InvenSense Inc
Form 10-K
May 28, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 29, 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	**01-0789977**
(State or other jurisdiction of Incorporation or organization)	**(I.R.S. Employer Identification No.)**
1745 Technology Drive, Suite 200, San Jose, California	**95110**
(Address of principal executive offices)	**(Zip code)**

(408) 501-2200

(Registrant s telephone number, including area code)

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

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

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

None

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

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

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

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO x

Based on the closing sale price of the Common Stock on the New York Stock Exchange on the last day of our second fiscal quarter, the aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately $1,527 million, which assumes 5,424 shares held by our former chief financial officer.

As of May 8, 2015, there were 91,029,000 shares of the registrant s common stock, $0.001 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information required in response to Part III of Form 10-K (Items 10, 11, 12, 13 and 14) is hereby incorporated by reference to portions of the Registrant s Proxy Statement for the Annual Meeting of Stockholders to be held in 2015. The Proxy Statement will be filed by the Registrant with the Securities and Exchange Commission no later than 120 days after the end of the registrant s fiscal year ended March 29, 2015.

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Special Note Regarding Forward-Looking Statements and Industry Data

This Annual Report on Form 10-K, including this Management s Discussion and Analysis of Financial Condition and Results of Operations, includes a number of forward-looking statements that involve many risks and uncertainties. Forward-looking statements are identified by the use of the words would , could , will , may , expect , believe , should , anticipate , outlook , if , future , intend , plan , estimate , predict , potential , targets , seek or continue and similar words and phrases, including the negatives of these terms, or other variations of these terms, that denote future events. These forward-looking statements include our expectations as to future sales of consumer electronics devices that could potentially integrate motion processors, our expectation that our products will remain a component of customers products throughout any such product s life cycle, our belief that users of our products are likely to introduce these products into other devices as well as to adopt our more advanced devices, our belief that certain end-markets pose large growth opportunities for motion processing functionality, our ability to protect our intellectual property in the United States and abroad, our freedom to manufacture and sell our product without infringing the intellectual property of third parties, our belief in the sufficiency of our cash flows to meet our needs and our future financial and operating results. These statements reflect our current views with respect to future events and our potential financial performance and are subject to risks and uncertainties that could cause our actual results and financial position to differ materially and adversely from what is projected or implied in any forward-looking statements included in this Annual Report on Form 10-K. These factors include, but are not limited to, the risks described under Item 1A of Part I Risk Factors, Item 7 of Part II Management s Discussion and Analysis of Financial Condition and Results of Operations, elsewhere in this Annual Report on Form 10-K and those discussed in other documents we file with the SEC. We make these forward-looking statements based upon information available on the date of this Annual Report on Form 10-K, and we have no obligation (and expressly disclaim any such obligation) to update or alter any forward-looking statements, whether as a result of new information or otherwise except as otherwise required by securities regulations.

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

InvenSense, MotionTracking, MotionProcessing, MotionProcessor, MotionFusion, MotionApps, DMP, AAR, and the InvenSense logo are trademarks of InvenSense, Inc. Other company and product names may be trademarks of the respective companies with which they are associated.

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PART I.

Item 1. 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 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.

We were incorporated in California in June 2003 and reincorporated in Delaware in October 2004. Our principal executive offices are located at 1745 Technology Drive Suite 200, San Jose, CA 95110. Our telephone number is (408) 501-2200. Our website is located at www.invensense.com and our investor relations website is located at ir.invensense.com

Our fiscal year is a 52 or 53 week period ending on the Sunday closest to March 31. Our three most recent fiscal years ended on March 29, 2015 (fiscal year 2015), March 30, 2014 (fiscal year 2014) and March 31, 2013 (fiscal year 2013). Fiscal years 2015, 2014 and 2013 were each comprised of 52 weeks.

Our net revenue was $372.0 million, $252.5 million, and $208.6 million for fiscal years 2015, 2014 and 2013, respectively, and our net income (loss) was $(1.1) million, $6.1 million and $51.7 million for these periods, respectively.

We utilize a fabless business model, which means we work with third parties in Asia to provide both wafer fabrication as well as assembly packaging services, while the critical test and calibration functions are performed

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in our wholly owned subsidiary located in Hsinchu, Taiwan. We design our products and solutions in California, Massachusetts, China, Taiwan, Korea, Japan, France, Canada, Slovakia, and Italy. We sell our products to manufacturers of consumer electronics devices, original design manufacturers and contract manufacturers through our direct worldwide sales organization and through our channel of distributors. We are headquartered in San Jose, California and had 644 employees worldwide as of March 29, 2015.

Industry Background

Over the last decade, advances in technology have led to a rapid growth and proliferation of industrial and consumer electronics devices used for communication, entertainment, convenience and business that include sensor technology. In order to differentiate products and increase sales in intensely competitive markets, mobile, automotive, wearable, industrial and smart home electronics device manufacturers have been eager to adopt new sensor device-based features and functionalities, expand use cases and create new, compelling motion-, gesture- and sound-based interfaces and interactive experiences. Today, using motion, imaging, sound, and location sensor technologies, manufacturers have successfully introduced motion-based features which enable optical image stabilization, platform stabilization, gaming, navigation and health and fitness applications. More advanced motion sensing and voice and motion processing capabilities facilitate motion and sound based video gaming, voice and motion based device control, navigation, health and fitness and advanced display functionality. The momentum behind the adoption of motion and audio interfaces in consumer electronics and other applications illustrates how technology can change the way end-users interact with their electronics devices, as well as set expectations for future electronic products.

Key MEMS Based Motion and Audio Sensors

MEMS based motion sensors are widely adopted in consumer, industrial and automotive applications. Use of MEMS based audio sensors has grown significantly in the consumer electronics markets. While the size, power consumption, cost, manufacturing methods, calibration requirements, performance and other design complexities involved with MEMS motion and MEMS audio sensors have been steadily improving leading to the mass adoption in multiple markets.

We believe the following five principal types of sensors are important:

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

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

Another use for gyroscopes is to measure jitter in hands or walking motion for image stabilization applications called Optical Image or Electronic Image Stabilization. The specialized gyros measure hand and body motion in two or three axis, which is then used to move optics and/or images electronically. Since body motions are angular, gyroscopes are the only type of motion sensors that can

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be used for precise low noise detection. The stabilization methods remove blur and/or jitter from still images and video streams which greatly enhance user satisfaction in smartphone, digital still, video, car and drone cameras.

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

Pressure Sensors (Barometers) measure relative and absolute altitude through the analysis of changing atmospheric pressure. Pressure sensors can be used in consumer devices for sports and fitness or location-based applications where information can be used for elevations or counting flights of stairs climbed to get a more accurate calorie count.

Audio Sensors (Microphones) detect audible sound, as well as ultrasound in some use cases. The audio signal received by a microphone is delivered to circuits that convert it to a digital signal to be processed, transmitted, played back or stored. Microphones are used in devices like mobile phones, digital still and video cameras, laptops, headsets, smart watches, remote controls, cars and even industrial applications. Multiple microphones are often used in mobile phones and cars to ensure high quality pick up of the desired audio signal.

The InvenSense Solution

We have developed proprietary, intelligent, integrated Sensor SoC devices that enable intuitive and immersive user interfaces using motion and audio. As a result of our modular and scalable platform architecture, our current and planned products span increasing levels of integration, from standalone single-chip gyroscopes to fully integrated multi-sensor, multi-axis, multi-core systems-on-chip. In fiscal years 2011 and 2012, the majority of our product volume was derived from our two-axis and three-axis gyroscopes. In September 2011, we announced that our six-axis Sensor SoC devices were available for high volume shipment and began shipments in our fourth quarter of fiscal year 2012. In January 2013, we announced that our nine-axis Sensor SoC devices were available and in February 2014, we announced the sampling of our seven-axis Motion Tracking platform. In January 2015, we announced the world s first integrated motion sensor with multi-core processing that integrates a 6-axis MEMS sensor, tri-core sensor hub, embedded Flash and SRAM, and software framework.

Our Sensor SoC devices are comprised of several fundamental proprietary components:

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

Our MotionFusion technology consists of a low-power hardware acceleration engine we refer to as a Digital Motion Processor (DMP) and on-chip sensor algorithm firmware. MotionFusion technology calibrates the sensors in runtime and intelligently converts raw sensor data from multiple sensors into application-specific data for mobile applications. For example, MotionFusion can compute indoor/outdoor position for location-based services, user activity (e.g. running, walking, driving) and step count. MotionFusion can also assist camera subsystems to produce better quality photographs and video by reducing blur and jitter.

Our MotionApps platform provides application programming interfaces (API) that simplify access to complex functionality commonly needed by our customers while simultaneously accelerating integration of sensors into operating systems. This platform utilizes the output from the MotionFusion layer to enable system designers to use the sensor data in their applications without the need to understand detailed motion sensor outputs and develop related motion interface algorithms. We design

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our MotionApps platform to be interoperable with major mobile operating systems, such as Google s Android and Microsoft s Windows. In addition, we have developed numerous system level APIs for various third-party applications and motion sensors.

The competitive advantages of our technology and solutions are:

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

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

Our fabrication platform enables the integration of multiple motion sensors, such as gyroscopes and accelerometers, on a single chip with processing capability. Our latest generation of Sensor SoC devices embed a three-axis gyroscope, three-axis accelerometer, pressure sensor, sensor hub processing, and algorithm firmware on the same chip, enabling a turn-key sensor subsystem. As a result of integrating multiple sensors, our products can eliminate the traditional calibration steps required with discrete solutions as well as offload the intensive motion interface computation requirements from the host processor. Over time, we believe we can integrate more advanced features and functionalities into our solution.

Most MEMS devices are manufactured in proprietary in-house fabrication facilities utilizing numerous fabrication steps, esoteric substrates and MEMS-specific manufacturing processes that are not compatible for integration with standard CMOS fabrication processes. Our patented fabrication process allows us to utilize a fabless business model without relying on specialty foundries for MEMS manufacturing. Our fabless model enables cost-effective, high-volume production and provides us with the flexibility to quickly react to our customers needs. Additionally, our ability to perform wafer-level testing combined with our close collaborative relationships with third-party foundries enables us to better control the manufacturing process and product yields, resulting in lower cost and improved device performance and reliability.

Technology

Our contextually aware motion tracking inertial sensor technology is comprised of our core proprietary components: 1. Our MotionApps platform, including application programming interfaces (APIs), user navigation tracking algorithms, activity profile libraries, sensor calibration algorithms, and sensor fusion algorithms in firmware that intelligently assimilate data from multiple sensors and other data and algorithmic output; 2. Our

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patented fabrication platform; 3. Our advanced MEMS motion sensor designs; and 4. Our application specific mixed-signal circuitry for sensor signal detection and processing. All of our key technology components are critical to providing our complete, differentiated user contextual aware application solutions.

