

InvenSense Inc
Form 10-Q
October 29, 2015
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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 27, 2015**

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	01-0789977 (I.R.S. Employer
Incorporation or organization)	Identification No.)
1745 Technology Drive, Suite 200, San Jose, CA 95110	
(Address of principal executive offices and zip code)	
	(408) 501-2200
(Registrant's telephone number, including area code)	

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

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

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

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

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

Class	Shares Outstanding at October 16, 2015
Common Stock, \$0.001 par value	92,043,000

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 27, 2015	March 29, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 70,162	\$ 85,637
Short-term investments	203,221	129,919
Accounts receivable	50,434	44,522
Inventories	61,684	75,105
Prepaid expenses and other current assets	13,143	14,950
Total current assets	398,644	350,133
Property and equipment, net	39,091	41,849
Intangible assets, net	41,005	45,508
Goodwill	139,175	139,175
Other assets	14,424	9,019
Total assets	\$ 632,339	\$ 585,684
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 34,951	\$ 23,130
Accrued liabilities	43,768	31,991
Total current liabilities	78,719	55,121
Long-term debt	146,767	142,810
Other long-term liabilities	27,197	28,252
Total liabilities	252,683	226,183
Commitments and contingencies (Note 4)		
Stockholders equity:		

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Preferred stock:

Preferred stock, \$0.001 par value 20,000 shares authorized, no shares issued and outstanding at September 27, 2015 and March 29, 2015

Common stock:

Common stock, \$0.001 par value 750,000 shares authorized, 92,012 shares issued and outstanding at September 27, 2015; 90,894 shares issued and outstanding at

March 29, 2015;	283,084	262,677
Accumulated other comprehensive (loss)	(102)	(4)
Retained earnings	96,674	96,828
Total stockholders' equity	379,656	359,501
Total liabilities and stockholders' equity	\$ 632,339	\$ 585,684

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

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INVENSENSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Net revenue	\$ 112,545	\$ 90,195	\$ 218,841	\$ 156,876
Costs of revenue	65,974	58,854	127,439	94,359
Gross profit	46,571	31,341	91,402	62,517
Operating expenses:				
Research and development	24,991	21,593	45,246	41,001
Selling, general and administrative	15,186	14,592	31,010	28,510
Legal settlement accrual			11,708	
Total operating expenses	40,177	36,185	87,964	69,511
Income (loss) from operations	6,394	(4,844)	3,438	(6,994)
Interest (expense)	(2,765)	(2,620)	(5,489)	(5,204)
Other income, net	104	1,199	165	1,380
Income (loss) before income taxes	3,733	(6,265)	(1,886)	(10,818)
Income tax provision (benefit)	(1,960)	603	(1,732)	882
Net income (loss)	\$ 5,693	\$ (6,868)	\$ (154)	\$ (11,700)
Net income (loss) per share of common stock:				
Basic	\$ 0.06	\$ (0.08)	\$ (0.00)	\$ (0.13)
Diluted	\$ 0.06	\$ (0.08)	\$ (0.00)	\$ (0.13)
Weighted average shares outstanding used in computing net income (loss) per share:				
Basic	91,574	88,997	91,325	88,650
Diluted	92,569	88,997	91,325	88,650

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

Table of Contents**INVENSENSE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)****(In thousands)**

	Three Months Ended		Six Months Ended	
	September 27,	September 28,	September 27,	September 28,
	2015	2014	2015	2014
Net income (loss)	\$ 5,693	\$ (6,868)	\$ (154)	\$ (11,700)
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities, net of tax	(59)	(52)	(98)	39
Comprehensive income (loss)	\$ 5,634	\$ (6,920)	\$ (252)	\$ (11,661)

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 27, 2015	September 28, 2014
Cash flows from operating activities:		
Net loss	\$ (154)	\$ (11,700)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	6,245	4,310
Amortization of intangible assets	4,503	2,895
Non cash interest expense	3,958	3,672
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	17,683	14,637
Contingent consideration adjustment	(5,307)	
Deferred income tax assets	(3,498)	25
Tax effect of employee benefit plan	(758)	
Changes in operating assets and liabilities:		
Accounts receivable	(5,912)	(27,298)
Inventories	13,421	(1,978)
Prepaid expenses and other assets	2,113	54
Other assets	(1,833)	(1,100)
Accounts payable	12,444	5,398
Accrued liabilities	15,872	8,130
Net cash provided by (used in) operating activities	\$ 58,777	\$ (2,749)
Cash flows from investing activities:		
Acquisitions, net of cash acquired		(71,446)
Purchase of property and equipment	(3,953)	(17,624)
Sales and maturities of available-for-sale investments	71,843	98,528
Purchase of available-for-sale investments	(145,732)	
Net cash provided by (used in) investing activities	(77,842)	9,458
Cash flows from financing activities:		
Proceeds from the issuance of common stock	3,590	5,690

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Net cash provided by financing activities	3,590	5,690
Net increase (decrease) in cash and cash equivalents	(15,475)	12,399
Cash and cash equivalents:		
Beginning of period	85,637	26,025
End of period	\$ 70,162	\$ 38,424
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,531	\$ 1,429
Cash paid (received) for income taxes	\$ 294	\$ (186)
Noncash investing and financing activities:		
Unpaid purchases of property and equipment	\$ 604	\$ 5,681
Unrealized gain (loss) from available-for-sale investments	\$ (157)	\$ 2
Proceeds receivable from the exercise of stock options	\$	\$ 81

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 sensor systems on a chip, including accelerometers, gyroscopes and microphones for the mobile, wearable, smart home, gaming, industrial, and automotive market segments.

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 29, 2015 included in the Company's Annual Report on Form 10-K filed on May 28, 2015 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 29, 2015.

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 (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 2015) ended on March 29, 2015 (March 2015). The second fiscal quarter in each of the two most recent fiscal years ended on September 27, 2015 (three months ended September 27, 2015) and September 28, 2014 (three months ended September 28, 2014), respectively, and each quarter period included 13 weeks. Fiscal year 2016 is a 53-week fiscal year. The extra week is included in our fourth fiscal quarter ended April 3, 2016.

Basis of Presentation

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

The condensed consolidated balance sheet as of March 29, 2015, included herein was derived from the audited financial statements as of that date, but does not include all disclosures required by GAAP. The unaudited interim condensed consolidated financial statements, in the opinion of management, reflect all normal recurring adjustments necessary to present fairly the Company's financial position, results of operations, comprehensive income (loss) and cash flows for the interim periods. The results of operations for the period ended September 27, 2015 is not necessarily indicative of the results to be expected for the fiscal year ending April 3, 2016 or for any future year or interim period.

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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 notes thereto in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and notes thereto and the reported amounts of income and expenses during the reporting period. Significant estimates included in the Consolidated Financial Statements and notes thereto include income taxes, inventory valuation, stock-based compensation, goodwill, 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.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. In accordance with Accounting Standard Codification 350, the Company reviews goodwill for impairment at the reporting unit level on an annual basis or whenever events or changes in circumstances indicate the carrying value may not be recoverable. As the Company uses the market approach to assess impairment, its common stock price is an important component of the fair value calculation. The Company has determined that it has a single reporting unit for purposes of performing its goodwill impairment test. The Company performed its annual impairment test during the quarter ended December 28, 2014 and determined that its goodwill was not impaired.

Concentration of Credit Risk

The majority of the Company's products are shipped through its distributors or contract manufacturers, which are the legal counter-party on the sale. When the Company references customers, sales and revenue in this report, the Company is referring to the manufacturers of consumer electronics devices that are the end customer for our products. However, any disclosure about the composition of the Company's accounts receivable refers to the intermediary, which is the legal counter party in a particular contract. Some of the Company's intermediaries may serve more than one of the Company's customers. As a result, attempting to compare or correlate disclosures about our accounts receivable composition as of a particular date with the disclosures regarding revenues generated by our customers for the period ending on the same date can be difficult or misleading.

A distributor and a customer accounted for 49% and 20% of accounts receivable, respectively, at September 27, 2015. A distributor and a customer accounted for 38% and 26% of accounts receivable, respectively, at March 29, 2015.

For the three months ended September 27, 2015, one customer accounted for 34% of total net revenue and one customer accounted for 19% of total net revenue. For the six months ended September 27, 2015, one customer accounted for 36% of total net revenue and one customer accounted for 21% of total net revenue. For the three months

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ended September 28, 2014, one customer accounted for 29% of total net revenue and one customer accounted for 26% of total net revenue. For the six months ended September 28, 2014, one customer accounted for 30% of total net revenue, one customer accounted for 17% of total net revenue and the third customers accounted for 10% of total net revenue.

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

The Company offers one year standard warranty to its products. In selective cases, the warranty period could be extended to multiple years. The Company's accrual for anticipated warranty costs has increased primarily due to an increase in unit sales volume and a commensurate increase in the volume of product returned under the warranty agreements. 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 product warranty liability during the six months ended September 27, 2015 and September 28, 2014:

	Six Months Ended	
	September 27, 2015	September 28, 2014
	(in thousands)	
Beginning balance	\$ 341	\$ 80
Provision for warranty	421	103
Adjustments related to changes in estimate	(204)	(96)
Less: actual warranty costs	(82)	(15)
Ending balance	\$ 476	\$ 72

Net Income (Loss) Per Share

Basic net income per share is computed by dividing net income (loss) by the weighted average number of shares outstanding during the period, which excludes dilutive unvested restricted stock. Diluted net income per share is computed by dividing net income (loss) by the weighted average number of shares outstanding, including unvested restricted stock, certain warrants to purchase common stock and potential dilutive shares from the dilutive effect of outstanding stock options using the treasury stock method. In periods in which the Company has reported a net loss, the common stock equivalents are excluded from the calculation of diluted net loss per share of common stock as their effect is antidilutive under the treasury stock method.

