InvenSense Inc
Form 10-K
June 14, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

For the Quarterly Period Ended March 31, 2013

(Mark One)

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 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)

Delaware	**01-0789977**
(State or other jurisdiction of	**(I.R.S. Employer**

Incorporation or organization)	**Identification No.)**
1197 Borregas Avenue Sunnyvale, CA	**94089**
(Address of principal executive offices)	**(Zip code)**

(408) 988-7339

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.001 Par Value	New York Stock Exchange LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 x NO ¨

Indicate by check mark whether the registrant has 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 x
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 Act). YES ¨ NO x

As of September 28, 2012, the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of registrant s voting and non-voting common stock held by non-affiliates was approximately $550 million, based upon the closing sale price of the common stock as reported on the New York Stock Exchange. This calculation excludes the shares of common stock held by each officer, director and holder of 5% or more of the outstanding common stock as of September 28, 2012. This calculation does not reflect a determination that such persons are affiliates for any other purposes.

As of May 24, 2013, there were approximately 85,149,740 shares of the registrant s common stock, $0.001 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for its 2013 Annual Meeting of stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K where indicated. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant s fiscal year ended March 31, 2013. Except with respect to information specifically incorporated by reference in this Annual Report on Form 10-K, the Proxy Statement is not deemed to be filed as part of this Annual Report on Form 10-K.

Table of Contents

INVENSENSE, INC.

TABLE OF CONTENTS

Table of Contents

Special Note Regarding Forward-Looking Statements and Industry Data

This Annual Report on Form 10-K, 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 freedom to manufacture and sell our product without infringing the intellectual property of third parties, 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 Annual Report on Form 10-K. These factors include, but are not limited to, the risks described under Item 1A of Part I Risk Factors, Item 7 of Part II Management s Discussion and Analysis of Financial Condition and Results of Operations, elsewhere in this Annual Report on Form 10-K 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 Annual Report on Form 10-K, 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.

As used herein, InvenSense, the Company, we, our, and similar terms refer to InvenSense, Inc., unless the context indicates otherwise.

Table of Contents

PART I.

Item 1. 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), 3D mice, 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.

We were incorporated in the State of California in June 2003 and reincorporated in the State of Delaware in October 2004. Our principal executive offices are located at 1197 Borregas Avenue, Sunnyvale, CA 94089. Our telephone number is (408) 988-7339. Our website is located at www.invensense.com and our investor relations website is located at ir.invensense.com

Our fiscal year is a 52 or 53 week period ending on the Sunday closest to March 31. Our three most recent fiscal years ended on March 31, 2013 (fiscal year 2013), April 1, 2012 (fiscal year 2012) and April 3, 2011 (fiscal year 2011). Fiscal year 2013 and fiscal year 2012 were comprised of 52 weeks and fiscal year 2011 was comprised of 53 weeks.

Our net revenue was $208.6 million, $153.0 million and $96.5 million for fiscal years 2013, 2012 and 2011, respectively, and our net income was $51.7 million, $36.9 million and $9.3 million for these periods, respectively.

We utilize a fabless business model, working with third parties to manufacture our products, while the critical test and calibration functions are performed in our wholly owned subsidiary located in Hsinchu, Taiwan. We sell our products through our direct worldwide sales organization and through our indirect channel of distributors to manufacturers of consumer electronics devices, original design manufacturers and contract

Table of Contents

manufacturers. We are headquartered in Sunnyvale, California and had 326 employees worldwide as of March 31, 2013.

Industry Background

Over the last decade, advances in technology have led to a rapid proliferation of consumer electronics devices used for communication, entertainment, convenience and business. In order to differentiate products and increase sales in intensely competitive markets, consumer electronics device manufacturers have been eager to adopt new device functionalities, expand use cases and create new, compelling user interfaces and interactive experiences using technologies, such as touch screen and, more recently, motion-based functions.

Several mass market smartphone manufacturers have successfully introduced consumers to touch screen technology and basic motion-based features, such as tilt control, which enables a screen to switch between portrait and landscape mode based on a device s orientation. Since then, more advanced motion sensing and processing capabilities that facilitate motion-based video gaming, device control, assisted navigation and advanced display functionality are becoming a part of the standard feature set of smartphones and tablet devices. These capabilities are also being incorporated into a range of other consumer electronics devices. The momentum behind the adoption of motion interfaces in consumer electronics illustrates how technology can change the way consumers interact with electronics devices, as well as their expectations for future consumer products.

The Key Motion Sensors

Sensors that are able to detect motion in three-dimensional space have been commercially available for several decades and have been used in automobiles, aircraft and ships. However, the size, power consumption, cost, manufacturing methods, calibration requirements and other design complexities involved in integration of motion sensors have historically prevented their mass adoption in consumer electronics.

While other kinds of motion sensor technologies may potentially become available commercially, we believe the following four principal types of motion sensors are important for motion interface in free space:

Accelerometers (G-sensors) measure linear acceleration and tilt angle. Single and multi-axis accelerometers detect the combined magnitude and direction of linear, rotational and gravitational acceleration. They can be used to provide limited motion sensing functionality. For example, a device with an accelerometer can detect rotation from vertical to horizontal state in a fixed location. As a result, accelerometers are primarily used for simple motion sensing applications in consumer devices, such as changing the screen of a mobile device from portrait to landscape orientation.

Gyroscopes (Gyros) measure the angular rate of rotational movement about one or more axes. Gyroscopes can measure complex motion accurately in free space, tracking the position and rotation of a moving object. In contrast, accelerometers primarily detect the fact that an object has moved or is moving in a particular direction. Unlike accelerometers and compasses, gyroscopes are not affected by errors related to external environmental factors, such as gravitational and magnetic fields. Hence, gyroscopes greatly enhance the responsiveness of the motion sensing capabilities in devices and are used for advanced motion sensing applications in consumer devices, such as full gesture recognition, movement detection and motion simulation.

Magnetic Sensors (Compasses) detect magnetic fields and measure their absolute position relative to Earth s magnetic north and nearby magnetic materials. Information from magnetic sensors can also be used to correct errors from other motion sensors, such as gyroscopes. One example of how compass sensors are used in consumer devices is reorienting a displayed map to match up with the general direction a user is facing. Many smartphones and tablet devices have begun incorporating compasses to enable enhanced gaming and location-based applications.

Table of Contents

Pressure Sensors (Barometers) measure relative and absolute altitude through the analysis of changing atmospheric pressure. Pressure sensors can be used in consumer devices for sports and fitness or location-based applications where information can be used for elevations or floor-specific location.

Challenges in Adoption of Motion Sensors in Consumer Electronics

Early adoption of motion sensors in consumer electronics was limited primarily to accelerometers that provided basic motion sensing capabilities. Devices incorporating these early motion sensors experienced strong demand, as they provided consumers with applications that included a more intuitive user interface. More recently, consumer devices have expanded their incorporation of other motion sensors, including gyroscopes, compasses and pressure sensors.

As consumers continue to become more accustomed to motion-enabled applications, there is a significant opportunity to deliver a broader spectrum of consumer electronics devices that can provide robust motion interface. However, there are several challenges that motion sensor vendors need to overcome in order to deliver a product that can achieve mass adoption in consumer electronics markets.

In order to digitize full real-life motion, system designers have been limited to using discrete motion sensor components, such as gyroscopes, accelerometers and compasses, as well as a separate microcontroller in their already space-constrained products. Such an approach can create many performance, form factor, firmware and software design and cost challenges. In addition, using discrete motion sensors from various suppliers requires customized and costly system-level calibration by customers on the factory floor to meet required performance and precision standards.

Consumer electronics devices typically have significant form factor limitations within which sensors and related digital circuitry must fit. Furthermore, system designers of consumer electronics operate with system-level constraints, such as total system cost, as well as significant time-to-market challenges given the rapid product cycles prevalent in the industry. While system designers may desire to incorporate motion interface capabilities in their devices, adding multiple discrete sensors and additional digital control circuitry to the system design may be unacceptable in terms of total system cost, performance or time-to-market.

To enable multi-sensor integration for full motion interface, system designers also need firmware and software capabilities to receive, process and synthesize motion sensor data. They also need calibration algorithms and APIs that can interpret the motion sensor data and make it easily accessible to application processors for consumption by end applications. Finally, MotionTracking devices must be cost effectively produced in high volume and must overcome significant challenges in sensor design, including precision and noise, vibration and performance requirements. Without these capabilities, the development of compelling motion interface-based applications may be prohibitively difficult for most consumer electronics device manufacturers and application developers.

As a result, we believe most system designers would prefer an intelligent, integrated, scalable system-level motion interface platform that incorporates multiple motion sensors, digital control circuitry, APIs and motion application software together in one solution; a MotionTracking device.

The Opportunity for MotionTracking Devices

Similar to the development of the microprocessor enabling the emergence of the personal computer and the multitude of applications that now run on that platform, as well as the development of the graphics processor enabling compelling, life-like graphics for numerous video gaming and professional applications, we believe the introduction of an intelligent, integrated motion interface platform can enable realization of the full potential of motion sensors and make motion-based applications ubiquitous in consumer electronics.

Table of Contents

We define motion interface as the ability to detect, measure, synthesize, analyze and digitize an object s motion in three-dimensional free space. The illustration below shows how a smartphone moves in 3D space, either by rotating around or moving along any of its three principle axes. By incorporating motion sensors, such as a three-axis gyroscope, a three-axis accelerometer and a three-axis compass, the smartphone s movement can be accurately tracked in free space. The gyroscope tracks the rotation of the smartphone as it tilts forward or backward (pitch), turns from portrait to landscape (yaw) and twists from side to side (roll), while the accelerometer measures the linear movement of the smartphone as it moves up or down (y-axis), left or right (x-axis) and toward or away from the user (z-axis), and the compass measures the device orientation or pointing direction relative to magnetic north. The analog data from the gyroscope, accelerometer and compass can be digitized and synthesized using complex algorithms to support motion-based user interfaces and other applications, such as motion-based video games and on-screen menu navigation.

We define a MotionTracking device as a complete system that integrates various motion sensors with digital control and processing, and provides sensor fusion algorithms, high-level programming interfaces, calibration algorithms and motion application software. Motion interface can offer device designers, consumers and application developers two fundamental benefits: a mechanism to intuitively and seamlessly interface with consumer electronics by translating the full range of natural human motion to digital signals, and an application ecosystem based on motion interface.

Since consumers and application developers were first introduced to motion sensing capabilities in electronics, their desire and vision for more advanced motion-based user interface capabilities in devices has increased and expanded rapidly. As a result, an increasing number of device manufacturers, platform providers and application developers are introducing products and software that take advantage of motion interface capabilities.

There are a number of consumer electronics devices in the market today, such as smartphones, tablet devices, digital still and video cameras, console and portable video gaming devices, smart TVs, toys and navigation devices, health and fitness accessories, that have incorporated motion interface technologies. We believe the following consumer electronics end-markets present examples of significant opportunities for motion interface:

Smartphones: While many smartphones use basic motion sensing capabilities to provide tilt sensing, screen rotation and basic video gaming functionality, the latest generation of smartphones are increasingly incorporating complete motion interface technology that can deliver enhanced user experiences in the areas of web, media and menu navigation. In addition, motion interface technology can provide a range of other capabilities, such as more responsive motion-based video gaming, enhanced still and video image stabilization, improved pedestrian navigation, secure authentication through gestures, as well as gesture and character shortcuts that accelerate common tasks on the device.

Table of Contents

Tablets: Similar to smartphones, early generations of tablet devices use basic motion sensing capabilities to provide tilt-sensing and screen rotation, the latest generation of these devices incorporate complete motion interface technology to provide a wide range of motion-based capabilities.

Optical Image Stabilization (OIS) for Camera Phone Modules: Camera phone modules are a commonly used feature in mobile handset devices today. Current market trends are driving smartphone manufacturers to differentiate their products by including even higher, 8 MP or greater resolution camera phone modules into their devices, thus enabling the smartphone to act as a substitute for traditional digital still cameras (DSCs). Cameras of this resolution benefit from stabilization technologies to eliminate the distortive effects of hand jitter which causes image blur, especially in low lighting conditions. Because these problems are further amplified by the small form factor of handset devices, which are more prone to hand jitter, consumers have been encouraged to continue to use their DSCs. Advancements in camera module assembly and availability of smaller and high performance gyroscopes have made it possible to incorporate the OIS function into handset camera modules while providing image qualities comparable to that of a DSC.

Video gaming: Motion interface technology in console and portable video gaming devices provides an immersive video gaming experience by accurately tracking body and hand movements, and is significantly more intuitive than traditional button and joystick based interfaces.

Smart TVs: Digital televisions (DTVs), set-top boxes and multi-media HDDs, which constitute the smart TV market, are becoming increasingly more interactive through the addition of interactive menus and applications, internet browsing, video-on-demand services and viewing of personal media content. This has created the need for a user interface device with the functionality of a computer mouse and the ability to operate without a desk, for example while sitting on a living room couch. With a motion-based approach to menu and web navigation, users can interface with an on-screen menu or use hand motions in a manner similar to motion- based video gaming controllers. Further, a motion controlled remote would allow additional functionality, including gesture shortcuts and games, to be embedded into the system.

Other emerging opportunities: There are many other possible applications for motion interface in products used by consumers daily. For example, manufacturers of digital still and video cameras, toys, navigation devices, wearable sensors, healthcare monitoring equipment, health and fitness equipment, and industrial tools have or may in the future expand the use of motion interface technologies. The use of MotionTracking devices in these devices can significantly enhance their performance, intelligence, safety and functionality.

The InvenSense Solution

We have developed proprietary, intelligent, integrated single-chip MotionTracking devices that enable intuitive and immersive user interfaces. As a result of our modular and scalable platform architecture, our current and planned products span increasing levels of integration, from standalone single-chip gyroscopes to fully integrated multi-sensor, multi-axis digital MotionTracking devices. In fiscal years 2011 and 2012, the majority of our product volume was derived from our two-axis and three-axis gyroscopes. In September 2011, we announced that our six-axis MotionTracking devices were available for high volume shipment and began shipments in our fourth quarter of fiscal year 2012. In January 2013, we announced that our nine-axis MotionTracking devices were available.

Our MotionTracking devices are comprised of several fundamental proprietary components:

Our MEMS-based motion sensors combined with our mixed-signal circuitry for signal processing provide the functionality required to measure motion in three-dimensional space. The high performance of our sensors is enabled by our proprietary fabrication platform.

Table of Contents

Our MotionFusion technology consists of a hardware acceleration engine we refer to as a Digital Motion Processor (DMP) and sensor fusion firmware. MotionFusion technology enables the conversion of analog signals to digital signals and intelligently assimilates them into usable data.

Our MotionApps platform provides application programming interfaces (API) and calibration algorithms that simplify access to complex functionality commonly needed by our customers. This platform utilizes the output from the MotionFusion layer to enable system designers to use the sensor data in their applications without the need to understand detailed motion sensor outputs and develop related motion interface algorithms. We are designing our MotionApps platform to be interoperable with major mobile operating systems, such as Google s Android and Microsoft s Windows. In addition, we have developed numerous system level APIs for various third-party applications and motion sensors.

The competitive advantages of our technology and solutions are:

Highly integrated and cost-effective solutions enabled by our patented fabrication platform. The foundation of our MotionTracking devices is our patented fabrication platform, which enables integration of standard MEMS with CMOS (also known as CMOS-MEMS) in a small, cost-effective wafer-level solution. Combining a MEMS wafer with an industry standard CMOS wafer reduces the number of MEMS manufacturing steps, perform wafer-level testing, and use wafer-level packaging, thereby reducing back-end costs of packaging and testing and improving overall product yield and performance. In addition to our CMOS-MEMS process, we have developed low-cost, high-throughput proprietary test and calibration systems, which further reduce back-end costs. We believe we have pioneered a technological breakthrough in high-volume manufacturing of low-cost, high-performance MEMS motion processors. Combining this unique high-volume fabrication capability with our other core proprietary technologies, we are able to deliver our MotionTracking devices with industry-leading integration and cost-effectiveness.

Ability to rapidly accelerate time-to-market by leveraging our MotionApps platform. Our MotionApps platform promotes faster adoption and accelerates time-to-market for our customers. We achieve this by providing easy-to-use APIs that can be easily integrated into different operating systems, calibration algorithms and an applications engine that supports pre-configured motion-processing applications. These features eliminate the need for our customers to develop separate software libraries, thereby reducing the time required to develop motion-based applications. In addition, our MotionApps platform enables device manufacturers with limited motion interface experience to rapidly incorporate higher level motion-enabled applications in their products. To further accelerate adoption of our products, we have been collaborating with major operating systems providers, such as Google, and processor and microcontroller providers to incorporate our solutions into their reference designs.

Scalable MotionTracking devices with opportunities for continuing integration. Our fabrication platform enables the integration of multiple motion sensors, such as gyroscopes and accelerometers, on a single chip with processing capability. Our latest generation of MotionTracking devices have both an embedded three-axis gyroscope and three-axis accelerometer on the same chip, enabling integrated six-axis motion interface functionality. As a result of integrating multiple sensors, our products can eliminate the traditional calibration steps required with discrete solutions as well as offload the intensive motion interface computation requirements from the host processor. Over time, we believe we can integrate more advanced features and functionalities into our solution.

Flexible business model, flexible manufacturing, performance and reliability. Most MEMS devices are manufactured in proprietary in-house fabrication facilities utilizing numerous fabrication steps, esoteric substrates and MEMS-specific manufacturing processes that are not compatible for integration with standard CMOS fabrication processes. Our patented fabrication allows us to utilize a fabless business model without relying on specialty foundries for MEMS manufacturing. Our fabless

Table of Contents

model enables cost-effective, high-volume production and provides us with the flexibility to quickly react to our customers needs. Additionally, our ability to perform wafer-level testing combined with our close collaborative relationships with third-party foundries enables us to better control the manufacturing process and product yields, resulting in lower cost and improved device performance and reliability.

Technology

Our technology is comprised of five core proprietary components: our patented fabrication platform; our advanced MEMS motion sensor designs; our application specific mixed-signal circuitry for sensor signal processing; our sensor fusion algorithms in firmware that intelligently assimilate data from multiple sensors for use by end applications; and finally our MotionApps platform consisting of application programming interfaces (APIs) and calibration algorithms. Although all five components are critical to providing complete MotionTracking devices, our patented fabrication platform is the core differentiating technology.

Patented Fabrication Platform

The cornerstone of our technology is our patented fabrication platform, which we believe gives us a sustainable and differentiated competitive advantage. Our patented fabrication platform is a standard six mask MEMS-specific bulk silicon fabrication process that enables direct bonding of MEMS components with related signal conditioning and logic circuitry that are fabricated using standard complementary metal oxide semiconductor (CMOS) processes. CMOS is a pervasive semiconductor technology used by nearly every semiconductor vendor and available at many foundries for fabrication of semiconductor devices. MEMS is a well established technology that leverages several fundamental principles of semiconductor fabrication to manufacture micron-size physical structures in small form factors. We use MEMS processes to create wafers containing the structural layers used for our motion sensors, and standard CMOS fabrication technology to create wafers to provide drive and signal conditioning circuits, as well as the logic circuitry that processes sensor signals to deliver complete MotionTracking devices.

Our patented fabrication platform combines separately manufactured MEMS and CMOS wafers, forming a complete and integrated wafer in a single bonding step. Though this bonding process uses off-the-shelf semiconductor processing equipment, the bonding technology itself is patented. Following the bonding process, the combined wafer (also known as a CMOS-MEMS wafer) undergoes another patented pad-opening step, which uses a standard sawing technique to open electrical wire bond pads, allowing wafer-level testing.

The resulting CMOS-MEMS wafers are then tested using standard automated wafer probers, after which the wafers are diced into thousands of individual chips, which are then packaged. These finished products then go through one final testing and calibration operation using in-house proprietary testers before being shipped to customers. We have successfully employed our patented fabrication platform in the high-volume production of 150 mm and 200 mm wafers.

One of the significant advantages of our patented fabrication platform is its impact on product packaging and testing. The back-end cost of packaging and testing MEMS products fabricated with competing processes accounts for a significant percentage of total product cost. Our patented fabrication platform was developed specifically to address this fundamental challenge with MEMS technology. By enabling full fabrication of CMOS-MEMS wafers at standard CMOS foundries and following the same back-end fabrication process used for CMOS wafers, our patented fabrication platform has enabled a significant reduction in back-end costs.

Products

MotionTracking devices from InvenSense are rapidly becoming a key function in many consumer electronic devices including smartphones, tablets, gaming consoles, and smart TVs as they provide an intuitive way for

Table of Contents

consumers to interact with their electronic devices by tracking motion in free space and delivering these motions as input commands. Accurately tracking complex user motions requires the use of motion sensors such as gyroscopes, accelerometers, compasses, and pressure sensors, fusing the sensor outputs into a single and accurate data stream for use as input commands in consumer electronics devices, and ongoing run-time calibration to ensure an optimal user experience.

Our most advanced products include the MPU-9x50 family of products, the world s first 9-axis MotionTracking devices designed for battery operated, high performance consumer electronics products. The 9-axis product family incorporates the same market proven MotionFusion and run-time calibration firmware that is supported in InvenSense s market leading MPU-6000 and MPU-3000 family of products. This firmware has shipped in millions of units and has been very well market validated. 9-Axis MotionTracking has become a key function in many consumer electronics devices including smartphones, tablets, gaming consoles, and smart-TVs. The size advantage of the integrated 9 axis devices versus a discrete solution is compelling for space constrained products such as smartphones and wearable sensors.The MPU-9x50 devices combine a 3-axis gyroscope, 3-axis accelerometer and 3-axis compass in the same chip together with an onboard Digital Motion Processor (DMP) capable of processing the complex 9-axis MotionFusion algorithms.