Our audio technology includes three core components: MEMS elements designed specifically for high-quality audio sensing; Application Specific Integrated Circuits (ASICs) the circuits that take the raw sensor output and process it for transmission; and packaging technology, which is a very important part of the acoustic design of the microphone. We are one of the few microphone suppliers that develop all three components of the entire microphone, giving us better control of the overall acoustic system. This advantage allows us to better support our customers needs and deliver differentiated products to market. Besides standard MEMS microphones that have two separate die one for the MEMS element, and one for the ASIC, we have developed a patented CMOS-MEMS integrated platform for microphones, analogous to our inertial sensor technology.

Products

Motion tracking inertial sensor devices, such as those available from us, are rapidly becoming a key function in many consumer devices including smartphones, tablets, gaming consoles, and smart TVs as they provide an intuitive way for consumers to interact with their electronic devices by tracking motion in free space and delivering these motions as input commands. Accurately tracking complex user motions requires the use of motion sensors such as gyroscopes, accelerometers, compasses, and pressure sensors, fusing the sensor outputs into a single and accurate data stream for use as input commands in consumer electronics devices, and ongoing run-time calibration to ensure an optimal user experience.

Our 6-axis M-2 Series product family enables Always-On , high performance, context-aware and location tracking applications in handheld and wearable consumer electronics products. The M-2 Series product family also includes the world s first integrated 7-axis MotionTracking SoC to combine a 3-axis gyroscope, 3-axis accelerometer and pressure sensor in the same silicon die. The M-2 Series also includes our third generation Digital Motion Processor (DMP), capable of processing complex 9-axis MotionFusion algorithms and features a new autonomous run-time calibration feature to ensure tight performance tolerances over the lifetime of the product. The size advantage of the integrated 7- and 9-axis devices and now ultra-low power for Always-On applications, versus using higher power discrete devices for each sensor function, is compelling for space constrained applications, improved application performance and for better overall user experience.

Our most advanced motion products include our new FireFly product family, the first of which the M-3 Series, is a tri-core device including an open platform, customer programmable processor as well Digital Motion Processors. The device comes with the InvenSense Framework, which provides our customers an easy to use platform for time to market while achieving strong performance characteristics. Our FireFly devices are targeted to multiple markets and are especially well suited for wearables and handsets providing a platform for customers to add value added features.

Microphones are key sensors in many consumer electronics devices. They provide the input for key use cases in some devices. For instance, a mobile phone s key use case is transmission of speech; and the entire speech pickup is done by microphones, and their performance is critical to the user experience with mobile phone voice calls. Although communication is the primary purpose, as a sensor, microphones can help enhance the interaction with the devices by enhancing the information around context and location.

Patented Fabrication Platform

The cornerstone of our technology is our patented InvenSense Fabrication Platform, which we believe gives us a sustainable and differentiated competitive advantage. Our patented fabrication platform is a standard six mask MEMS-specific bulk silicon fabrication process that enables direct bonding of MEMS components with related signal conditioning and logic circuitry that are fabricated using standard complementary metal oxide

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semiconductor (CMOS) processes. CMOS is a pervasive semiconductor technology used by nearly every semiconductor vendor and available at many foundries for fabrication of semiconductor devices. MEMS is a well-established technology that leverages several fundamental principles of semiconductor fabrication to manufacture micron-size physical structures in small form factors. We use MEMS processes to create wafers containing the structural layers used for our motion and audio sensors, and standard CMOS fabrication technology to create wafers to provide drive and signal conditioning circuits, as well as the logic circuitry that processes sensor signals to deliver complete MotionTracking and audio devices.

One of the significant advantages of our patented fabrication platform is enabling the integration of standard MEMS with CMOS (also known as CMOS-MEMS) in a small, cost-effective wafer-level solution. Combining a MEMS wafer with an industry standard CMOS wafer reduces the number of MEMS manufacturing steps, enables wafer-level testing, and the use of wafer-level packaging, thereby reducing back-end costs of packaging and testing and improving overall product yield and performance. In addition to our CMOS-MEMS process, we have developed low-cost, high-throughput proprietary test and calibration systems, which further reduce back-end costs. We believe we have pioneered a technological breakthrough in high-volume manufacturing of low-cost, high-performance MEMS motion processors. Combining this unique high-volume fabrication capability with our other core proprietary technologies, we are able to deliver our Sensor SoC devices with industry-leading integration and cost-effectiveness. We have successfully employed our patented fabrication platform in the high-volume production of 150 mm and 200 mm wafers.

Markets and Customers

Our customers include several of the world s largest mobile, automotive, wearable, industrial and smart home makers and many diverse smaller customers. These customers are in multiple market segments, including smartphones, tablets, wearables, console and portable video gaming devices, digital television and set-top box remote controls, fitness accessories, sports equipment, digital still cameras, automobiles, ultra-books, laptops, hearing aids, stabilization systems, tools, navigation devices, remote controlled toys and other household consumer and industrial devices.

Seasonality of Business

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

Backlog

Backlog refers to orders we received from our customers or distributors for delivery in the future. As of March 29, 2015, our backlog from customers was $64.3 million, compared to $29.1 million as of March 30, 2014. Due to the short period between receipt of orders and shipment of products to customers, backlog may not be a reliable indicator of future fiscal quarter or fiscal year sales.

Sales and Marketing

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

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

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

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

Manufacturing

Substantially all of our wafers are currently provided by Taiwan Semiconductor Manufacturing Corporation, Limited (TSMC) and GLOBALFOUNDRIES Inc. For our MotionTracking devices, wafer foundries manufacture both the MEMS and CMOS wafers, perform the critical wafer level bonding step of our patented fabrication process and deliver the final combined CMOS-MEMS wafer product to our wholly owned subsidiary in Hsinchu, Taiwan for proprietary wafer level testing prior to forwarding to our assembly vendors. For our audio devices, wafer foundries manufacture both the MEMS and ASIC wafers and deliver the wafers to our assembly vendors for multi-chip packaging and final test. We currently outsource our assembly packaging operations primarily to Lingsen Precision Industries, Limited, Siliconware Precision Industries Co. Limited, Advanced Semiconductor Engineering, Inc. and Amkor Technology, Inc. The assembled products are then forwarded to our Taiwan facility for final calibration and outgoing functionality test and/or shipment to our customers or distributors.

Over the last three years, we have been able to increase our annual manufacturing capacity in order to meet the volume demands of our customers, as well as potential additional demand. We continued to expand our CMOS-MEMS manufacturing capacity in fiscal year 2015, shipping wafers in high volumes from both TSMC and GLOBALFOUNDRIES Inc., as well as expanding our captive wafer sort, sensor test, and calibration testing facilities in Taiwan.

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Research and Development

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

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

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

In the area of **MEMS development and design**, we intend to expand our portfolio of products, exploring new ways of integrating various sensors in a monolithic processor that eliminates the need for discrete sensors. We are expanding our CMOS-MEMS integration beyond electrostatic sensing to include other types of transduction. We are also investing in the development of systems expertise in new markets and applications that leverage our core capabilities.

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

In the area of **software and algorithms**, our software initiatives include expanding into open platforms that include both ARM and DSP based SoC s running motion and audio features. Software initiatives include a SoC infrastructure on a software architecture that is modular, scalable, and easy to use, including sensor optimized tool chains. The result is an easy to use SoC that enables ultra-low power processing with advanced features. The algorithm initiatives include improvements in traditional motion fusion, as well as additional motion algorithms that incorporate higher level functionality such as context, activity classification, location, gestures, and imaging. Additionally, InvenSense Positioning Library (IPL) software delivers sensor assisted positioning in places where other geo-location technologies such as global navigation satellite system (GNSS) alone can t provide desired accuracy or availability. The IPL incorporates important advancements that allow use of inertial sensors in typical smart phones to deliver continuous and accurate position, velocity, and orientation in driving and pedestrian use cases, even in GNSS challenged environments.

Through our research and development efforts, we intend to continually expand our portfolio of patents and to enhance our intellectual property position. As of March 29, 2015, we had 299 employees involved in research and development. Our engineering design teams are primarily located in Bratislava, Slovakia; Calgary, Canada; Milan of Italy; Shanghai, China; Boston and San Jose, United States. For fiscal years 2015, 2014, and 2013, we incurred $90.6 million, $48.4 million and $24.6 million, respectively, in research and development costs.

Intellectual Property Rights

We primarily rely on patent, trademark, copyright and trade secrets laws, confidentiality procedures, and contractual provisions to protect our technology. We focus our patent efforts in the United States, and, when justified by cost and strategic importance, we file corresponding foreign patent applications in strategic jurisdictions, such as Europe, the Republic of Korea, Taiwan, and China. We have more than 120 issued U.S. patents and 90 issued foreign patents which will expire between December 2016 and January 2033, and have more than 550 additional patent applications pending in the United States and foreign countries.

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

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

Employees

As of March 29, 2015, our total headcount was 644, comprised of 299 employees in research and development, 195 employees in manufacturing operations, 82 employees in sales and marketing, and 68 employees in a general and administrative capacity. None of our employees are represented by a labor union with respect to his or her employment with us. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

Competition

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

The principal methods of competition of motion and sound technology include the following:

- The design and volume production of new products that anticipate the motion/sound and integration needs of customers next generation products and applications.
- Scalable operations to meet customers volume and timing demands.
- A declining manufacturing and operating cost structure.
- Identification of new and emerging markets, applications and technologies and developing products for these markets.
- Product pricing points, performance and cost effectiveness.
- The recruitment and retention of key employees.
- Intellectual property, including patents and trademarks.

High product quality, reliability and customer support.

Financial stability.

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Manufacturing, distribution and marketing capability.

Brand recognition.

Size of customer base.

Strength and length of key customer relationships.

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

Available Information

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

The contents of our websites are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

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

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Item 1A. Risk Factors.

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

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

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

changes in end-user demand for the products manufactured and sold by our customers;

the receipt, reduction, cancellation or delay of significant orders by customers;

the gain or loss of a significant customer;

market acceptance of our products and our customers products;

our ability to develop, introduce and market new products and technologies on a timely basis;

delays in our customers ability to manufacture and ship products that incorporate our products caused by internal and external factors unrelated to our business and beyond our control;

new product announcements and introductions by us or our competitors;

incurrence of research and development and related new product expenditures;

seasonality or cyclical fluctuations in our markets;

fluctuations in manufacturing yields;

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

write-downs of inventory for excess quantity, changes in business priorities, technological obsolescence and erosion in net realizable value;

changes in our product mix or customer mix;

intellectual property disputes;

loss of key personnel or the shortage of available skilled workers;

the effects of competitive pricing pressures, including decreases in average selling prices of our products; and

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

The average selling prices of our products have historically decreased over time and will likely continue to do so, which could have a material adverse effect on our net revenue and gross margins if we cannot reduce our costs.

We expect the average selling prices of our products to decrease as a result of several factors. We offer volume pricing discounts to our significant customers. These discounts may offset the revenue expected from such customers and impact our gross margins. In addition, competitive pricing pressures, new product

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introductions by our competitors, shifts in customers product architectures, and product end-of-life programs may cause a reduction in our average selling prices. We have experienced and may continue to experience substantial period-to-period fluctuations in future operating results due to the erosion of the average selling prices of our products. If we are unable to offset any reductions in our average selling prices by increasing our sales volumes, introducing new products with higher gross margins or implementing product manufacturing or internal cost reduction programs, our net revenue and gross margins will decline, which could have a material adverse effect on our results of operations.