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

	Three Months Ended		Six Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in thousands, except per share data)			

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Numerator:				
Basic and Diluted				
Net income (loss)	\$ 5,693	\$ (6,868)	\$ (154)	\$ (11,700)
Denominator:				
Basic shares:				
Weighted-average shares used in computing basic net income (loss) per share	91,574	88,997	91,325	88,650
Diluted shares:				
Weighted-average shares used in computing basic net income (loss) per share	91,574	88,997	91,325	88,650
Effect of potentially dilutive securities:				
Stock options and unvested restricted stock	995			
Common stock warrants				
Weighted-average shares used in computing diluted net income (loss) per share	92,569	88,997	91,325	88,650
Net income (loss) per share				
Basic	\$ 0.06	\$ (0.08)	\$ (0.00)	\$ (0.13)
Diluted	\$ 0.06	\$ (0.08)	\$ (0.00)	\$ (0.13)

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INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	Three Months Ended		Six Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in thousands)			
Employee stock options	7,382	8,665	9,059	8,635
Unvested restricted stock units	2,989	3,660	4,204	3,537
Total antidilutive securities	10,371	12,325	13,263	12,172

Segment Information

The Company operates in one operating segment by designing, developing, manufacturing and marketing sensor systems on a chip. The Chief Executive Officer has been identified as the Chief Operating Decision Maker as defined by Financial Accounting Standards Board's ASC 280 Segment Reporting. Enterprise-wide information is provided in accordance with ASC 280. Geographical revenue information is based on the location of our customers' head offices. Property and equipment information is based on the physical location of the assets at the end of each fiscal period.

Property and equipment by country were as follows:

Country	September 27, 2015	March 29, 2015
	(in thousands)	
United States	\$ 9,542	\$ 9,442
Taiwan	27,915	31,334
Other	1,634	1,073
	\$ 39,091	\$ 41,849

Net revenue from unaffiliated customers by country was as follows:

Region	Three Months Ended		Six Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in thousands)			
United States	\$ 42,913	\$ 29,622	\$ 86,716	\$ 37,452
Korea	24,469	35,058	53,192	63,970
China	26,010	12,546	50,616	29,906
Japan	8,028	5,939	12,164	9,733
Taiwan	7,576	5,185	10,762	12,795
Rest of world	3,549	1,845	5,391	3,020
	\$ 112,545	\$ 90,195	\$ 218,841	\$ 156,876

Recent Accounting Pronouncements

On July 22, 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-11, the FASB issued final guidance that simplifies the subsequent measurement of inventories by replacing today's lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in first-out and the retail inventory method. Entities that use last-in, first-out or retail inventory method will continue to use existing impairment models. The guidance is effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company does not expect this guidance to have significant impact on its consolidated financial statements.

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INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

On August 18, 2015, the FASB issued ASU No. 2015-15, the ASU states that the Securities and Exchange Commission (SEC) staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are outstanding borrowings under that line-of-credit arrangement. For public business entities, ASU 2015-15 is effective concurrent with adoption of ASU No. 2015-03 which is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* on April 7, 2015. ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The Company does not expect this guidance to have significant impact on its consolidated financial statements.

On September 25, 2015, the FASB issued ASU 2015-16, the new guidance eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. An acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The guidance is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company does not expect this guidance to have significant impact on its consolidated financial statements.

2. Cash Equivalents and Available-for-Sale Investments

At September 27, 2015, cash and cash equivalents totaled \$70.2 million, of which \$45.4 million was cash and \$24.8 million was cash equivalents invested in money market funds. At September 27, 2015, \$37.0 million of the 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 September 27, 2015, the Company had short-term available-for-sale investments of \$203.2 million which are held in the US entity.

At March 29, 2015, cash and cash equivalents totaled \$85.6 million, of which \$61.6 million was cash and \$24.0 million was cash equivalents. At March 29, 2015, \$47.7 million of the cash and cash equivalents were held by our foreign subsidiaries. Additionally, as of March 29, 2015, the Company had short-term available-for-sale investments of \$129.9 million which are held in the US entity.

The Company applies the provisions of ASC 820-10, *Fair Value Measurements* . Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. ASC 820-10 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value

measurements. The standard describes a fair value hierarchy based on three levels of inputs that may be used to measure fair value. The inputs for the first two levels are considered observable and the last is unobservable and include the following:

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

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

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

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

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INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

*Fair value measurements at each reporting date were as follows:***September 27, 2015:**

Assets measured at fair value on a recurring basis were presented in the Company's condensed consolidated balance sheet as of September 27, 2015.

	September 27, 2015 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)			
Assets				
Money Market Funds	\$ 24,753	\$ 24,753	\$	\$
Corporate Notes and Bonds	168,465		168,465	
Commercial Paper	32,255		32,255	
U.S. Agency Securities	2,501		2,501	
Total investments	\$ 227,974	\$ 24,753	\$ 203,221	\$
Liabilities				
Contingent consideration	\$ 3,817	\$	\$	\$ 3,817
Assets				
Cash equivalents	\$ 24,753	\$ 24,753	\$	\$
Short-term investments	203,221		203,221	
Total investments	\$ 227,974	\$ 24,753	\$ 203,221	\$
Liabilities				
Accrued liabilities	\$ 3,817	\$	\$	\$ 3,817
Total contingent consideration	\$ 3,817	\$	\$	\$ 3,817

	September 27, 2015 Balance	Gross Unrealized Gain	Gross Unrealized Loss	September 27, 2015 Estimated FMV
Corporate Notes and Bonds	\$ 168,619	\$ 4	\$ (158)	\$ 168,465
Commercial Paper	32,260	1	(6)	32,255
U.S. Agency Securities	2,500	1		2,501
Total Available-for-sale investments	\$ 203,379	\$ 6	\$ (164)	\$ 203,221
Money Market Funds				24,753
Total Aggregate Fair Value				\$ 227,974

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

There were no transfers of assets measured at fair value between Level 1 and Level 2 during the three months ended September 27, 2015.

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INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 29, 2015:

Assets measured at fair value on a recurring basis were presented in the Company's consolidated balance sheet as of March 29, 2015.

	March 29, 2015 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)				
Assets				
Money Market Funds	\$ 22,023	\$ 22,023	\$	\$
Corporate Notes and Bonds	122,124		122,124	
Commercial Paper	6,991		6,991	
Municipal Notes and Bonds	302		302	
U.S. Agency Securities	2,502		2,502	
Total investments	\$ 153,942	\$ 22,023	\$ 131,919	\$
Liabilities				
Contingent consideration	\$ 9,124	\$	\$	\$ 9,124
Assets				
Cash equivalents	\$ 24,023	\$ 24,023	\$	\$
Short-term investments	129,919		129,919	
Long-term investments				
Total investments	\$ 153,942	\$ 24,023	\$ 129,919	\$
Liabilities				
Accrued liabilities	\$ 6,364	\$	\$	\$ 6,364
Long-term liabilities	2,760			2,760
Total contingent consideration	\$ 9,124	\$	\$	\$ 9,124

	March 29, 2015	Gross Unrealized Gain	Gross Unrealized Loss	March 29, 2015
	Amortized Cost			Estimated FMV
Corporate Notes and Bonds	\$ 122,131	\$ 22	\$ (29)	\$ 122,124
Commercial Paper	6,992		(1)	6,991
Municipal Notes and Bonds	302			302
U.S. Agency Securities	2,500	2		2,502
Total Available-for-sale investments	\$ 131,925	\$ 24	\$ (30)	\$ 131,919
Money Market Funds				22,023
Total Aggregate Fair Value				\$ 153,942

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.

There were no transfers of assets measured at fair value between Level 1 and Level 2 during fiscal 2015.

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Level 3 financial liabilities:

The following table provides a summary of changes in fair value of the Company's contingent consideration categorized as Level 3 for the six months ended September 27, 2015:

	Six Months Ended September 27, 2015 (in thousands)
Beginning balance	\$ 9,124
Add: Contingent consideration in connection with acquisitions	
Payments made on contingent liabilities	
Change in fair value and other	(5,307)
Ending balance	\$ 3,817

Contingent consideration on acquired businesses (See Note 8) was measured at fair value using Level 3 inputs as defined in the fair value hierarchy. The following table presents certain information about the significant unobservable inputs used in the fair value measurement for the contingent consideration measured at fair value on a recurring basis using significant unobservable inputs:

Description	Valuation Techniques	Significant Unobservable Inputs
Liabilities: Contingent consideration	Present value of a Probability Weighted Earn-out model using an appropriate discount rate.	Estimate of achieving the milestones.

An increase in the estimate of probability of meeting the milestones could result in a significantly higher estimated fair value of the contingent consideration liability. Alternatively, a decrease in the estimate of probability of meeting the milestones could result in a significantly lower estimated fair value of contingent consideration liability. The fair value of contingent consideration was derived from a probability weighted earn-out model of future contingent payments. The cash payments are expected to be made upon meeting the milestones (See Note 8). The initial valuation of the contingent consideration was based on a collaborative effort of the Company's engineering and finance departments, and third party valuation experts. The estimate of meeting the milestones and discount rates will be reviewed quarterly and updated as and when necessary. Potential valuation adjustments will be made to adjust the contingent consideration payments. These adjustments will be recorded in the statements of operations.