The table below sets out our key product lines, including available versions and new products available for sampling to selected customers, and descriptions of key performance parameters for each of our product families.

Product Families	Product Families	Product Families	Key Features
MPU (MotionProcessing Units)	**9-axis**	**MPU-9150 (4x4x1mm, 3V) MPU-9250 (3x3x1mm, 3V) MPU-9350 (3x3x1mm, 1.8V and 2.5V)**	**Nine-axis: three-axis digital gyroscope + three-axis digital accelerometer + three axis e-compass MotionFusion MotionApps**
	6-axis	**MPU-6000 (4x4x0.9mm, 3V) MPU-6500 (3x3x0.9mm, 1.8V)**	**Six-axis: three-axis digital gyroscope + three-axis digital accelerometer MotionFusion MotionApps**
	3-axis	**MPU-3000 (4x4x0.9mm, 3V)**	**Three-axis digital gyroscope MotionFusion MotionApps**
Industrial MotionTracking	**3-axis**	**MPU-3300 (4x4x0.9mm, 3V)**	**Three-axis industrial grade digital gyroscope**
Digital Gyroscopes	**3-axis**	**ITG-3000 (4x4x0,9mm, 3V) ITG-3500 (3x3x0.9mm, 1.8V)**	**Three-axis digital output**
		ITG-3521 (3x3x0.75mm, 1.8V) IDG-2020 (3x3x0.9mm, 1.8V)	**Dual-axis digital output**
	Optical Image Stabilization (OIS)	**IDG-2021 (3x3x0.75mm, 1.8V) IDG-2030 (2.3x2.3x 0.65mm, 1.8V)**	**Low profile package**

11

Table of Contents

Markets and Customers

Our customers consist of several of the world s largest consumer electronics makers. These customers are in multiple consumer market segments, including smartphones and tablets, console and portable video gaming devices, digital television and set-top box remote controls, remote controlled toys and other household consumer and industrial devices.

Seasonality of Business

Our business is subject to seasonality because of the nature of our target markets. At present, virtually all of our motion interface products are sold in the consumer electronics market. Sales of consumer electronics tend to be weighted towards holiday periods, and many consumer electronics manufacturers typically experience seasonality in sales of their products. Seasonality affects the timing and volume of orders for our products as our customers tend to increase production of their products that incorporate our solutions in the first three quarters of our fiscal year in order to build inventories for the holiday season. Sales of our products tend to correspondingly and generally increase during these quarters and to significantly decrease in the fourth quarter of our fiscal year.

Backlog

As of March 31, 2013, our backlog from customers was $12.3 million, compared to $17.1 million as of April 1, 2012. The decline in backlog as of March 31, 2013, compared to April 1, 2012, was primarily due to a reduction in the period between receipt of orders and shipment of products to customers resulting from expanded manufacturing capacity in fiscal year 2013. Due to the short period between receipt of orders and shipment of products to customers, backlog may not be a reliable indicator of future fiscal quarter or fiscal year sales.

Sales and Marketing

We sell our products through our direct worldwide sales organization and through our indirect channel of distributors to manufacturers of consumer electronics devices, original design manufacturers and contract manufacturers.

Our product marketing, business development and application solution engineering teams focus on leveraging our core MotionTracking devices across end markets and operate with a common mission to drive and promote motion interface applications and use cases. These teams are responsible for all new applications and market specific engagements, providing customized technical and application support, and identifying opportunities and strategic relationships. Furthermore, they work closely with ecosystem partners to further promote and enable the motion interface market, an increasingly important component of our business development efforts. For example, these teams are engaged with leading application providers and may also engage with microcontroller suppliers, operating system platform vendors, independent software developers, and system solution platform vendors. Further, the technical marketing and application engineering teams actively engage with new customers during their design-in processes to educate them on the value proposition of our MotionTracking devices, identify how they could utilize our solutions in their products and provide them with the most suitable solutions, application programming interfaces (APIs) and potential reference designs. We believe these activities could result in continued adoption of our MotionTracking devices by new customers.

We work directly with large original equipment manufacturer (OEM) customers to assist them in developing solutions and applications that may lead to more demand for our products. Early adoptees in new market segments typically take 6 to 12 months to evaluate their need for motion interface before the start of any development activities, which typically take an additional 6 to 12 months. For customers that have already adopted motion interface, we typically undertake a shorter sales cycle. If successful, this process culminates in the use of our product in their system, which we refer to as a design win. Volume production can begin shortly after the design win. For our larger OEM customers, we believe that our direct customer engagement approach, ecosystem partnerships and adoption of our APIs into major software operating systems provides us with significant differentiation in the customer sales process by aligning us more closely with the changing needs of these OEM customers and their end markets. We actively utilize field application engineers as part of our sales process to better engage the customer with our products. To effectively service our other customers, we achieve greater reach and operating leverage by using manufacturers representatives and distributors.

Our external marketing strategy is focused on building our brand and driving customer demand for our MotionTracking devices. Our internal marketing organization is responsible for branding, collateral generation, channel marketing and sales support activities. We focus our resources on programs, tools and activities that can be leveraged by our global channel partners to extend our marketing reach, such as sales tools and collateral, product awards and technical certifications, training, regional seminars and conferences, webinars and various other demand-generation activities.

Manufacturing

Our patented fabrication platform combines MEMS with standard complementary metal oxide semiconductors (CMOS) at the wafer level, which has allowed us to pioneer the industry s first high-volume, commercial MEMS fabless business model. This fabless approach allows us to focus our engineering and design resources on product development and design. In addition, as we do not own wafer fabrication facilities, we are able to reduce our fixed costs and capital expenditures. In contrast to many fabless MEMS companies, which utilize standard process technologies and design rules established by their MEMS foundry partners, we have developed our own proprietary patented fabrication platform and collaborated with our foundry partners to install our fabrication technology on their equipment in their facilities solely for manufacturing our products. Through close collaboration with our CMOS-MEMS foundry partners, we are able to maintain control over the manufacturing process, which has historically resulted in favorable yields for our products.

The majority of our wafers are currently provided by Taiwan Semiconductor Manufacturing Corporation, Limited and GLOBALFOUNDRIES Inc. Wafer foundries manufacture both the MEMS and CMOS wafers, perform the critical wafer level bonding step of our patented fabrication and deliver the final combined CMOS-MEMS wafer product to us.

The completed bonded CMOS-MEMS wafers are shipped to our facility in Taiwan for proprietary wafer level testing. Our products are then assembled and packaged by independent subcontractors in Taiwan and Thailand. We currently outsource our packaging operations to Siliconware Precision Industries Co. Limited, HANA Microelectronics Group, and Lingsen Precision Industries, Limited. The assembled products are then forwarded for final calibration and outgoing functionality test to our wholly owned subsidiary in Hsinchu, Taiwan, prior to shipping to our customers or distributors.

Over the last three years, we have been able to increase our annual manufacturing capacity in order to meet the volume demands of our customers, as well as potential additional demand. We continued to expand our CMOS-MEMS manufacturing capacity in fiscal year 2013, shipping wafers in high volumes from both Taiwan Semiconductor Manufacturing Corporation, Limited and GLOBALFOUNDRIES Inc., as well as expanding our captive wafer sort, sensor test, and calibration testing facilities in Taiwan.

Research and Development

We have assembled an experienced team of engineers with core competencies in MEMS design and fabrication, CMOS mixed-signal design, and software development. Through our research and development efforts, we have developed a collection of intellectual property and know-how that we are able to leverage across our products and end markets. Our research and development efforts are generally targeted at five areas:

- In the area of **our patented fabrication platform**, we intend to continue to invest in our process technology to further refine our technology platform with respect to overall form factor, product performance and process yield enhancement and to expand the platform to enable us to further develop our product offerings beyond what is currently achievable.

Table of Contents

With our heritage in high-volume fabless MEMS manufacturing, we believe we are uniquely positioned to help enable a **fabless MEMS ecosystem**. We have recently developed a fabrication shuttle program that allows universities and industry peers to license and leverage our technology in the development of CMOS-MEMS based solutions.

In the area of **MEMS development and design**, we intend to expand our portfolio of products, exploring new ways of integrating various sensors in a monolithic motion processor that eliminates the need for discrete motion sensors. We are also investing in the development of systems expertise in new markets and applications that leverage our core capabilities.

In the area of **CMOS design and integration**, our initiatives include developing analog and digital IC design capabilities and circuit development intellectual property to facilitate our MEMS development roadmap, improving our sensor performance, and adding new functions to our products.

In the area of **software and algorithms**, our initiatives include algorithm development for MotionFusion as well as the incorporation of additional functionality into our MotionApps platform. Advances in this area will help to enhance the detection and analysis of complex sensor data, as well as enable higher level functionality in the form of APIs and motion-based applications to allow our customers to quickly and efficiently leverage the capabilities of our MotionTracking devices.

Through our research and development efforts, we intend to continually expand our portfolio of patents and to enhance our intellectual property position. As of March 31, 2013, we had 118 employees involved in research and development. Our engineering design teams are primarily located in Sunnyvale, California. For fiscal years 2013, 2012, and 2011, we incurred \$24.6 million, \$19.7 million and \$15.8 million, respectively, in research and development costs.

Intellectual Property Rights

We primarily rely on patent, trademark, copyright and trade secrets laws, confidentiality procedures, and contractual provisions to protect our technology. We focus our patent efforts in the United States, and, when justified by cost and strategic importance, we file corresponding foreign patent applications in strategic jurisdictions, such as Europe, the Republic of Korea, Taiwan, China and Japan. We have 31 issued U.S. patents and 5 issued foreign patents, which will expire between October 2023 and December 2032, and 67 patent applications pending for examination in the United States Patent and Trademark Office and 34 international patent applications pending for examination in Europe, the Republic of Korea, Taiwan, China and Japan which will expire between October 2024 and July 2032.

All of our foreign issued patents and patent applications are related to our U.S. issued patents and patent applications.

Our issued patents and certain of our pending patent applications relate to our patented fabrication platform, which allows us to reduce back-end costs and form factor, to create hermetically sealed cavities for MEMS sensors and to improving performance, reliability and integration, and to our sensor design, which reduces sensitivity to interference from environmental sounds and vibrations, enabling higher performance and accuracy. In addition, we have other pending patent applications that relate to mixed-signal circuits and architectures, which have a wide variety of applications, and to algorithms, software and application development, which facilitate offloading motion interface computations from main application processors to our chips.

We intend to continue to file additional patent applications with respect to our technology. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. Even if granted, there can be no assurance that these pending patent applications will provide us with protection. Our intellectual property strategy is to, where feasible, defend our IP across the various aspects of our solution. While we license IP and software libraries from third parties, none of these are fundamental to our MotionTracking devices and fabrication platforms.

Table of Contents

Employees

As of March 31, 2013, our total headcount was 326, comprised of 118 employees in research and development, 76 employees in sales and marketing, 106 employees in manufacturing operations, and 26 employees in a general and administrative capacity. None of our employees are represented by a labor union with respect to his or her employment with us. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

Competition

We compete with companies that may have substantially greater financial and other resources with which to pursue engineering, manufacturing, marketing and distribution of their products. We currently and primarily compete with the following companies: Analog Devices, Inc., Epson Toyocom Corporation, Kionix, Inc. (a wholly owned subsidiary of Rohm Co., Ltd.), MEMSIC, Inc., Murata Manufacturing Co., Ltd., Panasonic Corporation, Robert Bosch GmbH, Sensor Dynamics, Inc. (acquired by Maxim Integrated Products, Inc.), Sony Corporation and STMicroelectronics N.V. (STMicro). Currently, we believe STMicro is our primary competitor in the consumer motion sensing market. Over time, we expect continued competition from motion sensor competitors as well as competition from new entrants into the motion interface market.

The principal methods of competition of motion interface technology includes the following:

- The design and volume production of new products that anticipate the motion interface and integration needs of customers next generation products and applications.
- Scalable operations to meet customers volume and timing demands.
- A declining manufacturing and operating cost structure.
- Identification of new and emerging markets, applications and technologies and developing products for these markets.
- Product pricing points, performance and cost effectiveness.
- The recruitment and retention of key employees.
- Intellectual property, including patents and trademarks.
- High product quality, reliability and customer support.
- Financial stability.
- Manufacturing, distribution and marketing capability.

Brand recognition.

Size of customer base.

Strength and length of key customer relationships.

We believe we are competitive with respect to these factors, particularly because our products are typically smaller in size, are highly integrated, and achieve high performance specifications at lower price points than competitive products. However, most of our current competitors have longer operating histories, significantly greater resources, greater brand recognition and a larger base of customers than we do.

Legal Proceedings

From time to time we are involved in litigation that we believe is of the type common to companies engaged in our line of business, including intellectual property and employment issues. Regardless of the merit or resolution of any such litigation, complex intellectual property litigation is generally costly and can divert the efforts and attention of our management and technical personnel. Although occasional adverse decisions or settlements may occur, management believes that the final disposition of such matters will not have a material effect on our business, financial position, results of operations or cash flows.

Table of Contents

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 lnvenSense 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 lnvenSense 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. 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 lnvenSense 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 announced that it brought a lawsuit against STI in federal court in the Eastern District of Texas (Marshall, 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.

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 year 2013, fiscal year 2012 and fiscal year 2011.

The Company s Third Amended and Restated Bylaws require the Company to indemnify its directors and officers and employees to the fullest extent permitted by the Delaware General Corporation Law (DGCL). In addition, the Company s current directors, including the Company s chief executive officer and certain executive officers, have entered into separate indemnification agreements with the Company. The Company s Second Amended and Restated Certificate of Incorporation, as amended, limits the liability of directors to the Company or its stockholders to the fullest extent permitted by the DGCL. The obligation to indemnify generally means that the Company is required to pay or reimburse the individuals reasonable legal expenses and possibly damages and other liabilities incurred in connection with these matters.

Corporate and Available Information

The following filings are made available through our investor relations website after we file them with the SEC: Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and our Proxy Statements for our annual meetings of stockholders. These filings are also available for download free of charge on our investor relations website. We also provide a link to the section of the SEC s website at www.sec.gov that has all of our public filings, including Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, our Proxy Statements, and other ownership related filings. Further, a copy of this Annual Report on Form 10-K is located at the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, and blogs as part of our investor relations website. Investors and others can receive notifications of new information posted on our investor relations website in real time by signing up for email alerts and RSS feeds. Further corporate governance information, including governance guidelines, board committee charters, and code of conduct, is also available on our investor relations website under the heading Corporate Governance. The contents of our websites are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

Additional information required by this Item 1 are incorporated by reference in Item 6, Selected Financial Data , Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Table of Contents

Item 1A. Risk Factors.

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock.

We face intense competition based on a number of factors, including price, and we expect competition to increase in the future, which could have an adverse effect on our net revenue, potential net revenue growth rate and market share.

The market for motion interface products is highly competitive, particularly in the market for consumer electronics, which is highly sensitive to price. In the market for consumer electronics, we compete to various degrees on the basis of our products size, price, integration, performance, product roadmap, and reliability. Competition may increase and intensify if more and larger semiconductor companies, or the internal resources of large, integrated original equipment manufacturers, or OEMs, enter our markets. Increased competition could result in price pressure, reduced profitability and loss of market share, any of which could materially and adversely affect our business, net revenue and operating results.

Our primary competitor in most of our target markets is STMicroelectronics N.V. We also face competition from integrated semiconductor manufacturers, from in-house development organizations within some of our potential customers and from smaller companies specializing in MEMS and motion-sensing products, including those that provide motion-sensing products offering less functionality at a lower cost, such as accelerometers. We also compete with large, sophisticated platform developers that may prefer to integrate less sophisticated motion sensors and to develop their own motion interface application for developers, marginalizing the total solution we offer. Additionally, competitors that have traditionally focused on industrial or automotive applications for MEMS motion sensors may pursue the consumer electronics market, thus intensifying competition for our products. We expect competition in the markets in which we participate to increase in the future as existing competitors improve or expand their product offerings.

Most of our current competitors have longer operating histories, significantly greater resources, greater brand recognition and a larger base of customers than we do. Some of our competitors also have in-house vertically integrated manufacturing capabilities. In addition, these competitors may have greater credibility with our existing or prospective customers and in some cases are already providing components for products to such existing and prospective customers that may in the future include MotionTracking devices. Moreover, many of our competitors have been doing business with our customers or potential customers for a long period of time and have established relationships that may provide them with information regarding future market trends and requirements that may not be available to us. Additionally, some of our larger competitors may be able to provide greater incentives to customers through rebates and similar programs. Finally, some of our competitors with multiple product lines may bundle their products to offer customers a broader product portfolio at a more competitive price point. These factors may make it difficult for us to gain or maintain market share.

The average selling prices of our products continues to decrease, which could have a material adverse effect on our net revenue and gross margins if we cannot reduce our costs.

Our primary customers expect the average selling prices of our products to continue to decrease over time as a result of agreements we enter into with our customers from time to time, competitive pricing pressures, new product introductions by us or our competitors, product end-of-life programs and for other reasons. We have experienced and may continue to experience substantial period-to-period fluctuations in future operating results due to the erosion of the average selling prices of our products. If we are unable to offset any reductions in our average selling prices by implementing internal cost reduction programs, increasing our sales volumes or introducing new products with higher gross margins, our net revenue and gross margins will decline, which could have a material adverse effect on our results of operations.

Table of Contents

Our intellectual property is integral to our business. If we are unable to protect our intellectual property, our business could be adversely affected.

Our success depends in part upon our ability to protect our intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, copyrights, trademarks and trade secrets in the United States and in selected foreign countries where we believe filing for such protection is appropriate. Our ability to use and prevent others from using our patented fabrication platform, which is the subject of several patents and patent applications, is crucial to our success. Effective patent, copyright, trademark and trade secret protection may be unavailable, limited or not applied for in some countries. Some of our products and technologies are not covered by any patent or patent application. We cannot guarantee that:

- any of our present or future patents or patent claims will not lapse or be invalidated, circumvented, challenged or abandoned;
- our intellectual property rights will provide competitive advantages to us;
- our ability to assert our intellectual property rights against potential competitors or to settle current or future disputes will not be limited by our agreements with third parties;
- any of our pending or future patent applications will be issued or have the coverage originally sought;
- our intellectual property rights will be enforced in jurisdictions where legal protection may be weak;
- third parties will not infringe our key intellectual property, and specifically, our patented fabrication platform;
- any of the trademarks, copyrights, trade secrets or other intellectual property rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged or abandoned; or
- we will not lose the ability to assert our intellectual property rights against others.

In addition, our competitors or others may design around our protected patents or technologies. Effective intellectual property protection may be unavailable or more limited in one or more relevant jurisdictions relative to the protections available in the United States, or may not be applied for in one or more relevant jurisdictions. If we pursue litigation to assert our intellectual property rights, an adverse judicial decision in any of these legal actions could limit our ability to assert our intellectual property rights, limit the value of our technology or otherwise negatively impact our business, financial condition and results of operations.

Monitoring unauthorized use of our intellectual property is difficult and costly. Unauthorized use of our intellectual property may have occurred or may occur in the future. Although we have taken steps to try to minimize the risk of this occurring, any such failure to identify unauthorized use and otherwise adequately protect our intellectual property would adversely affect our business.

We also rely on customary contractual protections with our customers, suppliers, distributors, employees and consultants, and we implement security measures to protect our trade secrets. We cannot ensure that these contractual protections and security measures will not be breached, that we will have adequate remedies for any such breach or that our suppliers, employees or consultants will not assert rights to intellectual property arising out of such contracts.

We face claims of intellectual property infringement and may face additional such claims in the future, which could be time-consuming and costly to defend or settle and, if adversely adjudicated, could result in the loss of significant rights.

The semiconductor and MEMS industries are characterized by companies that hold large numbers of patents and other intellectual property rights and that vigorously pursue, protect and enforce intellectual property rights. STMicroelectonics, Inc., our most significant competitor, has filed two lawsuits and an action before the United

Table of Contents

States International Trade Commission asserting that several of our products infringe its patents, which are ongoing. A third party asserted in litigation that our z axis gyroscope infringes a patent held by it. This matter was resolved. Another competitor has made generalized assertions of potential infringement and we have met with it to discuss the matter. In the future other third parties may assert against us and our customers and distributors their patent and other intellectual property rights to technologies that are important to our business.

Claims that our products, processes or technology infringe third-party intellectual property rights, regardless of their merit or resolution, have been, and may continue in the future to be, costly to defend or settle and could divert the efforts and attention of our management and technical personnel. In addition, many of our customer and distributor agreements, including our agreement with our largest customer, require us to indemnify and defend our customers or distributors, as applicable, from third-party infringement claims and pay damages in the case of adverse rulings. Claims of this sort also could harm our relationships with our customers or distributors and might deter future customers from doing business with us. We do not know whether we will prevail in the current proceedings to which we are a party or in any future proceedings given the complex technical issues involved and the inherent uncertainties in intellectual property litigation. If any such proceedings result in an adverse outcome, we could be required to:

- cease the manufacture, use or sale of the infringing products, processes or technology;
- pay substantial damages for infringement;
- expend significant resources to develop non-infringing products, processes or technology;
- license technology from the third party claiming infringement, which license may not be available on commercially reasonable terms, or at all;
- cross-license our technology to a competitor to resolve an infringement claim, which could weaken our ability to compete with that competitor; or
- pay substantial damages to our customers or end users to discontinue their use of or to replace infringing technology sold to them with non-infringing technology.