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

Historically, large purchases by a relatively limited number of customers and distributors have accounted for a substantial portion of our revenue. Our revenue is generated on the basis of purchase orders with our customers and distributors rather than long-term purchase commitments. We expect that sales to these customers and distributors will continue to account for a substantial portion of our net revenue for the foreseeable future. The loss of, or a substantial reduction in orders and default in payments from any of these customers and distributors would have a significant negative impact on our business and our operating results. For fiscal 2015, two customers accounted for 30% and 28% of total revenue. For fiscal 2014 one customer accounted for 35% of total net revenue.

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

Changes in the customer demand for our products may affect our revenue, cost of goods sold, gross margin percentage and inventory level. Our products are manufactured by third-party manufacturers according to our estimates of customer demand, which requires us to make separate demand forecast assumptions for every customer, each of which may introduce significant variability into our aggregate estimates. Our limited visibility into future customer demand and the product mix could lead to inadequate or excess purchase of raw material, obsolete inventory which could adversely affect our net revenue, gross margin and operating results. Moreover, because products with motion interface platforms have only recently been introduced into many of our target markets, many of our customers could have difficulty accurately forecasting demand for their products and the timing of their new product introductions, which ultimately affects their demand for our products.

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

Historically, because of this limited visibility, at times our actual results have been different from our forecasts of customer demand. Some of these differences have been material, leading to net revenue and margin forecasts different from the results we were actually able to achieve. These differences may occur in the future. Conversely, if we were to underestimate customer demand or if sufficient manufacturing capacity were unavailable, we could be unable to take advantage of net revenue opportunities, potentially lose market share and damage our customer relationships and market reputation, and be subject to contractual penalties for not meeting

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customer demand. In addition, any significant future cancellations or deferrals of product orders could materially and adversely impact our profit margins, increase our inventory write-downs due to product obsolescence and restrict our ability to fund our operations.

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

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

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

In addition, our competitors or others, such as our fabrication process vendors, may design around our patents or technologies, such as by creating a fabrication process that is distinct from ours. Effective intellectual property protection may be unavailable or more limited in one or more relevant jurisdictions relative to the protections available in the United States, or may not be applied for in one or more relevant jurisdictions. If we pursue litigation to assert our intellectual property rights, an adverse judicial decision in any of these legal actions could limit our ability to assert our intellectual property rights, limit our ability to obtain new product inventory, limit the value of our technology or otherwise negatively impact our business, financial condition and results of operations.

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

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

property arising out of such contracts.

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

The semiconductor and MEMS industries are characterized by companies that hold large numbers of patents and other intellectual property rights and that vigorously pursue, protect and enforce intellectual property rights. STMicroelectonics, Inc., one of our competitors, previously filed two lawsuits and an action before the United States International Trade Commission asserting that several of our products infringe its patents, although those lawsuits have been settled. A non-practicing entity asserted in litigation that one of our gyroscope products infringes a patent held by it. This matter was resolved. Another competitor has made generalized assertions of potential infringement and we have met with it to discuss the matter. We believe we do not infringe any valid and enforceable patent identified by this competitor; in addition, we have identified certain of our patents which the competitor may be infringing. Due to the nature and uncertainties of patent law, licensing and litigation, there can be no assurances of whether and how this matter will be resolved or the associated costs thereto. Related preliminary discussions are ongoing, though it is too early to assess the likelihood of any resolution (whether by mutual release, cross license or other terms) or if this matter will ultimately result in litigation, in which case future costs could be significant. In the future other third parties may assert against us and our customers and distributors, their patent and other intellectual property rights to technologies that are important to our business.

Claims that our products, processes or technology, including products, processes or technology provided by our manufacturers or suppliers about which we have no or limited knowledge, infringe third-party intellectual property rights, regardless of their merit or resolution, have been, and may continue in the future to be, costly to defend or settle and could divert the efforts and attention of our management and technical personnel. In addition, many of our customer and distributor agreements, including our agreement with our largest customer, require us to indemnify and defend our customers or distributors, as applicable, from third-party infringement claims and pay damages in the case of adverse rulings. Claims of this sort also could harm our relationships with our customers or distributors and might deter future customers from doing business with us. Indemnification from our manufacturers and suppliers may not be required or adequate to cover our damages and litigation costs. We do not know whether we will prevail in current assertions of potential infringement or in any future proceedings we may be involved in given the complex technical issues involved and the inherent uncertainties in intellectual property litigation. If any such assertions or proceedings result in an adverse outcome, we could be required to:

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

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

If we have significant inventories that become obsolete or cannot be sold at acceptable prices, our results may be negatively impacted.

Although we believe that we currently have made adequate adjustments for inventory that has declined in value, become obsolete, or is in excess of anticipated demand, there can be no assurance that such adjustments

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will be adequate. As our business has grown and our inventory levels have risen, and include items for which we may not have customer purchase orders when manufactured, requiring us to actively market and sell those products. If significant inventories of our products become obsolete, or are otherwise not able to be sold at favorable prices or without unjustifiable distraction from our other business priorities, our operating results could be materially affected.

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

Manufacturing yields for our products may be negatively impacted by increasing product design complexity, increased integration, higher performance levels demanded by our customers and usage of MEMS process technology. We do not know whether a yield problem exists until our products are manufactured in high volume based on our design. As a result, yield deficiencies may not be identified until well into the production process. Because of our potentially limited access to wafer foundry capacity, decreases in manufacturing yields could result in an increase in our costs which would negatively impact our gross margin, cause us to fail to meet product delivery commitments and force us to allocate our available product supply among end customers. Lower than expected yields could harm our operating results, our customer relationships and our reputation.

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

We have experienced significant growth in a short period of time. Our net revenue increased from $153.0 million in fiscal 2012 to $372.0 million in fiscal 2015. We may not achieve similar growth rates in future periods. Our operating results for any prior quarterly or annual period should not be relied on as an indication of our future operating performance. If we are unable to maintain adequate net revenue growth, our financial results could suffer and our stock price could decline.

To manage our growth successfully, we believe we must effectively, among other things:

- recruit, hire, train and manage additional qualified engineers for our research and development activities, especially in the positions of design engineering, product and test engineering and applications engineering, as well as adding additional sales personnel;
- implement improvements in our financial, administrative, and operational systems, procedures and controls necessary to support larger manufacturing and sales volumes, a greater number of customers and an increased range of products; and
- enhance our information technology support for enterprise resource planning and design engineering by adapting and expanding our systems and tool capabilities, and properly training new hires as to their use.

If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities or develop new products, and we may fail to satisfy customer requirements, maintain product quality, execute our business plan or respond to competitive pressures.

We face intense competition and we expect competition to increase in the future, which could have an adverse effect on our operating results, net revenue growth rate and market share.

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

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

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

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

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

- reduced control over delivery schedules, yields and product reliability;
- price increases;
- the unavailability of, or potential delays in obtaining access to, key process technologies;
- the inability to achieve required production or test capacity and acceptable yields on a timely basis;
- difficulties in establishing additional manufacturing suppliers if we are presented with the need to transfer our manufacturing process technologies to them;
- shortages of materials;
- misappropriation of our intellectual property; and
- limited warranties on wafers or products supplied to us.

The performance of our third-party manufacturers is outside of our control. At present, we depend primarily upon TSMC and Global Foundries to manufacture most of our products. Although we are not obligated to purchase a specific volume of products from, or to contract with these manufacturers on an exclusive basis, we anticipate that we will be dependent on these manufacturers to supply a substantial portion of our products for the next several fiscal quarters. We expect that it would take approximately nine to 16 months to transition our manufacturing to new third-party manufacturers. Such a transition would likely require certain customers to

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qualify our new manufacturers. If one or more of our third-party contractors or other outsourcers fail to perform their obligations in a timely manner or at satisfactory quality levels, our ability to bring products to market, the reliability of our products and our reputation could suffer.

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

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

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

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

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

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

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

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

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

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

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

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

We operate in a dynamic environment characterized by rapidly changing technologies and industry standards, and rapid technological obsolescence. To compete successfully, we must design, develop, market and sell new or enhanced products that provide increasingly higher levels of performance, integration and reliability and meet the cost expectations of our customers. A key element of our product strategy is to integrate additional sensors, sensor-based functions and sensor interface functionality into our products, and to reduce the size and power consumption of products providing a given level of functionality. For instance, our seven-axis ICM-20728 provides the first single chip platform solution integrating a three-axis gyroscope, three-axis accelerometer and a pressure sensor together with an onboard Digital Motion Process (DMP™). The introduction of new products by our competitors, the market acceptance of products based on new or alternative technologies, or the emergence of new industry standards could render our existing or future products obsolete.

Our failure to anticipate or timely develop new or enhanced products or technologies in response to technological change could result in decreased net revenue and our competitors achieving more design wins. In particular, we may experience difficulties with product design, manufacturing or marketing that could delay or prevent our development, introduction or marketing of new or enhanced products, including products with higher levels of sensor integration such as our seven-axis device. If we fail to introduce new or enhanced products with potentially greater integration that meet the needs of our customers, or penetrate new markets, in a timely fashion, we will lose market share and our operating results will be adversely affected.

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

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

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

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

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

If we fail to successfully navigate the highly complex smartphone market, our operating results may be adversely affected.

While the general market for handheld devices is very fragmented, a limited number of manufacturers command a relatively large share of the market for smartphones with enhanced functionality. All of these customers are large, multinational companies with substantial negotiating power relative to us over price and terms of supply. Securing design wins with any of these companies or other smartphone manufacturers requires a substantial investment of our time and resources. Some of these companies produce products that already include motion sensors and microphones, and they may decide not to adopt our sensor devices. Additionally, the smartphone market is subject to a unique set of industry dynamics, such as shorter design cycles and multiple devices and manufacturers. The smartphone market and the market for related peripheral products is highly competitive, and if we are unable to continue to successfully navigate these dynamics, if we are unable to adapt our products in response to any future changes in the requirements of the operating systems or if the products of manufacturers that choose to incorporate our solutions are not commercially successful, our net revenue may not grow and our operating results may be adversely affected.

Our sales are subject to a competitive selection process conducted by our prospective customers that can be lengthy and require us to expend significant resources, even though we ultimately may not be selected and revenue from being selected may be lower than anticipated.

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

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

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

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

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

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

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

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

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

Our future success depends heavily upon the continuing services of the members of our senior management team and various engineering and other technical personnel. If one or more of our senior executives or other key

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

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

We began doing business in 2003 and did not begin to generate net revenue until the first quarter of fiscal year 2007. As a result, we have only a limited operating history from which to predict future net revenue from multiple new customers and new markets. This limited operating experience, combined with the rapidly evolving nature of the markets in which we sell our products, substantial uncertainty concerning how these markets may develop, the rate of adoption of our products in these new markets and other factors beyond our control, reduces our ability to accurately forecast quarterly or annual net revenue.