During the six months ended September 27, 2015, the fair value of contingent consideration declined by \$5.3 million. The decline in fair value was the result of a reduction in the probability of a design win milestone associated with the Movea, S.A., (Movea) acquisition from 50% to 0% and a reduction in the probability of a design win associated with the Trusted Positioning, Inc. (TPI) acquisition from 50% to 0%. The decline in fair value of the design win milestones for Movea and TPI was \$4.0 million and \$2.4 million, respectively, which were recorded as a credit to research and development expense. The earn-out payments for the Movea and TPI s design win milestones were not made as these milestones were not met and expired during the six months ended September 27, 2015. Offsetting this amount is an increase in the fair value of two TPI cloud application milestones as a result of an increase in the estimated probability of achievement of those milestones. The increase in the fair value of the cloud application milestones was \$1.1 million which was recorded as a debit to research and development expense during the six months ended September 27, 2015.

3. Balance Sheet Details

Inventories

Inventories at September 27, 2015 and March 29, 2015 consist of the following:

	September 27, 2015	March 29, 2015
	(in thousands)	
Work in process	\$ 23,941	\$ 49,146
Finished goods	37,743	25,959
Total inventories	\$ 61,684	\$ 75,105

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Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets at September 27, 2015 and March 29, 2015 consist of the following:

	September 27, 2015	March 29, 2015
	(in thousands)	
Deferred tax assets	\$ 5,099	\$ 5,127
Prepaid expenses	4,175	4,280
Income tax receivable	89	1,398
Other receivables	1,707	2,675
Other current assets	2,073	1,470
Total prepaid expenses and other current assets	\$ 13,143	\$ 14,950

Property and Equipment

Property and equipment at September 27, 2015 and March 29, 2015 consist of the following:

	September 27, 2015	March 29, 2015
	(in thousands)	
Production and lab equipment	\$ 48,717	\$ 47,107
Computer equipment and software	7,328	6,044
Equipment under construction	2,664	2,820
Leasehold improvements and furniture and fixtures	8,122	7,163
Subtotal	66,831	63,134
Accumulated depreciation and amortization	(27,740)	(21,285)
Property and equipment net	\$ 39,091	\$ 41,849

Depreciation expense for the three and six months ended September 27, 2015 was \$3.2 million and \$6.2 million, respectively. Depreciation expense for the three and six months ended September 28, 2014 was \$2.6 million and \$4.3 million, respectively. Equipment under construction consists primarily of production and lab equipment. Equipment under construction is not subject to depreciation until it is available for its intended use. All of the equipment under construction is expected to be completed and placed in service by the end of fiscal 2016.

Accrued Liabilities

Accrued liabilities at September 27, 2015 and March 29, 2015 consist of the following:

	September 27, 2015	March 29, 2015
	(in thousands)	
Contingent consideration, current portion	\$ 3,817	\$ 6,364
Payroll-related expenses	8,367	7,197
Bonuses	4,051	5,352
Legal fees	12,314	921
Accrued contractual coupon interest payable on convertible senior notes	1,247	1,252
Deferred revenue	1,663	1,584
Income tax payable	547	311
Other tax payable	768	768
Acquisition-related payable	1,380	1,380
Customer deposit	1,796	900
Other accrued liabilities	7,818	5,962
Total accrued liabilities	\$ 43,768	\$ 31,991

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Other Long-term Liabilities

Other long-term liabilities at September 27, 2015 and March 29, 2015 consist of the following:

	September 27, 2015	March 29, 2015
	(in thousands)	
Long-term tax payable	\$ 14,223	\$ 11,918
Deferred tax liabilities	3,481	3,936
Deferred revenue	3,000	3,400
Deferred rent	3,740	3,630
Contingent consideration, noncurrent portion		2,760
Long-term debt	2,502	2,472
Other long-term liabilities	251	136
Total accrued liabilities	\$ 27,197	\$ 28,252

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

The Company has non-cancelable operating leases for its facilities through fiscal year 2022.

Future minimum lease payments, net of future minimum lease income, under operating leases as of September 27, 2015 are as follows:

Fiscal Years Ending:	Amount (in thousands)
2016 (remainder)	\$ 2,456
2017	5,172
2018	6,357
2019	6,544
2020	5,197
Beyond	1,823
Total	\$ 27,549

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, net of the rent income from subleases of \$0.4 million and \$0.7 million, was approximately \$1.2 million and \$2.6 million for the three and six months ended September 27, 2015, respectively. The Company's rental expense under operating leases was approximately \$1.2 million and \$2.3 million for the three and six months ended September 28, 2014, respectively.

Purchase Commitments

The Company has non-cancelable purchase commitments with its foundry vendors. Future minimum payments of \$55.7 million under the purchase commitments as of September 27, 2015 are less than twelve months.

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Legal Proceedings and Contingencies

From time to time the Company is involved in litigation that the Company believes is of the type common to companies engaged in our line of business, including intellectual property and employment issues.

In January and March of 2015, purported shareholders filed five substantially similar class action complaints in the U.S. District Court, Northern District of California against the Company and two of the Company's current and former executives (Class Action Defendants) (*Jim McMillan v. InvenSense, Inc., et al.*, Case No. 3:15-cv-00084-JD, filed January 7, 2015; *William Lendales v. InvenSense, Inc. et al.*, Case No. 3:15-cv-00142-VC, filed on January 12, 2015; *Plumber & Steamfitters Local 21 Pension Fund v. InvenSense, Inc., et al.*, Case No. 5:15-cv-00249-BLF, filed on January 16, 2015; *William B. Davis vs. InvenSense, Inc., et al.*, Case No. 5:15-cv-00425-RMW, filed on January 29, 2015; and *Saratoga Advantage Trust Technology & Communications Portfolio v. InvenSense et al.*, Case No. 3:15-cv-01134, filed on March 11, 2015). On April 23, 2015, those cases were consolidated into a single proceeding which is currently pending in the U.S. District Court, Northern District of California and captioned *In re InvenSense, Inc. Securities Litigation*, Case No. 3:15-cv-00084-JD (the Securities Case), and the Vossen Group was designated as lead plaintiff. On May 26, 2015, the lead plaintiffs filed a consolidated amended class action complaint, which alleges that the defendants violated the federal securities laws by making materially false and misleading statements regarding our business results between July 29, 2014 and October 28, 2014, and seeks unspecified damages along with plaintiff's costs and expenses, including attorneys' fees. On June 25, 2015, the Class Action Defendants filed a motion seeking dismissal of the case and a hearing on that motion was held on October 7, 2015.

In addition, in January and March of 2015, other purported shareholders filed three substantially similar shareholder derivative complaints against two of our current and former officers and several of our current directors, twice in the U.S. District Court, Northern District of California and once in Santa Clara Superior Court (*George E Rollins v. Behrooz Abdi et al.*, Case No. 5:15-cv-00184-PSG, filed on January 13, 2015; *Linda Karr v. Behrooz Abdi et al.*, Case No. 5:15-cv-00200-NC, filed on January 14, 2015; and *Robert Bilbrey v. Behrooz Abdi et al.*, Case No. 1-15-CV-278742 was filed on March 20, 2015) (collectively, the Derivative Cases). In the Derivative Cases complaints, the plaintiffs make allegations similar to those presented in the Securities Case, but the plaintiff asserts various state law causes of action, including claims of breach of fiduciary duty and unjust enrichment. The Company has undertaken an evaluation of these complaints. Plaintiffs in the Derivative Cases have agreed to an indefinite stay pending developments in the Securities Case. In light of the unresolved legal issues, while a loss is reasonably possible, the amount of any potential loss cannot be estimated. At this stage, the Company is unable to predict the outcome of this matter and, accordingly, cannot estimate the potential financial impact on the Company's business, operating results, cash flows or financial position.

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.

Robert Bosch GmbH (Bosch), one of the Company's competitors, and the Company have each previously made generalized assertions of potential patent infringement by the other. On October 28, 2015, the Company and Bosch

resolved all assertions of potential infringement between them and entered into a multi-year, worldwide patent cross license agreement for MEMS and sensor technologies, excluding patents covering InvenSense's CMOS-MEMS eutectic bonding production process and Bosch's two-layer porous silicon production process, and an upfront payment of \$11.5 million to Bosch. The other terms of the settlement and the patent cross license agreement remain confidential and are not expected to have a material impact on our future results. Based on the status of the negotiations, the Company recognized a pre-tax charge of \$11.7 million during the quarter ended June 28, 2015. In the future, other third parties may assert against the Company and its customers and distributors, their patent and other intellectual property rights to technologies that are important to our business.

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The Company is not aware of any other pending legal matters or claims, individually or in the aggregate, that is expected to have a material adverse impact on its consolidated financial position, results of operations, or cash flows. However, the Company's analysis of whether a claim may proceed to litigation cannot be predicted with certainty, nor can the results of litigation be predicted with certainty. Nevertheless, defending any of these actions, regardless of the outcome, may be costly, time consuming, distract management personnel, and have a negative effect on our business. An adverse outcome in any of these actions, including a judgment or settlement, may cause a material adverse effect on our future business, operating results, and/or financial condition.

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.

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.

5. Convertible Senior Notes

In November 2013, the Company issued \$175.0 million aggregate principal amount of 1.75% Convertible Senior Notes due on November 1, 2018 (the "Notes"), in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933 (the "Securities Act"). The Notes offered have not been registered under the Securities Act, or applicable state securities laws or blue sky laws, and may not be offered or sold in the United States absent registration under the Securities Act and applicable state securities laws or available exemptions from the registration requirements.

