need for optical image stabilization (OIS) technology in camera phones and digital still cameras.

In 2012, we introduced our nine-axis MPU-9150 Motion-Processor to selected customers, targeted for the smartphone, tablet, gaming controller and wearable sensor markets.

In 2012, we also introduced our MPU-3300, a single-chip, high performance integrated 3-axis gyroscope for industrial applications.

In 2012, we also introduced the MPU-6500, the Company's next-generation 6-axis MotionTracking device for smartphones, tablets, wearable sensors, and other consumer markets.

In January 2013, we introduced the MPU-9250, an integrated accelerometer, gyroscope, compass in a 3x3x1mm package with 9.2mW power consumption, ideal for mobile devices, wearable sensors for sports and remote health monitoring, and emerging applications.

In February 2013, we introduced the MPU-9350, an integrated accelerometer, gyroscope, and electronic compass in a 3x3x1mm package that has a 28% lower power consumption than its predecessor.

Edgar Filing: InvenSense Inc - Form 10-Q

In February 2013, we also introduced the ITG-3501, with an industry first 0.75mm height and lowest power consumption of only 5.9mW (3.3mA at 1.8V).

In May 2013, we announced the IDG-2030 and IXZ-2030 dual-axis OIS gyroscopes. OIS eliminates the effects of hand jitter to achieve blur free images and jitter free HD video.

In May 2013, we announced the MPU-6521 MEMS SoC, which is the world's smallest, lowest profile, and lowest power 6-axis solution. The slim profile MPU-6521 is targeted for the next-generation of smartphones, tablets, gaming devices, motion-based remote controls, and wearable sensors.

In June 2013, we announced a family of 6 Industrial MotionTracking solutions including 3-axis gyroscopes and integrated 6-axis gyroscopes plus accelerometers.

Table of Contents**Net Revenue**

We derive our net revenue from sales of our MotionTracking devices. We primarily sell our products through our worldwide sales organization to manufacturers of consumer electronics devices from whom we have secured a design win. The sale may be executed directly with the manufacturer or via the manufacturer's supply chain to their designated contract manufacturer. We also sell our products through an indirect channel of distributors that fulfill orders for our products from manufacturers of consumer electronics devices, original design manufacturers and contract manufacturers.

| (in thousands) | Three Months Ended | |
|----------------|--------------------|-----------------|
| | June 30, 2013 | July 1, 2012 |
| Net revenue | \$ 55,910 | \$ 39,202 |

Net revenue for the three months ended June 30, 2013 increased by \$16.7 million, or 43%, year-over-year, primarily due to higher volume shipments to an expanded customer base, including manufacturers of smartphones, tablet devices and digital television and set-top box remote controls, partially offset by lower volume shipments to gaming manufacturers and by per unit sold average selling price erosion. Total unit shipments for the three months ended June 30, 2013 increased by 83% year-over-year. Our overall average unit selling price for the three months ended June 30, 2013 decreased 22% year-over-year as a result of the change in our product mix and declines in average selling prices associated with products primarily introduced in prior years. We expect a continued trend of declining unit average selling prices for our products during their life cycles.

For the three months ended June 30, 2013, three customers each accounted for 26% (Samsung), 11% (Sharp) and 11% (Sony) of total net revenue. For the three months ended July 1, 2012, four customers each accounted for 19% (Samsung), 13% (Nintendo), 12% (HTC) and 11% (Quanta) of total net revenue. No other customers accounted for more than 10% of total net revenue for the three months ended June 30, 2013 or July 1, 2012.

Net Revenue by Target End Market

| | Three Months Ended | |
|---------------------------------------|--------------------|-----------------|
| | June 30, 2013 | July 1, 2012 |
| | (in thousands) | |
| Smartphone and tablet devices | \$ 42,971 | \$ 29,403 |
| % of net revenue | 77% | 75% |
| Gaming | \$ 1,960 | \$ 5,238 |
| % of net revenue | 3% | 13% |
| Optical image stabilization and other | \$ 10,979 | \$ 4,561 |
| % of net revenue | 20% | 12% |

Net revenue growth and contribution to total net revenue for the smartphone/tablet end market for the three months ended June 30, 2013 reflects significant expansion of the smartphone portion of the handset market, growth in the market for tablet computing devices, growth in the market for Optical Image Stabilization devices and increased adoption of our technologies in those devices during that time period. The net revenue decline and contribution to total net revenue for the gaming end market for the three months ended June 30, 2013 reflects a declining consumer market for console gaming and shift to mobile device and online gaming during that time period.