Any of the foregoing results could have a material adverse effect on our business, financial condition and results of operations.

We rely on a limited number of third parties to supply, manufacture and assemble our products, and the failure to manage our relationships with our third-party contractors could adversely affect our ability to produce, market and sell our products.

We do not have our own manufacturing facilities. We operate based on an outsourced manufacturing business model that utilizes third-party foundry and packaging capabilities. Relying on third-party manufacturing, assembly and packaging presents significant risks to us, including the following:

- reduced control over delivery schedules, yields and product reliability;
- price increases;
- the failure of a key supplier to perform its obligations to us for technical, market or other reasons;

- challenges presented by introducing our fabrication processes to new suppliers or deploying them in new foundries;

- difficulties in establishing additional manufacturing suppliers if we are presented with the need to transfer our manufacturing process technologies to them;

- shortages of materials;

- misappropriation of our intellectual property; and

- limited warranties on wafers or products supplied to us.

The performance of our third-party manufacturers is outside of our control. At present, we depend primarily upon Taiwan Semiconductor Manufacturing Company (TSMC) to manufacture most of our products. Although we are not obligated to purchase a specific volume of products from, or to contract with TSMC on an exclusive basis, we anticipate that we will be dependent on TSMC to supply a substantial portion of our products for the next several fiscal quarters. In the fourth quarter of fiscal year 2012 we announced qualification of a second high volume foundry, Global Foundries. We expect that it would take approximately nine to 16 months to transition our manufacturing to new third-party manufacturers that have not already begun installing our manufacturing processes. Such a transition would likely require certain customers to qualify our new manufacturers. If one or more of our third-party contractors or other outsourcers fail to perform their obligations in a timely manner or at satisfactory quality levels, our ability to bring products to market, the reliability of our products and our reputation could suffer.

In the future, if our third-party manufacturers fail to deliver quality products and components on time and at reasonable prices, we could have difficulties fulfilling our customer orders, our net revenue could decline and our business, financial condition and results of operations would be adversely affected. In addition, if our foundry partners materially increase their prices for the fabrication of our products, our business would be materially harmed.

Our third-party manufacturers may not allocate sufficient capacity for us to have our products produced and shipped to our customers on a timely basis, which may materially adversely affect our growth and our results of operations.

We rely on third-party foundries for our CMOS-MEMS wafer fabrication, assembly and packaging services. We make substantially all of our purchases through purchase orders based on our own rolling forecasts, and our third-party manufacturers are not required to supply us products beyond these forecasted quantities. Beyond minimal capacity guarantees, most of our third-party manufacturers do not have any obligations to provide us with additional capacity on a timely basis.

We rely on our ecosystem partners to enhance our product offerings and our inability to continue to develop or maintain these relationships in the future would harm our ability to remain competitive.

Our strategy is to work closely with third parties, which we refer to as ecosystem partners, including developers of operating systems such as Android, developers of motion sensing applications, and manufacturers of semiconductors with complementary functionality such as micro-controllers, application processors, and other sensors, in order to add features and improve time-to-market for customers, thereby taking advantage of our unique capabilities and encouraging potential customers to adopt our solutions. Continued growth in adoption of motion tracking solutions depends in part on activities of these ecosystem partners supporting the development of systems and applications that can fully utilize the capabilities of our products. If we are not able to maintain and develop our relationships with these third parties our ability to compete could be harmed.

To date, a significant amount of our net revenue has been attributable to demand for our products used in handheld devices, including smartphones, tablet devices and video gaming. The markets for these products may decline or remain flat. Even if these markets grow, such growth may not benefit the products that incorporate our products. Any of these potential developments could have a material adverse effect on our business, net revenue and operating results.

We derive a significant amount of our net revenue from our products used in handheld devices, including smartphones and tablet devices, and historically we have derived significant revenue from video gaming. Future generations of these products may not adopt motion interface at all or, if they do, may use our competitors products, internally developed solutions or alternative technologies not based on MEMS sensors. If we are not successful in obtaining design wins in new generations of these products or, if these products that incorporate our products are not successful, our net revenue and operating results will decline. If we achieve design wins, these markets or the markets for specific products incorporating our solutions may not continue to grow or may decline for a number of reasons outside of our control, including competition among companies and market saturation.

Table of Contents

Additionally, these markets are subject to volatility from changes in the macroeconomic environment as well as industry specific trends, such as trends resulting from announcements by one of the major companies in these markets. Any decline or volatility in these overall markets could cause our net revenue and operating results to fall short of expectations or decline.

We currently depend on a limited number of customers for a material portion of our net revenue, and the loss of, or a substantial reduction in orders from these customers would significantly reduce our net revenue and adversely impact our operating results

We expect that sales to these customers will continue to account for a substantial portion of our net revenue for the foreseeable future. The loss of, or a substantial reduction in orders from, any of these customers would have a significant negative impact on our business and our operating results. For fiscal 2013 three customers accounted for 24%, 18% and 11% of total net revenue. For fiscal 2012 three customers accounted for 31%, 15% and 12% of total net revenue.

We are dependent upon the continued market acceptance and adoption of motion interface and, in particular, the adoption of our MotionTracking devices in consumer electronics products.

Our products are currently used to provide motion sensing and processing functionality, primarily in consumer electronics products for video gaming and mobile and handheld devices, including smartphones and tablet devices. Motion sensing utilizes gyroscopes, accelerometers and other sensors (increasingly integrated together to reduce the number of discrete sensors) to measure the motion of the device when manipulated by the user, and enables applications such as re-orienting a screen on a smartphone from portrait mode to landscape mode and providing an interface for motion-based commands for video gaming. A motion interface platform, on the other hand, is a complete system-level solution that delivers improved functionality and performance because it integrates various motion sensors with digital control and processing, and provides high-level programming interfaces. Motion interface is a relatively new technology for many consumer electronics products that can be utilized in a number of applications, including motion-based video games or user interfaces for smartphones. We have developed a MotionApp platform that we consider to be proprietary.

Market adoption and acceptance of motion interface technology, including our MotionTracking devices, in consumer electronics products is dependent on a number of factors that are outside of our control. For example, device manufacturers must decide whether incorporating the improved functionality and performance that comes with motion interface will result in improved sales and market acceptance of their products. In addition, device manufacturers may not be able to integrate motion interface or processing technologies into their products in a manner that they, or their customers, consider to deliver cost-effective, compelling functionality, and developers may not introduce applications that employ motion interface in a compelling way. In addition, there are a number of companies that claim intellectual property ownership over motion as a user interface, and these claims could discourage manufacturers from integrating motion interface technology into their products.

We are particularly dependent upon the continued adoption of motion interface technology, including our MotionTracking devices, in mobile handheld devices, including smartphones and tablet devices. While smartphone manufacturers are incorporating advanced motion sensing functionality, including three-axis gyroscopes, into their devices, if applications that utilize this functionality are not further developed or if consumers do not find the applications provided by motion interface technology compelling, mobile device manufacturers may curtail their adoption of this technology. Consequently, our net revenue may fall short of our expectations and operating results could be adversely affected. Any unanticipated delay in the launch or decline in the volume of our customers smartphone and tablet device platforms into which we have been designed may negatively impact our net revenue.

If we fail to develop and introduce new or enhanced products on a timely basis, our ability to attract and retain customers could be impaired, and our competitive position could be harmed.

We operate in a dynamic environment characterized by rapidly changing technologies and industry standards, and rapid technological obsolescence. To compete successfully, we must design, develop, market and

Table of Contents

sell new or enhanced products that provide increasingly higher levels of performance, integration and reliability and meet the cost expectations of our customers. A key element of our product strategy is to integrate additional sensors and motion interface functionality into our products, and to reduce the size and power consumption of products providing a given level of functionality. For instance, the nine-axis MPU-9250 combines our three-axis MEMS gyroscope, three-axis MEMS accelerometer, with a third-party three-axis e-compass, MotionFusion technology and MotionApps platform in a 3x3mm package which is 45% smaller than the package of our previous nine-axis product, and consumes substantially less power. The introduction of new products by our competitors, the market acceptance of products based on new or alternative technologies, or the emergence of new industry standards could render our existing or future products obsolete.

Our failure to anticipate or timely develop new or enhanced products or technologies in response to technological change could result in decreased net revenue and our competitors achieving more design wins. In particular, we may experience difficulties with product design, manufacturing or marketing that could delay or prevent our development, introduction or marketing of new or enhanced products, including products with higher levels of sensor integration such as our nine-axis device, which has not yet commenced production in commercial quantities. If we fail to introduce new or enhanced products with potentially greater integration that meet the needs of our customers, or penetrate new markets, in a timely fashion, we will lose market share and our operating results will be adversely affected.

Revenue delays could result from shortages of key third party components to our customers and injunctions of our customer products from intellectual property claims by their competitors.

We are dependent on our customers for our net revenue and our net revenues could be negatively impacted by shortages of key third party components to our customers. In 2012, a third party chip supplier s supply shortages limited the ability of handset makers to utilize our motion sensing technology.

In addition, our net revenues could be negatively impacted by court injunctions on our customer products from intellectual property claims by their competitors.

If we fail to successfully manage the transition to products using our next generation products or more highly integrated products, we will lose net revenue and our operations could be materially and adversely affected.

The majority of our production volume today derives from our integrated three-axis and six-axis product families. We have introduced, and intend to continue to introduce, more highly integrated products that include greater motion sensing functionality and further enhancements to on-board motion interface capabilities. We may not be successful in achieving market acceptance of our more highly integrated single-chip products on the financial or other terms that we expect to obtain, and existing or potential new customers may instead rely on multi-chip, discrete motion sensor solutions. This could result in the loss of net revenue and earnings and potential inventory write-downs or obsolescence.

If we fail to expand sales in our current markets, develop new customers and penetrate new markets, our net revenue and potential net revenue growth rate could be materially and adversely affected.

Other than applications in smartphones and tablet devices and in the video gaming market, where we have historically derived the significant majority of our net revenue, to date, our MotionTracking devices have been employed in a limited number of other applications, such as digital still and video cameras, digital television and set-top box remote controls, 3D mice and remote-controlled toys. Our future net revenue growth, if any, will depend on our ability to expand sales in our current markets, develop new customers and penetrate new markets. If new markets do not develop as we currently anticipate, or if we are unable to penetrate new markets successfully, our net revenue and net revenue growth rate could be materially and adversely affected.

While the general market for handheld devices is very fragmented, a limited number of manufacturers command a relatively large share of the market for smartphones with enhanced functionality running the Android operating system. All of these customers are large, multinational companies with substantial negotiating power

Table of Contents

relative to us over price and terms of supply. Securing design wins with any of these companies or other smartphone manufacturers require a substantial investment of our time and resources. Some of these companies produce products that already include motion sensors, and they may decide not to adopt our MotionTracking devices. Additionally, the smartphone market is subject to a unique set of industry dynamics, such as shorter design cycles and multiple devices and manufacturers. The smartphone market is highly competitive, and if we are unable to continue to successfully navigate the unique dynamics of such market, if we are unable to adapt our products in response to any future changes in the requirements of the Android operating system, or if the products of manufacturers that choose to incorporate our solutions are not commercially successful, our net revenue may not grow and our operating results may be adversely affected.

Our sales are subject to a competitive selection process conducted by our prospective customers that can be lengthy and require us to expend significant resources, even though we ultimately may not be selected; revenues from being selected may be lower than anticipated due to customers desires to have multiple sources for components.

The process of identifying potential new customers, developing their interest in our products, moving through their design cycle, obtaining a design win, obtaining purchase orders and entering into volume production is extremely time consuming. We compete during our customers product design and planning processes to achieve design wins, which refers to a customer s decision to include one of our solutions in its products under development. These selection processes can be lengthy and time-sensitive and can require us to invest significant time and effort. Our products may not be selected during a customer s design process, and we may not generate net revenue despite incurring expenses and devoting significant resources to achieving a design win. Because the life cycles for our customers products can last several years and changing suppliers involves significant cost, time, effort and risk, our failure to be selected in a competitive design process can result in our foregoing net revenue from a given customer s product line for the life of that product.

Typically, many customers, including most of our current customers, initially include our products in only one or a few product lines. It generally takes time for sales volumes of a new product line to grow and for customers to incorporate one of our solutions into additional product lines, if any. Even after we achieve a design win, a customer may decide to cancel or change its product plans, may fail to commercialize its products, or those products may fail to achieve market acceptance, any of which could cause us to fail to generate sales from a particular design win and adversely affect our results of operations. In addition, large consumer electronics companies often elect to establish more than one source for components to promote competition and control risks of supply interruption. Such dual source strategies can result in lower sales from a design win than anticipated. Further, failure to achieve design wins could result in lost sales and hurt our prospects in future competitive selection processes because we may not be perceived as a preferred or competitive vendor.

We generally place orders for products with some of our suppliers approximately three to four months prior to the anticipated delivery date, with order volumes based on our forecasts of demand from our customers. Accordingly, if we inaccurately forecast demand for our products, we may be unable to obtain adequate and cost-effective foundry or assembly capacity from our third-party manufacturers to meet our customers delivery requirements, or we may accumulate excess inventories. On occasion, we have been unable to adequately respond to unexpected increases in customer purchase orders and therefore were unable to benefit from this incremental demand. In addition, our third-party manufacturers may prioritize orders placed by other companies that order higher volumes of products, many of whom are larger and more established than us. In the event that manufacturing capacity is reduced or eliminated at one or more of our third-party manufacturers facilities, we could have difficulties fulfilling our customer orders, and our net revenue and results of operations could decline.

Failure to achieve expected manufacturing yields for our products could negatively impact our operating results.

Manufacturing yields for our products are a function of product design, which is developed largely by us, and process technology, some of which is proprietary to our foundries. Low yields may result from either product design or process technology failures. We do not know whether a yield problem exists until our products are manufactured based on our design. When a yield issue is identified, the product is analyzed and tested to determine the cause. As a result, yield deficiencies may not be identified until well into the production process. Resolution of yield problems requires cooperation among, and communication between, us and our foundries. Because of our potentially limited access to wafer foundry capacity, decreases in manufacturing yields could result in an increase in our costs, cause us to fail to meet product delivery commitments and force us to allocate our available product supply among end customers. Lower than expected yields could harm our operating results, our customer relationships and our reputation.

We are subject to order and shipment uncertainties, and differences between our estimates of customer demand and actual results could negatively affect our inventory levels, sales and operating results.

Our net revenue is generated on the basis of purchase orders with our customers rather than long-term purchase commitments. In addition, our customers can cancel purchase orders or defer the shipments of our products under certain circumstances. For example, in September 2009, our major customer requested that we delay shipment of products that we had expected to ship pursuant to firm purchase orders to that customer during the third quarter of fiscal year 2010. Our products are manufactured by third-party manufacturers according to our estimates of customer demand, which requires us to make separate demand forecast assumptions for every customer, each of which may introduce significant variability into our aggregate estimates. We have limited visibility into future customer demand and the product mix that our customers will require, which could adversely affect our net revenue forecasts and operating margins. Moreover, because products with motion interface platforms have only recently been introduced into many of our target markets, many of our customers could have difficulty accurately forecasting demand for their products and the timing of their new product introductions, which ultimately affects their demand for our MotionTracking devices.

Historically, because of this limited visibility, at times our actual results have been different from our forecasts of customer demand. Some of these differences have been material, leading to net revenue and margin forecasts different from the results we were actually able to achieve. For example, our major customer reduced its orders for our products below levels we had anticipated during fiscal year 2011. These differences may occur in the future. Conversely, if we were to underestimate customer demand or if sufficient manufacturing capacity were unavailable, we could be unable to take advantage of net revenue opportunities, potentially lose market share and damage our customer relationships and market reputation. In addition, any significant future cancellations or deferrals of product orders could materially and adversely impact our profit margins, increase our inventory write-downs due to product obsolescence and restrict our ability to fund our operations.

The complexity of our products could result in unforeseen delays or expenses caused by defects or bugs, which could delay the introduction or acceptance of our new products, damage our reputation with current or prospective customers and adversely affect our operating costs and revenue.

Our highly complex motion sensing and processing products may contain defects and bugs when they are first introduced or as new versions are released. We have in the past experienced, and may in the future experience, defects and bugs. There may be additional defects and bugs contained in our products that, due to our limited operating history, may not have manifested. If any of our products contains defects or bugs, or has reliability, quality or other problems, we may not be able to successfully correct such problems. Consequently, our reputation may be damaged and customers may be reluctant to buy our products, which could materially and adversely affect our ability to retain existing customers and attract new customers. In addition, these defects or bugs could interrupt or delay sales to our customers. If any of our products contains defects or bugs, or has reliability, quality or other problems, we may not be able to successfully correct such problems in a timely manner. Defects or bugs could materially and adversely affect our ability to achieve design wins from existing customers and to attract new customers, which could adversely affect our market share and operating results. In addition, defects or bugs could interrupt or delay shipments to existing customers. If a significant defect or bug is not found until after we have commenced commercial production of a new product, we may be required to incur additional development costs and product recall, repair or replacement costs. These problems may also result in claims against us by our customers or others. As a result, our operating costs could be adversely affected.

Table of Contents

If we do not achieve continued tax benefits as a result of our corporate restructuring completed in fiscal year 2011, our financial condition and operating results could be adversely affected.

We completed a restructuring of our corporate organization during fiscal year 2011 to more closely align our corporate structure with the international nature of our business activities. This corporate restructuring activity has allowed us to reduce our overall effective tax rate through changes in how we develop and use our intellectual property and the structure of our international procurement and sales operations, including by entering into transfer-pricing arrangements that establish transfer prices for our intercompany transactions. There can be no assurance that the taxing authorities of the jurisdictions in which we operate or to which we are otherwise deemed to have sufficient tax nexus will not challenge the tax benefits that we expect to realize as a result of the restructuring. In addition, future changes to U.S. or non-U.S. tax laws, including proposed legislation to reform U.S. taxation of international business activities as described above, would negatively impact the anticipated tax benefits of the proposed restructuring. Any benefits to our tax rate will also depend on our ability to operate our business in a manner consistent with the restructuring of our corporate organization and applicable taxing provisions, including by eliminating the amount of cash distributed to us by our subsidiaries. If the intended tax treatment is not accepted by the applicable taxing authorities, changes in tax law negatively impact the proposed structure or we do not operate our business consistent with the restructuring and applicable tax provisions, we may fail to achieve the financial efficiencies that we anticipate as a result of the restructuring and our future operating results and financial condition may be negatively impacted.

The enactment of legislation implementing changes in U.S. taxation of international business activities or the adoption of other tax reform policies could materially impact our financial position and results of operations.

Tax bills are introduced from time to time to reform U.S. taxation of international business activities. Depending on the final form of legislation enacted, if any, the consequences may be significant for us due to the large scale of our international business activities. If any of these proposals are enacted into legislation, they could have material adverse consequences on the amount of tax we pay and thereby on our financial position and results of operations.

Our future success depends on the continuing efforts of our key personnel, and on our ability to successfully attract, train and retain additional key personnel.

Our future success depends heavily upon the continuing services of the members of our senior management team and various engineering and other technical personnel. If one or more of our senior executives or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, our business may be disrupted, and our financial condition and results of operations may be materially and adversely affected. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing company, we may experience material disruption of our operations and development plans and lose customers, distributors, know-how and key professionals and staff members, and we may incur increased operating expenses as the attention of other senior executives is diverted to recruit replacements for key personnel. Our industry is characterized by high demand and intense competition for talent, and the pool of qualified candidates is very limited. We cannot ensure that we will be able to retain existing, or attract and retain new, qualified personnel, including senior executives and skilled engineers, whom we will need to achieve our strategic objectives. In addition, our ability to train and integrate new employees into our operations may not meet the growing demands of our business. The loss of any of our key personnel or our inability to attract or retain qualified personnel, including engineers and others, could delay the development and introduction of, and would have an adverse effect on our ability to sell, our products, which could harm our overall business and growth prospects.

The concentration of our capital stock ownership with our executive officers and directors, and their respective affiliates, will limit shareholder ability to influence corporate matters.

Based on share ownership as of March 31, 2013, our executive officers and directors and their affiliates beneficially own or control, directly or indirectly, an aggregate of 23,746,260 shares, or 28%, of our common

Table of Contents

stock (including 598,680 shares of common stock subject to outstanding options and warrants exercisable within 60 days of March 31, 2013). This concentrated control limits shareholder ability to influence some corporate matters and could result in some corporate actions that our other stockholders do not view as beneficial, such as failure to approve change of control transactions that could offer holders of our common stock a premium over the market value of our company. As a result, the market price of our common stock could be adversely affected.

Due to our limited operating history, we may have difficulty in accurately predicting our future net revenue and appropriately budgeting our expenses.

We began doing business in 2003 and did not begin to generate net revenue until the first quarter of fiscal year 2007. For fiscal 2013 three customers accounted for 24%, 18% and 11% of total net revenue. For fiscal 2012 three customers accounted for 31%, 15% and 12% of total net revenue. For fiscal 2011, one customer accounted for 73% of total net revenue. As a result, we have only a limited operating history from which to predict future net revenue from multiple new customers and new markets. This limited operating experience, combined with the rapidly evolving nature of the markets in which we sell our products, substantial uncertainty concerning how these markets may develop, the rate of adoption of our products in these new markets and other factors beyond our control, reduces our ability to accurately forecast quarterly or annual net revenue. We are currently expanding our staffing, implementing new internal systems, and increasing our expense levels in anticipation of future growth. If our net revenue does not increase as we expect relative to the growth of our operating expenses, our operating margins could be negatively affected or we could incur significant losses.

We may not sustain our growth rate, and we may not be able to manage any future growth effectively.