The Notes are senior unsecured obligation of the Company and rank equally in right of payment with all of the Company's existing and future senior unsecured indebtedness and are junior to any of the Company's existing and future secured indebtedness. The Notes pay interest in cash semi-annually (May and November) at a rate of 1.75% per annum. Net proceeds received by the Company, after issuance costs, were approximately \$169.3 million.

On or after August 1, 2018 until the maturity date, the Notes may be converted at the option of the holders. Holders may convert the Notes at their option prior to August 1, 2018 only under the following circumstances:

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- 1) During any calendar quarter and only during such calendar quarter, if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price of \$21.89 on each applicable trading day;
- 2) During the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or
- 3) Upon the occurrence of specified corporate events, including if there is a fundamental change.

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Upon conversion, the Company will pay cash up to the aggregate principal amount of the notes to be converted and pay or deliver cash, shares of its own common stock or a combination of cash and shares of its own common stock, at the Company's election, in respect of the remainder, if any, of its conversion obligation in excess of the aggregate principal amount of the notes being converted.

The conversion rate is initially 45.683 shares per \$1,000 principal amount of the Notes (equivalent to an initial conversion price of approximately \$21.89 per share of common stock), subject to certain adjustments.

The Notes are not redeemable by the Company prior to the maturity date. At the event of default or fundamental change, the principal amount of the notes plus accrued and unpaid interest may become due immediately at the Note holders' option.

The Company separately accounts for the liability and equity components of the Notes. The initial debt component of the Notes was valued at \$135.7 million based on the contractual cash flows discounted at an appropriate comparable market non-convertible debt borrowing rate at the date of issuance of 7.3%, with the equity component representing the residual amount of the proceeds of \$39.3 million which was recorded as a debt discount. The issuance costs were allocated pro-rata based on the relative initial carrying amounts of the debt and equity components, including the Note hedges and warrants transactions described below. As a result, \$2.5 million of the issuance costs was allocated to the equity component of the Notes, \$3.0 million of issuance costs paid to the initial purchaser was accounted for as a debt discount and \$0.25 million of the issuance costs was classified as other non-current assets. Debt issuance costs was reclassified and presented in the balance sheet as a direct deduction from the carrying value of the debt liability, consistent with the presentation of a debt discount in the first quarter of the Company's fiscal year 2016 pertaining to the requirement of ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The debt discount and the issuance costs allocated to the debt component are amortized as additional interest expense over the term of the Notes using the effective interest method. As of September 27, 2015, the remaining amortization period of the debt discount and the issuance costs is 3.1 years. The effective interest rate of the Notes is 7.84% per annum (1.75% coupon rate plus 6.09% of non-cash accretion expense).

Convertible Notes Hedges and Warrants

Concurrent with the issuance of the Notes on November 6 and 7, 2013, the Company purchased call options for its own common stock to hedge the Notes (the Note Hedge) and sold call options for its own common stock (the Warrants). The Note Hedges and Warrants transactions are structured to reduce the potential future economic dilution associated with the conversion of the Notes and are excluded from the computation of diluted earnings per share for each period presented, as the Company's average stock price during each period is less than the conversion price.

The Note Hedges - On November 6 and 7, 2013, the Company purchased call options from a counterparty for an aggregate price of approximately \$39.1 million, which gives the Company the right to buy from the counterparty up to approximately 8.0 million shares of the Company's common stock at a price of \$21.89 per share, subject to adjustments. The Note Hedge is exercisable upon conversion of the Note for a number of shares equal to the product

of 0.045683 and amount of the converted Note. Upon exercise of the Note Hedge, the Company will receive from the counterparty cash, shares of Company's common stock, or a combination thereof, equal to the amount by which the market price per share of the Company's common stock exceeds \$21.89 during the applicable valuation period. By the Note Hedge terms the Company will receive cash and shares in a combination that offsets share dilution caused by conversion of the Note.

Warrants - On November 6 and 7, 2013, the Company sold call options to the same counterparty for approximately \$25.6 million, which gives the counterparty the right to buy from the Company up to approximately 8.0 million shares of the Company's common stock at an exercise price of \$28.66 per share, subject to adjustments, on a series of days commencing on February 1, 2019 and ending May 13, 2019. Upon exercise of the Warrants, the Company has the option to deliver cash or shares of its common stock equal to the difference between the market price on the exercise date and the strike price of the warrants. Upon exercise of the Warrants, the Company will pay to the Initial Purchaser cash, shares of Company's common stock, or a combination thereof (at the Company's choice), equal to the amount by which the market price per share of the Company's common stock exceeds \$28.66 during the applicable valuation period.

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The Note Hedges and Warrants above are classified in stockholders' equity in the Company's consolidated balance sheets.

The following table summarizes the principal amounts and related unamortized discount on the Notes (in thousands):

	September 27, 2015	March 29, 2015
	(in thousands)	
Principal amount of the Notes	\$ 175,000	\$ 175,000
Unamortized discount on the Notes	28,233	32,190
Net carrying value	\$ 146,767	\$ 142,810

The following table presents the amount of interest expense recognized related to the Notes (in thousands):

	Three Months Ended		Six Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in thousands)			
Contractual coupon interest expense	\$ 764	\$ 764	\$ 1,528	\$ 1,532
Accretion of debt discount	1,986	1,843	3,931	3,647
Amortization of debt issuance costs	13	13	26	25
Total interest expense related to the Notes	\$ 2,763	\$ 2,620	\$ 5,485	\$ 5,204

As of September 27, 2015, our aggregate future principal debt maturities are as follows (in thousands):

Fiscal Year	September 27, 2015 (in thousands)
2016-2019	\$ 175,000
Total	\$ 175,000

The convertible notes issued by the Company in November 2013 are shown in the accompanying consolidated balance sheets at their original issuance value, net of unamortized discount, and are not marked to market each period. The approximate fair value of the convertible notes as of September 27, 2015 was \$158.1 million. The fair value of the convertible notes was determined using quoted market prices for similar securities, which, due to limited trading activity, are considered Level 2 in the fair value hierarchy.

6. Stockholders Equity

Stock Plans

In July 2011, the Company's Board of Directors and its stockholders approved the establishment of the 2011 Stock Incentive Plan (the 2011 Plan). The 2011 Plan provides for annual increases in the number of shares available for issuance there under on the first business day of each fiscal year, beginning with the Company's fiscal year following the year of this offering, equal to four percent (4%) of the number of shares of the Company's common stock outstanding as of such date, which resulted in an annual increase of 3.6 million shares for fiscal year 2016.

Under the Company's 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.

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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.

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

		Options Issued and Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Balance	March 29, 2015	8,307	\$ 12.99	7.60	\$ 29,817
Options granted		1,606	14.72		
Exercised options		(361)	6.67		
Cancelled options		(344)	13.71		
Balance	September 27, 2015	9,208	\$ 13.51	7.59	\$ 5,271
Vested and expected to vest	September 27, 2015	8,335	\$ 13.24	7.46	\$ 5,268
Vested	September 27, 2015	4,210	\$ 11.17	6.52	\$ 5,193

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. The Company used historical experience to estimate expected term. The expected volatility was based on the historical stock volatilities of the Company's historical data with that of a peer group of publicly listed companies over a period equal to the expected terms. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with

remaining terms similar to the expected term. The Company does not anticipate paying any cash dividends in the foreseeable future and, therefore, uses an expected dividend yield of zero.

The aggregate intrinsic value of the stock options exercised during the three and six months ended September 27, 2015 was \$0.4 million and \$2.6 million respectively. The aggregate intrinsic value of the stock options exercised during the three and six months ended September 28, 2014 was \$11.2 million and \$14.1 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.

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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 \$19.9 million at September 27, 2015, and will be amortized over a weighted-average remaining period of approximately 2.5 years. Total unrecognized expense will be adjusted for future changes in estimated forfeitures.

The Company used the following weighted-average assumptions in determining stock-based compensation expense for options granted in the three and six months ended September 27, 2015 and September 28, 2014.

	Three Months Ended		Six Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Expected term (in years)	5.1	4.6	5.1	4.5
Volatility	44.4%	41.4%	45.1%	41.7%
Risk-free interest rate	1.5%	1.5%	1.5%	1.4%
Dividend rate	0%	0%	0%	0%

The weighted-average grant date fair value of the Company's stock options granted in the three and six month ended September 27, 2015 was \$5.33 and \$6.06 per share, respectively. The weighted-average grant date fair value of the Company's stock options granted in the three and six month ended September 28, 2014 was \$8.71 and \$7.33 per share, respectively.

Restricted Stock Units and Restricted Stock

Restricted stock unit and restricted stock activity of the Company under the Plans are as follows:

Restricted stock units and restricted stock activities	Shares (in thousands, except per share amount)	Weighted Average Grant Date Fair Value Per Share	
Unvested at March 29, 2015	4,030	\$	17.75
Granted	1,060		14.20
Released	(606)		17.26
Forfeited	(367)		17.39
Unvested at September 27, 2015	4,117	\$	16.94

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 September 27, 2015, there was approximately \$46.2 million of total unrecognized compensation cost related to restricted stock units and restricted stock, which the Company expects to recognize over a period of 2.8 years. The weighted-average grant-date fair value per share of restricted stock units and restricted stock awarded in the three and six months ended September 27, 2015 was \$11.77 and \$14.20 per share, respectively. The weighted-average grant-date fair value per share of restricted stock units and restricted stock awarded in the three and six months ended September 28, 2014 was \$24.18 and \$21.84 per share, respectively.