Net Revenue by Geographic Region

| Region | Three Months Ended | |
|--------|--------------------|-----------------|
| | June 30, 2013 | July 1, 2012 |
| Korea | \$ 19,838 | \$ 12,265 |
| Japan | 15,525 | 9,155 |

Edgar Filing: InvenSense Inc - Form 10-Q

| | | |
|---------------|-----------|-----------|
| Taiwan | 4,188 | 11,147 |
| United States | 5,906 | 1,338 |
| China | 6,216 | 4,995 |
| Rest of world | 4,236 | 302 |
| | \$ 55,910 | \$ 39,202 |

Table of Contents

We primarily sell our products directly to customers and distributors in Asia which consists primarily of Korea, Japan, Taiwan and China. We believe that a substantial majority of our net revenue will continue to come from sales to customers located in Asia, where most of the manufacturers of consumer electronics devices that use and may in the future use our products are located. As a result of this regional customer concentration, we may be subject to economic and political events and other developments that impact our customers in Asia. For more information, see the section titled **Risk Factors** Our business, financial condition and results of operations could be adversely affected by the political and economic conditions of the countries in which we conduct business, referred to under Item 1A. of Part I in our Annual Report on Form 10-K filed on June 14, 2013 with the SEC.

Cost of Revenue

Cost of revenue primarily consists of manufacturing, packaging, assembly and testing costs for our products, shipping costs, costs of personnel, including stock-based compensation, warranty costs and write-downs or benefits related to excess and obsolete inventory.

| (in thousands) | Three Months Ended | |
|------------------|--------------------|-----------------|
| | June 30, 2013 | July 1, 2012 |
| Cost of revenue | \$ 26,591 | \$ 17,639 |
| % of net revenue | 48% | 45% |

Cost of revenue for the three months ended June 30, 2013 increased by \$9.0 million, or 51%, year-over-year, due to an increase in unit sales of our products, partially offset by improvements in unit cost driven by transition to smaller footprint products, and continued improvements in our production yields and efficiency.

Gross Profit and Gross Margin

Gross profit is the difference between net revenue and cost of revenue and gross margin is gross profit as a percentage of sales.

We price our products based on market and competitive conditions and periodically reduce the price of our products as market and competitive conditions change. Typically we experience price decreases over the life cycle of our products, which may vary by market and customer. As a result, if we are not able to decrease the cost of our products in line with the price decreases of our products, we may experience a reduction in our gross profit and gross margin. Gross margin has been and will continue to be affected by a variety of factors, including:

demand for our products and services;

our ability to add new product features to our existing products;

the rate of adoption of our products by new markets;

product manufacturing cost and yields;

write-downs of inventory for excess quantity and technological obsolescence;

benefit from sale of previously written down inventories;

Edgar Filing: InvenSense Inc - Form 10-Q

product mix;

erosion of average selling prices, as required by agreements entered into with our customers and in anticipation of competitive pricing pressures, new product introductions by us and our competitors, product end of life programs, and for other reasons;

the proportion of our products that are sold through direct versus indirect channels;

our ability to attain volume manufacturing pricing from our foundry partners and suppliers; and

growth in our headcount and other related costs incurred in our organization.

| (in thousands) | Three Months Ended | |
|------------------|--------------------|-----------------|
| | June 30, 2013 | July 1, 2012 |
| Gross profit | \$ 29,319 | \$ 21,563 |
| % of net revenue | 52% | 55% |

Table of Contents

Gross profit for the three months ended June 30, 2013 increased by \$7.8 million, or 36%, year-over-year, due to an increase in unit sales of our products, partially off-set by decreases in average selling price per unit sold for comparable products. For the three months ended June 30, 2013, gross profit as a percentage of sales, or gross margin, decreased due to the effect of reductions in average selling price per unit sold for comparable products and changes in product mix sold, partially offset by the benefit of previously written down inventories of \$0.3 million, or approximately 1% of net revenue. For the three months ended July 1, 2012, the benefit of the sale of previously written down inventories was \$1.6 million, or approximately 4% of net revenue.