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

Maintaining adequate internal financial and accounting controls and procedures to help ensure that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. We have established processes, controls and procedures that will allow our management to report on, and our independent registered public accounting firm to attest to, our internal control over financial reporting when required to do so under the rules adopted by the Securities and Exchange Commission, or SEC, pursuant to Section 404 of the Sarbanes-Oxley Act, or Section 404. We periodically review the effectiveness of our internal controls and procedures with a continuous improvement philosophy.

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

We rely on information technology systems, and failure of these systems to function properly or unauthorized access to our systems could result in business disruption.

We rely on information technology (IT) systems to manage our operations. We regularly evaluate these systems to make enhancement. We periodically implement new, or upgrade existing operational and IT system. Any delay in the implementation of, or disruption in the transition to systems could adversely affect our ability to record and report financial and management information on a timely and accurate basis.

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Maintaining the security of our computer information systems and communication systems is a critical for us. We may be subject to unauthorized access to our IT systems through a security breach or attack. These systems are also subject to power and telecommunication disruption or other system failures. If we do not effectively resolve such issues, it may adversely impact our business, financial condition and results of operations.

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

Our sales contracts are primarily denominated in U.S. dollars and therefore substantially all of our net revenue is not subject to foreign currency risk. Some of our operating expenses are incurred outside the United States, are denominated in foreign currency and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the New Taiwan Dollar. We do not currently hedge currency exposures relating to operating expenses incurred outside of the United States, but we may do so in the future. If we do not hedge against these risks, or if our attempts to hedge against these risks are not successful, our financial condition and results of operations could be adversely affected. We also may be indirectly affected by movements in exchange rates. For example, the recent strength of the US dollar against the Euro may result in our European-based competitors obtaining a cost advantage over us in negotiations with customers.

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

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

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

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

Our product development efforts require us to incur substantial research and development expense. Our research and development expense was $90.6 million for fiscal year 2015 and $48.4 million for fiscal year 2014, and we anticipate that research and development expense will increase in the future. We may not be able to achieve an acceptable return, if any, on our research and development efforts.

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

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

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

Our business, financial condition and results of operations could be adversely affected by the political and economic conditions of the countries in which we conduct business and other factors related to our international operations.

Sales to end customers in Asia accounted for and 63% of our net revenue in fiscal year 2015 and 87% of our net revenue in fiscal year 2014. In addition, approximately 42% of our employees are located in Asia, and substantially all of our products are manufactured, assembled or tested in Asia. Multiple factors relating to our international operations and to the particular countries in which we operate could have a material adverse effect on our business, financial condition and results of operations. These factors include:

- changes in political, regulatory, legal or economic conditions;
- restrictive governmental actions, such as restrictions on the transfer or repatriation of funds and foreign investments and trade protection measures, including export duties, quotas, customs duties and tariffs;
- disruptions of capital and trading markets;
- changes in import or export licensing requirements;

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transportation delays;

civil disturbances or political instability;

geopolitical turmoil, including terrorism, war or political or military coups;

public health emergencies;

currency fluctuations relating to our international operating activities;

differing employment practices and labor standards;

limitations on our ability under local laws to protect our intellectual property;

local business and cultural factors that differ from our customary standards and practices;

nationalization and expropriation;

changes in tax laws; and

difficulties in obtaining distribution and support services.

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

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

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

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

In addition to the general cyclicality of the semiconductor and consumer electronics industries, our business is subject to seasonality because of the nature of our target markets. At present, virtually all of our motion interface products are sold in the consumer electronics market. Sales of consumer electronics tend to be weighted towards holiday periods, and many consumer electronics manufacturers typically experience seasonality in sales of their products. Seasonality affects the timing and volume of orders for our products as our customers tend to increase production of their products that incorporate our solutions in the first three quarters of our fiscal year in order to build inventories for the holiday

season. Sales of our products tend to correspondingly increase during these quarters and to significantly decrease in the fourth quarter of our fiscal year. For example, our net revenue was $115.9 million for the third quarter of fiscal year 2015 and declined to $99.3 million for the fourth quarter of fiscal year 2015. We expect this seasonality to continue in future periods and, as a result, our operating results are likely to vary significantly from quarter to quarter.

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

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

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

In July 2014, we acquired 100% equity interest of Movea, S.A., (Movea) a French company based in Grenoble, France. In August 2014, we completed the acquisition of Trusted Positioning, Inc., (TPI), a Canadian corporation based in Calgary, Canada. In October 2013, we concluded the acquisition of the assets of Analog Devices, Inc. s MEMS microphone business line, including carrying over 37 employees and support operations located in Wilmington, Massachusetts, Bratislava, Slovakia and Shanghai, China. We may experience difficulties integrating these operations with ours and may not realize the anticipated value of our investment in the acquired companies.

We expect to continue to pursue acquisitions of, or strategic investments into, companies, technologies and products that we believe could accelerate our ability to compete in our core markets or allow us to enter new markets. We may enter into license or cross license agreements with strategic partners or competitors. These and other strategic transactions may involve numerous risks, any of which could harm our business, including:

- difficulties in integrating the manufacturing, operations, technologies, products, offices, systems, existing contracts, accounting, personnel and culture of acquired business or company and realizing the anticipated synergies of the combined businesses;
- difficulties in supporting and transitioning customers, if any, of the acquired business or company;
- diversion of financial and management resources from our existing operations;
- The effect license and cross license agreements can have on our competitive position in our markets;
- the price we pay or other resources that we devote may exceed the value we actually realize, or the value we could have realized if we had allocated the purchase price or other resources to another opportunity or for our existing operations;
- risks associated with entering new markets in which we have limited or no experience, including risks related to technology, customers, competitors, product cycles, customer demand, terms and conditions and other industry specific issues;
- potential loss of key employees;

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customers, potential customers or strategic partners from either our current business or the acquired business may terminate or scale back their business relationships with us for many reasons, including to reduce reliance on a single company or because they view the combined businesses as potentially competitive;

assumption of unanticipated problems or latent liabilities, such as problems with the quality of the acquired company s products;

inability to generate sufficient revenue and profitability to offset acquisition costs;

equity-based acquisitions may have a dilutive effect on our stock; and

inability to successfully consummate transactions with identified acquisition or investment candidates.

Further, there can be no assurance that any acquisition or license agreements we consummate will generate the expected returns and other projected results we anticipate. For example, we may incur costs in excess of what we anticipate, the acquisitions of product lines with lower operating margins than our existing business may reduce our overall lower operating margins, and acquisitions frequently result in the recording of goodwill and other intangible assets that are subject to potential impairments in the future that could harm our financial results. In addition, we could use substantial portions of our available cash or, subject to provisions of any existing indebtedness we have, incur additional debt, or issue additional equity securities in order to finance acquisitions, the result of which may be to constrain our access to cash for other purposes or result in dilution to our existing stockholders. As a result of these and other risks, if we fail to manage the pursuit, consummation and integration of acquisitions or license agreements effectively, our business could suffer.

Our debt obligations may be a burden on our future cash flows and cash resources.

In November 2013, we issued $175 million of 1.75% Convertible Senior Notes due 2018 (the Notes). Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to satisfy our obligations under the Notes and any future indebtedness we may incur and to make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance the Notes or future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on the Notes or future indebtedness.

We may issue additional shares of our common stock in connection with the conversion of the Notes, and thereby dilute our existing stockholders and potentially adversely affect the market price of our common stock.

In the event that some or all of the Notes are converted into common stock, the ownership interests of existing stockholders will be diluted, and any sales in the public market of any shares of our common stock issuable upon such conversion of the Notes could adversely affect the prevailing market price of our common stock. In addition, the anticipated conversion of the Notes could depress the market price of our common stock.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.

Under Accounting Standards Codification 470-20 (ASC 470-20), Debt with Conversion and Other Options, which we refer to as ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer s economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital

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section of stockholders equity on our consolidated balance sheet at the issuance date and the value of the equity component would be treated as debt discount for purposes of accounting for the debt component of the Notes. As a result, we will be required to record a greater amount of non-cash interest expense as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the amortization of the debt discount and the instrument s coupon interest, which could adversely affect our future financial results, the trading price of our common stock and the trading price of the Notes.

The make-whole fundamental change provisions of the Notes may delay or prevent an otherwise beneficial takeover attempt of us.

If a make-whole fundamental change such as an acquisition of our company occurs prior to the maturity of the Notes, under certain circumstances, the conversion rate for the Notes will increase such that additional shares of our common stock will be issued upon conversion of the Notes in connection with such make-whole fundamental change. The increase in the conversion rate will be determined based on the date on which the make-whole fundamental change occurs or becomes effective and the price paid (or deemed paid) per share of our common stock in such transaction. This increase will be dilutive to our existing stockholders. Our obligation to increase the conversion rate upon the occurrence of a make-whole fundamental change may, in certain circumstances, delay or prevent a takeover of us that might otherwise be beneficial to our stockholders.

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

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

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

the emergence of new sales channels in which we are unable to compete effectively;

any major change in our board of directors or management;

changes in financial estimates including our ability to meet our future net revenue and operating profit or loss projections;

changes in governmental regulations or in the status of our regulatory approvals;

commencement of, or our involvement in, litigation; and

changes in earnings estimates or recommendations by securities analysts.

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In addition, the stock market in general, and the market for semiconductor and other technology companies in particular, have from time to time experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our actual operating performance. These trading price fluctuations may also make it more difficult for us to use our common stock as a means to make acquisitions or to use equity-related compensation to attract and retain employees.

In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We are currently, and in the future may be, the target of this type of litigation. Securities litigation against us could result in substantial costs and divert our management s attention from other business concerns, which could seriously harm our business.

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

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

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

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

- the right of our board of directors to elect directors to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the establishment of a classified board of directors requiring that only a subset of the members of our board of directors be elected at each annual meeting of stockholders;
- the prohibition of cumulative voting in our election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- the requirement that stockholders provide advance notice to nominate individuals for election to our board of directors or to propose matters that can be acted upon at a stockholders meeting. These provisions may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer s own slate of directors or otherwise attempting to obtain control of our company;
- the ability of our board of directors to issue, without stockholder approval, shares of undesignated preferred stock with terms set by the board of directors, which rights could be senior to those of our common stock. The ability to authorize undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us;
- the required approval of the holders of at least two-thirds of the shares entitled to vote at an election of directors to repeal or adopt any provision of our certificate of incorporation regarding the election of directors;

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

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters are located at 1745 Technology Drive in San Jose, California in a facility consisting of approximately 159,000 square feet of office space under a lease, which expires December 2019. We sublease approximately 59,000 square feet of the office space to third parties. Our corporate headquarters facility accommodates our product design, software engineering, sales, marketing, operations, finance, and administrative activities. We also occupy space in Hsinchu, Taiwan, under a lease that expires in December 2018, which serves as our wafer-sort and testing facility. We also lease sales and support offices in China, Japan, and the Republic of Korea and have research and development offices in the Slovak Republic, Canada, France, Italy and in Massachusetts. We currently do not own any real estate or facilities. We believe that our leased facilities are adequate to meet our current needs and expect to be able to lease additional or alternative facilities to meet our future needs.

Item 3. Legal Proceedings.