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2013 Employee Stock Purchase Plan

Under the 2013 Employee Stock Purchase Plan, effective September 13, 2013, (the "ESPP"), eligible employees may apply accumulated payroll deductions, which may not exceed 10% of an employee's compensation, to the purchase of shares of the Company's common stock at periodic intervals. The purchase price of stock under the ESPP is equal to 85% of the lower of (i) the fair market value of the Company's common stock on the first day of each offering period, or (ii) the fair market value of the Company's common stock on the purchase date (as defined in the ESPP). Each offering period consists of one purchase period of approximately six months duration.

At the 2015 annual meeting of stockholders, stockholders of the Company approved an amendment to the current ESPP to increase the number of shares of common stock reserved for future issuance by 1,000,000 shares which brought the total of common stock reserved for issuance to employees to an aggregate of 1,400,000 shares. As of September 27, 2015, 289,000 shares had been purchased.

During the three and six months ended September 27, 2015, compensation expense recognized in connection with the Purchase Plan was \$0.2 million and \$0.5 million, respectively. During the three and six months ended September 28, 2014, compensation expense recognized in connection with the Purchase Plan was \$0.2 million and \$0.4 million, respectively.

Common Stock

As of September 27, 2015 and March 29, 2015, common stock reserved for future issuance was as follows:

Common stock reserved for issuance	September 27, 2015	March 29, 2015,
	(in thousands)	
Stock plans		
Outstanding stock options	9,208	8,307
Outstanding restricted stock units and restricted stocks	4,117	4,030
Reserved for future equity incentive grants	12,006	10,300
	25,331	22,637
Purchase plan	1,111	230
Warrants to purchase common stock	7,995	7,995
Total common stock reserved for future issuances	34,437	30,862

Stock-Based Compensation Expense

Total employee stock-based compensation cost for the Company's stock plans for the three and six months ended September 27, 2015 and September 28, 2014 is as follows:

	Three Months Ended		Six Months Ended	
	September 27,	September 28,	September 27,	September 28,
	2015	2014	2015	2014
	(in thousands)			
Cost of revenue	\$ 584	\$ 654	\$ 1,184	\$ 1,311
Research and development	4,002	3,197	7,838	6,715
Selling, general and administrative	4,462	3,151	8,661	6,611
Total stock-based compensation expense	\$ 9,048	\$ 7,002	\$ 17,683	\$ 14,637

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INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

7. Income Taxes

In the three and six months ended September 27, 2015, the Company recorded an income tax provision (benefit) of (\$2.0) million and (\$1.7) million, respectively. In the three and six months ended September 28, 2014, the Company recorded an income tax provision of \$0.6 million and \$0.9 million, respectively. The Company's estimated 2016 effective tax rate differs from the U.S. statutory rate primarily due to foreign tax differentials, a current year loss in the U.S., and was negatively affected by an increase in non-deductible stock option expense, and other deductible federal tax attributes.

Over 90% of our revenue is derived from sales to customers located outside the U.S. A significant percentage of our pre-tax income in the three months ended September 27, 2015 and September 28, 2014 was generated internationally, primarily from our Cayman Island subsidiary, which is currently a zero tax jurisdiction. Since 2011, our Cayman Island subsidiary has procured the rights to manufacture and sell our products in non-US locations via an intercompany technology license arrangement with its U.S. parent company. In addition, the Company has not provided for U.S. federal income and foreign withholding taxes on undistributed earnings from its non-U.S. subsidiaries, as it is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. Our effective tax rate is highly dependent upon the geographic distribution of our worldwide earnings or losses, and the tax regulations in each geographic region. We expect that a large percentage of our consolidated pre-tax income will continue to be derived from, and reinvested in, our overseas operations. We anticipate that this pre-tax income will continue to be subject to foreign tax at significantly lower tax rates when compared to the United States federal statutory tax rate.

The Company had deferred tax assets related to Research and Development Credits and other tax attributes including accrued expenses and stock based compensation that can be used to offset taxable income in future periods and reduce our income taxes payable in those future periods. Realization of our deferred tax assets is dependent upon future federal, state and foreign taxable income. Many of those credit carryforwards will expire if they are not used within certain time periods. As of September 27, 2015, management determined that there is sufficient positive evidence to conclude that it is more likely than not that we will have sufficient taxable income in the future that will allow us to realize these DTAs. However, it is possible that some or all of these credits could ultimately expire unused, especially if our U.S. entity does not make a taxable profit, which has been limited mainly due to stock option deductions since the company went public. Therefore, unless we are able to generate sufficient taxable income from our U.S. operations, a substantial valuation allowance to reduce our U.S. DTAs may be required, which would materially increase our expenses in the period the allowance is recognized and materially adversely affect our results of operations and statement of financial condition. 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.

The Company has not provided for U.S. federal income and foreign withholding taxes on undistributed earnings from non-U.S. operations as of September 27, 2015.

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The Company has recorded \$14.2 million of uncertain tax positions within Other long-term liabilities on the condensed consolidated balance sheet as at September 27, 2015. The Company does not expect any significant increases or decreases to its unrecognized tax benefits within the next twelve months. While management believes that the Company has adequately provided for all tax positions, amounts asserted by tax authorities could be greater or less than the recorded position. Accordingly, the Company's provisions on federal, state and foreign tax-related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved.

The Company is in the process of an Internal Revenue Service (IRS) examination for tax years 2011, 2012, 2013 and 2014. The Company may be subject to examination by California for tax years 2010 and forward. Generally, the Company is subject to routine examination for tax years 2008 and forward in various foreign tax jurisdictions in which it operates.

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INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

8. Acquisition

The Company completed two acquisitions in fiscal 2015 and one acquisition in fiscal 2014. The acquisitions have been accounted for using the acquisition method of accounting in accordance with ASC 805 Business Combinations. Under the acquisition method of accounting, the total purchase consideration of the acquisition is allocated to the tangible assets and identifiable intangible assets and liabilities assumed based on their relative fair values. The excess of the purchase consideration over the net tangible and identifiable intangible assets is recorded as goodwill, and was derived from expected benefits from future technology development, synergies and the knowledgeable and experienced workforce who joined the Company after the acquisition.

Movea S.A

On July 22, 2014, the Company acquired 100% equity interest of Movea, a company formed under the laws of France, and a leading provider of software for ultra-low power location, activity tracking and context sensing. The acquisition of Movea further scales the Company's leadership in motion software.

The Company paid \$60.9 million in cash as consideration for the acquisition and could pay an additional \$13.0 million in cash contingent upon the achievement of certain milestones within one year of the acquisition.

The table below is a summary of the purchase price allocation of the fair value of assets acquired and liabilities assumed in connection with the acquisition of Movea (in thousands):

Cash consideration	\$ 60,900
Contingent consideration	8,400
	\$ 69,300
Allocation of purchase price:	
Current assets	\$ 3,082
Fixed assets	209
Other non-current assets	592
Developed technology	7,200
Goodwill	68,330
Current liabilities	(5,016)
Long-term liabilities	(5,097)
Total preliminary purchase price	\$ 69,300

The purchase price included \$2.6 million of long-term debt which was included in the long-term liabilities. The debt was measured at fair value using the effective interest rate method and considered as Level 3 inputs as defined in the fair value hierarchy, which approximates carrying value as of September 27, 2015.

The purchase price includes contingent considerations of (i) \$8.0 million payable in cash to the former Movea shareholders upon a design win with a major smartphone manufacturer within one year of closing date, and (ii) \$5.0 million payable in cash to the former Movea shareholders upon a specific product development milestone before December 29, 2014. The fair value of the contingent consideration of \$8.4 million was derived from a probability weighted earn-out model of future contingent payments and recorded in accrued liabilities. The product development milestone of \$5.0 million was achieved and the payment was made in fiscal 2015. The difference between the contractual amount of \$5.0 million and the fair value of this contingent consideration was recorded in the research and development expense for the year ended March 29, 2015. During the six months ended September 27, 2015, the fair value of contingent consideration for Movea declined by \$4.0 million. The decline in fair value was the result of a reduction in the probability of a design win milestone associated with the Movea acquisition from 50% to 0%. The decline in fair value of the design win milestones for Movea was recorded as a credit to research and development expense.

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

The purchase price exceeded the fair value of the net tangible and identifiable intangible assets acquired and, as a result, the Company recorded goodwill in connection with this transaction. The acquisition will provide assembled workforce and synergy with other of the Company's offerings. These factors primarily contributed to a purchase price that resulted in goodwill.

The following table presents certain information on acquired identifiable intangible assets related to the Movea acquisition:

	Estimated Fair Value (in thousands)	Estimated Useful Life (in years)
Developed technology	\$ 7,200	5

The fair value of developed technology was determined using a cost approach, which includes an estimate of time and expenses required to recreate the intangible asset. The fair value of developed technology was capitalized as of the acquisition date and will be amortized using a straight-line method to cost of revenue over the estimated useful life of five years.

Trusted Positioning, Inc.

On August 29, 2014, the Company completed the acquisition of Trusted Positioning, Inc., ("TPI"), a Canadian corporation, which is an indoor/outdoor positioning software company to provide Positioning Everywhere. The acquisition of TPI, particularly its advanced location tracking software, strengthens the Company's position as a provider of intelligent sensor System on Chips (SoC) for the fast growing mobile market.