We have experienced significant growth in a short period of time. Our net revenue increased from $29.0 million in fiscal year 2009 to $79.6 million, $96.5 million, $153 million and $208.6 million in fiscal years 2010, 2011, 2012 and 2013, respectively. We may not achieve similar growth rates in future periods. Our operating results for any prior quarterly or annual period should not be relied on as an indication of our future operating performance. If we are unable to maintain adequate net revenue growth, our financial results could suffer and our stock price could decline.

To manage our growth successfully and handle the responsibilities of being a public company, we believe we must effectively, among other things:

- recruit, hire, train and manage additional qualified engineers for our research and development activities, especially in the positions of design engineering, product and test engineering and applications engineering, as well as adding additional sales personnel;

- implement improvements in our financial, administrative, and operational systems, procedures and controls necessary to support larger manufacturing and sales volumes, a greater number of customers and an increased range of products; and

- enhance our information technology support for enterprise resource planning and design engineering by adapting and expanding our systems and tool capabilities, and properly training new hires as to their use.

Changes to the leadership or other senior members of our finance organization could result in delays in making improvements to our financial and control systems. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities or develop new products, and we may fail to satisfy customer requirements, maintain product quality, execute our business plan or respond to competitive pressures.

We are exposed to fluctuations in interest rates and changes in credit rating and in the market values of our portfolio investments which could have a material adverse impact on our financial condition and results of operations.

Our cash, short-term and long-term investments represent significant assets that may be subject to fluctuating or even negative returns depending upon interest rate movements, changes in credit rating and

Table of Contents

financial market conditions. Since September 2007, the global credit markets have experienced adverse conditions that have negatively impacted the values of various types of investment and non-investment grade securities. During this time, the global credit and capital markets have experienced significant volatility and disruption due to instability in the global financial system, uncertainty related to global economic conditions and concerns regarding sovereign financial stability.

Therefore, there is a risk that we may incur other-than-temporary impairment charges for certain types of investments should credit market conditions deteriorate or the underlying assets fail to perform as anticipated. Our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair values of our debt securities is judged to be other than temporary. Furthermore, we may suffer losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates or financial market conditions.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements could be impaired, which could adversely affect our operating results, our ability to operate our business and investors views of us.

Maintaining adequate internal financial and accounting controls and procedures to help ensure that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. We have established processes, controls and procedures that will allow our management to report on, and our independent registered public accounting firm to attest to, our internal control over financial reporting when required to do so under the rules adopted by the Securities and Exchange Commission, or SEC, pursuant to Section 404 of the Sarbanes-Oxley Act, or Section 404. In the past, we have experienced material weaknesses in our internal control over financial reporting. While we have remediated these material weaknesses, there are no assurances that similar or new material weaknesses will not occur. We periodically review the effectiveness of our internal controls and procedures with a continuous improvement philosophy.

Implementing any appropriate changes to our internal controls may require specific compliance training of our directors, officers and employees, entail substantial costs in order to modify our existing accounting systems, and take a significant period of time to complete. Such changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate Consolidated Financial Statements and related Notes on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. In addition, investors perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements may adversely affect our stock price.

As part of our ongoing efforts to improve our financial accounting organization and processes, we have hired several senior accounting personnel in the United States. Accordingly, we may be unable to effectively manage our public company reporting obligations, which could adversely impact our business and results of operations.

We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations.

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, the recent strengthening of the U.S. dollar has increased the real cost of our products to our customers outside of the United States, which could adversely affect our financial condition and results of operations. Some of our operating expenses are incurred outside the United States, are denominated in foreign currency and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the New Taiwan Dollar. We do not currently hedge currency exposures relating to operating expenses incurred outside of the United States, but we may do so in the future. If we do not hedge against these risks, or our attempts to hedge against these risks are not successful, our financial condition and results of operations could be adversely affected.

Table of Contents

Our primary customers, our sales and support facilities, our testing facilities and our third-party manufacturers are located in regions that are subject to natural disasters, as well as in some cases geopolitical risks and social upheaval.

Currently, our wafer sort, final test and shipping operations, as well as the facilities of our third-party wafer manufacturing and assembly suppliers, are located in Singapore, Taiwan and Thailand. Our largest customers are based in Japan and Korea. We have sales and support centers in China, Japan, the Republic of Korea, United Arab Emirates and Taiwan. In addition, our headquarters are located in Northern California. Thailand, Taiwan, the Republic of Korea and Japan are susceptible to earthquakes, tsunamis, typhoons, floods and other natural disasters, and have experienced severe earthquakes, typhoons and floods in recent years that caused significant property damage and loss of life. The Northern California area is also subject to significant risk of earthquakes.

In addition, facilities located in the Republic of Korea, Taiwan, Thailand and China are subject to risks associated with uncertain political, economic and other conditions in Asia, including the outbreak of contagious diseases, such as the H1N1 virus, natural disasters, such as severe flooding in Thailand during the 2011 monsoon season, and political turmoil in the region. Although these risks have not materially adversely affected our business, financial condition or results of operations to date, there can be no assurance that such risks will not do so in the future. There also can be no assurance that another earthquake, tsunami or other natural disaster will not occur in the Pacific Rim region, where the risk of such an event is significant due to, among other things, the proximity of major earthquake fault lines in the area. Any such future event could include power outages, fires, flooding or other adverse conditions, as well as disruption or impairment of production capacity and the operations of our manufacturers and customers, which could have a material adverse effect on us. Any disruption resulting from these events could cause significant delays in shipments of our products until we are able to shift our manufacturing, assembly or testing from the affected facilities or contract to another location or third-party vendor. Under such circumstances, there can be no assurance that alternative capacity could be obtained on favorable terms, if at all. Any catastrophic loss to any of our facilities would likely disrupt our operations, delay production, shipments and net revenue and result in significant expenses to repair or replace the facility. In particular, any catastrophic loss at the Sunnyvale, California or Taiwan facilities would materially and adversely affect our business.

Our operating results are subject to substantial quarterly and annual fluctuations due to a number of factors that could adversely affect our business and our stock price.

Our net revenue and operating results have fluctuated in the past and are likely to fluctuate in the future. These fluctuations may occur on a quarterly and on an annual basis and are due to a number of factors, many of which are beyond our control. These factors include, among others:

- changes in end-user demand for the products manufactured and sold by our customers;
- the receipt, reduction, cancellation or delay of significant orders by customers;
- the gain or loss of significant customers;
- market acceptance of our products and our customers products;
- our ability to develop, introduce and market new products and technologies on a timely basis;
- Delays in our customers ability to manufacture and ship products which incorporate our products caused by internal and external factors unrelated to our business and beyond our control;
- new product announcements and introductions by us or our competitors;

incurrence of research and development and related new product expenditures;

seasonality or cyclical fluctuations in our markets;

fluctuations in manufacturing yields;

significant warranty claims, including those not covered by our suppliers;

Table of Contents

- write-downs of inventory for excess quantity and technological obsolescence;
- changes in our product mix or customer mix;
- intellectual property disputes;
- loss of key personnel or the shortage of available skilled workers;
- the effects of competitive pricing pressures, including decreases in average selling prices of our products; and
- in cases where our products are designed into a customers product along with components provided by third-party suppliers, disruptions in the supply chains of such third-party suppliers.

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially adversely affect our quarterly or annual operating results. In addition, a significant amount of our operating expenses are relatively fixed in nature due to our significant sales, research and development costs. Any failure to adjust spending quickly enough to compensate for a net revenue shortfall could magnify its adverse impact on our results of operations.

Our product development efforts are time-consuming and expensive and may not generate an acceptable return, if any.

Our product development efforts require us to incur substantial research and development expense. Our research and development expense was $19.7 million for fiscal year 2012 and $24.6 million for fiscal year 2013, and we anticipate that research and development expense will increase in the future. We may not be able to achieve an acceptable return, if any, on our research and development efforts.

The development of our products is highly complex. We have experienced delays in completing the development and introduction of new products and product enhancements, and we could experience delays in the future. Unanticipated problems in developing products could also divert substantial engineering resources, which may impair our ability to develop new products and enhancements and could substantially increase our costs. Furthermore, we may expend significant amounts on research and development programs that may not ultimately result in commercially successful products. As a result of these and other factors, we may be unable to develop and introduce new products successfully and in a cost-effective and timely manner, and any new products we develop and offer may never achieve market acceptance. Any failure to successfully develop future products would have a material adverse effect on our business, financial condition and results of operations.

We are subject to warranty and product liability claims and product recalls that may require us to make significant expenditures to defend against these claims or pay damage awards.

From time to time, we may be subject to warranty or product liability claims that may require us to make significant expenditures to defend against these claims or pay damage awards. In the event of a warranty claim, we may also incur costs if we compensate the affected customer. For example, under the terms of our contracts with our larger customers, we are obligated to replace, repair or refund payment for defective products discovered by the customer generally for a period of up to three years after such products are delivered, and we remain responsible and liable for any latent defects caused by reasons attributable to us even after the contractual warranty period has elapsed. We maintain product liability insurance, but this insurance is limited in amount and subject to significant deductibles. There is no guarantee that our insurance will be available or adequate to protect against all such claims. We also may incur costs and expenses if defects in a device we supply make it necessary to recall a customer s product. The process of identifying a recalled device in products that have been widely distributed may be lengthy and require significant resources, and we may incur significant replacement costs, contract damage claims from our customers and reputational harm. Costs or payments made in connection with warranty and product liability claims and product recalls could have a material adverse effect on our financial condition and results of operations.

Table of Contents

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 and other factors related to our international operations.

Sales to end customers in Asia accounted for 92% of our net revenue in both fiscal year 2013 and fiscal year 2012. In addition, approximately 42% of our employees are located in Asia, and substantially all of our products are manufactured, assembled or tested in Asia. Multiple factors relating to our international operations and to the particular countries in which we operate could have a material adverse effect on our business, financial condition and results of operations. These factors include:

- changes in political, regulatory, legal or economic conditions;
- restrictive governmental actions, such as restrictions on the transfer or repatriation of funds and foreign investments and trade protection measures, including export duties, quotas, customs duties and tariffs;
- disruptions of capital and trading markets;
- changes in import or export licensing requirements;
- transportation delays;
- civil disturbances or political instability;
- geopolitical turmoil, including terrorism, war or political or military coups;
- public health emergencies;
- currency fluctuations relating to our international operating activities;
- differing employment practices and labor standards;
- limitations on our ability under local laws to protect our intellectual property;
- local business and cultural factors that differ from our customary standards and practices;
- nationalization and expropriation;
- changes in tax laws; and

difficulties in obtaining distribution and support services.

Substantially all of our products and our end customers products are manufactured in Taiwan and China. Any conflict or uncertainty in these countries, including due to public health or safety concerns, could have a material adverse effect on our business, financial condition and results of operations.

We are subject to the cyclical nature of the semiconductor and consumer electronics industries.

The semiconductor and consumer electronics industries are highly cyclical and are characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. These industries experienced a significant downturn as part of the broader global recession in 2008 and 2009. Industry downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. The most recent downturn and any future downturns could have a material adverse effect on our business and operating results. Furthermore, any upturn in the semiconductor or consumer electronics industries could result in increased competition for access to the third-party foundry and assembly capacity on which we are dependent to manufacture and assemble our products. None of our third-party foundry or assembly contractors has provided assurances that adequate capacity will be available to us in the future.

Table of Contents

Our business is subject to seasonality, which causes our net revenue to fluctuate.

In addition to the general cyclicality of the semiconductor and consumer electronics industries, our business is subject to seasonality because of the nature of our target markets. At present, virtually all of our motion interface products are sold in the consumer electronics market. Sales of consumer electronics tend to be weighted towards holiday periods, and many consumer electronics manufacturers typically experience seasonality in sales of their products. Seasonality affects the timing and volume of orders for our products as our customers tend to increase production of their products that incorporate our solutions in the first three quarters of our fiscal year in order to build inventories for the holiday season. Sales of our products tend to correspondingly increase during these quarters and to significantly decrease in the fourth quarter of our fiscal year. For example, our net revenue was $41.2 million for the third quarter of fiscal year 2012 and declined to $33.1 million for the fourth quarter of fiscal year 2012. We expect this seasonality to continue in future periods and, as a result, our operating results are likely to vary significantly from quarter to quarter.

Our business is subject to various governmental regulations, and compliance with these regulations may cause us to incur significant expenses. If we fail to maintain compliance with applicable regulations, we may be forced to recall products and cease their manufacture and distribution, which could subject us to civil or criminal penalties.

The complex legal and regulatory environment exposes us to compliance and litigation costs and risks that could materially affect our operations and financial results. These laws and regulations may change, sometimes significantly, as a result of political or economic events. They include tax laws and regulations, import and export laws and regulations, government contracting laws and regulations, labor and employment laws and regulations, securities and exchange laws and regulations (and other laws applicable to publicly-traded companies such as the Foreign Corrupt Practices Act), and environmental laws and regulations. In addition, proposed laws and regulations in these and other areas, such as healthcare, could affect the cost of our business operations. Our international operations face political, legal, operational, exchange rate and other risks that we do not face in our domestic operations. We face the risk of discriminatory regulation, nationalization or expropriation of assets, changes in both domestic and foreign laws regarding trade and investment abroad, potential loss of proprietary information due to piracy, misappropriation or laws that may be less protective of our intellectual property rights. Violations of any of these laws and regulations could subject us to criminal or civil enforcement actions, any of which could have a material adverse effect on our business, financial condition or results of operations.

Potential future acquisitions or strategic investments may not generate the results expected and could be difficult to integrate, divert the attention of key personnel, disrupt our business, dilute stockholder value and impair our financial results.

As part of our business strategy, we may pursue acquisitions of, or strategic investments into, companies, technologies and products that we believe could accelerate our ability to compete in our core markets or allow us to enter new markets. If we fail to manage the pursuit, consummation and integration of acquisitions effectively, our business could suffer. In addition, if we fail to properly evaluate acquisitions or investments, we may not achieve the anticipated benefits of any such transactions, and we may incur costs in excess of what we anticipate. Such transactions may involve numerous risks, any of which could harm our business, including:

- difficulties in integrating the manufacturing, operations, technologies, products, existing contracts, accounting and personnel of the target company and realizing the anticipated synergies of the combined businesses;

- difficulties in supporting and transitioning customers, if any, of the acquired company;

- diversion of financial and management resources from existing operations;

- the price we pay or other resources that we devote may exceed the value we actually realize, or the value we could have realized if we had allocated the purchase price or other resources to another opportunity or for our existing operations;

Table of Contents

- risks associated with entering new markets in which we have limited or no experience;
- potential loss of key employees, customers and strategic alliances from either our current business or the acquired company s business;
- assumption of unanticipated problems or latent liabilities, such as problems with the quality of the acquired company s products;
- inability to generate sufficient revenue and profitability to offset acquisition costs;
- equity-based acquisitions may have a dilutive effect on our stock; and
- inability to successfully consummate transactions with identified acquisition or investment candidates.

There can be no assurance that any acquisition we might consummate will generate the results we anticipate. Acquisitions also frequently result in the recording of goodwill and other intangible assets that are subject to potential impairments in the future that could harm our financial results.

Our stock price has been and will likely continue to be volatile, and shareholders may not be able to resell shares of our common stock at or above the price they originally paid.

The trading price of our common stock has been and will likely continue to be highly volatile and could be subject to wide fluctuations in price in response to various factors, some of which are beyond our control. In addition to the factors discussed in this Risk Factors section and elsewhere in this Annual Report on Form 10-K, factors that may cause volatility in our share price include:

- our small public float relative to the total number of shares of common stock that are issued and outstanding;
- sales of common stock by us or our stockholders;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- the expiration of the contractual lock-up and market stand-off agreements;
- quarterly variations in our results of operations, those of our competitors or those of our largest customers;
- announcements by us or our competitors of acquisitions, design wins, new solutions, significant contracts, commercial relationships or capital commitments;
- general economic conditions and slow or negative growth of related markets;

- our ability to develop and market new and enhanced solutions on a timely basis;
- disruption to our operations;
- the emergence of new sales channels in which we are unable to compete effectively;
- any major change in our board of directors or management;
- changes in financial estimates including our ability to meet our future net revenue and operating profit or loss projections;
- changes in governmental regulations or in the status of our regulatory approvals;
- commencement of, or our involvement in, litigation; and
- changes in earnings estimates or recommendations by securities analysts.

In addition, the stock market in general, and the market for semiconductor and other technology companies in particular, have from time to time experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our actual operating performance. These trading price fluctuations may also make it more difficult for us to use our common stock as a means to make acquisitions or to use equity-related compensation to attract and retain employees. In addition, in the past, following periods of volatility in the overall market and the market price of a company s securities, securities class action litigation has often been instituted against these companies. This type of litigation, if instituted against us, could result in substantial costs and a diversion of our management s attention and resources.

Substantial future sales of our common stock in the public market could cause our stock price to fall.

Sales of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our common stock. As of March 31, 2013, we had approximately 85.0 million shares of common stock outstanding, of which approximately 23.1 million shares were held by executive officers, directors or their affiliates and may be subject to volume and manner of sale restrictions of Rule 144 of the Securities Act. Sales of our common stock as restrictions end or pursuant to registration rights may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause our stock price to fall and make it more difficult for you to sell shares of our common stock.

Because we have no plans to pay dividends on our common stock, investors must look solely to stock appreciation for a return on their investment in us.

We have never declared or paid any cash dividends on our capital stock, and we do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain all future earnings to fund the development and growth of our business. Any payment of future dividends will be at the discretion of our board of directors and will depend on, among other things, our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends and other considerations that the board of directors deems relevant. Investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize a return on their investment. Investors seeking cash dividends should not purchase our common stock.

Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable.

Provisions in our certificate of incorporation and bylaws, as amended and restated, may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- the right of our board of directors to elect directors to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

- the establishment of a classified board of directors requiring that only a subset of the members of our board of directors be elected at each annual meeting of stockholders;

- the prohibition of cumulative voting in our election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;

- the requirement that stockholders provide advance notice to nominate individuals for election to our board of directors or to propose matters that can be acted upon at a stockholders meeting. These provisions may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer s own slate of directors or otherwise attempting to obtain control of our company;

Table of Contents

- the ability of our board of directors to issue, without stockholder approval, shares of undesignated preferred stock with terms set by the board of directors, which rights could be senior to those of our common stock. The ability to authorize undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us;

- the required approval of the holders of at least two-thirds of the shares entitled to vote at an election of directors to repeal or adopt any provision of our certificate of incorporation regarding the election of directors;

- the required approval of the holders of at least 80% of such shares to amend or repeal the provisions of our bylaws regarding the election and classification of directors; and

- the required approval of the holders of at least a majority of the shares entitled to vote at an election of directors to remove directors without cause.

As a Delaware corporation, we are also subject to certain Delaware anti-takeover provisions. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. Our board of directors could rely on Delaware law to prevent or delay an acquisition of us.

Compliance with new regulations regarding the use of conflict minerals could limit the supply and increase the cost of certain metals used in manufacturing our products.

Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), requires the SEC to promulgate new disclosure requirements for manufacturers of products containing certain minerals which are mined from the Democratic Republic of Congo and adjoining countries. Manufacturers are also required to disclose their efforts to prevent the sourcing of such conflict minerals and metals produced by that country. While the new disclosure rules will not take effect until May 2014, the implementation of these new regulations may limit the sourcing and availability of some of the metals used in the manufacture of our products and may affect our ability to obtain products in sufficient quantities or at competitive prices. We may also incur significant costs for due diligence to determine whether conflict minerals are used in our products and, if so, the sources of those materials.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters are located at 1197 Borregas Avenue in Sunnyvale, California in a facility consisting of approximately 51,000 square feet of office space under a lease that expires July 2013. Our corporate headquarters facility accommodates our product design, software engineering, sales, marketing, operations, finance, and administrative activities. On May 16, 2013 we signed a new non-cancelable operating lease for our corporate headquarter consisting initially of approximately 71,000 square feet and expanding to 130,000 square feet of office space over the term of the lease, that expires December 2019 and is located at 1745 Technology Drive, San Jose, California. We also occupy space in Hsinchu, Taiwan, under a lease that expires in December 2014, which serves as our wafer-sort and testing facility. We also lease sales and support offices in China, Japan, the Republic of Korea, and the United Arab Emirates. We currently do not own any real estate or facilities. We believe that our leased facilities are adequate to meet our current needs and expect to be able to lease additional or alternative facilities to meet our future needs. 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.

Table of Contents

Item 3. Legal Proceedings.

Information with respect to this item may be found in *Legal Proceedings* in Item 1 *Business,* included in this Annual Report on Form 10-K, which information is incorporated herein by reference.

Item 4. Mine Safety Disclosures.

Not applicable.

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock has been listed on the New York Stock Exchange (NYSE) under the symbol INVN since November 16, 2011. Prior to that date, there was no public trading market for our common stock. The following table sets forth for the periods indicated the high and low sales prices per share of our common stock as reported on the NYSE:

	High	Low
Year Ending April 1, 2012:		
Third Quarter (from November 16, 2011)	$ 11.85	$ 8.25
Fourth Quarter	$ 22.35	$ 9.79
Year Ending March 31, 2013:		
First Quarter	$ 19.55	$ 9.06
Second Quarter	$ 14.25	$ 9.12
Third Quarter	$ 12.98	$ 9.52
Fourth Quarter	$ 15.96	$ 10.20

As of March 31, 2013, we had approximately 24 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We currently anticipate that we will retain all of our future earnings for use in the expansion and operation of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable law, and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

Equity Compensation Plan Information

For equity compensation plan information refer to Item 12 in Part III of this Annual Report on Form 10-K. Such information will be included in our Proxy Statement, which is incorporated herein by reference.