From time to time, the Company is involved in legal proceedings concerning matters arising in connection with the conduct of its business activities. The Company regularly evaluates the status of legal proceedings in which the Company is involved to assess whether a loss is probable or there is a reasonable possibility that a loss or additional loss may have been incurred and to determine if accruals are appropriate. The Company further evaluates each legal proceeding to assess whether an estimate of possible loss or range of loss can be made.

On January 7, 2015 a purported shareholder filed a class action complaint in the U.S. District Court, Northern District of California against the Company and two of the Company s current and former executives (the Securities Case). Jim McMillan, Individually and on Behalf of All Others Similarly Situated v. InvenSense, Inc., et al. Civil Action No. 3:15-cv-00084-JD. The complaint 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. A second complaint, William Lendales v. InvenSense, Inc. et al., Case No. 3:15-cv-00142-VC, was filed on January 12, 2015, by a different purported shareholder, in the same court, setting forth substantially the same allegations. A third complaint, Plumber & Steamfitters Local 21 Pension Fund v. InvenSense, Inc., et al., Civil Action No 5:15-cv-00249-BLF, was filed on January 16, 2015, by a different purported shareholder, in the same court, setting forth substantially the same allegations. A fourth complaint, William B. Davis vs. InvenSense, Inc., et al., Civil Action No. 5:15-cv-00425-RMW, was filed on January 29, 2015, by a different purported shareholder, in the same court, setting forth substantially the same allegations. A fifth complaint, Saratoga Advantage Trust Technology & Communications Portfolio v. InvenSense et al., Case No. 3:15-cv-01134, was filed on March 11, 2015. The Company has undertaken an evaluation of these complaints. 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.

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On January 13, 2015, another purported shareholder filed a shareholder derivative complaint against two of our current and former officers and several of our current directors in the U.S. District Court, Northern District of California (the Derivative Case). George Rollins, derivatively on behalf of InvenSense, Inc. v. Behrooz Abdi, et. al., Civil Action No 5:15-cv-00184-PSG. In this complaint, the plaintiff makes 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. A second complaint, Linda Karr, derivatively on behalf of InvenSense, Inc. v. Behrooz Abdi, et. al., Civil Action No. 5:15-cv-00200-NC, was filed on January 14, 2015, by a different purported shareholder, in the same court, setting forth substantially the same allegations. A third derivative complaint was filed in Santa Clara Superior Court, entitled Robert Bilbrey v. Behrooz Abdi et al., Case No. 1-15-CV-278742, was filed on March 20, 2015. The Company has undertaken an evaluation of these complaints. 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.

On May 16, 2012, and again on March 11, 2013 STMicroelectronics, Inc. (STMicro) filed patent infringement complaints (ST Microelectronics Patent Litigation I and II) against us, alleging infringement of certain of their patents (collectively, the Asserted Patents). STI alleged that certain lnvenSense MEMS products and services infringed one or more claims of the Asserted Patents. On July 9, 2012, we filed counterclaims against STI alleging infringement of certain of our patents. On February 9, 2014, we and STI settled and resolved all litigation and proceedings pending between us and STI for a one-time cash payment of $15.0 million to STI, and entered into a patent cross license agreement. 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. This settlement and patent cross license resolves all outstanding legal proceeding between us and STMicro. The settlement resulted in recognition of a pre-tax charge of $15.0 million in fiscal year 2014.

We are not aware of any other pending legal matters or claims, individually or in the aggregate, that are expected to have a material adverse impact on our consolidated financial position, results of operations, or cash flows. However, our analysis of whether a claim may be made, or whether a claim made 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.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

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

Market Information

Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol INVN . The following table sets forth for the periods indicated the high and low sales prices per share of our common stock as reported on the NYSE:

	High	Low
Fiscal Year ended March 30, 2014		
First Quarter	$ 15.94	$ 9.09
Second Quarter	$ 19.36	$ 14.99
Third Quarter	$ 21.82	$ 15.20
Fourth Quarter	$ 24.34	$ 17.76
Fiscal Year ended March 29, 2015		
First Quarter	$ 23.82	$ 17.10
Second Quarter	$ 26.78	$ 19.25
Third Quarter	$ 21.94	$ 13.50
Fourth Quarter	$ 17.56	$ 13.19

As of March 29, 2015, we had approximately 50 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

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

Equity Compensation Plan Information

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

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Performance Graph

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

The following graph shows a comparison of the cumulative total return for our common stock, the S&P 500 Index and the NYSE Composite Index from November 16, 2011 (the date our common stock commenced trading on the NYSE) through March 29, 2015. Such returns are based on historical results and are not intended to suggest future performance. Data for the S&P 500 Index and the NYSE Composite Index assume reinvestment of dividends.

These comparisons assume the investment of $100 on November 16, 2011 and the reinvestment of any dividends. The data below represents past performance and should not be an indication of future performance.

InvenSense Inc.

Total Return Performance

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

	Period Ending														
	11/16/11	01/01/12	04/01/12	07/01/12	09/30/12	12/30/12	03/31/13	06/30/13	09/29/13	12/29/13	03/30/14	06/29/14	09/28/14	12/28/14	03/29/15
InvenSense Inc.	100	112	203	127	134	123	120	173	202	203	255	247	224	183	171
S&P 500 Index	100	102	115	112	119	116	131	135	143	156	158	168	171	181	179
NYSE Composite Index	100	101	112	107	114	116	128	129	138	148	151	159	158	161	161

Item 6. Selected Financial Data.

We have derived the selected consolidated statement of income data for the fiscal years ended 2015, 2014, 2013 and 2012, respectively, and selected consolidated balance sheet data as of the March 29, 2015 and March 30, 2014, from our audited Consolidated Financial Statements and related Notes included elsewhere in this Annual Report on Form 10-K. We have derived the statement of income data for the fiscal year prior to fiscal year 2012, and selected consolidated balance sheet data prior to March 31, 2013, from our audited Consolidated Financial Statements and related Notes not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results that may be expected for any future period. The following selected financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and the related Notes included elsewhere in this Annual Report on Form 10-K.

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Consolidated Statements of Income Data:

	Fiscal Years				
	2015	2014	2013	2012	2011
Net revenue	$ 372,019	$ 252,533	$ 208,634	$ 152,967	$ 96,547
Costs of revenue(1)	216,160	127,724	97,937	67,571	43,647
Gross profit	155,859	124,809	110,697	85,396	52,900
Operating expenses:					
Research and development(1)	90,623	48,431	24,648	19,672	15,826
Selling, general and administrative(1)	59,386	51,344	29,391	18,710	15,596
Litigation settlement		15,000			
Total operating expenses	150,009	114,775	54,039	38,382	31,422
Income (loss) from operations	5,850	10,034	56,658	47,014	21,478
Change in fair value of warrant liabilities(2)					(4,025)
Interest (expense)	(10,553)	(4,012)	(2)	(22)	(16)
Other income, net	1,368	167	350	160	47
Other income (expense), net	(9,185)	(3,845)	348	138	(3,994)
Income (loss) before income taxes	(3,335)	6,189	57,006	47,152	17,484
Income tax provision (benefit)	(2,255)	70	5,301	10,205	8,137
Net income (loss)	(1,080)	6,119	51,705	36,947	9,347
Net income allocable to convertible preferred stockholders				20,618	7,716
Net income allocable to common stockholders	$ (1,080)	$ 6,119	$ 51,705	$ 16,329	$ 1,631
Net income per common share allocable to common stockholders:					
Basic	$ (0.01)	$ 0.07	$ 0.62	$ 0.39	$ 0.09
Diluted	$ (0.01)	$ 0.07	$ 0.59	$ 0.37	$ 0.08
Weighted average shares outstanding in computing net income per share allocable to common stockholders:					
Basic	89,359	86,520	82,738	41,614	17,592
Diluted	89,359	89,928	87,359	47,011	22,202

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

	Fiscal Years				
	2015	2014	2013	2012	2011
Costs of revenue	$ 2,520	$ 1,296	$ 649	$ 325	$ 261
Research and development	14,183	6,218	2,753	1,474	946
Selling, general and administrative	13,801	8,510	5,117	1,889	983

Total stock-based compensation expense	$ 30,504	$ 16,024	$ 8,519	$ 3,688	$ 2,190

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

During the first quarter of fiscal 2011, the Company recorded an increase in the change in fair value of the warrants of $4.0 million. On June 25, 2010, the Company amended its Certificate of Incorporation to

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remove the provisions that had previously resulted in the outstanding preferred stock warrants being classified as a long-term liability. As a result of this amendment, the warrants were considered to be indexed to the Company s stock and accordingly, the fair value of the warrant liability on the date of the amendment, $11.9 million, was reclassified into stockholders equity (as a component of the series of preferred stock into which the warrants were exercisable).

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

Consolidated Balance Sheet Data:

	As of				
	March 29, 2015	**March 30, 2014**	**March 31, 2013**	**April 1, 2012**	**April 3, 2011**
Cash and cash equivalents	$ 85,637	$ 26,025	$ 100,843	$ 153,643	$ 28,795
Short-term investments	129,919	91,307	77,040	4,129	9,280
Working capital	295,012	215,011	222,828	172,931	54,285
Long-term investments		128,755	22,442		
Total assets	585,891	494,735	279,094	193,318	70,746
Total debt, including current portion	143,017	135,592	22	50	34
Convertible preferred stock					50,241
Common stock	262,677	215,958	158,108	136,792	5,762
Total stockholders equity	$ 359,501	$ 313,828	$ 249,947	$ 176,877	$ 59,141

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements for the year ended March 29, 2015 and the Notes to those statements included elsewhere in this Annual Report on Form 10-K.

Business Overview

We are the pioneer and a global market leader in devices 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.

Our net revenue increased to $372.0 million in fiscal year 2015 from $252.5 million in fiscal year 2014 and $208.6 million in fiscal year 2013, respectively. We achieved net income (loss) of $(1.1) million, $6.1 million and $51.7 million in fiscal years 2015, 2014 and 2013, respectively. At March 29, 2015, we had $215.6 million in cash, cash equivalents and investments.

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Net Revenue

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

	Fiscal Year		
	2015	2014	2013
		(in thousands)	
Net revenue	$ 372,019	$ 252,533	$ 208,634

Net revenue for fiscal year 2015 increased by $119.5 million, or 47%, year-over-year, primarily due to higher volume shipments to manufacturers of smartphones, tablet devices and camera modules incorporating optimal image stabilization, partially offset by lower per unit average selling prices. For fiscal 2015, total unit shipments increased by 83% and overall average unit selling price decreased by 19% year-over-year. We expect a continued trend of declining unit average selling prices for our products during their life cycles.

Net revenue for fiscal year 2014 increased by $43.9 million, or 21%, year-over-year, primarily due to higher volume shipments to an expanded customer base, including manufacturers of smartphones, tablet devices and digital television and set-top box remote controls, partially offset by lower volume shipments to gaming manufacturers and lower per unit average selling prices. Total unit shipments for fiscal year 2014 increased by 62% year-over-year. Our overall average unit selling price for fiscal year 2014 decreased 25% year-over-year as a result of the change in our product mix and declines in average selling prices associated with products primarily introduced in prior years.