The Company's acquisition of TPI was completed through a step acquisition. In fiscal 2014, the Company made investments totaling \$0.3 million to own approximately 4.57% of TPI's outstanding common stock. On August 29, 2014, the Company purchased the remaining outstanding common stock of TPI for a total consideration of \$25.9 million. The total purchase price, as presented in the table below, consists of (i) cash of \$11.4 million, (ii) issuance of 236,000 shares of the Company's common stock with a fair value of \$5.7 million, (iii) contingent considerations with a combined fair value of \$7.6 million payable upon TPI's achievement of certain product development milestones, and (iv) initial investments with a fair value of \$1.2 million.

The table below is a summary of the purchase price allocation for the 100% equity interest of the fair value of assets acquired and liabilities assumed in connection with the acquisition of TPI (in thousands):

Cash consideration	\$ 11,379
Issuance of common stock	5,703

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Contingent consideration	7,634
Fair value of previously held 4.57% equity interest	1,215
	\$ 25,931

Allocation of purchase price:

Current assets	\$ 392
Fixed assets	50
Other non-current assets	546
Developed technology	8,600
Goodwill	19,893
Current liabilities	(1,247)
Long-term liabilities	(2,303)
Total preliminary purchase price	\$ 25,931

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

The purchase price includes contingent consideration comprised of (i) \$5.0 million payable upon a design win within one year of acquisition, (ii) \$3.0 million payable upon achieving a development milestone before December 29, 2014, (iii) \$2.0 million payable upon successful development of cloud application within two years of acquisition and (iv) \$2.0 million upon first deployment of cloud application which is expected within one year of successful development of cloud application. The contingent considerations, which was derived from a probability weighted earn-out model of future contingent payments, have a combined fair value of \$7.6 million, of which \$4.9 million was recorded in accrued liabilities and \$2.7 million was recorded in other long-term liabilities. The development milestone of \$3 million was achieved and the payment was made in fiscal 2015. The difference between the contractual amount of \$3.0 million and the fair value of this contingent consideration was recorded in the research and development expense for the year ended March 29, 2015.

During the six months ended September 27, 2015, the fair value of contingent consideration for TPI declined by \$1.3 million. The decline in fair value was the result of a reduction in the probability of a design win associated with the TPI acquisition from 50% to 0%. The decline in fair value of the design win milestones for TPI was \$2.4 million which was recorded as a credit to research and development expense. Offsetting this amount is an increase in the fair value of two TPI cloud application milestones as a result of an increase in the estimated probability of achievement of those milestones. The increase in the fair value of the cloud application milestones was \$1.1 million which was recorded as a debit to research and development expense.

The following table presents certain information on acquired identifiable intangible assets related to the TPI acquisition:

	Estimated Fair Value (in thousands)	Estimated Useful Life (in years)
Developed technology	\$ 8,600	5

The fair value of developed technology was determined using a cost approach, which includes an estimate of time and expenses required to recreate the intangible asset. The fair value of developed technology was capitalized as of the acquisition date and will be amortized using a straight-line method to cost of revenue over the estimated useful life of 5 years.

In connection with the acquisition of TPI, the Company recorded a non-cash gain of approximately \$0.9 million resulting from the difference between carrying value of its initial investments in TPI of \$0.3 million and fair value of such investments of \$1.2 million, as of the acquisition date. This non-cash gain is recorded in Other income, net on the Condensed Consolidated Statement of Operations in fiscal 2015.

9. Goodwill and Intangible Assets

The Company monitors the recoverability of goodwill recorded in connection with acquisitions annually, or whenever events or changes in circumstances indicate the carrying value may not be recoverable. There were no changes in the carrying amount of goodwill since March 29, 2015. The Company performs the annual goodwill impairment analysis during the third quarter of each fiscal year. As of September 27, 2015, the Company concluded that the \$139.2 million of goodwill was not impaired.

Purchased intangible assets subject to amortization consist primarily of developed technology, customer relationships and patents and are reported net of accumulated amortization. Developed technology, customer relationships and patents are amortized on a straight line basis over the estimated useful life of the assets. In-process research and development is assessed for impairment until the development is completed and products are available for sale. The Company expects to complete the in-process research and development projects at various dates during fiscal year 2016 at which time amortization will commence. The costs that the Company incurred on the in-process research and development projects after the acquisition were expensed. During fiscal 2015, the Company recorded \$0.8 million of impairment on in-process research and development on the MEMS Microphone business. During the three and six months ended September 2015, one of the IPR&D projects was released to production. Therefore, the IPR&D value allocated to this project of \$3.3 million was transferred to developed technology. Further, the estimated useful life for this technology is five years.

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INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Amortization for acquired intangible assets for the three and six months ended September 27, 2015 was approximately \$2.4 million and \$4.5 million, respectively. Amortization for purchased intangible assets for the three months and six months ended September 28, 2014 was approximately \$1.6 million and \$2.9 million respectively. The following table represents intangible assets and accumulated amortization:

		September 27, 2015	
	Gross	Accumulated Amortization (in thousands)	Net
Developed technology	\$ 47,610	\$ 12,873	\$ 34,737
Customer relationships	1,560	427	1,133
Patents	2,120	255	1,865
Total intangible assets subject to amortization	\$ 51,290	\$ 13,555	\$ 37,735

		March 29, 2015	
	Gross	Accumulated Amortization (in thousands)	Net
Developed technology	\$ 44,320	\$ 8,697	\$ 35,623
Customer relationships	1,560	316	1,244
Patents	2,120	39	2,081
Total intangible assets subject to amortization	\$ 48,000	\$ 9,052	\$ 38,948

The estimated future amortization expense related to intangible assets at September 27, 2015, is as follows:

Fiscal Year	Estimated Amortization (in thousands)
2016 (remainder)	\$ 4,612
2017	9,225
2018	9,225
2019	9,225

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2020	5,208
Thereafter	240
Total	\$ 37,735

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The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q, the Consolidated Financial Statements and Notes thereto for the year ended March 29, 2015, and with management's discussion and analysis of our financial condition and results of operations included in our Annual Report on Form 10-K with the Securities and Exchange Commission (SEC) on May 28, 2015.

This Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, includes a number of forward-looking statements that involve many risks and uncertainties. Forward-looking statements are identified by the use of the words would, could, will, may, expect, believe, should, anticipate, outlook, if, future, intend, plan, estimate, predict, potential, targets, seek or continue and similar words and phrases, including the negatives of these terms, or other variations of these terms, that denote future events. These forward-looking statements include our expectations as to future sales of consumer electronics devices that could potentially integrate motion processors, our expectation that our products will remain a component of customers' products throughout any such product's life cycle, our belief that users of our products are likely to introduce these products into other devices as well as to adopt our more advanced devices, our belief that certain end-markets pose large growth opportunities for motion processing functionality, our ability to protect our intellectual property in the United States and abroad, our belief in the sufficiency of our cash flows to meet our needs and our future financial and operating results. These statements reflect our current views with respect to future events and our potential financial performance and are subject to risks and uncertainties that could cause our actual results and financial position to differ materially and adversely from what is projected or implied in any forward-looking statements included in this Form 10-Q. These factors include, but are not limited to, the risks referred to under Item 1A. of Part I Risk Factors, included in the Company's Annual Report on Form 10-K filed on May 28, 2015 with the SEC and Item 2 of Part I Management's Discussion and Analysis of Financial Condition and Results of Operations, and discussed elsewhere in this Quarterly Report on Form 10-Q and those discussed in other documents we file with the SEC. We make these forward-looking statements based upon information available on the date of this Form 10-Q, and we have no obligation (and expressly disclaim any such obligation) to update or alter any forward-looking statements, whether as a result of new information or otherwise except as otherwise required by securities regulations.

Overview**Business Overview**

We are the pioneer and a global market leader in devices and related software for sensor system on chip (Sensor SoC) for the motion and sound markets. Our motion solutions detect and track an object's motion in three-dimensional space. We assimilate information from gyroscopes, accelerometers, magnetometers (e.g., a compass), pressure sensors, and microphones to determine how a host device is moving, its direction, its elevation, and what it is hearing. We leverage our unique intellectual property in micro-electro-mechanical system (MEMS) design and manufacturing to reduce size, cost and power. Our proprietary algorithms improve speed and accuracy and our application programming interfaces (APIs) simplify the task of incorporating motion in end user applications.

While our solutions have broad applicability, we currently target the Mobile, Wearables, Smart Home, Gaming, Industrial, and Automotive markets. We utilize a fabless model, leveraging generally available CMOS and MEMS foundries and semiconductor packaging supply chains in combination with our own proprietary additions and

improvements.

Our current strategy is to continue targeting consumer electronics and industrial markets with integrated motion and sound devices that meet or exceed the performance and cost requirements of customers, 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 for an extended period of time or at all. 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 or customer device certification protocols. This dynamic 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 more likely to introduce it into others. Additionally, once a customer introduces one of our lower functionality sensors into their platforms, we believe they will become more likely to adopt our more advanced integrated MotionTracking and audio devices.

Table of Contents**Net Revenue**

We derive our net revenue from sales of our Motion and Sound solutions. We primarily sell our products through our worldwide sales organization. We also sell our products through an indirect channel of distributors that fulfill orders from manufacturers of consumer electronics devices, original design manufacturers and contract manufacturers (collectively referred to as intermediaries). When we reference customers in this report, we are referring to the manufacturers of consumer electronics devices to whom these intermediaries sell our products.