We expect gross margins to fluctuate during future periods due to changes in product mix, average unit selling prices, manufacturing costs, manufacturing yields and levels of product demand.

Research and Development

Research and development expense primarily consists of personnel related expenses (including employee cash compensation and benefits, and stock-based compensation), intellectual property license costs, reference design development costs, development testing and evaluation costs, depreciation expense and allocated occupancy costs. Research and development activities include the design of new products, refinement of existing products and processes and design of test methodologies, including hardware and software to ensure compliance with required specifications. All research and development costs are expensed as incurred. We expect our research and development expenses to increase on an absolute basis as we continue to expand our product offerings and enhance existing products.

| (in thousands) | Three Months Ended | |
|--------------------------|--------------------|-----------------|
| | June 30, 2013 | July 1, 2012 |
| Research and development | \$ 8,114 | \$ 5,655 |
| % of net revenue | 15% | 14% |

Research and development expense for the three months ended June 30, 2013 increased by \$2.5 million, or 44%, year-over-year. The increase was primarily attributable to a \$1.2 million increase in employee cash compensation and benefits costs due to an increase in the number of employees, a \$0.5 million increase in stock-based compensation expense due to an increase in the number of employees, and a \$0.3 million increase in outside services. Research and development headcount was 128 at the end of June 30, 2013 and 99 at the end of July 1, 2012. Additions to headcount primarily supported expansion of new product and future technology development activities.

Selling, General and Administrative

Selling, general and administrative expense primarily consists of personnel related expenses (including employee cash compensation and benefits, and stock-based compensation), sales commissions, field application engineering support, travel costs, professional and consulting fees, legal fees, depreciation expense and allocated occupancy costs. We expect selling, general and administrative expenses to increase on an absolute basis in the future as we expand our sales, marketing, finance and administrative personnel, and we incur additional expenses associated with operating as a public company.

| (in thousands) | Three Months Ended | |
|-------------------------------------|--------------------|-----------------|
| | June 30, 2012 | July 1, 2012 |
| Selling, general and administrative | \$ 9,155 | \$ 6,258 |
| % of net revenue | 16% | 16% |

Selling, general and administrative expense for the three months ended June 30, 2013 increased by \$2.9 million, or 46%, year-over-year. The increase was primarily attributable to a \$1.6 million increase in legal costs due primarily to patent litigation activities and a \$0.6 million increase in stock-based compensation driven by an increase in the number of employees. Selling, general and administrative headcount increased to 101 at June 30, 2013 from 97 July 1, 2012. Additions to headcount primarily supported expanded geographic, customer and market opportunities for our products.

Income From Operations

Edgar Filing: InvenSense Inc - Form 10-Q

| (in thousands) | Three Months Ended | |
|------------------------|--------------------|-----------------|
| | June 30, 2013 | July 1, 2012 |
| Income from operations | \$ 12,050 | \$ 9,650 |
| % of net revenue | 22% | 25% |

Table of Contents

Income from operations for the three months ended June 30, 2013 increased by \$2.4 million, or 25%, year-over-year, primarily due to increased gross profit of \$7.8 million, offset by higher operating expenses of \$5.4 million. As a percentage of net revenues, income from operations decreased by 3%.

Other Income, Net

| (in thousands) | Three Months Ended | |
|-------------------|--------------------|-----------------|
| | June 30, 2013 | July 1, 2012 |
| Other income, net | \$ 80 | \$ 37 |
| % of net revenue | % | % |

Other income, net increased by \$43,000 or 116%, for the three months ended June 30, 2013 compared to the three months ended July 1, 2012. The increase in other income was primarily due to increased interest income of \$125,000 on higher investment balances, off-set by a \$82,000 increase in foreign exchange loss compared to the three months ended July 1, 2012.