Table of Contents

Performance Graph

This performance graph shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of InvenSense Inc. under the Securities Act of 1933, as amended, or the Exchange Act.

The following graph shows a comparison of the cumulative total return for our common stock, the S&P 500 Index and the NYSE Composite Index from November 16, 2011 (the date our common stock commenced trading on the NYSE) through March 31, 2013. Such returns are based on historical results and are not intended to suggest future performance. Data for the S&P 500 Index and the NYSE Composite Index assume reinvestment of dividends.

InvenSense Inc.

Total Return Performance

InvenSense Inc., S&P 500 Composite Index and the NYSE Composite Index

	Period Ending						
	11/16/2011	**1/1/2012**	**4/1/2012**	**7/1/2012**	**9/30/2012**	**12/30/2012**	**3/31/2013**
InvenSense Inc.	100.0	133.0	241.0	151.0	159.0	146.0	142.0
S&P 500 Composite Index	100.0	102.0	114.0	110.0	116.0	113.0	127.0
NYSE Composite Index	100.0	101.0	111.0	106.0	112.0	113.0	123.0

Item 6. Selected Financial Data.

We have derived the selected consolidated statement of income data for the fiscal years ended 2013, 2012 and 2011, respectively, and selected consolidated balance sheet data as of the March 31, 2013 and April 1, 2012, from our audited Consolidated Financial Statements and related Notes included elsewhere in this Annual Report on Form 10-K. We have derived the statement of income data for the fiscal years prior to fiscal year 2011, and selected consolidated balance sheet data prior to April 1, 2012, from our audited Consolidated Financial Statements and related Notes not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results that may be expected for any future period. The following selected financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and the related Notes included elsewhere in this Annual Report on Form 10-K.

Table of Contents

Consolidated Statements of Income Data:

	Fiscal Years				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Net revenue	$ 208,634	$ 152,967	$ 96,547	$ 79,556	$ 29,025
Cost of revenue(1)	97,937	67,571	43,647	36,073	15,548
Gross profit	110,697	85,396	52,900	43,483	13,477
Operating expenses:					
Research and development(1)	24,648	19,672	15,826	13,085	8,545
Selling, general and administrative(1)	29,391	18,710	15,596	8,427	4,632
Total operating expenses	54,039	38,382	31,422	21,512	13,177
Income from operations	56,658	47,014	21,478	21,971	300
Other income (expense), net:					
Change in fair value of warrant liabilities(2)			(4,025)	(6,363)	
Other income (expense), net	348	138	31	(67)	(66)
Other income (expense) - net	348	138	(3,994)	(6,430)	(66)
Income before income taxes	57,006	47,152	17,484	15,541	234
Income tax provision	5,301	10,205	8,137	399	38
Net income(3)	51,705	36,947	9,347	15,142	196
Net income allocable to convertible preferred stockholders(3)		20,618	7,716	12,150	196
Net income allocable to common stockholders(3)	$ 51,705	$ 16,329	$ 1,631	$ 2,992	$
Net income per common share allocable to common stockholders:					
Basic	$ 0.62	$ 0.39	$ 0.09	$ 0.18	$
Diluted	$ 0.59	$ 0.37	$ 0.08	$ 0.17	$
Weighted average shares outstanding in computing net income per share allocable to common stockholders:					
Basic	82,738	41,614	17,592	16,542	15,430
Diluted	87,359	47,011	22,202	20,867	17,519

(1) Includes stock-based compensation expense as follows:

	Fiscal Years				
	2013	2012	2011	2010	2009
	(in thousands)				
Cost of revenue	$ 649	$ 325	$ 261	$ 233	$ 68
Research and development	2,753	1,474	946	536	184
Selling, general and administrative	5,117	1,889	983	537	258
Total stock-based compensation expense	$ 8,519	$ 3,688	$ 2,190	$ 1,306	$ 510

(2) Refers to the change in fair value of our warrants as required by ASC 815-40-15. Please see Note 5 to our Consolidated Financial Statements for an additional explanation of the change in fair value of warrant liabilities.

(3) Please see Note 1 to our Consolidated Financial Statements for an explanation of the method used to calculate net income allocable to convertible preferred stockholders and net income allocable to common stockholders, including the method to calculate the number of shares used in the computation of the per share amounts.

Table of Contents

Consolidated Balance Sheet Data:

	March 31, 2013	April 1, 2012	As of April 3, 2011 (in thousands)	March 28, 2010	March 28, 2009
Cash and cash equivalents	$ 100,843	$ 153,643	$ 28,795	$ 22,394	$ 19,946
Short-term investments	$ 77,040	$ 4,129	$ 9,280	$ 12,875	$
Working capital	$ 222,828	$ 172,931	$ 54,285	$ 36,873	$ 20,946
Long-term investments	$ 22,442	$	$	$ 2,008	$
Total assets	$ 279,094	$ 193,318	$ 70,746	$ 54,450	$ 34,545
Total debt, including current portion	$ 22	$ 50	$ 34	$ 349	$ 1,107
Convertible preferred stock	$	$	$ 50,241	$ 38,364	$ 39,192
Common stock	$ 158,108	$ 136,792	$ 5,762	$ 2,855	$ 1,250
Total stockholders equity	$ 249,947	$ 176,877	$ 59,141	$ 35,000	$ 19,751

40

Table of Contents

Item 7. 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 Consolidated Financial Statements for the year ended March 31, 2013 and the Notes to those statements included elsewhere in this Annual Report on Form 10-K.

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.

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.

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).

Our net revenue increased to $208.6 million in fiscal year 2013 from $153.0 million in fiscal year 2012 and $96.5 million in fiscal year 2011, respectively. At March 31, 2013, we had $200.3 million in cash, cash equivalents and investments. We achieved positive operating cash flow of $35.3 million for fiscal year 2013 compared to $44.4 million for fiscal year 2012. We achieved net income of $51.7 million, $36.9 million, and $9.3 million in fiscal years 2013, 2012 and 2011, respectively.

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.

	Fiscal Year		
	2013	2012	2011
		(in thousands)	
Net revenue	$ 208,634	$ 152,967	$ 96,547

Table of Contents

Net revenue for fiscal year 2013 increased by $55.7 million, or 36%, 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 fiscal year 2013 increased by 68% year-over-year. Our overall average unit selling price for fiscal year 2013 decreased 19% 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.

Net revenue for fiscal year 2012 increased by $56.4 million, or 58%, 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. Total unit shipments for fiscal year 2012 increased by 83% year-over-year. Our overall average unit selling price for fiscal year 2012 decreased 13% 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.

For fiscal 2013 three customers accounted for 24% (Samsung), 18% (Nintendo) and 11% (Quanta) of total net revenue. For fiscal year 2012 three customers accounted for 31% (Nintendo), 15% (HTC) and 12% (Samsung) of total net revenue. For fiscal year 2011, one customer accounted for 73% (Nintendo) of total net revenue. No other customers accounted for more than 10% of total net revenue for fiscal years 2013, 2012 or 2011.

Net Revenue by Target End Market

	Fiscal Year		
	2013	2012 (in thousands)	2011
Smartphone and tablet devices	$ 147,958	$ 85,601	$ 7,279
% of net revenue	71%	56%	8%
Gaming	$ 38,687	$ 55,023	$ 77,673
% of net revenue	19%	36%	80%
Other	$ 21,989	$ 12,343	$ 11,595
% of net revenue	11%	8%	12%

Net revenue growth and contribution to total net revenue for the smartphone/tablet end market in fiscal years 2013 and 2012 reflects significant expansion of the smartphone portion of the handset market, growth in the market for tablet computing 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 in fiscal years 2013 and 2012 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	Fiscal 2013	Fiscal 2012 (in thousands)	Fiscal 2011
Korea	$ 69,874	$ 39,827	$ 3,536
Japan	65,663	54,754	72,475
Taiwan	39,203	34,040	7,603
United States	16,667	11,916	3,678
China	14,742	11,855	6,929
Rest of world	2,485	575	2,326
	$ 208,634	$ 152,967	$ 96,547

Table of Contents

We primarily sell our products directly to customers and distributors in Asia which consists primarily of Korea, Japan, Taiwan and China. Sales into Asia constituted 92% of our net revenue in fiscal year 2013 compared with 92% of our net revenue in fiscal year 2012 and 98% of our net revenue for the fiscal year 2011.

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.

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 for excess and obsolete inventory.

	Fiscal Year		
	2013	2012	2011
		(in thousands)	
Cost of revenue	$ 97,937	$ 67,571	$ 43,647
% of net revenue	47%	44%	45%

Cost of revenue for fiscal year 2013 increased by $30.4 million, or 45%, year-over-year, due to an increase in unit sales of our products, partially offset by improvements in our production yields and efficiency.

Cost of revenue for the fiscal year 2012 increased by $23.9 million, or 55%, year-over-year, due to an increase in unit sales of our products, partially offset by improvements in our production yields and efficiency and lower warranty costs.

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;

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.

		Fiscal Year	
	2013	2012	2011
		(in thousands)	
Gross profit	$ 110,697	$ 85,396	$ 52,900
% of net revenue	53%	56%	55%

Gross profit for fiscal year 2013 increased by $25.3 million, or 30%, year-over-year, due to an increase in unit sales of our products and the favorable effect of the sale of previously written down inventories, partially off-set by decreases in average selling price per unit sold for comparable products. Gross profit as a percentage of sales, or gross margin, decreased on 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 the sale of previously written down inventories for fiscal year 2013 of $3.0 million, or 1.5% of net revenue and by improvements in our production yields and efficiency. 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.

Gross profit for the fiscal year 2012 increased by $32.5 million, or 61%, year-over-year, due to higher volume shipments of our products to an expanded customer base, including manufacturers of smartphones, tablet devices and digital television and set-top box remote controls, year-over-year improvements in our production yields and efficiency, and lower warranty costs in fiscal year 2012. Gross profit as a percentage of sales, or gross margin, also increased due to improvements in our production yields and efficiency, partially offset by a write-down of inventory related to excess and obsolete material for fiscal year 2012 of $2.2 million, or 1.4% of net revenue.

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.

		Fiscal Year	
	2013	2012	2011
		(in thousands)	
Research and development	$ 24,648	$ 19,672	$ 15,826
% of net revenue	12%	13%	16%

Research and development expense for fiscal year 2013 increased by $5.0 million, or 25%, year-over-year. The increase was primarily attributable to a $1.9 million increase in employee cash compensation and benefits costs due to an increase in the number of employees, a $1.3 million increase in stock-based compensation expense due to an increase in the number of employees, and a $0.9 million increase in mask and foundry

Table of Contents

expenses. Research and development headcount was 118 at the end of fiscal year 2013 and 109 at the end of fiscal year 2012. Additions to headcount primarily supported expansion of new product and future technology development activities.

Research and development expense for fiscal year 2012 increased by $3.8 million, or 24%, year-over-year. The increase was primarily attributable to a $2.1 million increase in employee cash compensation and benefits costs due to an increase in the number of employees, a $0.9 million increase in mask and foundry expenses, a $0.5 million increase in outside service costs and a $0.5 million increase in stock-based compensation expense due an increase in the number of employees. Research and development headcount was 109 at the end of fiscal year 2012 and 83 at the end of fiscal year 2011. Additions to headcount primarily supported expansion of new product 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.

	2013	Fiscal Year 2012 (in thousands)	2011
Selling, general and administrative	$ 29,391	$ 18,710	$ 15,596
% of net revenue	14%	12%	16%

Selling, general and administrative expense for fiscal year 2013 increased by $10.7 million, or 57%, year-over-year. The increase was primarily attributable to a $3.4 million increase in employee cash compensation and benefits costs due to an increase in the number of employees, a $3.2 million increase in stock-based compensation driven by an increase in the number of employees, a $2.5 million increase in legal costs due primarily to patent litigation activities, and a $0.8 million increase in outside service costs. Executive separation costs of $0.8 million were included in employee compensation and benefits costs and executive separation costs of $0.6 million were included in stock-based compensation costs. Selling, general and administrative headcount increased to 102 at the end of fiscal year 2013 from 88 year-over-year. Additions to headcount primarily supported expanded geographic, customer and market opportunities for our products.

Selling, general and administrative expense for fiscal year 2012 increased by $3.1 million, or 20%, year-over-year. The increase was primarily attributable to a increase in employee cash compensation and benefits costs of $2.4 million resulting from increased headcount, increased stock-based compensation expense of $0.9 million due to increased headcount and increased facilities and infrastructure cost of $0.5 million, partially offset by the write-off of deferred offering costs of $1.4 million in the third quarter of fiscal year 2011. Selling, general and administrative headcount increased to 88 at the end of fiscal year 2012 from 71 year-over-year. Additions to headcount primarily supported expanded geographic, customer and market opportunities for our products.

Income From Operations

	2013	Fiscal Year 2012 (in thousands)	2011
Income from operations	$ 56,658	$ 47,014	$ 21,478
% of net revenue	27%	31%	22%

Table of Contents

Income from operations for fiscal year 2013 increased by $9.6 million, or 21%, year-over-year, primarily due to increased gross profit of $25.3 million partially offset by higher operating expenses of $15.7 million. As a percentage of net revenues, income from operations decreased by 4%.

Income from operations for fiscal year 2012 increased by $25.5 million, or 119%, year-over-year, primarily due to increased unit shipments, increased gross profit and lower operating expenses as a percentage of sales.

Other Income (Expense), Net

	2013	Fiscal Year 2012 (in thousands)	2011
Change in fair value of warrant liabilities	$	$	$ (4,025)
Other income, net	348	138	31
Other income (expense), net	$ 348	$ 138	$ (3,994)
% of net revenue	%	%	4%

Other income (expense), net increased by $0.2 million, or 152%, for fiscal year 2013 compared to fiscal year 2012. The increase in other income (expense) was primarily due to increased interest income of $0.4 million on higher investment balances, off-set by decreases in gains on sale of fixed assets compared to fiscal year 2012.

Other income (expense), net decreased by $4.1 million, or 103%, for fiscal year 2012 compared to fiscal year 2011. The change in other income (expense) was primarily due to changes in fair value of warrant liabilities in fiscal year 2011. During fiscal year 2011, we recorded charges of $4.0 million resulting from the increase in fair value of warrants to purchase shares of our preferred stock, compared to $6.4 million recorded in fiscal year 2010. Effective June 25, 2010, we amended our certificate of incorporation to remove certain provisions from our preferred stock that had resulted in our warrants being previously classified as liabilities. On that date, the fair value of the warrants, $11.9 million, was reclassified to stockholders equity. Accordingly, for periods after June 27, 2010, we were not required to reflect changes in fair value of warrant liabilities in our consolidated statements of income.

Income Tax Provision

The provision for income taxes consists of our estimated Federal, State and foreign income taxes based on our pre-tax income. Our provision differs from the federal statutory rate primarily due to foreign tax differentials, research and development tax credits, and expenses that are not deductible such as certain stock based compensation.

	2013	Fiscal Year 2012 (in thousands)	2011
Income tax provision	$ 5,301	$ 10,205	$ 8,137
% of income before income taxes	9%	22%	47%

In fiscal year 2013, we recorded an income tax provision of $5.3 million compared to an income tax provision of $10.2 million for fiscal year 2012. The difference between fiscal year 2013 compared to fiscal year 2012, was primarily due to a lower effective tax rate resulting from foreign rate differentials, increased research and development tax credits and stock-based compensation deductions. In addition, during fiscal year 2013, we also changed our estimate of earnings attributable to our domestic versus foreign operations earned for the fiscal year. As a result of an increase in the amount of earnings attributable to foreign jurisdictions with lower tax rates, we adjusted our tax provision in fiscal year 2013 to reflect these new estimates; to the extent that the adjustments related to prior periods, the income tax impact was recorded in the third quarter of fiscal year 2013 and is a

Table of Contents

component of our annual effective tax rate. The impact of recording this change in estimate, along with the results of operations for the 2013 fiscal year, gave rise in fiscal year 2013 to an income tax benefit of $2.2 million.

In fiscal year 2012, we recorded an income tax provision of $10.2 million, compared to an income tax provision of $8.1 million for fiscal year 2011. Our fiscal year 2012 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 and the benefit of the federal research and development income tax credit. The income tax provision was also unfavorably impacted by the effects of non-deductible stock-based compensation expense.

The provision for income tax differs from the amount computed by applying the federal statutory tax rate to income before income taxes as follows:

	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011
Income tax provision at the federal statutory rate	35.0%	35.0%	35.0%
State tax, net of federal benefit			
Research and development credits	(2.1)	(1.0)	(2.0)
Foreign tax rate differential	(25.8)	(14.7)	(0.4)
Non deductible stock compensation	2.2	2.3	3.7
Change in fair value of warrant liabilities			8.1
Change in valuation allowance			2.4
Other			(0.3)
Effective tax rate	9.3%	21.6%	46.5%

Net Income

	Fiscal Year 2013	2012 (in thousands)	2011
Net income	$ 51,705	$ 36,947	$ 9,347
% of net revenue	25%	24%	10%

Net income for fiscal year 2013 increased by $14.8 million, or 40%, year-over-year, primarily due to increased unit shipments, increased gross profit and a lower effective tax rate.

Net income for fiscal year 2012 increased by $27.6 million, or 295%, year-over-year, primarily due to increased unit shipments, increased gross profit, the absence of charges related to warrants to purchase preferred stock and a decrease in the effective tax rate.

Quarterly Results of Operations and Seasonality

Tables setting forth our unaudited consolidated statements of operations for each quarter of fiscal years 2013, 2012 and 2011, may be found in Note 7, *Quarterly Financial Data (Unaudited)*, in our Notes to Consolidated Financial Statements included later in this Annual Report on Form 10-K, which information is incorporated herein by reference. The quarterly data have been prepared on the same basis as the audited Consolidated Financial Statements and related Notes included later in this Annual Report on Form 10-K and include all adjustments consisting only of normal recurring adjustments that we consider necessary for a fair presentation of the financial information set forth below.

Sales of video gaming consoles, portable video gaming devices and certain smartphone and tablet models tend to be weighted towards holiday periods. As a result, historically, our customers in this market tend to increase production of products incorporating our solutions in the first and second quarters of our fiscal year in order to build inventories. Sales of our products tend to correspondingly increase during these periods and to be lower in the third and fourth quarters of the fiscal year. We expect this seasonality to continue in future periods, although we expect the magnitude of this seasonality to decrease as we increase sales to manufacturers of smartphones and tablet devices relative to sales to gaming manufacturers. We believe the quarterly sales progression for smartphones and tablet devices is less subject to seasonality due to the fact that end customer demand is also driven by upgrade cycles that typically occur throughout the year. In addition, the impact of new product introductions and overall macroeconomic trends can mitigate the impact of seasonality. We have limited visibility into future customer demand and the product mix that our customers will require, which could adversely affect our net revenue forecasts and operating margins.

In addition to the impact of competitive pricing pressures, we have also experienced fluctuations in gross profit generally due to variability in our quarterly net revenue as well as manufacturing cost efficiencies which can be influenced by fluctuations in manufacturing process yields as well as introductions of new less expensive to manufacture products. Our products are manufactured by third-party manufacturers according to our estimates of future customer demand, of which we have limited visibility. If we inaccurately forecast demand for our products, we may be unable to obtain adequate and cost-effective foundry or assembly capacity from our third-party manufacturers to meet our customers delivery requirements, or we may accumulate excess inventories, which could adversely impact our gross margins.

Our operating expenses generally increased over the twelve quarters in fiscal years 2013, 2012 and 2011 in absolute dollars primarily as a result of our increase in headcount related to our investment in the development of new products and our corporate infrastructure to support higher levels of sales and to operate as a public company.

We base our planned operating expenses on our expectations of future net revenue. If net revenue for a particular quarter is lower than expected, we may be unable to proportionately reduce our operating expenses. As a result, we believe that period-to-period comparisons of our past operating results should not be relied upon as an indication of our future performance.

Financial Condition, 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 March 31 2013, we had $200.3 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 develop.

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, $60.7 million of the $100.8 million of cash and cash equivalents was held by our foreign subsidiaries as of March 31, 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.

Our Cash and cash equivalents balance decreased by $52.8 million during the year ended March 31, 2013, primarily due to the purchase of short-term and long-term investments. The change in cash and cash equivalents for Fiscal 2013, 2012 and 2011 was as follows:

	Fiscal Year		
	2013	**2012**	**2011**
Net cash provided by operating activities	$ 35,270	$ 44,422	$ 7,952
Net cash (used in) provided by investing activities	(100,346)	2,837	3,437
Net cash (used in) provided by financing activities	12,276	77,589	(4,988)
Net (decrease) increase in cash and cash equivalents	$ (52,800)	$ 124,848	$ 6,401

Total cash and cash equivalents accounted for 36% and 79% of total assets at March 31, 2013 and April 1, 2012.

Net Cash Provided by Operating Activities

Net cash provided by operating activities in fiscal year 2013 of $35.3 million primarily reflected net income of $51.7 million, and non-cash expenses of $10.2 million, partially off-set by a net increase in operating assets and liabilities of $26.6 million consisting primarily of an increase in Accounts receivable of $18.2 million, an increase in Prepaid expenses and other current assets of $9.6 million, and an increase in Inventories of $11.5 million, partially off-set by an increase in Accounts payable of $7.6 million and an increase in Accrued liabilities of $4.1 million. The movements in working capital were primarily based on the changes in Accounts receivables, Prepaid and other current assets and inventories resulting from our increase in sales volume. Non-cash expenses of $10.2 million consisted primarily of depreciation and amortization of $2.0 million and stock-based compensation of $8.5 million, partially off-set by $0.3 million change in deferred income taxes.