The majority of the Company s products are shipped through its distributors or contract manufacturers, which are the legal counter-party to the sales. The Company does not refer to these intermediaries as our customers in this report. When the Company references customers, the Company is referring to the manufacturers of consumer electronics devices that are the end customer that these intermediaries sell the Company s products to or that incorporate the Company s products into finished products. These manufacturers of consumer electronics devices are categorized as our customers as they are responsible for selection of our sensors in their products.

For fiscal 2015, two customers accounted for 30% (Apple Inc., or Apple) and 28% (Samsung Electronics Co., Ltd., or Samsung) of net revenue. For fiscal 2014 one customer accounted for 35% (Samsung) of total net revenue. For fiscal 2013 three customers accounted for 24% (Samsung), 18% (Nintendo) and 11% (Quanta) of total net revenue. No other customer accounted for more than 10% of total net revenue for fiscal years 2015, 2014 or 2013.

Net Revenue by End Market

	Fiscal Year		
	2015	2014	2013
		(in thousands)	
Smartphone and tablet devices	$ 288,448	$ 199,535	$ 147,958
% of net revenue	78%	79%	71%
Optical image stabilization	$ 44,411	$ 16,932	$ 1,907
% of net revenue	12%	7%	1%
Gaming and other	$ 39,160	$ 36,066	$ 58,769
% of net revenue	10%	14%	28%

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Net revenue growth for the smartphone and tablet end market in fiscal years 2015, 2014 and 2013 reflects significant 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 fiscal years 2015, 2014 and 2013 primarily reflects increased adoption of our technology for optical image stabilization in smartphone camera modules. The net revenue decline and contribution to total net revenue for the gaming and other end market in fiscal years 2015, 2014 and 2013 primarily reflects a declining consumer market for console gaming and shift to mobile device and online gaming during that time period.

Net Revenue by Geographic Region

Region	Fiscal Year 2015	2014	2013
		(in thousands)	
Korea	$ 130,807	$ 112,880	$ 69,874
United States	129,665	24,681	16,667
China	65,115	43,796	14,742
Japan	18,788	45,493	65,663
Taiwan	21,264	18,737	39,203
Rest of world	6,380	6,946	2,485
	$ 372,019	$ 252,533	$ 208,634

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 Asia constituted 63% of our net revenue in fiscal year 2015 compared with 87% of our net revenue in fiscal year 2014 and 92% of our net revenue for the fiscal year 2013.

The net revenue increase in Korea, United States and China reflect growing demand for our products primarily by mobile device customers. The net revenue decrease in Japan primarily reflects a declining consumer market for console gaming due to a shift to mobile device and online gaming.

We believe that a substantial majority 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.

Cost of Revenue

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

	Fiscal Year 2015	2014	2013
		(in thousands)	
Cost of revenue	$ 216,160	$ 127,724	$ 97,937
% of net revenue	58%	51%	47%

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Cost of revenue for fiscal year 2015 increased by $88.4 million, or 69%, year-over-year, due primarily to an increase in unit sales of our products, amortization of acquisition-related intangible assets, stock-based compensation, inventory charges and lower manufacturing yields, partially offset by a decrease in the amortization of the fair value write-up of acquired microphone inventory and the improvements in unit cost driven by transition to smaller footprint products combined with continued improvements in our production efficiency.

Cost of revenue for fiscal year 2014 increased by $29.8 million, or 30%, year-over-year, due primarily to an increase in unit sales of our products, the amortization of the fair value write-up of acquired microphone inventory, and amortization of the fair value of acquired developed technology, partially offset by improvements in unit cost driven by transition to smaller footprint products, and continued improvements in our production yields and efficiency.

Gross Profit and Gross Margin

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

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

- demand for our products and services;
- our ability to add new product features to our existing products;
- the rate of adoption of our products by new markets;
- product manufacturing cost and yields;
- intellectual property and technology licensing costs;
- write-downs of inventory for excess quantity and technological obsolescence;
- benefit from sale of previously written down inventories;
- product mix;
- erosion of average selling prices, as required by agreements entered into with our customers and in anticipation of competitive pricing pressures, new product introductions by us and our competitors, product end of life programs, and for other reasons;
- the proportion of our products that are sold through direct versus indirect channels;

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

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

amortization of acquired developed technologies and fair value write-up of inventories.

	Fiscal Year		
	2015	2014	2013
		(in thousands)	
Gross profit	$ 155,859	$ 124,809	$ 110,697
% of net revenue	42%	49%	53%

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Gross profit for fiscal year 2015 increased by $31.1 million, or 25%, year-over-year 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 and inventory charges of $8.6 million largely related to older generation products for which the company chose to discontinue selling efforts, resulting in excess and obsolete inventories. The $8.6 million of inventory charges include $0.6 million of cancelation fees. Gross profit as a percentage of net revenue, or gross margin, decreased primarily due to lower average unit selling prices resulted from a shift of revenue mix towards lower margin, high volume customers and inventory charges. Lower manufacturing yields resulted from particular customer specifications also affected our gross margin.

We expect a significant portion of our revenue will continue to be derived from our largest customers. Our average unit selling prices tend to be lower for our largest customers. We expect lower average selling prices combined with lower yields as a result of more demanding specifications from these customers to continue to affect our gross margin for the foreseeable future. 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.

Gross profit for fiscal year 2014 increased by $14.1 million, or 13%, year-over-year, due to an increase in unit sales of our products, partially offset by decreases in average selling price per unit sold for comparable products. Gross margin decreased due to the effect of reductions in average selling price per unit sold for comparable products and changes in product mix sold, and the amortization of the fair value write-up of acquired inventory and the amortization of the fair value of acquired developed technology. The benefit of the sale of previously written down inventories for fiscal 2014 was $0.3 million.

Research and Development

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

	Fiscal Year		
	2015	2014	2013
		(in thousands)	
Research and development	$ 90,623	$ 48,431	$ 24,648
% of net revenue	24%	19%	12%

Research and development expense for fiscal year 2015 increased by $42.2 million, or 87%, year-over-year. The increase was primarily attributable to a $24.5 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 $9.2 million increase in equipment and supply costs used to support research and development activities, a $2.8 million increase in third party project and contractor costs associated with new product development, a $2.6 million increase in allocated occupancy costs due to expended facilities costs to support higher headcount, and a $1.4 million increase in depreciation costs related to increased capital equipment. Research and development headcount was 299 at the end of fiscal year 2015 and 194 at the end of fiscal year 2014. Additions to headcount including employees from our acquisition of Movea and TPI primarily supported expansion of new product and future technology development activities.

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Research and development expense for fiscal year 2014 increased by $23.8 million, or 96%, year-over-year. The increase was primarily attributable to a $13.8 million increase in employee compensation and benefits due to an increase in headcount, a $3.0 million increase in equipment and supply costs used to support research and development activities, a $3.0 million increase in allocated occupancy costs due to higher headcount and a $2.6 million increase in third party project and contractor costs associated with new product development. Research and development headcount was 194 at the end of fiscal year 2014 and 118 at the end of fiscal year 2013. Additions to headcount primarily supported expansion of new product and future technology development activities and included 35 former employees of Analog Devices, Inc. who accepted employment as of November 1, 2013 with us in connection with our acquisition of the Analog Devices MEMS Microphone product line.

Selling, General and Administrative

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

	Fiscal Year		
	2015	2014	2013
		(in thousands)	
Selling, general and administrative	$ 59,386	$ 51,344	$ 29,391
% of net revenue	16%	20%	14%

Selling, general and administrative expense for fiscal year 2015 increased by $8.0 million, or 16%, year-over-year. The increase was primarily attributable to a $11.4 million increase in employee compensation and benefits costs mainly due to an increase in headcount, a $1.9 million increase in facility costs, offset partially by a decrease of $5.3 million in outside expenses due primarily to patent legal costs related to the settlement with ST Microelectronics, Inc. (STMicro) concluded in fiscal 2014. Selling, general and administrative headcount increased to 150 at the end of fiscal year 2015 from 132 in fiscal 2014. Additions to headcount primarily supported expanded geographic, customer and market opportunities for our products.

Selling, general and administrative expense for fiscal year 2014 increased by $22.0 million, or 75%, year-over-year. The increase was primarily attributable to a $12.2 million increase in legal costs due primarily to patent litigation and acquisition activities, a $6.0 million increase in employee cash compensation and benefits costs driven by an increase in the number of employees, a $1.2 million increase in outside service costs and a $1.4 million increase in allocated occupancy costs due to higher headcount. Selling, general and administrative headcount increased to 132 at the end of fiscal year 2014 from 102 year-over-year. Additions to headcount primarily supported expanded geographic, customer and market opportunities for our products.

Litigation Settlement

	Fiscal Year		
	2015	2014	2013
		(in thousands)	
Patent litigation settlement	$	$ 15,000	$
% of net revenue	%	6%	%

On February 9, 2014, we settled and resolved all litigation and re-examination proceedings pending between STMicro and us for a one- time cash payment of $15.0 million to STMicro, and entered into a patent cross license agreement. The other terms of the settlement and the patent cross license agreement remain confidential

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and are not expected to have a material impact on our future results. This settlement and patent cross license resolves all outstanding legal proceeding between us and STMicro. The settlement resulted in recognition of a pre-tax charge of $15.0 million in fiscal year 2014.

Income From Operations

	Fiscal Year		
	2015	2014	2013
		(in thousands)	
Income from operations	5,850	10,034	56,658
% of net revenue	2%	4%	27%

Income from operations for fiscal year 2015 decreased by $4.2 million, or 42%, year-over-year. As a percentage of net revenue, income from operations decreased by 2% year-over-year primarily due to decreased gross profit as a percentage of net revenue.

Income from operations for fiscal year 2014 decreased by $46.6 million, or 82%, year-over-year, primarily due to higher operating expenses of $60.7 million, partially offset by an increase in gross profit of $14.1 million. As a percentage of net revenues, income from operations decreased by 23%.

Interest (Expense)

	Fiscal Year		
	2015	2014	2013
		(in thousands)	
Interest (expense)	(10,553)	(4,012)	(2)
% of net revenue	(3)%	(2)%	(0)%

Interest (expense) increased by $6.5 million for fiscal year 2015 compared to fiscal year 2014 due to interest expense related to the Convertible Senior Notes issued which were outstanding five months in fiscal year 2014.

Interest (expense) increased by $4.0 million for fiscal year 2014 compared to fiscal year 2013 due to interest expense related to the Convertible Senior Notes issued in the third quarter of fiscal year 2014.

Other Income, Net

	Fiscal Year		
	2015	2014	2013
		(in thousands)	
Other income, net	1,368	167	350
% of net revenue	0%	0%	0%

Other income, net increased by $1.2 million, or 719%, for fiscal year 2015 compared to fiscal year 2014. The increase in other income, net was primarily due to the gain recognized on our equity investment in TPI of $0.9 million.

Other income, net decreased by $0.2 million, or 52%, for fiscal year 2014 compared to fiscal year 2013. The decrease in other income, net was primarily due to an increase in foreign currency losses.