	Three Months Ended		Six Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in thousands)			
Net revenue	\$ 112,545	\$ 90,195	\$ 218,841	\$ 156,876

Net revenue increased by \$22.4 million, or 25%, in the second quarter of fiscal 2016 and increased by \$62.0 million, or 39%, in the first half of fiscal 2016 compared to the corresponding periods of fiscal 2015. The increases in net revenue were primarily due to higher volume shipments, partially offset by lower per unit average selling prices. Total unit shipments increased by 40% and 64% in the three and six months ended September 27, 2015, respectively. Our overall average unit selling price for the three and six months ended September 27, 2015 decreased 11% and 15%, respectively, as a result of the change in our product mix and declines in average selling prices. We expect a continued trend of declining unit average selling prices for our products during their life cycles.

For the three months ended September 27, 2015, Apple Inc., or Apple and Samsung Electronics Co., Ltd., or Samsung accounted for 34% and 19% of net revenue, respectively. For the six months ended September 27, 2015, Apple and Samsung accounted for 36% and 21% of total net revenue, respectively. For the three months ended September 28, 2014, Samsung and Apple accounted for 29% and 26% of total net revenue, respectively. For the six months ended September 28, 2014, Samsung, Apple and LG Electronics Inc. accounted for 30%, 17% and 10% of total net revenue, respectively.

Net Revenue by Target End Market

	Three Months Ended		Six Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in thousands)			
Smartphone and tablet devices	\$ 69,856	\$ 71,712	\$ 146,876	\$ 125,023
% of net revenue	62%	79%	67%	80%
Optical image stabilization	\$ 20,775	\$ 7,015	\$ 37,525	\$ 15,160
% of net revenue	18%	8%	17%	10%
Gaming and other	\$ 21,914	\$ 11,468	\$ 34,440	\$ 16,693
% of net revenue	20%	13%	16%	10%

Net revenue growth for the smartphone and tablet end market in the three and six months ended September 27, 2015 reflects expansion of the smartphone portion of the handset market and increased adoption of our technologies in those devices during that time period. Net revenue growth and contribution to total net revenue for the optimal image stabilization end market in the three and six months ended September 27, 2015 primarily reflects increased adoption

of our technology for optical image stabilization in smartphone camera modules. The net revenue growth and contribution to total net revenue for the gaming and other end market in the three and six months ended September 27, 2015 primarily reflects the growth of China market.

Table of Contents**Net Revenue by Geographic Region**

Region	Three Months Ended		Six Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in thousands)			
United States	\$ 42,913	\$ 29,622	\$ 86,716	\$ 37,452
Korea	24,469	35,058	53,192	63,970
China	26,010	12,546	50,616	29,906
Japan	8,028	5,939	12,164	9,733
Taiwan	7,576	5,185	10,762	12,795
Rest of world	3,549	1,845	5,391	3,020
	\$ 112,545	\$ 90,195	\$ 218,841	\$ 156,876

We report revenue by geographic region based upon the location of the headquarters of our customers. We primarily sell our products directly to customers and distributors in Asia and North America. Sales into named Asia countries constituted 59% and 58% of our net revenue in the three and six months ended September 27, 2015, respectively, compared with 65% and 74% of our net revenue in the three and six months ended September 28, 2014, respectively. The net revenue increase in United States and China reflect growing demand for our products primarily by mobile device customers.

We believe that a substantial percentage of our net revenue will continue to come from sales to customers and contract manufacturers located in Asia, where most of the manufacturers of consumer electronics devices that use and may in the future use our products are located. As a result of this regional customer concentration, we may be subject to economic and political events and other developments that impact our customers in Asia. For more information, see the section titled Risk Factors - Our business, financial condition and results of operations could be adversely affected by the political and economic conditions of the countries in which we conduct business, referred to under Item 1A. of Part I in our Annual Report on Form 10-K filed on May 28, 2015 with the SEC.

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.

	Three Months Ended		Six Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in thousands)			
Gross profit	46,571	31,341	91,402	62,517
% of net revenue	41%	35%	42%	40%

Gross profit increased by \$15.2 million in the second quarter of fiscal 2016 and increased by \$28.9 million in the first half of fiscal 2016 as compared to the corresponding periods of fiscal 2015. In the second quarter and in the first half of fiscal 2016, gross profit increased primarily due to an increase in unit sales of our products, partially offset by

decreases in average selling price per unit sold for comparable products. The decline in average unit selling prices was partially offset by lower average unit costs resulting from improved manufacturing yields. Gross margin was negatively impacted by a \$1.2 million net inventory charge during the second quarter of fiscal 2016, and a \$2.0 million net inventory charge during the first half of fiscal 2016, Gross margin was negatively impacted by a \$7.4 million inventory charge largely related to excess and obsolete inventories in the second quarter and first half of fiscal 2015.

Gross profit as a percentage of net revenue, or gross margin, increased primarily due to the \$7.4 million inventory adjustment during the three and six months ended September 28, 2014.

We expect gross margins to fluctuate during future periods due to changes in product mix, average unit selling prices, manufacturing costs, manufacturing yields, amortization of acquired intangible assets, levels of inventory valuation and excess reserves recorded, if any, and levels of product demand.

Research and Development

Research and development expense primarily consists of personnel related expenses, intellectual property license costs, reference design development costs, development testing and evaluation costs, depreciation expense and allocated occupancy costs.

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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, in absolute dollar terms, to expand our product offerings and enhance existing products.

	Three Months Ended		Six Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in thousands)			
Research and development	\$ 24,991	\$ 21,593	\$ 45,246	\$ 41,001
% of net revenue	22%	24%	21%	26%

Research and development expense for three months ended September 27, 2015 increased by \$3.4 million, or 16%, compared to the corresponding period last year. The increase was primarily attributable to a \$2.6 million increase in employee compensation and benefits costs mainly due to an increase in headcount, a \$0.6 million increase in third-party project and contractor costs associated with new product development, a \$0.4 million increase in allocated infrastructure costs to support higher headcount, a \$0.1 million increase in facility costs due to expansion of global facilities, a \$0.3 million increase in engineering equipment costs and a \$0.1 million increase in depreciation costs related to increased capital equipment during the three months ended September 27, 2015. Research and development expense for three months ended September 28, 2014 included \$0.8 million write-off of in-process research and development costs. Research and development headcount increased to 310 at the end of September 27, 2015 from 278 at the end of September 28, 2014.

Research and development expense for six months ended September 27, 2015 increased by \$4.2 million, or 10%, compared to the corresponding period last year. The increase was primarily attributable to a \$6.3 million increase in employee compensation and benefits costs mainly due to an increase in headcount in part from our acquisitions of Movea and TPI, a \$1.6 million increase in third party project and contractor costs associated with new product development, a \$0.8 million increase in allocated infrastructure costs to support higher headcount, a \$0.5 million increase in facility costs due to expansion of global facilities, a \$0.4 million increase in engineering equipment costs and a \$0.4 million increase in depreciation costs related to increased capital equipment. Offsetting these increases was a \$5.3 million credit from contingent consideration adjustment (See Note 8). Research and development expense for six months ended September 28, 2014 included \$0.8 million write-off of in-process research and development costs.

Selling, General and Administrative

Selling, general and administrative expense primarily consists of personnel related expenses, 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, hire personnel to expand our sales, marketing, finance, legal and other administrative personnel and pay the costs associated with litigation, if any.

	Three Months Ended		Six Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in thousands)			

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Selling, general and administrative	\$ 15,186	\$ 14,592	\$ 31,010	\$ 28,510
% of net revenue	13%	16%	14%	18%

Selling, general and administrative expense increased by \$0.6 million, or 4%, in the three months ended September 27, 2015 compared to the corresponding period last year. The increase was primarily attributable to a \$1.5 million increase in employee compensation and benefits costs mainly due to an increase in headcount and a \$0.4 million increase in facility costs due to expansion of global facilities, offset partially by a decrease of \$0.9 million in allocated infrastructure costs and a decrease of \$0.3 million in outside expenses due primarily to legal costs related to the acquisition of Movea and TPI in the three month ended September 28, 2014. Selling, general and administrative headcount increased to 160 at the end of September 27, 2015 from 149 at the end of September 28, 2014.

Selling, general and administrative expense increased by \$2.5 million, or 9%, in the six months ended September 27, 2015 compared to the corresponding period last year. The increase was primarily attributable to a \$4.2 million increase in employee compensation and benefits costs mainly due to an increase in headcount, a \$0.6 million increase in facility costs due to expansion of global facilities and a \$0.3 million increase in depreciation costs related to increased capital equipment, offset partially by a decrease of \$1.7 million in allocated infrastructure costs and a decrease of \$0.8 million in outside expenses due primarily to legal costs related to the acquisition of Movea and TPI in the six month ended September 28, 2014.

Table of Contents**Legal Settlement Accrual**

	Three Months Ended September 27, 2015	Six Months Ended September 27, 2015
	(in thousands)	
Legal settlement accrual	\$	\$ 11,708
% of net revenue	%	5%

During the six months ended September 27, 2015, Bosch and the Company resolved all assertions of potential infringement made by the other. The settlement has resulted in the Company incurring a charge of \$11.7 million during the six months ended September 27, 2015.

Interest (Expense)

	Three Months Ended		Six Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in thousands)			
Interest (expense)	\$ (2,765)	\$ (2,620)	\$ (5,489)	\$ (5,204)
% of net revenue	2%	3%	3%	3%

Interest (expense) increased by \$0.1 million and \$0.3 million in the three and six months ended September 27, 2015 compared to the corresponding period last year related to the Convertible Senior Notes issued in the third quarter of fiscal year 2014.