The $18.2 million increase in Accounts receivable principally relates to increased gross billings to distributors and OEMs, associated with an upward trend in demand in the fourth quarter of fiscal year 2013 compared with the same period in fiscal year 2012.

The $9.6 million increase in Prepaid expenses and other current assets was primarily attributed to higher advances to vendors, income tax receivable and prepaid expenses.

The $11.5 million increase in Inventories was attributable to increased production of products partially offset by lower inventory reserves in the fourth quarter of fiscal year 2013 compared with the same period in fiscal year 2012.

The $7.6 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 $4.1 million increase in Accrued liabilities is due primarily to an increase in income tax reserves and accrued former CEO separation costs, partially offset by lower accrued bonuses.

Table of Contents

Net cash provided by operating activities in fiscal year 2012 of $44.4 million primarily reflected net income of $36.9 million, non-cash expenses of $4.8 million and a net decrease in operating assets and liabilities of $2.6 million consisting primarily of a decrease in Inventory of $3.0 million, and an increase in Accrued liabilities of $5.6 million partially offset by an increase in Accounts receivable of $2.2 million, an increase in Prepaid and other current assets of $1.0 million, an increase in Other assets of $1.4 million and a decrease in Accounts payable of $1.2 million. The movements in working capital were primarily based on the changes in accounts receivables resulting from our increase in sales volume, a decrease in inventory due to our inventory reduction efforts and an increase in other accrued liabilities driven by an increase in headcount. Non-cash expenses of $4.8 million consisted primarily of depreciation and amortization of $2.0 million and stock-based compensation of $3.7 million.

Net cash provided by operating activities in fiscal year 2011 of $7.9 million primarily reflected net income of $9.3 million, non-cash expenses of $8.6 million and an increase in Accounts payable and Accrued liabilities of $3.4 million and $1.1 million, respectively, offset by an increase in Accounts receivable and Inventories of $4.6 million and $10.9 million, respectively. The movements in working capital were primarily based on the changes in Accounts receivables , Inventory and Accounts payable resulting from our increase in sales volume and an increase in other accrued liabilities driven by an increase in headcount. The non-cash expenses of $8.6 million consisted primarily of depreciation and amortization of $1.8 million, stock-based compensation of $2.2 million and the revaluation of warrants of $4.0 million.

Net Cash (Used in) Provided by Investing Activities

Net cash used in investing activities in fiscal year 2013 of $100.3 million primarily reflected the purchase of property and equipment of $5.1 million, and the purchase of available-for-sale investments of $116.3 million, partially off-set by the sale and maturity of available-for-sale investments of $21.0 million.

Net cash provided by investing activities in fiscal year 2012 of $2.8 million primarily reflected the purchase of property and equipment of $2.5 million and includes the sale of available for sale investments of $15.2 million and the purchase of available for sale investments of $10.0 million.

Net cash provided by investing activities for fiscal year 2011 of $3.5 million included proceeds from the maturity of short-term investments of $15.7 million, partially offset by purchases of property and equipment of $2.2 million and purchases of short-term investments of $10.1 million.

Net Cash (Used in) Provided by Financing Activities

Net cash provided by financing activities in fiscal year 2013 of $12.3 million resulted primarily from proceeds from the issuance of common stock of $5.6 million and excess tax benefit from stock-based compensation of $7.1 million.

Net cash provided by financing activities in fiscal year 2012 of $77.6 million resulted primarily from proceeds from public offerings, net of underwriter commissions of $77.9 million.

Net cash used in financing activities in fiscal year 2011 of $5.0 million consisted primarily of $0.4 million for the repayment of equipment financing, $1.4 million in offering costs paid during the period and $4.0 million for the repayment of refundable customer advances, offset by proceeds of $0.7 million from the issuance of common stock upon the exercise of stock options.

Table of Contents

Contractual Obligations

The following table summarizes our outstanding contractual obligations as of March 31, 2013:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(in thousands)				
	(unaudited)				
Operating lease obligations	$ 886	$ 713	$ 173	$	$
Purchase obligations	31,262	31,262			
Total contractual obligations	$ 32,148	$ 31,975	$ 173	$	$

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.

On May 16, 2013, we signed a new non-cancelable operating lease for our corporate headquarters through December 2019.

Future minimum lease payments under the new corporate headquarters operating lease as of May 16, 2013 are as follows:

Fiscal Years Ending March or April	Amount (in thousands)
2014	$ 458
2015	2,456
2016	3,388
2017	3,623
2018	3,732
Beyond	6,757
Total	$ 20,414

Included in our gross unrecognized tax benefits balance of $7.8 million at March 2013 are $6.9 million of tax positions which would affect income tax expense if recognized. As of March 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.

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 March 31, 2013.

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

Table of Contents

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 March 31, 2013, we were not involved in any unconsolidated SPE transactions.

Recent Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, Presentation of Comprehensive Income which requires that all non-owner changes in stockholders equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholder s equity. ASU No. 2011-05 became effective for fiscal years, and interim periods within those years, beginning after December 15, 2012, which is our fiscal interim period ended July 1, 2012 of fiscal year ending March 31, 2013. Upon adoption of ASU No. 2011-05, we have separately reported Consolidated Statements of Comprehensive Income and the adoption did not impact our financial condition or results of operations.

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 will become effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, which is our fiscal interim period ended June 30, 2013 of fiscal year ending March 30, 2014, and the adoption will not impact our financial condition or results of operations.

Critical Accounting Estimates

Our Consolidated Financial Statements and the related Notes included elsewhere in this Annual Report on Form 10-K are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these Consolidated Financial Statements and the related Notes 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.

Income Taxes

We account for income taxes under the asset and liability approach. Under this approach, deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the Consolidated Financial Statements and related Notes using enacted tax rates and laws that will be in effect when the difference is expected to reverse. Valuation allowances are provided against deferred tax assets that are not likely to be realized. In assessing the need for a valuation allowance, we consider positive and negative evidence such as historical levels of income or loss, projections of future income, expectations and risks associated with estimates of future taxable income and ongoing prudent and practical tax planning strategies. To the extent that we believe it is more likely than not that some portion of our deferred tax assets will not be realizable, we would increase the valuation allowance against the deferred tax assets. Realization of our deferred tax assets is dependent upon future federal, state and foreign taxable income. Our judgments regarding future profitability may change due to future market conditions, changes in U.S. or international tax laws and other factors. These changes, if any, may require possible material adjustments to these deferred tax assets, resulting in a reduction in net income or an increase in net loss in the period when such determinations are made.

Table of Contents

We are subject to income taxes in the United States and foreign countries, and we expect to be subject to routine corporate income tax audits in many of these jurisdictions. We believe that our tax return positions are fully supported, but tax authorities are likely to challenge certain positions, which may not be fully sustained. Our income tax expense includes amounts intended to satisfy income tax assessments that result from these challenges. Determining the income tax expense for these potential assessments and recording the related assets and liabilities requires management judgment and estimates. We believe that our provision for uncertain tax positions, including related interest and penalties, is adequate based on information currently available to us. The amount ultimately paid upon resolution of audits could be materially different from the amounts previously included in income tax expense and therefore could have a material impact on our tax provision, net income and cash flows. Our overall provision requirement could change due to the issuance of new regulations or new case law, negotiations with tax authorities, resolution with respect to individual audit issues, or the entire audit, or the expiration of statutes of limitation.

We have expanded our international operations and staff, and will continue to do so in the future, to better support our expansion in international markets. This business expansion has included an international structure that, among other things, consists of research and development cost-sharing arrangements, certain licenses and other contractual arrangements between us and our wholly owned foreign subsidiaries. These arrangements may result in a lower percentage of our pre-tax income being subject to a relatively higher U.S. federal statutory tax rate. As a result, our effective tax rate is expected to be lower than the U.S. federal statutory rate. However, the realization of any expected tax benefits is contingent upon numerous factors, including the judgments of tax authorities in several jurisdictions, and thus cannot be assured.

The Company has not provided for U.S. federal income and foreign withholding taxes on undistributed earnings from non-U.S. operations as in general, it is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. The Company has not made a provision for U.S. or additional foreign withholding taxes on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration of approximately $78.0 million and $26.8 million at March 2013 and April 2012, respectively. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these foreign subsidiaries.

Inventory Valuation

We value our inventory at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or its current estimated market value. Inventories include finished good parts that may be specialized in nature and subject to rapid obsolescence. We periodically review the quantities and carrying values of inventories to assess whether the inventories are recoverable. Write-down of inventory for excess quantity and technological obsolescence are charged to cost of revenues as incurred. Actual demand may materially differ from our projected demand, and this difference could have a material impact on our gross margin and inventory balances based on additional provisions for excess or obsolete inventory or a benefit from sales of inventory previously written down. Write-down amounts charged (credited) to cost of revenues for fiscal years 2013, 2012 and 2011 were $(3.0) million, $2.2 million and $0.4 million, respectively.

Stock-Based Compensation

We measure the cost of employee services received in exchange for equity incentive awards, including stock options, based on the grant date fair value of the award. The fair value is estimated using the Black-Scholes option pricing model. The Black-Scholes model requires us to estimate certain key assumptions including future stock price volatility, expected term of the options, risk free rates, and dividend yields. In fiscal 2013, 13% of our stock-based awards contained a market-based condition for vesting; these awards were valued using a Monte Carlo simulation analysis to model and value multiple possible outcomes. We also estimate potential forfeiture of equity incentive awards granted and adjust compensation expense accordingly. The estimate of forfeitures is

Table of Contents

adjusted over the estimated term to the extent that the actual forfeiture rate or expected forfeiture rate is expected to differ from these estimates. The resulting cost is recognized over the period during which the employee is required to provide services in exchange for the award, which is usually the vesting period. We recognize compensation expense over the vesting period using the straight-line method and classify these amounts in the statements of income based on the department to which the related employee is assigned. For fiscal years 2013, 2012 and 2011, we recognized stock-based compensation of $8.5 million, $3.7 million and $2.2 million, respectively.

If any of the assumptions in the Black-Scholes option pricing model changes significantly, stock-based compensation for future awards may differ materially compared to awards granted previously.

We estimate our expected volatility and expected term based on trading history and exercise history, respectively. We derive the risk-free interest rate assumption using the published interest rate for a U.S. Treasury zero-coupon issue having a maturity similar to the expected term of the options. We base the assumed dividend yield on the expectation that we will not pay cash dividends in the foreseeable future.

We estimate forfeitures at the time of grant and revise, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We utilized our historical forfeiture rates since inception to estimate our future forfeiture rate. We will continue to evaluate the appropriateness of estimating the forfeiture rate based on actual forfeiture experience, analysis of employee turnover behavior and other factors. Quarterly changes in the estimated forfeiture rate can have a significant effect on stock-based compensation expense as the cumulative effect of adjusting the rate for all stock compensation expense amortization is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the stock-based compensation expense recognized in the consolidated financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the stock-based compensation expense recognized in the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We had cash, cash equivalents and investments of $200.3 million at March 31, 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 significant impact on our future interest income or investment fair value. As of March 31, 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. We recognized no significant foreign currency transaction gains or losses for fiscal years 2013, 2012 and 2011 related to fluctuations in foreign currency exchange rates.

Item 8. Financial Statements and Supplementary Data.

Our Consolidated Financial Statements and related Notes and schedules are incorporated by reference from Part IV, Item 15, below.

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, our management conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K in ensuring that information required to be disclosed was recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and to provide reasonable assurance that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that our internal control over financial reporting was effective as of March 31, 2013.

Deloitte & Touche, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of the audit, has issued a report, included herein, on the effectiveness of the Company s internal control over financial reporting as of March 31, 2013.

Changes in Internal Control over Financial Reporting

During the fourth quarter of fiscal 2013, there were no changes in the internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company s 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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

InvenSense, Inc.

Sunnyvale, California

We have audited the internal control over financial reporting of InvenSense, Inc. and subsidiaries (collectively, the Company) as of March 31, 2013, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2013, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended March 31, 2013 of the Company and our report dated June 14, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ DELOITTE & TOUCHE LLP

San Jose, California

June 14, 2013

Table of Contents

Item 9B. Other Information.

None.

Table of Contents

PART III

We are incorporating by reference the information required by Part III of this Annual Report on Form 10-K from our proxy statement relating to our 2013 annual meeting of stockholders (the Proxy Statement), which will be filed with the SEC within 120 days after March 31, 2013.

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item will be contained in our Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this item will be contained in our Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item will be contained in our Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item will be contained in our Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information required by this item will be contained in our Proxy Statement and is incorporated herein by reference.

Table of Contents

PART IV

ITEM 15. Financial Statements and Exhibits.

(a) The following documents are filed as part of this Form:

1. Financial Statements

2. Financial Statement Schedules

Schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or related Notes thereto.

3. Exhibits

See Index to Exhibits at the end of this Report, which is incorporated herein by reference. The Exhibits listed in the accompanying Index to Exhibits are filed as part of this report.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

InvenSense, Inc.

Sunnyvale, California

We have audited the accompanying consolidated balance sheets of InvenSense, Inc. and subsidiaries (collectively, the Company) as of March 31, 2013 and April 1, 2012, and the related consolidated statements of income, comprehensive income, stockholders equity, and cash flows for each of the three years in the period ended March 31, 2013. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2013 and April 1, 2012 and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of March 31, 2013, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 14, 2013 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

San Jose, California

June 14, 2013

Table of Contents

InvenSense, Inc.

Consolidated Balance Sheets

(In thousands, except par value)

	March 31, 2013	April 1, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 100,843	$ 153,643
Short-term investments	77,040	4,129
Accounts receivable	30,098	11,931
Inventories	23,762	12,240
Prepaid expenses and other current assets	13,302	4,188
Total current assets	245,045	186,131
Property and equipment, net	8,650	4,011
Long-term investments	22,442	
Other assets	2,957	3,176
Total assets	$ 279,094	$ 193,318
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 14,464	$ 5,446
Accrued liabilities	7,753	7,754
Total current liabilities	22,217	13,200
Long-term liabilities	6,930	3,241
Total liabilities	29,147	16,441
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 March 31, 2013 and April 1, 2012		
Common stock:		
Common stock, $0.001 par value 750,000 shares authorized, 84,980 shares issued and outstanding at March 31, 2013, 80,890 shares issued and outstanding at April 1, 2012	158,108	136,792
Accumulated other comprehensive income	50	1
Retained earnings	91,789	40,084
Total stockholders equity	249,947	176,877
Total liabilities and stockholders equity	$ 279,094	$ 193,318

See accompanying notes to the consolidated financial statements.

Table of Contents

InvenSense, Inc.

Consolidated Statements of Income

(In thousands, except per share data)

	Fiscal Year Ended		
	March 31, 2013	**April 1, 2012**	**April 3, 2011**
Net revenue	$ 208,634	$ 152,967	$ 96,547
Cost of revenue	97,937	67,571	43,647
Gross profit	110,697	85,396	52,900
Operating expenses:			
Research and development	24,648	19,672	15,826
Selling, general and administrative	29,391	18,710	15,596
Total operating expenses	54,039	38,382	31,422
Income from operations	56,658	47,014	21,478
Other income (expense), net:			
Change in fair value of warrant liabilities			(4,025)
Other income, net	348	138	31
Other income (expense), net	348	138	(3,994)
Income before income taxes	57,006	47,152	17,484
Income tax provision	5,301	10,205	8,137
Net income	51,705	36,947	9,347
Net income allocable to convertible preferred stockholders		20,618	7,716
Net income allocable to common stockholders	$ 51,705	$ 16,329	$ 1,631
Net income per share allocable to common stockholders			
Basic	$ 0.62	$ 0.39	$ 0.09
Diluted	$ 0.59	$ 0.37	$ 0.08
Weighted average shares outstanding used in computing net income per share allocable to common stockholders:			
Basic	82,738	41,614	17,592
Diluted	87,359	47,011	22,202

See accompanying notes to the consolidated financial statements.

Table of Contents

InvenSense, Inc.

Consolidated Statements of Comprehensive Income

(In thousands)

	Fiscal Year Ended		
	March 31, 2013	**April 1, 2012**	**April 3, 2011**
Net income	$ 51,705	$ 36,947	$ 9,347
Other comprehensive income:			
Unrealized gains on available-for-sale investments, net of tax expense of $28, $nil and $nil in fiscal years 2013, 2012, and 2011, respectively	49		10
Total comprehensive income	$ 51,754	$ 36,947	$ 9,357

See accompanying notes to the consolidated financial statements.

Table of Contents

InvenSense, Inc.

Consolidated Statements of Stockholders Equity

(In thousands, except per share amounts)

	Preferred Stock		Convertible Preferred Stock		Common Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	
	Shares	Amount	Shares	Amount	Shares	Amount			Total
Balance March 28, 2010		$	29,431	$ 38,364	17,056	$ 2,855	$ (9)	$ (6,210)	$ 35,000
Reclassification of warrants from liability to equity (see Note 1)				11,877					11,877
Issuance of common stock from exercise of stock options					949	717			717
Stock compensation relating to stock options issued to consultants						128			128
Stock compensation relating to stock options issued to employees						2,062			2,062
Unrealized gain on available for sale investments							10		10
Net income								9,347	9,347
Balance April 3, 2011			29,431	50,241	18,005	5,762	1	3,137	59,141
Issuance of common stock upon initial public offering, net of offering costs and underwriter commission					10,000	67,653			67,653
Issuance of common stock upon secondary offering, net of offering costs and underwriter commission					575	7,593			7,593
Issuance of preferred stock from exercise of stock warrants			276	499					499
Issuance of common stock from exercise of stock warrants					646				
Conversion of preferred stock to common stock upon initial public offering			(29,707)	(50,740)	50,999	50,740			
Issuance of common stock from exercise of stock options					665	1,356			1,356
Stock compensation relating to stock options issued to consultants						14			14
Stock compensation relating to stock options issued to employees						3,674			3,674
Unrealized gain on available for sale Investments									
Net income								36,947	36,947
Balance April 1, 2012					80,890	136,792	1	40,084	176,877
Issuance of common stock from restricted stock and restricted stock units					422				
Issuance of common stock from exercise of stock warrants					299	81			81
Offering costs						22			22
Issuance of common stock from exercise of stock options					3,369	5,617			5,617
Excess tax benefit from stock-based compensation						7,077			7,077
Stock compensation relating to stock options issued to employees						8,519			8,519

Unrealized gain on available for sale Investments					49		49
Net income						51,705	51,705
Balance March 31, 2013	$	$	84,980	$ 158,108	$ 50	$ 91,789	$ 249,947

See accompanying notes to the consolidated financial statements.

InvenSense, Inc.

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended March 31, 2013	April 1, 2012	April 3, 2011
Cash flows from operating activities:			
Net income	$ 51,705	$ 36,947	$ 9,347
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,998	1,992	1,778
Loss (gain) on disposal of property and equipment	8	(154)	91
Stock-based compensation expense	8,519	3,688	2,190
Change in fair value of warrant liability			4,025
Deferred income tax assets	(348)	(699)	489
Write-off of deferred offering costs			1,388
Tax effect of employee benefit plans	7,077		
Excess tax benefit from stock-based compensation	(7,077)		
Changes in operating assets and liabilities:			
Accounts receivable	(18,167)	(2,222)	(4,564)
Inventories	(11,522)	2,968	(10,896)
Prepaid expenses and other current assets	(9,583)	(1,018)	390
Other assets	1,006	(1,402)	(745)
Accounts payable	7,592	(1,245)	3,351
Accrued liabilities	4,062	5,567	1,108
Net cash provided by operating activities	35,270	44,422	7,952
Cash flows from investing activities:			
Purchase of property and equipment	(5,076)	(2,502)	(2,176)
Proceeds from the sale of property and equipment	5	188	
Sales and maturities of available-for-sale investments	20,979	15,176	15,675
Purchase of available-for-sale investments	(116,254)	(10,025)	(10,062)
Net cash provided by (used in) investing activities	(100,346)	2,837	3,437
Cash flows from financing activities:			
Proceeds from initial public offering and secondary offering, net of underwriter commissions		77,904	
Net proceeds from exercise of warrants	81	499	
Proceeds from issuance of common stock	5,617	1,356	717
Offering costs	(471)	(2,145)	(1,388)
Proceeds from long-term debt and capital lease obligations			43
Payments of long-term debt and capital lease obligations	(28)	(25)	(360)
Refund from refundable customer advances			(4,000)
Excess tax benefit from stock-based compensation	7,077		
Net cash provided by (used in) financing activities	12,276	77,589	(4,988)
Net (decrease) increase in cash and cash equivalents	(52,800)	124,848	6,401
Cash and cash equivalents:			
Beginning of period	$ 153,643	$ 28,795	$ 22,394
End of period	$ 100,843	$ 153,643	$ 28,795
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 2	$ 23	$ 16

Cash paid for income taxes	$	40	$	9,078	$	7,735
Noncash investing and financing activities:						
Unpaid accounts payable for property and equipment purchased	$	1,845	$	274	$	278
Unrealized gain from available-for-sale investments	$	77	$		$	10
Fixed assets acquired under capital leases	$		$	40	$	43
Non-cash settlement of advances from customers	$		$		$	
Unpaid accrued liabilities for offering costs incurred	$		$	494	$	23
Reclassification of warrants from liabilities to equity	$		$		$	11,877
Non-cash warrant exercises	$	150	$		$	
Conversion of warrants and preferred stock to common stock	$		$	50,740	$	

See accompanying notes to the consolidated financial statements.

InvenSense, Inc.