Table of Contents**Income Tax Provision**

| (in thousands) | Three Months Ended | |
|---------------------------------|--------------------|-----------------|
| | June 30, 2013 | July 1, 2012 |
| Income tax provision | \$ 1,808 | \$ 2,036 |
| % of income before income taxes | 15% | 21% |

For the three months ended June 30, 2013, the Company recorded an income tax provision of \$1.8 million, compared to an income tax provision of \$2.0 million for the three months ended July 1, 2012. The decrease in the provision for income taxes was primarily due to income attributable to foreign jurisdictions where the tax rate is lower than the U.S. tax rate and also due to a two year extension of the R&D Tax Credit. The

American Taxpayer Relief Act of 2012, which the President signed into law on January 2, 2013, extends the credit retroactively and is now set to expire at the end of calendar year 2013. The Company's estimated fiscal year 2014 effective tax rate differs from the U.S. statutory rate primarily due to profits earned in jurisdictions where the tax rate is lower than the U.S. tax rate.

Net Income

| (in thousands) | Three Months Ended | |
|------------------|--------------------|-----------------|
| | June 30, 2013 | July 1, 2012 |
| Net income | \$ 10,322 | \$ 7,651 |
| % of net revenue | 18% | 20% |

Net income for the three months ended June 30, 2013 increased by \$2.7 million, or 35%, year-over-year, primarily due to increased unit shipments, increased gross profit and a lower effective tax rate.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, net revenue, costs, and expenses, and any related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Changes in accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from the estimates made by our management. We evaluate our estimates and assumptions on an ongoing basis. To the extent that there are material differences between these estimates and our actual results, our future financial statement presentation, financial condition results of operations and cash flows will be affected.

We believe that the assumptions and estimates associated with income taxes, inventory valuation, and stock-based compensation have the greatest potential impact on our condensed consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K filed with the SEC on June 14, 2013.

Liquidity and Capital Resources

Since our inception, our operations have been financed primarily by net proceeds of \$50.2 million from the issuance of shares of our preferred stock, net proceeds of \$75.2 million from the issuance of shares in public offerings and \$35.3 million, \$44.4 million and \$7.9 million in cash generated from operations in fiscal years 2013, 2012 and 2011, respectively. As of June 30, 2013, we had \$208.6 million of cash, cash equivalents and investments. Although the majority of our sales in fiscal years 2013, 2012 and 2011 were generated from a limited number of customers, we increased the number of total customers and the volume of sales to those customers during fiscal years 2013, 2012 and 2011. We expect that trend to continue as the markets for our products continue to develop and increase.

Edgar Filing: InvenSense Inc - Form 10-Q

We believe our current cash, along with net cash provided by operating activities, will be sufficient to satisfy our liquidity requirements for the next 12 months. We also believe our current cash, along with net cash provided by operating activities position us to pursue value-creating acquisitions if opportunities arise. Our liquidity may be negatively impacted as a result of a decline in sales of our products due to a decline in our end markets, decrease in sales of our customers' products in the market, or adoption of competitors' products. Additionally, \$61.6 million of the \$110.2 million of cash and cash equivalents was held by our foreign subsidiaries as of June 30, 2013. If these funds are needed for our operations in the United States, we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to indefinitely reinvest these funds outside of the United States, and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Table of Contents

Our primary uses of cash are to fund operating expenses, purchases of inventory and the acquisition of property and equipment. Cash used to fund operating expenses excludes the impact of non-cash items such as depreciation and stock-based compensation and is impacted by the timing of when we pay these expenses as reflected in the change in our outstanding accounts payable and accrued expenses.

Our primary sources of cash are cash receipts on accounts receivable from our shipment of products to customers and distributors. Aside from the growth in amounts billed to our customers, net cash collections of accounts receivable are impacted by the efficiency of our cash collections process, which can vary from period to period depending on the payment cycles of our major customers and distributors.