Other Income, Net

	Three Months Ended		Six Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in thousands)			
Other income, net	\$ 104	\$ 1,199	\$ 165	\$ 1,380
% of net revenue	0%	1%	0%	1%

Other income, net decreased by \$1.1 million, or 91%, for the three months and decreased by \$1.2 million, or 88%, for the six months ended September 27, 2015 compared to the corresponding period of last year. The decreases in other income were primarily due to gain on equity investment in TPI of \$0.9 million during three and six months ended September 28, 2014.

Income Tax Provision

Three Months Ended	Six Months Ended
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	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
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(in thousands)

Income tax provision (benefit)	\$ (1,960)	\$ 603	\$ (1,732)	\$ 882
% income (loss) before income tax	(53)%	(10)%	92%	(8)%

In the three and six months ended September 27, 2015, we recorded an income tax (benefit) of (\$2.0) million and (\$1.7) million, respectively. In the three and six months ended September 28, 2014, we recorded an income tax provision of \$0.6 million and \$0.9 million respectively. Our estimated 2016 effective tax rate differs from the U.S. statutory rate primarily due to foreign tax differentials, a current year loss in the U.S., and was negatively affected by an increase in non-deductible stock option expense, and other deductible federal tax attributes.

Included in our gross unrecognized tax benefits balance of \$24.8 million at September 27, 2015 are \$22.4 million of tax positions which would affect income tax expense if recognized. As of September 27, 2015, approximately \$2.4 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.

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Over 90% of our revenues are derived from sales to customers located outside the U.S. A significant percentage of our pre-tax income in the three months ended September 27, 2015 and September 28, 2014 was generated internationally, primarily from our Cayman Island subsidiary, which is currently a zero tax jurisdiction. Since 2011, our Cayman Island subsidiary has procured the rights to manufacture and sell our products in non-US locations via an intercompany technology license arrangement with its U.S. parent company. In addition, the Company has not provided for U.S. federal income and foreign withholding taxes on undistributed earnings from its non-U.S. subsidiaries, as it is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. Our effective tax rate is highly dependent upon the geographic distribution of our worldwide earnings or losses, and the tax regulations in each geographic region. We expect that a large percentage of our consolidated pre-tax income will continue to be derived from, and reinvested in, our overseas operations. We anticipate that this pre-tax income will continue to be subject to foreign tax at significantly lower tax rates when compared to the United States federal statutory tax rate.

The Company had deferred tax assets related to Research and Development Credits and other tax attributes including accrued expenses and stock based compensation that can be used to offset taxable income in future periods and reduce our income taxes payable in those future periods. Realization of our deferred tax assets is dependent upon future federal, state and foreign taxable income. Many of those credit carryforwards will expire if they are not used within certain time periods. As of September 27, 2015, management determined that there is sufficient positive evidence to conclude that it is more likely than not that we will have sufficient taxable income in the future that will allow us to realize these DTAs. However, it is possible that some or all of these credits could ultimately expire unused, especially if our U.S. entity does not make a taxable profit, which has been limited mainly due to stock option deductions since the company went public. Therefore, unless we are able to generate sufficient taxable income from our U.S. operations, a substantial valuation allowance to reduce our U.S. DTAs may be required, which would materially increase our expenses in the period the allowance is recognized and materially adversely affect our results of operations and statement of financial condition. 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.

The US Tax Court, on July 27, 2015, in *Altera Corp. v. Commissioner*, 145 T.C. No. 3 (2015), issued an opinion related to the portion of the Treasury regulations issued under IRC Section 482 requiring related-party participants in a cost-sharing arrangement to share stock-based compensation costs. A final decision has yet to be issued by the Tax Court due to other outstanding issues related to the case. At this time, the U.S. Department of the Treasury has not withdrawn the requirement to include stock-based compensation from its regulations. We have reviewed this case and its impact on the Company and concluded that no adjustment to the consolidated financial statements is appropriate at this time. We will continue to monitor ongoing developments and potential impacts to our consolidated financial statements.

Critical Accounting Policies and Estimates

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

actual results, our future financial statement presentation, financial condition results of operations and cash flows will be affected.

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

There have been no material changes to the our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K filed with the SEC on May 28, 2015.

Liquidity and Capital Resources

As of September 27, 2015, we had \$273.4 million of cash, cash equivalents and investments. We believe our current cash, cash equivalents and investments will be sufficient to satisfy our liquidity requirements for the next 12 months. 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. If we resolve all assertions of potential infringement with a competitor, we are expected to make a payment of approximately \$12 million during the quarter ending December 27, 2015. Additionally, \$37.0 million of the \$70.2 million of cash and cash equivalents were held by our foreign subsidiaries as of September 27, 2015. 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.

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Our primary uses of cash are to fund operating expenses, purchases of inventory, the acquisition of property and equipment and to pursue strategic investments or acquisitions if opportunities arise. Cash used to fund operating expenses excludes the impact of non-cash items such as depreciation, amortization 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.

The change in cash and cash equivalents for the six months ended September 27, 2015 and September 28, 2014 was as follows:

	Six Months Ended	
	September 27, 2015	September 28, 2014
	(in thousands)	
Net cash provided by (used in) operating activities	\$ 58,777	\$ (2,749)
Net cash provided by (used in) investing activities	(77,842)	9,458
Net cash provided by financing activities	3,590	5,690
 Net increase (decrease) in cash and cash equivalents	 \$ (15,475)	 \$ 12,399

Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities for the six months ended September 27, 2015 of \$58.8 million was primarily due to a change in operating assets and liabilities of \$36.1 million and non-cash expenses of \$22.8 million, partially offset by a net loss of \$0.2 million.

The changes in our net operating assets and liabilities of \$36.1 million were comprised of a net increase of \$15.9 million in Accrued liabilities primarily due to the accrual for a legal settlement, a decrease of \$13.4 million in Inventories, a net increase of \$12.4 million in Accounts payable and a decrease of \$2.1 million in Prepaid and other current assets, offset partially by an increase of \$5.9 million in Accounts receivable and an increase of \$1.8 million in Other assets. The non-cash expenses of \$22.8 million consisted primarily of stock-based compensation of \$17.7 million, depreciation and amortization of \$10.7 million, non-cash interest expense of \$4.0 million, partially offset by contingent consideration adjustment of \$5.3 million and deferred income tax assets of \$3.5 million.

Net cash used in operating activities for the six months ended September 28, 2014 of \$2.7 million is primarily due to a net loss of \$11.7 million and a net increase in operating assets and liabilities of \$16.8 million, partially offset by non-cash expenses of \$25.7 million. The net increase in operating assets and liabilities of \$16.8 million consisted primarily of increases in Accounts receivable of \$27.3 million, Inventories of \$2.0 million and Other assets of \$1.1 million, partially offset by increases in Accounts payable of \$5.4 million and Accrued liabilities of \$8.1 million. The increase in Accounts receivable is primarily attributable to an increase in net revenue. The non-cash expenses of \$25.7 million consisted primarily of depreciation and amortization of \$7.2 million and stock-based compensation of \$14.6

million and non-cash interest expense of \$3.7 million.

Net Cash Provided By (Used In) Investing Activities

Net cash used in investing activities in the six months ended September 27, 2015 of \$77.8 million primarily reflected the purchase of available-for-sale investments of \$145.7 million and the purchase of property and equipment of \$4.0 million, partially offset by the sale and maturity of available-for-sale investments of \$71.8 million.

Net cash provided by investing activities in the six months ended September 28, 2014 of \$9.5 million primarily from the sale and maturity of available-for-sale investments of \$98.5 million, partially offset by cash paid for acquisitions of \$71.4 million (net of cash acquired), and purchase of property and equipment of \$17.6 million.

Net Cash Provided by Financing Activities

Net cash provided by financing activities in the six months ended September 27, 2015 of \$3.6 million resulted primarily from proceeds from the issuance of common stock.

Included in our gross unrecognized tax benefits balance of \$24.8 million at September 27, 2015 are \$22.4 million of tax positions which would affect income tax expense if recognized. As of September 27, 2015, approximately \$2.4 million of unrecognized tax benefits would be offset by a change in valuation allowance. Due to the high degree of uncertainty regarding the settlement of these liabilities, we are unable to estimate the year in which the future cash flows may occur. As a result, these amounts are not included in the tables above.

Recent Accounting Pronouncements

See Item 1 of Part I, Financial Statements Note 1 Organization and Summary of Significant Accounting Policies.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk affecting InvenSense, see Quantitative and Qualitative Disclosures About Market Risk in Item 7A of Part II of our Annual Report on Form 10-K for the fiscal year ended March 29, 2015. Our exposure to market risk has not changed materially since March 29, 2015.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

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

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Item 1 of Part I, Financial Statements Note 4 Commitments and Contingencies.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock. The risks facing our business have not changed substantively from those discussed in our Annual Report on Form 10-K for the fiscal year ended March 29, 2015.

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

Sales of Unregistered Securities

None

ITEM 6. EXHIBITS

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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: October 29, 2015

INVENSENSE, INC.

By: /s/ Mark P. Dentinger
Mark P. Dentinger
Chief Financial Officer (Principal Financial Officer
and Accounting Officer)

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Exhibit	
Number	Description
10.1	InvenSense, Inc. 2013 Employee Stock Purchase Plan, as amended (incorporated by reference to Exhibit 10.1 filed by the Company Form 8-K on May 9, 2015).
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of September 27, 2015 and March 29, 2015, (ii) Condensed Consolidated Statements of Operations for the three and six months ended September 27, 2015 and September 28, 2014, (iii) Condensed Consolidated Statements of Comprehensive loss for three and six months ended September 27, 2015 and September 28, 2014, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended September 27, 2015 and September 28, 2014, and (v) Notes to Condensed Consolidated Financial Statements.