Notes to Consolidated Financial Statements

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 micro-electro-mechanical system (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, tablet devices, console and portable video gaming devices, digital still and video cameras, smart TVs, 3D mice, wearable health and fitness monitors and portable navigation devices, the Company delivers leading generation of motion interface solutions based on its advanced multi-axis gyroscope technology.

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 historical 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.

Basis of Consolidation

The Consolidated Financial Statements and related Notes include the accounts of InvenSense, Inc. and its subsidiaries, InvenSense International, Inc. (Cayman Islands), InvenSense Taiwan Co., Ltd. (Taiwan), InvenSense Taiwan Sales Co., Ltd. (Taiwan), InvenSense G.K. (Japan), InvenSense Korea, Ltd. (Republic of Korea) InvenSense International FZE (United Arab Emirates), InvenSense China, Ltd. (China) and InvenSense Hong Kong Holding Limited (Hong Kong). InvenSense Taiwan Co., Ltd. personnel are primarily engaged in product testing, and the remaining foreign subsidiaries personnel primarily provide sales support to the Cayman Islands entity.

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 (expense), net, in the consolidated statements of income. During the fiscal year ended March 31, 2013, foreign currency losses were $51,000. During the fiscal year ended April 1, 2012 foreign currency losses were $43,000. During the fiscal year ended April 3, 2011, foreign currency gains were $24,000.

Certain prior period amounts in the Consolidated Financial Statements and related Notes thereto have been reclassified to conform to the current period s presentation.

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 three most recent fiscal years ended on March 31, 2013 (fiscal year 2013), April 1, 2012 (fiscal year 2012) and April 3, 2011 (fiscal year 2011). Fiscal year 2013 and fiscal year 2012 were comprised of 52 weeks and fiscal year 2011 was comprised of 53 weeks.

Table of Contents

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

Use of Estimates

The preparation of the Company s Consolidated Financial Statements and related Notes in conformity with accounting principles generally accepted in the United States of America (U.S. 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 Consolidated Financial Statements and related Notes and the reported amounts of income and expenses during the reporting period. Significant estimates included in the Consolidated Financial Statements and related Notes include income taxes, inventory valuation, stock-based compensation, remeasurement of preferred stock warrants (prior to fiscal year 2012) 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.

Cash Equivalents

The Company considers all highly liquid instruments acquired with a remaining maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are stated at cost, which approximates their fair value.

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount, net of allowances for doubtful accounts and sales returns and allowances. The allowance for doubtful accounts is based on the Company s assessment of the collectability of customer accounts. The Company periodically reviews the need for an allowance by considering factors such as historical experience, credit quality, the age of the accounts receivable balances and current economic conditions that may affect a customer s ability to pay. As a result of the Company s favorable collection experience and customer concentration, no allowance for doubtful accounts was necessary at March 2013 or April 2012. The reserve for sales returns and allowances is based on specific criteria including agreements to provide rebates and other factors known at the time, as well as estimates of the amount of goods shipped that will be returned. To determine the adequacy of the sales returns and allowances, the Company analyzes historical experience of actual returns as well as current product return information. During fiscal 2013, fiscal 2012, fiscal 2011, the Company incurred charges related to its reserve for sales returns and allowances of $84,000, $132,000 and $428,000, respectively. At March 2013, April 2012 and April 2011, the balances for the reserve for sales returns and allowances were $21,000, $nil and $85,000, respectively.

Segment Information

The Company operates in one operating segment by designing, developing, manufacturing and marketing linear and mixed-signal integrated circuits. The Chief Executive Officer has been identified as the Chief Operating Decision Maker as defined by Financial Accounting Standards Board s Accounting Standards Codification (ASC) 280 Segment Reporting . Enterprise-wide information is provided in accordance with ASC 280. Geographical revenue information is based on customer s location. Long-lived assets consist of property and equipment. Property and equipment information is based on the physical location of the assets at the end of each fiscal period.

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

Long-lived assets by country were as follows:

Country	March 2013	April 2012
	(in thousands)	
Taiwan	$ 6,190	$ 2,930
United States	2,333	1,054
Other	127	27
	$ 8,650	$ 4,011

Net revenues from unaffiliated customers by country were as follows:

Region	Fiscal 2013	Fiscal 2012	Fiscal 2011
		(in thousands)	
Korea	$ 69,874	$ 39,827	$ 3,536
Japan	65,663	54,754	72,475
Taiwan	39,203	34,040	7,603
United States	16,667	11,916	3,678
China	14,742	11,855	6,929
Rest of world	2,485	575	2,326
	$ 208,634	$ 152,967	$ 96,547

Available-for-Sale Investments

Securities with remaining maturities at the time of purchase of greater than three months are considered available for sale investments. If the securities have remaining maturities of less than twelve months from the balance sheet date they are classified as short-term investments in the Company s consolidated balance sheets; if their maturities exceed twelve months beyond the balance sheet date, they are classified as long-term investments in the Company s consolidated balance sheets. Available-for-sale securities are carried at fair value with temporary unrealized gains and losses, net of taxes, reported within accumulated other comprehensive income in the Company s Consolidated Financial Statements.

Available-for-sale investments are considered to be impaired when a decline in fair value is judged to be other than temporary. The Company considers available quantitative and qualitative evidence in evaluating potential impairment of its investments on a quarterly basis. If the cost of an investment exceeds its fair value, management evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and the Company s intent and ability to hold the investment. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded and a new cost basis in the investment is established. During fiscal 2013, fiscal 2012 and fiscal 2011, the Company did not identify any other than temporary impairments.

Impairment of Long Lived Assets

The Company regularly reviews the carrying amount of its long-lived assets, as well as the useful lives, to determine whether indicators of impairment may exist which warrant adjustments to carrying values or estimated useful lives. An impairment loss would be recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. Should impairment exist, the impairment loss would be measured based on the excess of the carrying amount of the asset over the asset s fair value. During fiscal 2013, the Company recognized an impairment loss of $0.4 million related to one of its vendor advances. The Company has not recognized any impairment losses for its long-lived assets for fiscal 2012 or fiscal 2011.

Table of Contents

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents, investments, advances to vendors and accounts receivable. The Company limits exposure to credit loss by placing cash, cash equivalents and investments with major financial institutions within the United States that management assesses to be of high credit quality. The Company periodically reviews the credit worthiness of its customers and generally does not require collateral or other security to support accounts receivable. The Company has not experienced any losses on accounts receivables or on deposits of cash and cash equivalents for fiscal 2013, fiscal 2012 or fiscal 2011.

At March 2013, four customers accounted for 17%, 12%, 10% and 10% of total accounts receivable. At April 2012, five customers accounted for 18%, 17%, 13%, 12% and 10% of total accounts receivable. No other customers accounted for more than 10% of total accounts receivable at March 2013 or April 2012.

For fiscal 2013 three customers accounted for 24%, 18% and 11% of total net revenue. For fiscal 2012 three customers accounted for 31%, 15% and 12% of total net revenue. For fiscal 2011, one customer accounted for 73% of total net revenue. No other customers accounted for more than 10% of total net revenue for fiscal 2013, fiscal 2012 or fiscal 2011.

Research and Development

Research and development activities are expensed as incurred.

Comprehensive Income

In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, Presentation of Comprehensive Income which requires that all non-owner changes in stockholders equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholder s equity. ASU No. 2011-05 became effective for fiscal years, and interim periods within those years, beginning after December 15, 2012, which was the Company s fiscal interim period ended July 1, 2012 of fiscal year ending March 31, 2013. Upon adoption of ASU No. 2011-05, the Company has separately reported Consolidated Statements of Comprehensive Income and the adoption did not impact the Company s financial condition or results of operations.

Comprehensive income includes certain changes in equity that are excluded from net income. Specifically, unrealized gains and losses are included in accumulated other comprehensive income. During fiscal 2013, fiscal 2012 and fiscal 2011, comprehensive income included a combination of the current period net income and unrealized gain (loss) on available for sale investments.

Inventories

Inventories are stated at the lower of cost or market on a first-in, first-out basis. Inventories include finished good parts that may be specialized in nature and subject to rapid obsolescence. The Company periodically reviews the quantities and carrying values of inventories to assess whether the inventories are recoverable. The costs associated with write-downs of inventory for excess quantity and technological obsolescence are charged to cost of revenue as incurred. Actual demand may materially differ from the Company s projected demand, and this difference could have a material impact on the Company s gross margin and inventory balances based on additional provisions for excess or obsolete inventory or a benefit from sales of inventory previously written down. Write-down amounts charged (credited) to cost of revenues for fiscal years 2013, 2012 and 2011 were $(3.0) million, $2.2 million and $0.4 million, respectively.

Table of Contents

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

Property and Equipment, net

Property and equipment, net are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows: production equipment five years, lab equipment, computer equipment and software three years, and leasehold improvements over the shorter of the estimated useful life or the remaining lease term.

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 fiscal 2013, fiscal 2012 and fiscal 2011:

	Fiscal 2013	Fiscal 2012 (in thousands)	Fiscal 2011
Beginning balance	$ 361	$ 697	$ 480
Increase (decrease) in provision for warranty	(202)	(246)	769
Less: actual warranty costs	(36)	(90)	(552)
Ending balance	$ 123	$ 361	$ 697

Revenue Recognition

Revenue from the sale of the Company s products is recognized when all of the following four criteria are met: (1) persuasive evidence of an arrangement exists; (2) the product has been delivered; (3) the price is fixed or determinable; and (4) collection is reasonably assured. Delivery takes place after the transfer of title which historically has occurred upon shipment of the product unless otherwise stated in the customer agreement.

For direct customers (i.e., other than distributors), the Company recognizes revenue when title to the product is transferred to the customer, which occurs upon shipment or delivery, depending upon the terms of the customer order.

The Company primarily enters into sales transactions with distributors in which the distributor is purchasing product for an identified end-customer. For these transactions, the Company recognizes net revenue upon either shipment or delivery to the distributor, depending upon when title transfers under the terms of the order. Pursuant to the terms and conditions contained in the agreement with its distributors, all sales to distributors purchased for an identified end-customer are non-refundable, do not have rights to return product purchases except under the Company s standard warranty terms, and do not include any price concessions or price protection.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740-10 Income Taxes, which requires the asset and liability approach and the recognition of taxes payable or receivable for the current year and deferred tax liabilities and assets for future tax consequences of events that have been recognized in the Company s Consolidated Financial Statements and related Notes or tax returns. The measurement of current and deferred tax liabilities and assets are based on provisions of the enacted laws; the effects of future changes in tax laws or rates are not anticipated. Deferred tax assets are reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized.

Table of Contents

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

ASC 740-10 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740-10 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company s policy is to recognize interest and penalties related to unrecognized tax benefits in income tax provision.

Stock-Based Compensation

The Company applies the provisions of ASC 718-10 Compensation Stock Compensation using the modified prospective method. ASC 718-10 establishes 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 consolidated statements of income as a component of both cost of revenue and operating expenses over the requisite service period.

At April 2011, the Company had one stock option plan, the 2004 Equity Incentive Plan. In July 2011, the Company s Board of Directors and its stockholders approved the establishment of the 2011 Stock Incentive Plan (see Note 5). The fair value of stock options granted or modified is recognized as compensation expense using the Black-Scholes option pricing model, single option approach. The Company determines the fair value of stock-based payment awards on the date of grant using subjective variables, including expected term and stock price volatility over the expected term of the awards, and other less subjective variables such as risk-free interest rate and dividend rate (see Note 5).

Deferred Offering Costs

Deferred offering costs of $1.4 million were expensed in fiscal 2011 (included in selling, general and administrative expenses on the consolidated statements of income) after the Company s initial public offering (IPO) had been postponed for more than 90 days. Costs directly associated with the Company s IPO were capitalized and were included in other assets on the Company s consolidated balance sheets until the completion of the Company s IPO during November 2011. Deferred offering costs of $2.1 million were recorded as a reduction of the proceeds received in arriving at the amount recorded in stockholders equity.

Net Income Per Share

Basic and diluted net income per common share are presented in conformity with the two-class method required for participating securities for the period prior to their conversion upon the Company s IPO in November 2011, when all preferred shares were converted to common stock.

Prior to the IPO, holders of the Company s preferred stock were entitled to receive noncumulative dividends prior to the payment of dividends on shares of the Company s common stock. In the event a dividend were paid on common stock, the preferred stockholders would have also been entitled to a proportionate share of any such dividend as if they were holders of common stock (on an as-if converted basis).

Under the two-class method, net income allocable to common stockholders is determined by allocating undistributed earnings, calculated as net income less current period non-cumulative dividends allocable to the preferred stockholders for the period prior to their conversion upon the Company s initial public offering. In computing diluted net income attributed to common stockholders, undistributed earnings are reallocated to reflect the potential impact of dilutive securities. Basic net income per common share is computed by dividing the net income allocable to common stockholders by the weighted average number of common shares outstanding during the period, which excludes dilutive unvested restricted stock.

Table of Contents

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

Diluted net income per share allocable to common stockholders is computed by dividing the net income allocable to common stockholders by the weighted average number of common shares outstanding, including unvested restricted stock, certain preferred stock warrants, (which were converted into common stock warrants at the completion of the Company s IPO), and potential dilutive common shares assuming the dilutive effect of outstanding stock options and restricted stock units using the treasury stock method.

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

	Fiscal 2013	Fiscal 2012	Fiscal 2011
	(in thousands, except per share data)		
Net income allocable to common stockholders:			
Numerator:			
Basic:			
Net income	$ 51,705	$ 36,947	$ 9,347
Non-cumulative dividends on convertible preferred stock		(1,915)	(3,046)
Undistributed earnings allocable to convertible preferred stockholders		(18,703)	(4,670)
Net income allocable to common stockholders basic	$ 51,705	$ 16,329	$ 1,631
Diluted:			
Net income	$ 51,705	$ 36,947	$ 9,347
Non-cumulative dividends on convertible preferred stock		(1,967)	(3,147)
Undistributed earnings allocable to convertible preferred stockholders		(17,600)	(4,342)
Net income allocable to common stockholders diluted	$ 51,705	$ 17,380	$ 1,858
Denominator:			
Basic shares:			
Weighted average shares used in computing basic net income per common share	82,738	41,614	17,592
Diluted shares:			
Weighted average shares used in computing basic net income per common share	82,738	41,614	17,592
Effect of potentially dilutive securities:			
Stock options and unvested restricted stock	4,445	5,229	4,610
Common stock warrants	176	168	
Weighted average shares used in computing diluted net income per common share	87,359	47,011	22,202
Net income per common share:			
Basic	$ 0.62	$ 0.39	$ 0.09
Diluted	$ 0.59	$ 0.37	$ 0.08

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

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 common share for the periods presented as their effect would have been antidilutive:

	Fiscal 2013	Fiscal 2012 (in thousands)	Fiscal 2011
Employee stock options	4,498	3,365	1,645
Unvested restricted stock units	110	2	
Total antidilutive securities	4,608	3,367	1,645

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 will become effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, which is the Company s fiscal interim period ended June 30, 2013 of fiscal year ending March 30, 2014, and the adoption will not impact the Company s financial condition or results of operations.

2. Cash Equivalents and Available-for-sale Investments

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. If these funds are needed for our operations in the United States, the Company would be required to accrue and pay U.S. taxes to repatriate these funds. However, the Company s intent is to indefinitely reinvest these funds outside of the United States, and the Company s current plans for the foreseeable future do not demonstrate a need to repatriate them to fund U.S. operations. 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.

At April 2012, of the $153.6 million of the Company s cash and cash equivalents, $135.0 million was cash and $18.6 million was cash equivalents invested primarily in money market funds. At April 2012, $29.3 million of the $153.6 million of cash and cash equivalents were held by our foreign subsidiaries. Additionally, the Company had available-for-sale investments totaling $4.1 million.

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;

Table of Contents

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

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.

Fair value measurements at each reporting date were as follows:

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

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, and U.S. Agency Securities were derived from non-binding market consensus prices that are corroborated by observable market data.

Table of Contents

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

There were no transfers of assets measured at fair value between Level 1 and Level 2 during the nine months ended March 31, 2013.

April 2012:

Assets measured at fair value on a recurring basis were presented in the Company s consolidated balance sheet as of April 1, 2012.

	April 2012 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	$ 17,712	$ 17,712	$	$
U.S. Treasury	1,000	1,000		
U.S. Agency Securities	3,979		3,979	
Total	$ 22,691	$ 18,712	$ 3,979	$
Cash equivalents	$ 18,562	$ 17,712	$ 850	$
Short-term investments	4,129	1,000	3,129	
Total	$ 22,691	$ 18,712	$ 3,979	$

	April 2012 Amortized Cost	Gross Unrealized Gain	April 2012 Estimated FMV
		(in thousands)	
U.S. Treasury	$ 1,000	$	$ 1,000
U.S. Agency Securities	3,129		3,129
Total Available-for-sale Investments	$ 4,129	$	$ 4,129
Cash equivalents			18,562
Total Aggregate Fair Value			$ 22,691

There were no transfers of assets measured at fair value between Level 1 and Level 2 during fiscal 2012.

Preferred Stock Warrants As explained in Note 5, The Company had issued warrants to purchase preferred stock prior to fiscal 2010. Prior to June 25, 2010, under both ASC 815-40 and ASC 480 Distinguishing Liabilities from Equity, these warrants were considered a liability which was marked to market as of the end of each reporting period with changes in the fair value being recorded in other income (expense) in the Company s consolidated statements of income. The fair value of the warrants was determined using the Black-Scholes option pricing model, which is deemed a Level 3 valuation method. On June 25, 2010, the Company amended its Certificate of Incorporation to remove the provisions that had previously resulted in the outstanding preferred stock warrants being classified as a liability under ASC 815-40-15. As a result of the amendment, the warrants were considered to be indexed to the Company s stock, and accordingly, the total warrants liability of $11.9 million was reclassified and included in stockholders equity in fiscal 2011.

Table of Contents

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

3. Balance Sheet Details

Inventories

Inventories at March 2013 and April 2012 consist of the following:

	March 2013	April 2012
	(in thousands)	
Work in progress	$ 18,803	$ 9,021
Finished goods	4,959	3,219
Total Inventory	$ 23,762	$ 12,240

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets at March 2013 and April 2012 consist of the following:

	March 2013	April 2012
	(in thousands)	
Prepaid expenses	$ 2,209	$ 1,040
Advance to vendors	2,824	548
Tax receivable	6,374	1,106
Deferred tax assets	951	1,418
Other current assets	944	76
Total prepaid expenses and other current assets	$ 13,302	$ 4,188

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 Consolidated Balance Sheets. The Company believes that the advances to these vendors will be fully applied towards future purchases from these vendors. The Company paid $2.0 million, $1.7 million and $0.5 million, respectively, in advance payments to certain of these foundry vendors in fiscal 2013, fiscal 2012 and fiscal 2011. During fiscal 2013, the Company recognized an impairment loss of $0.4 million related to one of its vendor advances. The Company did not recognize any impairment losses on advances to vendors for fiscal 2012 or fiscal 2011.

Property and Equipment

Property and equipment at March 2013 and April 2012 consist of the following:

	March 2013	April 2012
	(in thousands)	
Production and lab equipment	$ 11,654	$ 6,866
Computer equipment and software	1,124	861

Equipment under construction	1,851	435
Leasehold improvements and furniture and fixtures	923	819
Subtotal	$ 15,552	$ 8,981
Accumulated depreciation and amortization	(6,902)	(4,970)
Property and equipment net	$ 8,650	$ 4,011

77

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

Depreciation and amortization expense for both fiscal 2013 and fiscal 2012 was $2.0 million and was $1.8 million for fiscal 2011. 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. During fiscal 2013, fiscal 2012 and fiscal 2011, new capitalized leases totaled $nil, $40,000 and $43,000, respectively.

Accrued Liabilities

Accrued liabilities at March 2013 and April 2012 consist of the following:

	March 2013	April 2012
	(in thousands)	
Engineering services	$ 106	$ 104
Payroll-related expenses	2,777	2,274
Bonuses	2,120	3,571
Legal fees	884	968
Warranty reserves	123	361
Deferred revenue		284
Former CEO separation costs (1)	828	
Income tax payable	96	27
Other	819	165
Total accrued liabilities	$ 7,753	$ 7,754

(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 2015.

Future minimum lease payments under operating leases as of March 2013 are as follows:

Fiscal Years Ending March or April	Amount (in thousands)
2014	$ 713
2015	173
Total	$ 886

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 $2.0 million, $1.7 million and $0.9 million for fiscal 2013, fiscal 2012 and fiscal 2011, respectively.

On May 16, 2013, the Company signed a new non-cancelable operating lease for its corporate headquarters through December 2019.

Table of Contents

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

Future minimum lease payments under the new corporate headquarters operating lease as of May 16, 2013 are as follows:

Fiscal Years Ending March or April	Amount (in thousands)
2014	$ 458
2015	2,456
2016	3,388
2017	3,623
2018	3,732
Beyond	6,757
Total	$ 20,414

Purchase Commitments

The Company has non-cancelable purchase commitments with its foundry vendors. Future minimum payments under the purchase commitments as of March 2013 are less then twelve months.

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

The Company is subject to various legal proceedings and claims arising in the ordinary course of business. Although occasional adverse decisions or settlements may occur, management believes that the final disposition of such matters will not have a material effect on the Company s business, financial position, results of operations or cash flows.

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 lnvenSense 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.

Table of Contents

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

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 lnvenSense 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. 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 lnvenSense 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 announced that it 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 patent and to be awarded monetary damages.

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.