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Income Tax Provision (Benefit)

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

	Fiscal Year		
	2015	2014	2013
		(in thousands)	
Income tax provision (benefit)	(2,255)	70	5,301
% of income (loss) before income tax	68%	1%	9%

In fiscal year 2015, we recorded an income tax benefit of $(2.3) million compared to an income tax provision of $0.1 million for fiscal year 2014. The benefit was primarily due to the research and development tax credits and the foreign rate differentials, and was negatively affected by an increase in non-deductible stock option expense, and other deductible federal tax attributes.

In fiscal year 2014, we recorded an income tax provision of $0.1 million compared to an income tax provision of $5.3 million for fiscal year 2013. The difference between fiscal year 2014 compared to fiscal year 2013, was primarily due to a lower effective tax rate resulting from foreign rate differentials and increased research and development tax credits, and was negatively affected by an increase in non-deductible stock option expense.

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

	Fiscal Year		
	2015	2014	2013
		(in thousands)	
Income tax provision at the federal statutory rate	35.0%	35.0%	35.0%
Research and development credits	90.7	(27.3)	(2.1)
Foreign tax rate differential	(27.3)	(22.0)	(25.8)
Non-deductible stock compensation	(27.3)	19.5	2.2
Other	(3.5)	(4.1)	
Effective tax rate	67.6%	1.1%	9.3%

Over 90% of our revenue is derived from sales to destinations outside the U.S. A significant percentage of our pre-tax income in 2015, 2014 and 2013 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, we have not provided for U.S. federal income and foreign withholding taxes on undistributed earnings from our non-U.S. subsidiaries, as it is our practice and intention to reinvest the earnings of our 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.

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Net Income

	Fiscal Year		
	2015	2014	2013
	(in thousands)		
Net income	(1,080)	6,119	51,705
% of net revenue	(0)%	2%	25%

Net income for fiscal year 2015 decreased by $7.2 million, or 118%, year-over-year. As a percentage of net revenue, net income decreased by 2% year-over-year primarily due to the decreased gross profit combined with increased interest expense, offset partially by income tax benefit.

Net income for fiscal year 2014 decreased by $45.6 million, or 88%, year-over-year, primarily due to increased operating expenses, as explained above, partially offset by increased net revenue and gross profit.

Quarterly Results of Operations and Seasonality

Tables setting forth our unaudited consolidated statements of operations for each quarter of fiscal years 2015 and 2014, may be found in Note 10, *Quarterly Financial Data (Unaudited)*, in our Notes to Consolidated Financial Statements included later in this Annual Report on Form 10-K, which information is incorporated herein by reference. The quarterly data have been prepared on the same basis as the audited Consolidated Financial Statements and related Notes included later in this Annual Report on Form 10-K and include all adjustments consisting only of normal recurring adjustments that we consider necessary for a fair presentation of the financial information set forth below.

Sales of certain electronic devices, such as smartphone and tablet models, video gaming consoles and portable video gaming devices, tend to be weighted towards holiday periods. As a result, historically, our customers in this market tend to increase production of products incorporating our solutions in the second and third quarters of our fiscal year in order to build inventories. Sales of our products tend to correspondingly increase during these periods and to be lower in the first and fourth quarters of the fiscal year. Additionally, some smartphone and tablet customers seasonally increase purchases of our products during certain times of year (principally spring and fall) when they typically introduce new models of their own products. We expect this seasonality to continue in future periods, although we expect the magnitude of holiday seasonality to decrease as we increase sales to manufacturers of smartphones and tablet devices relative to sales to gaming manufacturers. We believe the quarterly sales progression for smartphones devices is less subject to seasonality due to the fact that end customer demand is also driven by consumer upgrade cycles that typically occur throughout the year. We have limited visibility into future customer demand and the product mix that our customers will require, which could adversely affect our net revenue forecasts and operating margins.

In addition to the impact of competitive pricing pressures, we have also experienced fluctuations in gross profit generally due to variability in customer and product mix, levels of inventory valuation and excess reserves recorded as well as manufacturing cost efficiencies which can be influenced by fluctuations in manufacturing process yields as well as introductions of new less expensive to manufacture products. As a result of our acquisition of Movea and TPI in the second quarter of fiscal 2015, we have incurred expenses for the amortization of the fair value of acquired developed technology. As a result of our acquisition of the microphone business line of Analog Devices, Inc. in the third quarter of fiscal 2014, we have incurred expenses for the amortization of the fair value write-up of acquired inventory and the amortization of the fair value of acquired developed technology. Our products are manufactured by third-party manufacturers according to our estimates of future customer demand, of which we have limited visibility. If we inaccurately forecast demand for our products, we may be unable to obtain adequate and cost-effective foundry or assembly capacity from our third-party manufacturers to meet our customers delivery requirements, or we may accumulate excess inventories, which could adversely impact our gross margins.

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Our operating expenses generally increased over the twelve quarters in fiscal years 2015, 2014 and 2013 in absolute dollars primarily as a result of our increase in headcount related to our acquisitions, our investment in the development of new products, and our corporate infrastructure to support higher levels of sales and operation as a public company.

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

Financial Condition, Liquidity and Capital Resources

Our primary uses of cash are to fund operating expenses, purchases of inventory, acquisition of property and equipment and business acquisition related activities. Cash used to fund operating expenses excludes the impact of non-cash items such as depreciation, amortization of intangible assets, non-cash interest expense 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 and convertible debt. 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.

We believe our current cash, cash equivalents and investments along with net cash provided by operating activities, will be sufficient to satisfy our liquidity requirements for the next 12 months. We also believe our current cash, cash equivalents and investments positions us to pursue acquisitions if opportunities arise. Our liquidity may be negatively impacted as a result of a decline in sales of our products due to a decline in our end markets, decrease in sales of our customers products in the market, or adoption of competitors products. Additionally, $47.7 million of the $85.6 million of cash and cash equivalents was held by our foreign subsidiaries as of March 29, 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 including liquidity needs arising in the normal course of business and any cash debt service requirements.

Our Cash and cash equivalents balance increased by $59.6 million during the year ended March 29, 2015, primarily due to the sale and maturity of short-term and long-term investments, partially offset by acquisitions of businesses. The change in cash and cash equivalents for fiscal years 2015, 2014 and 2013 was as follows:

	Fiscal Year		
	2015	2014	2013
		(in thousands)	
Net cash provided by (used in) operating activities	$ 66,842	$ (11,298)	$ 35,270
Net cash used in investing activities	(10,632)	(237,247)	(100,346)
Net cash provided by financing activities	3,402	173,727	12,276
Net increase (decrease) in cash and cash equivalents	$ 59,612	$ (74,818)	$ (52,800)

Total cash and cash equivalents accounted for 15% and 5% of total assets at March 29, 2015 and March 30, 2014, respectively.

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Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities in fiscal year 2015 of $66.8 million compared with a net loss of $1.1 million primarily reflected non-cash expenses of $50.2 million and changes in operating assets and liabilities which generated cash of $17.8 million. The non-cash expenses were mainly comprised of stock-based compensation of $30.5 million, depreciation and amortization of $17.2 million, non-cash interest expense of $7.5 million, offset partially by deferred income tax assets of $5.5 million. The changes in our net operating assets and liabilities were comprised of a net increase of $16.1 million in Accounts payable and Accrued liabilities, a decrease of $8.8 million in Prepaid and other current assets , offset partially by an increase of $4.9 million in Accounts receivable and an increase of $2.1 million in Inventories . The $16.1 million increase in Accounts payable and Accrued liabilities was primarily due to price discounts to a customer and employee compensation accruals. The $8.8 million decrease in Prepaid expenses and other current assets was primarily due to tax refund received in fiscal year 2015. The $4.9 million increase in Accounts receivable and $2.1 million increase in Inventories were primarily due to business growth.

Net cash used in operating activities in fiscal year 2014 of $11.3 million primarily reflected net income of $6.1 million, and non-cash expenses of $23.1 million, which was more than offset by a net increase in operating assets and liabilities of $40.5 million. The net increase in operating assets and liabilities of $40.5 million consisted primarily of an increase in Accounts receivable of $8.9 million, an increase in Inventories of $44.2 million, an increase in Prepaid expenses and other current assets of $2.7 million, and an increase of Other Assets of $1.0 million partially offset by an increase in Accounts payable of $4.5 million and an increase in Accrued liabilities of $11.8 million. The movements in working capital were primarily based on the changes in Accounts receivables, Prepaid and other current assets and Inventories resulting from our increase in sales volume and strategic decision to build inventory. Non-cash expenses of $23.1 million consisted primarily of depreciation and amortization of $6.6 million, stock-based compensation of $16.0 million and non-cash interest expense of $2.8 million, partially offset by $2.3 million change in deferred income taxes.

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

Net Cash Used in Investing Activities

Net cash used in investing activities in fiscal year 2015 of $10.6 million primarily reflected the Movea and TPI acquisitions of $71.3 million, purchase of available-for-sale investments of $55.8 million, and the purchase of property and equipment of $27.3 million, partially offset by the sale and maturity of available-for-sale investments of $146.0 million.

Net cash used in investing activities in fiscal year 2014 of $237.2 million primarily reflected the purchase of available-for-sale investments of $206.9 million, acquisition of a business of $99.3 million, and the purchase of property and equipment of $17.2 million, partially offset by the sale and maturity of available-for-sale investments of $86.2 million.

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

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Net Cash Provided by Financing Activities

Net cash provided by financing activities in fiscal year 2015 of proceeds from the issuance of common stock of $10.4 million partially offset by certain payments of contingent consideration related to the Movea and TPI acquisitions of $7.1 million.

Net cash provided by financing activities in fiscal year 2014 of $173.7 million resulted primarily from net proceeds from debt issuance of $169.3 million, proceeds from issuance of call options of $25.6 million, proceeds from the issuance of common stock of $14.3 million and excess tax benefit from stock-based compensation of $4.8 million, partially offset by payment for purchase options of $39.1 million.

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

Contractual Obligations

The following table summarizes our outstanding contractual obligations as of March 29, 2015:

		Payments Due by Period			
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(in thousands)		
Convertible senior notes obligations	$ 175,000	$	$	$ 175,000	$
Interest on convertible senior notes obligations	10,998	2,760	6,226	2,012	
Operating lease obligations	30,541	5,425	12,157	11,458	1,501
Purchase obligations	50,816	50,816			
Total contractual obligations	$ 267,355	$ 59,001	$ 18,383	$ 188,470	$ 1,501

Convertible senior notes and interest on convertible senior notes obligations relate to the convertible senior notes issued in November 2013. See Note 5 to the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for a full description of the convertible senior notes.

Operating lease obligations consist of contractual obligations from agreements for non-cancelable office space, net of future minimum lease income. Minimum Sublease income from the third parties is approximately $1.3 million. The failure of the third party to comply with its obligations under the subleases, we remain contractually obligated, as primary lessee, under the lease.

Purchase obligations consist of the minimum purchase commitments made to contract manufacturers.

