

InvenSense Inc  
Form 10-Q  
October 31, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**FORM 10-Q**

(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the quarterly period ended September 28, 2014**

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**  
**(State or other jurisdiction of**  
**Incorporation or organization)**  
**1745 Technology Drive, Suite 200, San Jose, CA 95110**  
**(Address of principal executive offices and zip code)**  
**(408) 988-7339**  
**(Registrant's telephone number, including area code)**

**01-0789977**  
**(I.R.S. Employer**  
**Identification No.)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

<b>Class</b>	<b>Shares Outstanding at October 24, 2014</b>
Common Stock, \$0.001 par value	90,060,000



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**INVENSENSE, INC.**

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**INVENSENSE, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In thousands, except par value)**

	<b>September 28, 2014</b>	<b>March 30, 2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 38,424	\$ 26,025
Short-term investments	86,629	91,307
Accounts receivable	67,045	39,009
Inventories	75,011	73,032
Prepaid expenses and other current assets	21,447	19,587
Total current assets	288,556	248,960
Property and equipment, net	42,397	25,239
Intangible assets, net	47,495	35,360
Goodwill	139,175	50,952
Long-term investments	34,963	128,755
Other assets	7,332	5,469
Total assets	\$ 559,918	\$ 494,735
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 28,337	\$ 18,964
Accrued liabilities	36,086	14,985
Total current liabilities	64,423	33,949
Long-term debt	139,230	135,583
Other long-term liabilities	28,046	11,375
Total liabilities	231,699	180,907
Commitments and contingencies (Note 4)		
Stockholders equity:		
Preferred stock:		

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Preferred stock, \$0.001 par value 20,000 shares authorized, no shares issued and outstanding at September 28, 2014 and March 30, 2014

Common stock:

Common stock, \$0.001 par value 750,000 shares authorized, 89,756 shares issued and outstanding at September 28, 2014, 88,332 shares issued and outstanding at March 30, 2014

	242,010	215,958
Accumulated other comprehensive income (loss)	1	(38)
Retained earnings	86,208	97,908
<b>Total stockholders equity</b>	<b>328,219</b>	<b>313,828</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 559,918</b>	<b>\$ 494,735</b>

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>September 28, 2014</b>	<b>September 29, 2013</b>	<b>September 28, 2014</b>	<b>September 29, 2013</b>
Net revenue	\$ 90,195	\$ 70,941	\$ 156,876	\$ 126,851
Costs of revenue	58,854	34,364	94,359	60,955
Gross profit	31,341	36,577	62,517	65,896
Operating expenses:				
Research and development	21,593	9,810	41,001	17,924
Selling, general and administrative	14,592	11,424	28,510	20,580
Total operating expenses	36,185	21,234	69,511	38,504
Income (loss) from operations	(4,844)	15,343	(6,994)	27,392
Interest expense	(2,620)		(5,204)	
Other income, net	1,199	210	1,380	291
Income (loss) before income taxes	(6,265)	15,553	(10,818)	27,683
Income tax provision	603	1,945	882	3,753
Net income (loss)	\$ (6,868)	\$ 13,608	\$ (11,700)	\$ 23,930
Net income (loss) per share of common stock:				
Basic	\$ (0.08)	\$ 0.16	\$ (0.13)	\$ 0.28
Diluted	\$ (0.08)	\$ 0.15	\$ (0.13)	\$ 0.27
Shares used in computing net income (loss) per share of common stock:				
Basic	88,997	86,289	88,650	85,658
Diluted	88,997	89,778	88,650	88,841

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

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## INVENSENSE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)

	Three Months Ended		Six Months Ended	
	September 28,	September 29,	September 28,	September 29,
	2014	2013	2014	2013
Net income (loss)	\$ (6,868)	\$ 13,608	\$ (11,700)	\$ 23,930
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities, net of tax	(52)	26	39	91
Comprehensive income (loss)	\$ (6,920)	\$ 13,634	\$ (11,661)	\$ 24,021