The Company s Third Amended and Restated Bylaws require the Company to indemnify its directors and officers and employees to the fullest extent permitted by the Delaware General Corporation Law (DGCL). In addition, the Company s current directors, including the Company s chief executive officer and certain executive officers, have entered into separate indemnification agreements with the Company. The Company s Second Amended and Restated Certificate of Incorporation, as amended, limits the liability of directors to the Company or its stockholders to the fullest extent permitted by the DGCL. The obligation to indemnify generally means that the Company is required to pay or reimburse the individuals reasonable legal expenses and possibly damages and other liabilities incurred in connection with these matters.

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

5. Stockholders Equity

In connection with the completion of the Company s initial public offering in November 2011, all outstanding shares of convertible preferred stock were converted into the Company s common stock. As a result, following the Company s initial public offering, the Company has no outstanding shares of convertible preferred stock as of March 2013 or April 2012.

Preferred Stock Warrants

In connection with financing transaction prior to fiscal 2010, the Company issued warrants to purchase shares of its then-outstanding Series A and B preferred stock. Prior to June 25, 2010, under both ASC 815-40 and ASC 480 Distinguishing Liabilities from Equity, the warrants were marked to market as of the end of each reporting period with changes in the fair value being recorded within other income (expense) in the Company s consolidated statements of income.

During the first quarter of fiscal 2011, the Company recorded an increase in the change in fair value of the warrants of $4.0 million. On June 25, 2010, the Company amended its Certificate of Incorporation to remove the provisions that had previously resulted in the outstanding preferred stock warrants being classified as a long-term liability under ASC 815-40-15. As a result of this amendment, the warrants were considered to be indexed to the Company s stock and accordingly, the fair value of the warrant liability on the date of the amendment, $11.9 million, was reclassified into stockholders equity (as a component of the series of preferred stock into which the warrants were exercisable).

Upon completion of the Company s initial public offering, the outstanding warrants to purchase convertible preferred stock were converted into warrants to purchase common stock.

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 3.2 million shares for fiscal year 2013.

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 March 31, 2013, the Company has reserved for issuance under the Plans a total of 20.8 million shares (plus 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.

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

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 28, 2010	2,259	8,345	$ 1.36		
Options granted (weighted-average fair value of $2.51 per share)	(2,375)	2,375	5.37		
Options exercised		(949)	0.76		
Options canceled	1,573	(1,573)	3.21		
Balance April 3, 2011	1,457	8,198	2.24		
Increase to stock option pool	11,835				
Options granted (weighted-average fair value of $3.72 per share)	(4,172)	4,172	8.12		
Options exercised		(665)	2.04		
Options canceled	590	(589)	4.95		
Balance April 1, 2012	9,710	11,116	4.31		
Increase to stock option pool	3,236				
Options granted (weighted-average fair value of $5.12 per share)	(4,057)	4,057	12.13		
Options exercised		(3,369)	1.67		
Options canceled	1,309	(1,309)	8.53		
Balance March 31, 2013	10,198	10,495	$ 7.65	7.49	38,135
March 31, 2013					
Vested and expected to vest		9,323	$ 7.31	7.30	$ 36,744
Exercisable March 31, 2013		3,886	$ 3.68	5.09	$ 27,703
April 1, 2012					
Vested and expected to vest		10,064	$ 4.02	7.6	$ 141,827
Exercisable April 1, 2012		5,202	$ 1.46	6.31	$ 86,557

82

Table of Contents

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

Additional information regarding options outstanding as of March 2013 and April 2012 is as follows (in thousands except per share amounts):

Options Outstanding March 2013

Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life (In Years)	Weighted-Average Exercise Price of Options Outstanding	Number Exercisable	Weighted-Average Exercise Price of Options Exercisable
$0.04 - $0.08	15	2.77	$ 0.07	15	$ 0.07
$0.11 - $0.172	95	3.71	0.15	95	0.15
$0.32 - $0.70	1,242	2.47	0.64	1,242	0.64
$1.02 - $2.97	1,295	6.43	2.65	1,056	2.61
$5.07 - $10.00	3,397	7.38	6.65	1,369	6.62
$10.07 - $15.24	4,197	9.41	11.70	53	12.19
$15.58 - $20.89	254	8.98	17.36	56	17.84
	10,495	7.49	$ 7.66	3,886	$ 3.67

Options Outstanding April 2012

Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life (In Years)	Weighted-Average Exercise Price of Options Outstanding	Number Exercisable	Weighted-Average Exercise Price of Options Exercisable
$0.04 - $0.08	68	3.63	$ 0.07	68	$ 0.07
$0.11 - $0.172	357	4.69	0.15	357	0.15
$0.32 - $0.70	3,003	5.78	0.60	2,956	0.59
$1.02 - $2.97	2,311	7.42	2.54	1,405	2.48
$5.07 - $10.00	4,559	9.12	6.69	416	5.51
$10.10 - $17.49	764	9.70	11.24		
$20.89 - $20.89	54	9.96	20.89		
	11,116	7.73	$ 4.31	5,202	$ 1.46

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 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 fiscal 2013, fiscal 2012 and fiscal 2011 was $36.1 million, $5.9 million and $4.6 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.

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

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 $18.7 million, $13.9 million and $3.7 million at March 2013, April 2012 and April 2011, respectively, and for all periods will be amortized over a weighted-average remaining period between 3.3 and 3.0 years. Total unrecognized expense will be adjusted for future changes in estimated forfeitures.

Weighted-Average Assumptions

Expected Term

Prior to the third quarter of fiscal year 2013, the Company use the simplified method described in Staff Accounting Bulletin No. 110, 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.

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.

	Fiscal 2013	**Fiscal 2012**	**Fiscal 2011**
Expected Term	5.4 years	5.8 years	6.1 years
Volatility	42.7% - 48.5%	48.2% - 49.51%	42.5% - 50.3%
Risk-free interest rate	0.6% - 1.3%	0.7% - 2.4%	1.5% - 2.9%
Dividend yield	0%	0%	0%

Market-based Awards

During fiscal 2013, the Company s current chief executive officer was granted options to purchase up to 622,115 shares at $11.57 per share whose vesting is contingent upon meeting various price target thresholds that will trigger a four year ratable vesting period if the minimum twenty day closing stock prices cross thresholds of $15.00, $17.50 and $20.00 respectively. The exercise price of the options represents the stock price on the date of grant, and the options have a legal term of 10 years. The fair value of each option granted was estimated on the

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

date of grant using a Monte Carlo Simulation analysis valuation model, assumes that price target thresholds will be achieved and results in an estimated term for the tranches ranging from 5.0 to 6.2 years. If the price target thresholds are not met, compensation cost is not reversed. The Company used the following assumptions in estimating the fair value of the shares; expected volatility 46.5%, expected dividends 0%, and risk-free rate of 0.8%. The weighted-average grant-date fair value of options granted during the period was $4.87 and is included in the stock option activities table above. During fiscal 2013, none of the market-based options were exercised. At March 2013, there was $1.2 million of total unrecognized compensation cost reduced for estimated forfeitures and related to non-vested shares; that cost is expected to be recognized over a period of approximately 6 years.

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 April 3, 2011		
Granted	118	$ 12.47
Vested		
Forfeited		
Nonvested at April 1, 2012	118	12.47
Granted	750	12.08
Vested	(8)	17.79
Forfeited	(54)	12.48
Nonvested at March 31, 2013	806	$ 12.05

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 March 2013, there was approximately $8.6 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 3.3 years.

Stock-Based Compensation Expense

Total stock-based compensation cost for the Company s stock plans for fiscal 2013, fiscal 2012 and fiscal 2011 are as follows:

	Fiscal 2013	**Fiscal 2012**	**Fiscal 2011**
		(in thousands)	
Cost of revenue	$ 649	$ 325	$ 261
Research and development	2,753	1,474	946
Selling, general and administrative	5,117	1,889	983
Total employee stock-based compensation expense	$ 8,519	$ 3,688	$ 2,190

Table of Contents

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

Common Stock

As of March 2013 and April 2012, common stock reserved for future issuance was as follows (in thousands):

Common stock reserved for issuance	Number of Shares March 2013	April 2012
Stock Plans:		
Outstanding stock options	10,495	11,116
Outstanding restricted stock units and restricted stock	806	118
Reserved for future equity incentive grants	9,383	9,592
	20,684	20,826
Warrants to purchase common stock	94	405
Total common stock reserved for future issuances	20,778	21,231

6. Income Taxes

In fiscal year 2013, the Company recorded an income tax provision of $5.3 million, compared to an income tax provision of $10.2 million and $8.1 million for fiscal years 2012 and 2011, respectively. The Company s fiscal year 2013 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 and in fiscal year 2013, the Company also changed its estimate of earnings attributable to its domestic versus foreign operations earned for the fiscal year. As a result of an increase in the amount of earnings attributable to foreign jurisdictions with lower tax rates, the Company adjusted its tax provision in fiscal year 2013 to reflect these new estimates; to the extent that the adjustments related to prior periods, the income tax impact was recorded in the third quarter of fiscal year 2013 and is a component of the annual effective tax rate. The impact of recording this change in estimate, along with the results of operations for the 2013 fiscal year, gave rise in fiscal 2013 to an income tax benefit of $2.2 million and $0.03 and $0.02 basic and diluted earnings per share, respectively.

The components of income before taxes are as follows:

	Fiscal 2013	Fiscal 2012 (in thousands)	Fiscal 2011
United States	$ 11,883	$ 19,179	$ 13,453
International	45,123	27,973	4,031
	$ 57,006	$ 47,152	$ 17,484

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

Income tax expense was comprised of the following:

	Fiscal 2013	Fiscal 2012 (in thousands)	Fiscal 2011
Current:			
Federal	$ 5,553	$ 10,856	$ 7,488
State	6	1	5
International	142	47	155
	$ 5,701	$ 10,904	$ 7,648
Deferred:			
Federal	$ (375)	$ (777)	$ 245
State	(6)		611
International	(19)	78	(367)
	(400)	(699)	489
Income tax provision	$ 5,301	$ 10,205	$ 8,137

The provision for income taxes differs from the amount computed by applying the statutory rates as follows:

	Fiscal 2013	Fiscal 2012	Fiscal 2011
Income tax provision at the federal statutory rate	35.0%	35.0%	35.0%
State tax, net of federal benefit			
Research and development credits	(2.1)	(1.0)	(2.0)
Foreign tax rate differential	(25.8)	(14.7)	(0.4)
Non deductible stock compensation	2.2	2.3	3.7
Change in fair value of warrant liabilities			8.1
Change in valuation allowance			2.4
Other			(0.3)
Effective tax rate	9.3%	21.6%	46.5%

The components of the deferred tax asset are as follows:

	April 2013 (in thousands)	April 2012
Deferred tax asset:		
Accrued expenses and reserves	$ 841	$ 1,257
Stock based compensation	1,198	312
Research and development credits	1,618	873
Net operating loss carryforwards	1,011	1,084

Fixed Assets	179	290
Other		
Valuation allowance	(2,481)	(1,771)
Deferred tax asset	$ 2,366	$ 2,045

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The Company has not provided for U.S. federal income and foreign withholding taxes on undistributed earnings from non-U.S.

Table of Contents

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

operations as of March 2013, as in general, it is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. The Company has not made a provision for U.S. or additional foreign withholding taxes on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration of approximately $78.0 million and $26.8 million at March 2013 and April 2012, respectively. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these foreign subsidiaries.

At March 2013, the Company had approximately $17.4 million of California state loss carryforwards. The California net operating loss carryforwards expire between 2017 and 2022. At March 2013, the Company had approximately $3.2 million and $0.2 million California state and foreign, respectively, research tax credit carryforwards. The California credits are not subject to expiration under current California tax law.

The Company maintains a valuation allowance against our California deferred tax assets as of March 2013. The Company considers all available evidence, both positive and negative, in assessing the extent to which a valuation allowance should be applied against deferred tax assets. The Company s valuation allowance increased $0.7 million as of March 2013 compared to April 2012, and increased $0.4 million as of April 2012 compared to April 2011.

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.

A reconciliation of the change in unrecognized tax benefits is as follows:

	For the Period March 28, 2010 to March 31, 2013 (in thousands)	
Balance at March 28, 2010	$	502
Increases in unrecognized tax benefits		554
Balance at April 3, 2011	$	1,056
Increases in unrecognized tax benefits		2,799
Balance at April 1, 2012	$	3,855
Increases in unrecognized tax benefits		3,961
Balance at March 31, 2013	$	7,816

Included in the gross unrecognized tax benefits balance of $7.8 million at March 2013 are $6.9 million of tax positions which would affect income tax expense if recognized. As of March 2013, approximately $1.0 million of unrecognized tax benefits would be offset by a change in valuation allowance. The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying Consolidated Statements of Income. Accrued interest and penalties are included within the related tax liability line in the Consolidated Balance Sheet. As of March 2013, the Company had $0.1 million accrued interest related to uncertain tax matters. The Company does not expect its unrecognized tax benefits at March 2013 will materially change within the next 12 months. The Company files income tax returns in the U.S. federal, California and various international jurisdictions. The 2003 through 2012 tax years are open and may be subject to potential examination in one or more jurisdictions.

Table of Contents

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

7. Quarterly Financial Data (Unaudited)

Fiscal Year 2013:	Three Months Ended			
	July 1, 2012	September 30, 2012	December 30, 2012 (1)	March 31, 2013
	(in thousands)			
Net revenue	$ 39,202	$ 55,294	$ 58,929	$ 55,209
Cost of revenue	17,639	24,923	27,723	27,652
Gross profit	21,563	30,371	31,206	27,557
Operating expenses:				
Research and development	5,655	5,918	6,712	6,363
Selling, general and administrative	6,258	7,202	8,428	7,503
Total operating expenses	11,913	13,120	15,140	13,866
Income from operations	9,650	17,251	16,066	13,691
Other income, net	37	54	98	159
Income before income taxes	9,687	17,305	16,164	13,850
Income tax (benefit) provision	2,036	3,641	(654)	278
Net income	7,651	13,664	16,818	13,572
Basic	$ 0.09	$ 0.17	$ 0.20	$ 0.16
Diluted	$ 0.09	$ 0.16	$ 0.19	$ 0.15
Weighted average shares outstanding in computing net income per share allocable to common stockholders:				
Basic	81,184	82,429	83,218	84,109
Diluted	87,080	87,257	87,350	87,741

(1) The three months ended December 30, 2012 includes an income tax benefit of $2.2 million ($0.03 and $0.02 basic and diluted earnings per share, respectively), primarily due to changes in estimate of earnings attributable to domestic versus foreign operations related to prior years.

InvenSense, Inc.

Notes to Consolidated Financial Statements (Continued)

Fiscal Year 2012:	Three Months Ended			
	April 1, 2012	January 1, 2012	Oct. 2, 2011	July 3, 2011
	(in thousands)			
Net revenue	$ 33,077	$ 41,229	$ 43,034	$ 35,627
Cost of revenue	14,652	18,538	19,372	15,009
Gross profit	18,425	22,691	23,662	20,618
Operating expenses:				
Research and development	5,573	4,758	4,965	4,376
Selling, general and administrative	5,874	4,427	3,898	4,511
Total operating expenses	11,447	9,185	8,863	8,887
Income from operations	6,978	13,506	14,799	11,731
Change in fair value of warrant liabilities				
Other income (expense), net	(28)	(43)	28	181
Other income (expense), net	(28)	(43)	28	181
Income before income taxes	6,950	13,463	14,827	11,912
Income tax provision	1,058	2,887	3,372	2,888
Net income	5,892	10,576	11,455	9,024
Net income allocable to convertible preferred stockholders		5,157	8,626	6,842
Net income allocable to common stockholders	$ 5,892	$ 5,419	$ 2,829	$ 2,182
Basic	$ 0.07	$ 0.11	$ 0.15	$ 0.12
Diluted	$ 0.07	$ 0.10	$ 0.14	$ 0.11
Weighted average shares outstanding in computing net income per share allocable to common stockholders:				
Basic	80,163	49,890	18,296	18,124
Diluted	87,510	55,294	22,865	22,547

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

InvenSense, Inc.

Dated: June 14, 2013 By: /s/ Alan Krock
Alan Krock
Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer and Chief Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Behrooz Abdi and Alan Krock his true and lawful attorney-in-fact and agent, with full power of substitution and, for him and in his name, place and stead, in any and all capacities to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, as amended, this report has been signed by the following persons in the capacities and on the dates indicated.

Dated: June 14, 2013	By:	/s/ Behrooz Abdi Behrooz Abdi Chief Executive Officer and Director (Principal Executive Officer)
Dated: June 14, 2013	By:	/s/ Alan Krock Alan Krock Chief Financial Officer (Principal Financial and Principal Accounting Officer)
Dated: June 14, 2013	By:	/s/ R. Douglas Norby R. Douglas Norby Director
Dated: June 14, 2013	By:	/s/ Jon Olson Jon Olson Director

Table of Contents

Dated: June 14, 2013	By:	/s/ Amit Shah Amit Shah Director
Dated: June 14, 2013	By:	/s/ Tim Wilson Tim Wilson Director
Dated: June 14, 2013	By:	/s/ Yunbei Ben Yu, Ph.D Yunbei Ben Yu, Ph.D Director

Table of Contents

InvenSense, Inc.

INDEX TO EXHIBITS

TO

FORM 10-K ANNUAL REPORT

For the Year Ended

March 31, 2013

Exhibit		Incorporated by Reference			
Number	**Exhibit Description**	**Form**	**File No.**	**Exhibit(s)**	**Filing Date**
3.1	Form of Third Amended and Restated Certificate of Incorporation of InvenSense, Inc.	S-1	333-167843	3.5	August 25, 2011
3.2	Form of Third Amended and Restated Bylaws of InvenSense, Inc.	S-1	333-167843	3.7	August 25, 2011
4.1	Form of InvenSense, Inc. s Common Stock Certificate.	S-1	333-167843	4.1	August 25, 2011
4.2	Second Amended and Restated Investor Rights Agreement, dated March 28, 2008.	S-1	333-167843	4.2	June 28, 2010
4.3	Amendment to Second Amended and Restated Investor Rights Agreement, dated July 17, 2011.	S-1	333-167843	4.2.1	August 25, 2011
4.4	Waiver and Acknowledgement Under Second Amended and Restated Investor Rights Agreement, dated February 27, 2012.	S-1	333-179706	4.4	February 27, 2012
4.5	Form of Series B Preferred Stock Purchase Warrant issued on December 4, 2006 to investors in Series B financing.	S-1	333-167843	4.5	June 28, 2010
10.1	InvenSense, Inc. 2004 Stock Incentive Plan, as amended, and related documents.	S-1	333-167843	10.1	June 28, 2010
10.2	InvenSense, Inc. 2011 Stock Incentive Plan and related documents.	S-1	333-167843	10.2	August 25, 2011
10.3	Form of Indemnification Agreement made by and between the Company and each of (i) Amit Shah, Artiman Ventures, L.P., Artiman Ventures Side Fund, L.P. and Artiman Ventures Side Fund II, L.P., (ii) Tim Wilson, Partech U.S. Partners IV, LLC, 45th Parallel, LLC and Multinvest, LLC, and (iii) Steven Nasiri.	S-1	333-167843	10.3	June 28, 2010
10.4	Indemnification Agreement made by the Company for the benefit of Sierra Ventures IX, L.P., and its affiliates, dated March 28, 2008.	S-1	333-167843	10.4	June 28, 2010
10.5	Form of Indemnification Agreement by and between the Company and each of its directors.	S-1	333-167843	10.16	August 25, 2011
10.6	Offer Letter, between the Company and Stephen Lloyd, dated November 13, 2008.	S-1	333-167843	10.8	June 28, 2010
10.7	Offer Letter, between the Company and Daniel Goehl, dated October 28, 2004.	S-1	333-167843	10.9	June 28, 2010
10.13	Compensation Agreement, between the Company and Jim Callas, dated January 18, 2011.	S-1	333-167843	10.12	May 24, 2011
10.14	Offer Letter, between the Company and Jim Callas, dated August 20, 2010.	S-1	333-167843	10.12.1	May 24, 2011
10.15	Employment Agreement, between the Company and Alan Krock, dated as of May 31, 2011.	S-1	333-167843	10.13	August 25, 2011

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
10.16	Industrial Lease between the Company and AMB Property, L.P., dated June 13, 2007.	S-1	333-167843	10.13	June 28, 2010
10.17	First Amendment to Lease Agreement between the Company and AMB Property, L.P., dated June 26, 2009.	S-1	333-167843	10.14	June 28, 2010
10.18	Second Amendment to Lease Agreement between the Company and Prologis L.P., dated February 17, 2012.	8-K	001-35269	10.1	February 24, 2012
10.19	Employment Agreement between the Company and Behrooz Abdi, dated October 23, 2012	8-K	001-35269	10.1	October 23, 2012
10.20	Executive Change in Control and Severance Agreement between the Company and Behrooz Abdi, dated October 23, 2012	8-K	001-35269	10.2	October 23, 2012
10.21	Transition and Release Agreement between the Company and Steven Nasiri, dated October 23, 2012	8-K	001-35269	10.3	October 23, 2012
21.1	Subsidiary List.	S-1	333-179706	21.1	February 27, 2012
23.1	Consent of Deloitte & Touche LLP.				
24.1	Power of Attorney (included on signature page).				
31.1	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act				
31.2	Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act				
32.1	Certification of the Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act				
101.INS	XBRL Instance Document				
101.SCH	XBRL Taxonomy Extension Schema				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase				
101.DEF	XBRL Taxonomy Extension Definition Linkbase				
101.LAB	XBRL Taxonomy Extension Label Linkbase				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				

Indicates a management contract or compensatory plan or arrangement.
XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not otherwise subject to liability under these Sections.