Included in our gross unrecognized tax benefits balance of $22.5 million at March 2015 are $20.4 million of tax positions which would affect income tax expense if recognized. As of March 2015, approximately $2.1 million of unrecognized tax benefits have been set up as our valuation allowance which represents State research credits and State net operating losses. Due to the high degree of uncertainty regarding the settlement of these liabilities, we are unable to estimate the year in which the future cash flows may occur. As a result, these amounts are not included in the tables above.

Warranties and Indemnification

In connection with the sale of products in the ordinary course of business, we often make representations affirming, among other things, that our products do not infringe on the intellectual property rights of others, and agree to indemnify customers against third-party claims for such infringement. Further, our certificate of incorporation and bylaws require us to indemnify our officers and directors against any action that may arise out

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of their services in that capacity. We have not been subject to any material liabilities under such provisions and therefore believe that our exposure for these indemnification obligations is minimal. Accordingly, we have no liabilities recorded for these indemnity agreements as of March 29, 2015.

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities of financial partnerships, such as entities often referred to as structured finance or special purpose entities, or SPEs, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of March 29, 2015, we were not involved in any unconsolidated SPE transactions.

Recent Accounting Pronouncements

Information with respect to Recent Accounting Pronouncements may be found in Note 1- Organization and Summary of Significant Accounting Policies-Item 15: Financial Statements and Exhibits.

Critical Accounting Policies and Estimates

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

Business Combinations

The purchase price of an acquisition is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. To the extent the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired and liabilities assumed, such excess is allocated to goodwill. The Company determines the estimated fair values after review and consideration of relevant information, including discounted cash flows, quoted market prices and estimates made by management. The Company adjusts the preliminary purchase price allocation, as necessary, during the measurement period of up to one year after the acquisition closing date as it obtains more information as to facts and circumstances existing at the acquisition date impacting asset valuations and liabilities assumed. Acquisition-related costs are recognized separately from the acquisition and are expensed as incurred.

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 Standards Codification (ASC) 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. The Company performed the first step of the two-step goodwill impairment test. 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 the fair value of its reporting unit was substantially in excess of its carrying value, and thus its goodwill was not impaired.

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Intangible Assets

Intangible assets consist of developed technology and customer relationships, and in-process research and development resulting from the Company s acquisition of MEMS microphone business of Analog Devices, Inc. (ADI) in fiscal 2014, Movea S.A and Trusted Positioning, Inc.in fiscal 2015 (see note 8) as well as patents acquired in fiscal 2015. Acquired intangible assets that are subject to amortization are developed technology and customer relationships and are recorded at cost, net of accumulated amortization. Intangible assets are amortized on a straight-line basis over their estimated useful lives. In-process research and development capitalized during business combination is amortized only after successful completion of project, over the expected useful life.

Impairment of Long Lived Assets

The Company regularly reviews the carrying amount of its long-lived assets, including property and equipment and intangible assets, as well as the useful lives, to determine whether indicators of impairment may exist which warrant adjustments to carrying values or estimated useful lives. An impairment loss would be recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. Should impairment exist, the impairment loss would be measured based on the excess of the carrying amount of the asset over the asset s fair value.

Income Taxes

We account for income taxes under the asset and liability approach. Under this approach, deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the Consolidated Financial Statements using enacted tax rates and laws that will be in effect when the difference is expected to reverse. Valuation allowances are provided against deferred tax assets that are not likely to be realized. We assess the likelihood that we will be able to realize our deferred tax assets by considering positive and negative evidence such as historical levels of income or loss, recent earnings, projections of future income, customer concentration, pricing pressure, expectations and risks associated with estimates of future taxable income, ongoing prudent and practical tax planning strategies and other risks inherent in the semiconductor industry. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period in which we make such a determination. As of March 29, 2015, we had approximately $11.5 million in net deferred tax assets (DTAs) of which $10.6 million represent the U.S portion of these DTAs. These U.S. DTAs include approximately $4.2 million related mainly to Research and Development Credits as well as other tax attributes in the sum of $6.4 million representing 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 March 29, 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. Conversely, the foreign attributable net DTAs of roughly $0.9 million will continue to be utilized as those foreign entities are deemed to be profitable on an on-going basis due to the companies intercompany arrangements. 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.

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

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

We have not provided for U.S. federal income and foreign withholding taxes on undistributed earnings from non-U.S. operations as in general, it is our practice and intention to reinvest the earnings of our non-U.S. subsidiaries in those operations. We have not made a provision for U.S. or additional foreign withholding taxes on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration of approximately $99.8 million and $88.4 million at March 29, 2015 and March 30, 2014, respectively. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these foreign subsidiaries.

Inventory Valuation

Our inventories are stated at the lower of cost or market on a first-in, first-out basis. Inventories include finished good parts that may be specialized in nature and subject to obsolescence. As our business has grown and our inventory levels have risen, and include items for which we may not have customer purchase orders when manufactured, requiring us to actively market and sell those products. We periodically review the quantities and carrying values of inventories to assess whether the inventories are recoverable. Write-down of inventory for excess quantity and technological obsolescence are charged to cost of revenues as incurred. Actual demand may materially differ from our projected demand, and this difference could have a material impact on our gross margin and inventory balances based on additional provisions for excess or obsolete inventory or a benefit from sales of inventory previously written down. Write-down amounts charged (credited) to cost of revenues for fiscal years 2015 and 2013 were $8.6 million and $(3.0) million, respectively. Write-down amounts charged to cost of revenues for fiscal year 2014 were insignificant.

Stock-Based Compensation

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

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equity incentive awards granted and adjust compensation expense accordingly. The estimate of forfeitures is adjusted over the estimated term to the extent that the actual forfeiture rate or expected forfeiture rate is expected to differ from these estimates. The resulting cost is recognized over the period during which the employee is required to provide services in exchange for the award, which is usually the vesting period. We recognize compensation expense over the vesting period using the straight-line method and classify these amounts in the statements of income based on the department to which the related employee is assigned. For fiscal years 2015, 2014 and 2013, we recognized stock-based compensation of $30.5 million, $16.0 million and $8.5 million, respectively.

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

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

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

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

Interest Rate Risk

We had cash, cash equivalents and investments of $215.6 million at March 29, 2015, which was held for liquidity purposes. We do not enter into investments for trading or speculative purposes. At March 29, 2015, a 10% change in interest rates would not have a significant impact on our future interest income or investment fair value. At March 30, 2014, a 10% change in interest rates would have had an approximately $0.5 million impact on our future interest income or investment fair value. As of March 29, 2015, our cash, cash equivalents and investments were in money market funds, corporate notes and bonds, commercial paper and U.S. agency securities. Since the interest rate of our $175 million convertible debt is fixed, changes in interest rates will not impact on our future interest expense.

Foreign Currency Risk

Our sales contracts are primarily denominated in U.S. dollars and therefore substantially all of our net revenue is not subject to foreign currency risk. However, a portion of our operating expenses are incurred outside the U.S., are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the New Taiwan Dollar, Chinese Yuan and Korean Won. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of income. We recognized no significant foreign currency transaction gains or losses for fiscal years 2015, 2014 and 2013 related to fluctuations in foreign currency exchange rates.

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Item 8. Financial Statements and Supplementary Data.

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

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

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

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

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control Integrated Framework, 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that our internal control over financial reporting was effective as of March 29, 2015.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of the audit, has issued a report, included herein, on the effectiveness of the Company s internal control over financial reporting as of March 29, 2015.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 29, 2015 that have 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

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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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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

InvenSense, Inc.

San Jose, California

We have audited the internal control over financial reporting of InvenSense, Inc. and subsidiaries (the Company) as of March 29, 2015, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 29, 2015, based on the criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended March 29, 2015 of the Company and our report dated May 28, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ DELOITTE & TOUCHE LLP

San Jose, California

May 28, 2015

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Item 9B. Other Information.

On May 26, 2015, Tim Wilson resigned as a member of our board of directors effective upon the filing of this 10-K. Mr. Wilson served on the Nominating and Corporate Governance Committee and the Audit Committee. Mr. Wilson did not resign because of a disagreement with the Company.

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PART III

We are incorporating by reference the information required by Part III of this Annual Report on Form 10-K from our proxy statement relating to our 2015 annual meeting of stockholders (the Proxy Statement), which will be filed with the SEC within 120 days after March 29, 2015.

Item 10. Directors, Executive Officers and Corporate Governance.
The information required by this item will be contained in our Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation.
The information required by this item will be contained in our Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.
The information required by this item will be contained in our Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.
The information required by this item will be contained in our Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.
The information required by this item will be contained in our Proxy Statement and is incorporated herein by reference.

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PART IV

ITEM 15. Financial Statements and Exhibits.

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

1. Financial Statements

2. Financial Statement Schedules

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

3. Exhibits

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

InvenSense, Inc.

San Jose, California

We have audited the accompanying consolidated balance sheets of Invensense, Inc. and subsidiaries (the Company) as of March 29, 2015 and March 30, 2014, and the related consolidated statements of income (loss), comprehensive income (loss), stockholders equity, and cash flows for each of the three years in the period ended March 29, 2015. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Invensense, Inc. and subsidiaries at March 29, 2015 and March 30, 2014, and the results of their operations and their cash flows for each of the three years in the period ended March 29, 2015, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of March 29, 2015, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated May 28, 2015, expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

San Jose, California

May 28, 2015

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InvenSense, Inc.

Consolidated Balance Sheets

(In thousands, except par value)

	March 29, 2015	March 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 85,637	$ 26,025
Short-term investments	129,919	91,307
Accounts receivable	44,522	39,009
Inventories	75,105	73,032
Prepaid expenses and other current assets	14,950	19,587
Total current assets	350,133	248,960
Property and equipment, net	41,849	25,239
Intangible assets, net	45,508	35,360
Goodwill	139,175	50,952
Long-term investments		128,755
Other assets	9,226	5,469
Total assets	$ 585,891	$ 494,735
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 23,130	$ 18,964
Accrued liabilities	31,991	14,985
Total current liabilities	55,121	33,949
Long-term debt	143,017	135,583
Other long-term liabilities	28,252	11,375
Total liabilities	226,390	180,907
Commitments and contingencies (Note 4)		
Stockholders equity:		
Preferred stock:		
Preferred stock, $0.001 par value 20,000 shares authorized, no shares issued and outstanding at March 29, 2015 and March 30, 2014		
Common stock:		
Common stock, $0.001 par value 750,000 shares authorized, 90,894 shares issued and outstanding at March 29, 2015; 88,332 shares issued and outstanding at March 30, 2014	262,677	215,958
Accumulated other comprehensive (loss)	(4)	(38)
Retained earnings	96,828	97,908
Total stockholders equity	359,501	313,828
Total liabilities and stockholders equity	$ 585,891	$ 494,735

See accompanying notes to the consolidated financial statements.

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InvenSense, Inc.

Consolidated Statements of Income

(In thousands, except per share data)

	Fiscal Years Ended		
	March 29, 2015	**March 30, 2014**	**March 31, 2013**
Net revenue	$ 372,019	$ 252,533	$ 208,634
Costs of revenue	216,160	127,724	97,937
Gross profit	155,859	124,809	110,697
Operating expenses:			