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

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## INVENSENSE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended	
	September 28, 2014	September 29, 2013
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (11,700)	\$ 23,930
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	4,310	1,524
Amortization of intangible assets	2,895	
Write-off of in-process research and development	770	
Loss on disposal of property and equipment	326	
Gain on equity investment	(890)	
Stock-based compensation expense	14,637	6,177
Deferred income tax assets	25	(5)
Tax effect of employee benefit plan		3,231
Excess tax benefit from stock-based compensation		(3,231)
Non cash interest expense	3,672	
Changes in operating assets and liabilities:		
Accounts receivable	(27,298)	(5,468)
Inventories	(1,978)	(14,707)
Prepaid expenses and other assets	54	(485)
Other assets	(1,100)	(63)
Accounts payable	5,398	765
Accrued liabilities	8,130	4,789
Net cash provided by (used in) operating activities	(2,749)	16,457
<b>Cash flows from investing activities:</b>		
Acquisitions, net of cash acquired	(71,446)	
Purchase of property and equipment	(17,624)	(9,805)
Sales and maturities of available-for-sale investments	98,528	46,197
Purchase of available-for-sale investments		(46,345)
Net cash provided by (used in) investing activities	9,458	(9,953)
<b>Cash flows from financing activities:</b>		
Proceeds from the issuance of common stock	5,694	7,611
Repayment of capital leases	(4)	(6)

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Excess tax benefit from stock-based compensation		3,231
Net cash provided by financing activities	5,690	10,836
Net increase in cash and cash equivalents	12,399	17,340
Cash and cash equivalents:		
Beginning of period	26,025	100,843
End of period	\$ 38,424	\$ 118,183
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,429	\$
Cash received (paid) for income taxes	\$ (186)	\$ 3,329
Noncash investing and financing activities:		
Unpaid purchases of property and equipment	\$ 5,681	\$ 1,591
Unpaid contingent consideration from business acquisition	\$ 16,034	\$
Unrealized gain from available-for-sale investments	\$ 2	\$ 109
Proceeds receivable from the exercise of stock options	\$ 81	\$ 24

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

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**INVENSENSE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Organization and Summary of Significant Accounting Policies**

**Business**

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the fiscal year ended March 30, 2014 included in the Company s Annual Report on Form 10-K filed on May 29, 2014 with the Securities and Exchange Commission ( SEC ). No material changes have been made to the Company s significant accounting policies since the Company s Annual Report on Form 10-K for the fiscal year ended March 30, 2014.

**Certain Significant Business Risks and Uncertainties**

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

**Basis of Consolidation**

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles, or GAAP, and include our accounts and the accounts of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in 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 condensed consolidated statements of operations.

**Fiscal Year**

The Company s fiscal year is a 52 or 53 week period ending on the Sunday closest to March 31. The Company s most recent fiscal year ( Fiscal 2014 ) ended on March 30, 2014 ( March 2014 ). The second fiscal quarter in each of the two most recent fiscal years ended on September 28, 2014 ( three months ended September 28, 2014 or September 2014 ) and September 29, 2013 ( three months ended September 29, 2013 or September 2013 ), respectively, and each quarter

period included 13 weeks.

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**INVENSENSE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Use of Estimates**

The preparation of the Company's Condensed 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 Condensed 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, loss contingencies, warranty reserves, valuation of acquired assets and contingent consideration, and valuation of convertible senior notes, including the related convertible notes hedges and warrants. These estimates are based upon information available as of the date of the consolidated financial statements, and actual results could differ from those estimates.

**Concentration of Credit Risk**

At September 28, 2014, two customers accounted for 55% and 12% of accounts receivable. At March 30, 2014, three customers accounted for 28%, 19% and 19% of accounts receivable.

For the three months ended September 28, 2014, two customers accounted for 29% and 26% of net revenue. For the six months ended September 28, 2014, three customers accounted for 30%, 17% and 10% of net revenue. For the three months ended September 29, 2013, two customers accounted for 36% and 14% of net revenue. For the six months ended September 29, 2013, one customer accounted for 31% of net revenue.

**Warranty**

The Company's warranty agreements are contract and component specific and can be for a period of up to three years after shipment for selected components. The accrual includes management's judgment regarding anticipated rates of warranty claims and associated repair costs. The following table summarizes the activity related to product warranty liability during the six months ended September 28, 2014 and September 29, 2013:

**Six Months  
Ended**