Below is a summary of our cash flows (used in) provided by operating activities, investing activities and financing activities for the periods indicated:

| (in thousands) | Three months Ended | |
|--|--------------------|-----------------|
| | June 30, 2013 | July 1, 2012 |
| Net cash provided by (used in) operating activities | \$ 6,393 | \$ (727) |
| Net cash used in investing activities | (2,941) | (46,944) |
| Net cash provided by financing activities | 5,929 | 2,064 |
| Net increase (decrease) in cash and cash equivalents | \$ 9,381 | \$ (45,607) |

Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities for the three months ended June 30, 2013 of \$6.4 million primarily reflected net income of \$10.3 million and non-cash expenses of \$3.5 million, partially off-set by a net increase in operating assets and liabilities of \$7.4 million consisting primarily of an increase in Inventories of \$10.0 million, Prepaid expenses and other current assets of \$2.3 million and Accounts receivable of \$1.8 million, partially off-set by an increase in Accounts payable of \$6.8 million and Accrued liabilities of \$0.4 million. Non-cash expenses of \$3.5 million consisted primarily of stock-based compensation of \$2.8 million and depreciation and amortization of \$0.7 million.

The \$10.0 million increase in Inventories was attributable to increased production of products to meet future demand.

The \$6.8 million increase in Accounts payable was due primarily to higher inventory receipts to support the increased production of products along with the timing related to the payment of trade accounts.

The \$2.3 million increase in Prepaid expenses and other current assets was primarily attributed to higher advances to vendors, income tax receivable and prepaid expenses.

The \$1.8 million increase in Accounts receivable principally relates to increased sales associated with an upward trend in demand in June 30, 2013 compared with March 2013.

The \$0.4 million increase in Accrued liabilities is due primarily to higher accrued legal and payroll related expenses, partially offset by lower accrued bonuses.

Net cash used in operating activities in the first three months of fiscal year 2013 of \$0.7 million, primarily reflected net income of \$7.7 million and non-cash expenses of \$2.2 million, offset by a net increase in operating assets and liabilities of \$10.6 million. The \$10.6 million net increase in operating assets and liabilities consisted primarily of an increase in accounts receivable of \$10.8 million and an increase in inventories of \$7.7 million, partially offset by an increase in accounts payable of \$7.9 million. Non-cash expenses of \$2.2 million consisted primarily of depreciation and amortization of \$0.6 million and stock-based compensation of \$1.7 million.

Net Cash Used in Investing Activities

Net cash used in investing activities in the three months ended June 30, 2013 of \$2.9 million primarily reflected the purchase of property and equipment of \$3.9 million, and the purchase of available-for-sale investments of \$27.5 million, partially off-set by the sale and maturity of available-for-sale investments of \$28.5 million.

Table of Contents

Net cash used in investing activities in the first three months of fiscal year 2013 of \$46.9 million primarily reflected the purchase of property and equipment of \$1.6 million, the purchase of available for sale investments of \$48.5 million, offset by the sale of available for sale investments of \$3.1 million.

Net Cash Provided by Financing Activities

Net cash provided by financing activities in the three months ended June 30, 2013 of \$5.9 million resulted primarily from proceeds from the issuance of common stock of \$3.2 million and excess tax benefit from stock-based compensation of \$2.7 million.

Net cash provided by financing activities in the first three months of fiscal year 2013 of \$2.1 million resulted primarily from proceeds from the issuance of common stock of \$1.1 million and excess tax benefit from stock-based compensation of \$1.2 million.

Off Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities of financial partnerships, such as entities often referred to as structured finance or special purpose entities, or SPEs, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of June 30, 2013, we were not involved in any unconsolidated SPE transactions

Warranties and Indemnification

In connection with the sale of products in the ordinary course of business, we often make representations affirming, among other things, that our products do not infringe on the intellectual property rights of others, and agree to indemnify customers against third-party claims for such infringement. Further, our bylaws require us to indemnify our officers and directors against any action that may arise out of their services in that capacity. We have not been subject to any material liabilities under such provisions and therefore believe that our exposure for these indemnification obligations is minimal. Accordingly, we have no liabilities recorded for these indemnity agreements as of June 30, 2013.

Contractual Obligations

The following table summarizes our outstanding contractual obligations as of June 30, 2013:

| | Total | Payments Due by Period | | | |
|-------------------------------|-----------|------------------------|--------------|--------------|----------------------|
| | | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| Operating lease obligations | \$ 21,005 | \$ 875 | \$ 9,643 | \$ 7,576 | \$ 2,911 |
| Purchase obligations | 43,437 | 43,437 | | | |
| Total contractual obligations | \$ 64,442 | \$ 44,312 | \$ 9,643 | \$ 7,576 | \$ 2,911 |

Operating leases consist of contractual obligations from agreements for non-cancelable office space. Purchase obligations consist of the minimum purchase commitments made to contract manufacturers.

Included in our gross unrecognized tax benefits balance of \$8.7 million at June 30, 2013 are \$7.6 million of tax positions which would affect income tax expense if recognized. As of June 30, 2013, approximately \$1.0 million of unrecognized tax benefits would be offset by a change in valuation allowance. Due to the high degree of uncertainty regarding the settlement of these liabilities, we are unable to estimate the year in which the future cash flows may occur. As a result, these amounts are not included in the tables above.

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. ASU No. 2011-02 became effective for fiscal years, and interim periods within those years, beginning after December 15, 2012, which is our fiscal interim period ended

Edgar Filing: InvenSense Inc - Form 10-Q

June 30, 2013 of fiscal year ending March 30, 2014, and the adoption did not impact our financial condition or results of operations.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We had cash, cash equivalents and investments of \$110.2 million at June 30, 2013, which was held for liquidity purposes. We do not enter into investments for trading or speculative purposes. A 10% change in interest rates will not have a material impact on our future interest income or investment fair value. As of June 30, 2013, our cash, cash equivalents and investments were in money market funds, corporate notes and bonds, commercial paper and U.S. agency securities.

Foreign Currency Risk

Our sales contracts are primarily denominated in U.S. dollars and therefore substantially all of our net revenue is not subject to foreign currency risk. However, a portion of our operating expenses are incurred outside the U.S., are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the New Taiwan Dollar, Japanese Yen and Korean Won. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of income.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of 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 (the Exchange Act)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control

During the first quarter of fiscal 2014, we completed the initial conversion from our former Enterprise Resource Planning (ERP) system to a new Oracle ERP system including modules for global customer order-to-cash settlement, procurement to payment processing, inventory production management, and general ledger and consolidations. The next phase of this conversion effort primarily includes our Customer Relationship Management (CRM) module which is expected to be implemented within the 2013 calendar year. While we expect this new ERP system will strengthen our internal financial controls by automating manual processes and standardizing business processes across our organization, management will continue to evaluate and monitor our internal controls and processes and procedures in each of the affected areas. There were no other changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls 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 objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Table of Contents**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

On May 16, 2012, STMicroelectronics, Inc. (STI) filed a patent infringement complaint (ST Microelectronics Patent Litigation I) in the Northern District of California against the Company, alleging infringement of certain of their patents (collectively, the Asserted Patents). STI alleges that certain InvenSense Micro-Electro-Mechanical Systems (MEMS) products and services, including but not limited to InvenSense s ISZ, IXZ, IDG, IMU, ITG, and MPU product lines, infringe one or more claims of the Asserted Patents. The Company intends to contest the case vigorously. On July 9, 2012, the Company filed counterclaims against STI for alleged infringement of certain of the Company s patents. Of the nine Asserted Patents, all patents are now being reexamined by the U.S. Patent & Trademark Office (PTO) at the Company s request. In view of the reexamination proceedings, the Company requested that the Court stay the litigation pending the final outcome of those reexamination proceedings. On February 27, 2013, the Court granted the Company s request and stayed the litigation until final exhaustion of all patent reexamination proceedings, including appeals. As this litigation is still in its early stages and is currently stayed, the Company believes it is not yet possible to assess the merits of the plaintiff s claim and or the amount of damages, if any, that could be awarded in the event of an unfavorable outcome.

On March 11, 2013, STI filed a request with the United States International Trade Commission (ITC) that the ITC institute an investigation under Section 337 of the Tariff Act of 1930 against the Company, Roku, Inc., and Stanley Black & Decker, Inc., concerning the alleged infringement of five patents (collectively, the ITC Patents), three of which were previously asserted in ST Microelectronics Patent Litigation I and two of which are newly asserted patents. STI alleges that certain InvenSense MEMS products and services, including but not limited to InvenSense s ISZ, IMU, ITG, and MPU product lines, infringe one or more claims of the ITC Patents. STI additionally alleges that certain Roku devices that incorporate certain InvenSense MEMS products, including but not limited to the Roku 2 XS, infringe one or more claims of a subset of the ITC Patents. STI additionally alleges that certain Stanley Black & Decker devices that incorporate certain InvenSense MEMS products, including but not limited to the Black & Decker 4v Max Gyro Rechargeable Screwdriver, infringe one or more claims of a subset of the ITC Patents. On April 10, 2013, the ITC instituted this investigation. All five of the ITC patents are in reexamination or subject to inter partes review by the PTO, at the request of the Company. The Company intends to contest this investigation vigorously. On April 30, 2013, the Company filed a request with the ITC to stay proceedings pending final reexamination and inter partes review of the ITC patents. The request to stay was denied without prejudice on May 21, 2013. On July 17, 2013, the ITC issued an order ordering a Markman hearing and amending the procedural schedule for the investigation, in which it set the Marman hearing for September 13, 2013, the fact discovery cutoff date for September 20, 2013, the expert discovery cutoff date for November 20, 2013, the hearing to take place from January 21 to January 31, 2014, and the target date to be August 15, 2014. As this investigation is still in its early stages, the Company believes it is not yet possible to assess the merits of the Complainant s claim.

On March 12, 2013, STI filed a patent infringement complaint in the Northern District of California against the Company, alleging infringement of the two patents that were newly asserted in the ITC Investigation (collectively, the Newly Asserted Patents) that were not previously asserted in ST Microelectronics Patent Litigation I. STI alleges that certain InvenSense MEMS products and services, including but not limited to InvenSense s ISZ, IMU, ITG, and MPU product lines, infringe one or more claims of the Newly Asserted Patents. The Company intends to contest the case vigorously. On April 11, 2013, before the Company was required to respond to the Complaint, the Company requested that the Court stay the litigation, as required by statute, in view of the co pending investigation in the ITC of the Newly Asserted Patents. On April 16, 2013, the Court granted the Company s request, staying the litigation until the determination of the ITC becomes final. As this litigation is still in its early stages and is currently stayed, the Company believes it is not yet possible to assess the merits of the plaintiff s claim and or the amount of damages, if any, that could be awarded in the event of an unfavorable outcome.

On May 14, 2013, the Company brought a lawsuit against STI in federal court in the Eastern District of Texas, alleging that STI infringes three of the Company s patents. The Company seeks to prevent STI s unauthorized use of the Company s patents and to be awarded monetary damages. On July 17, 2013, STI filed a motion to dismiss for improper venue, or in the alternative, to transfer the litigation to federal court in the Northern District of California. On July 30, 2013, the Company filed an unopposed request with the Court to file its response to STI s motion to dismiss by August 19, 2013.

The Company indemnifies certain customers, distributors, suppliers and subcontractors for attorney fees and damages and costs awarded against such parties in certain circumstances in which the Company s products are alleged to infringe third-party intellectual property rights, including patents, registered trademarks or copyrights. Indemnification costs are charged to operations as incurred. There were no indemnification costs for fiscal 2013, fiscal 2012, and fiscal 2011.

Table of Contents

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock. The risks facing our business have not changed substantively from those discussed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013.

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

Sales of Unregistered Securities

None

ITEM 6. EXHIBITS

See the Exhibit Index immediately following the signature page to this Quarterly Report on Form 10-Q, which is incorporated by reference here.

Table of Contents

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.

Dated: August 9, 2013

INVENSENSE, INC.

By: /s/ Alan Krock
Alan Krock
Chief Financial Officer (Principal Financial Officer and Accounting Officer)

32

Table of Contents

INDEX TO EXHIBITS

| Exhibit Number | Description |
|---------------------------|--|
| 10.1 | Office Lease between the Company and CA The Concourse Limited Partnership dated May 16, 2013. |
| 31.1 | Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended. |
| 31.2 | Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended. |
| 32.1 | Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350. |
| 101* | Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of June 30, 2013 and March 31, 2013, (ii) Condensed Consolidated Statements of Income for the three months ended June 30, 2013 and July 1, 2012, (iii) Condensed Consolidated Statements of Comprehensive Income for three months ended June 30, 2013 and July 1, 2012, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended June 30, 2013 and July 1, 2012 and (v) Notes to Condensed Consolidated Financial Statements. |

* In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections.