InvenSense Inc
Form 10-Q
August 14, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended July 1, 2012

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.)**

1197 Borregas Avenue Sunnyvale, CA 94089

(Address of principal executive offices and zip code)

(408) 988-7339

(Registrant s telephone number, including area code)

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

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

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

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

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

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

Class	**Shares Outstanding at July 23, 2012**
Common Stock, $0.001 par value	81,749,556

Table of Contents

INVENSENSE, INC.

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INVENSENSE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value)

	July 1, 2012	April 1, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 108,036	$ 153,643
Short-term investments	12,436	4,129
Accounts receivable	22,692	11,931
Inventories	19,937	12,240
Prepaid expenses and other current assets	4,882	4,188
Total current assets	167,983	186,131
Property and equipment, net	5,071	4,011
Restricted time deposit	190	192
Long-term investments	37,279	300
Other assets	1,698	2,684
Total assets	$ 212,221	$ 193,318
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 13,341	$ 5,446
Accrued liabilities	6,662	7,726
Long-term debt current portion	24	28
Total current liabilities	20,027	13,200
Long-term debt	18	22
Other long-term liabilities	3,646	3,219
Total liabilities	23,691	16,441
Commitments and contingencies (note 5)		
Stockholders equity:		
Preferred stock:		
Preferred stock, $0.001 par value 20,000 shares authorized, no shares issued and outstanding at July 1, 2012 and April 1, 2012		
Common stock:		
Common stock, $0.001 par value 750,000 shares authorized, 81,733 shares issued and outstanding at July 1, 2012, 80,890 shares issued and outstanding at April 1, 2012	140,867	136,792
Accumulated other comprehensive income (loss)	(72)	1
Retained earnings	47,735	40,084
Total stockholders equity	188,530	176,877

Total liabilities and stockholders equity	$ 212,221	$ 193,318

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

Table of Contents

INVENSENSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended July 1, 2012	Three Months Ended July 3, 2011
Net revenue	$ 39,202	$ 35,627
Cost of revenue	17,639	15,009
Gross profit	21,563	20,618
Operating expenses:		
Research and development	5,655	4,376
Selling, general and administrative	6,258	4,511
Total operating expenses	11,913	8,887
Income from operations	9,650	11,731
Other income (expense), net	37	181
Income before income taxes	9,687	11,912
Income tax provision	2,036	2,888
Net income	7,651	9,024
Net income allocable to convertible preferred stockholders		6,842
Net income allocable to common stockholders	$ 7,651	$ 2,182
Basic	$ 0.09	$ 0.12
Diluted	$ 0.09	$ 0.11
Weighted average shares outstanding in computing net income per share allocable to common stockholders:		
Basic	81,184	18,124
Diluted	87,080	22,547

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

Table of Contents

INVENSENSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended	
	July 1, 2012	July 3, 2011
Net income	$ 7,651	$ 9,024
Other comprehensive income, net of tax:		
Unrealized gain (loss) on available for sale securities	(74)	4
Income tax provision (benefit)	(26)	1
Total other comprehensive income (loss)	(48)	3
Total comprehensive income	$ 7,603	$ 9,027

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

5

Table of Contents

INVENSENSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended July 1, 2012	Three Months Ended July 3, 2011
Cash flows from operating activities:		
Net income	$ 7,651	$ 9,024
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	557	443
Gain on disposal of property and equipment		(166)
Stock-based compensation expense	1,673	787
Deferred income tax assets	(2)	(5)
Tax effect of employee benefit plans	1,215	
Excess tax benefit from stock-based compensation	(1,215)	
Changes in operating assets and liabilities:		
Accounts receivable	(10,761)	54
Inventories	(7,697)	(4,422)
Prepaid expenses and other current assets	(694)	(49)
Other assets	986	(1,395)
Accounts payable	7,867	867
Accrued liabilities	(307)	1,587
Net cash provided by (used in) operating activities	(727)	6,725
Cash flows from investing activities:		
Purchase of property and equipment	(1,586)	(457)
Proceeds from the sale of property and equipment		188
Sale of available for sale investments	3,126	5,757
Purchase of available for sale investments	(48,484)	(1,011)
Net cash provided by (used in) investing activities	(46,944)	4,477
Cash flows from financing activities:		
Net proceeds from exercise of warrants	81	
Proceeds from issuance of common stock	1,115	364
Offering costs	(340)	(17)
Payments of long-term debt and capital lease obligations	(7)	(5)
Excess tax benefit from stock-based compensation	1,215	
Net cash provided by financing activities	2,064	342
Net increase (decrease) in cash and cash equivalents	(45,607)	11,544
Cash and cash equivalents:		
Beginning of period	$ 153,643	$ 28,795
End of period	$ 108,036	$ 40,339

Supplemental disclosures of cash flow information:				
Cash paid for interest	$	1	$	
Cash paid for income taxes	$	7	$	1,400
Noncash investing and financing activities:				
Unpaid accounts payable for property and equipment purchased	$	298	$	145
Unrealized gain (loss) from available for sale investments	$	73	$	4
Net exercise of warrants	$	70	$	
Unpaid offering costs	$	164	$	641

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

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Summary of Significant Accounting Policies

Business

InvenSense, Inc. (the Company) was incorporated in California in June 2003 and reincorporated in Delaware in January 2004. The Company designs, develops, markets and sells MEMS gyroscopes for MotionTracking devices in consumer electronics and is dedicated to bringing the best-in-class size, performance and cost solutions to market. Targeting applications in smartphones and tablets, console and portable video gaming devices, digital still and video cameras, smart TVs (including digital set-top boxes, televisions and multi-media HDDs), 3D mice, navigation devices, toys, and health and fitness accessories, the Company delivers leading generation of motion interface solutions based on its advanced multi-axis gyroscope technology.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the fiscal year ended April 1, 2012 included in the Company s Annual Report on Form 10-K filed on June 19, 2012 with the Securities and Exchange Commission (SEC).

Fiscal Year

The Company s fiscal year is a 52 or 53 week period ending on the Sunday closest to March 31. The Company s most recent fiscal year (Fiscal 2012) ended on April 1, 2012 (April 2012). The first fiscal quarter in each of the two most recent fiscal years ended on July 1, 2012 (three months ended July 1, 2012 or July 2012) and July 3, 2011 (three months ended July 3, 2011 or July 2011), respectively, and each quarter period included 13 weeks.

Basis of Presentation

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

The condensed consolidated balance sheet as of April 1, 2012, included herein was derived from the audited financial statements as of that date, but does not include all disclosures required by GAAP. The unaudited interim condensed consolidated financial statements, in the opinion of management, reflect all normal recurring adjustments necessary to present fairly the Company s financial position, results of operations, comprehensive income and cash flows for the interim periods. The results of operations for the period ended July 1, 2012 is not necessarily indicative of the results to be expected for the fiscal year ending March 31, 2013 or for any future year or interim period.

Basis of Consolidation

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

Use of Estimates

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

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Concentration of Credit Risk

At July 2012, six customers each accounted for 17%, 16%, 15%, 12%, 11% and 10% of total accounts receivable. At April 2012, five customers accounted for 18%, 17%, 13%, 12% and 10% of total accounts receivable.

For the three months ended July 1, 2012, four customers each accounted for 19%, 13%, 12% and 11% of total net revenue. For the three months ended July 3, 2011, four customers each accounted for 24%, 14%, 13% and 13% of total net revenue.

Warranty

The Company s warranty agreements are contract and component specific and can be up to three years for selected components. The Company accrues for anticipated warranty costs upon shipment based on the number of shipped units, historical analysis of the volume of product returned under the warranty program and management s judgment regarding anticipated rates of warranty claims and associated repair costs. The following table summarizes the activity related to the product warranty liability during the three months ended July 1, 2012 and Fiscal 2012:

	Three Months Ended July 1, 2012	Fiscal 2012
	(in thousands)	
Beginning balance	$ 361	$ 697
Provision for warranty	53	(246)
Less: actual warranty costs	(13)	(90)
Ending balance	$ 401	$ 361

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Net Income Per Share

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

Prior to the IPO, holders of Series C convertible preferred stock (Series C) were entitled to receive noncumulative dividends at the annual rate of $0.09840 per share prior to the payment of dividends on any other shares of the Company s stock. Once the payment of Series C had been completed, holders of Series A convertible preferred stock (Series A) would have been entitled to receive noncumulative dividends at the annual rate of $0.08000 per share of Series A and Series B convertible preferred stock (Series B) would have been entitled to receive noncumulative dividends at the annual rate of $0.14864 per share, payable on a pari passu basis, prior and in preference to any dividends on any other shares of the Company s common stock. In the event a dividend were paid on common stock, Series A, Series B and Series C stockholders would have been entitled to a proportionate share of any such dividend as if they were holders of common stock (on an as-if converted basis).

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

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

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Three Months Ended	
	July 1, 2012	July 3, 2011
	(in thousands, except per share data)	
Net income allocable to common stockholders:		
Numerator:		
Basic:		
Net income	$ 7,651	$ 9,024
Non-cumulative dividends on convertible preferred stock		(762)
Undistributed earnings allocable to convertible preferred stockholders		(6,080)
Net income allocable to common stockholders basic	$ 7,651	$ 2,182
Diluted:		
Net income	$ 7,651	$ 9,024
Non-cumulative dividends on convertible preferred stock		(787)
Undistributed earnings allocable to convertible preferred stockholders		(5,742)
Net income allocable to common stockholders diluted	$ 7,651	$ 2,495
Denominator:		
Basic shares:		
Weighted average shares used in computing basic net income per common share	81,184	18,124
Diluted shares:		
Weighted average shares used in computing basic net income per common share	81,184	18,124
Effect of potentially dilutive securities:		
Stock options and unvested restricted stock	5,675	4,423
Common stock warrants	221	
Weighted average shares used in computing diluted net income per common share	87,080	22,547
Net income per common share:		
Basic	$ 0.09	$ 0.12
Diluted	$ 0.09	$ 0.11

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

	Three Months Ended	
	July 1, 2012	July 3, 2011
	(in thousands)	
Employee stock options	1,583	2,102

Unvested restricted stock units	13	
Total antidilutive securities	1,596	2,102

10

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income . ASU No. 2011-05 amended ASC 320, Comprehensive Income, to converge the presentation of comprehensive income between U.S GAAP and IFRS. ASU No. 2011-05 requires that all non-owner changes in stockholders equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements and requires reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement in changes of stockholders equity. ASU No. 2011-05 became effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, which is the Company s fiscal interim period ended July 1, 2012 of fiscal year ending March 31, 2013. Upon adoption of ASU No. 2011-05, the Company has separately reported Condensed Consolidated Statements of Comprehensive Income and the adoption did not impact the Company s financial condition or results of operations.

2. Cash Equivalents and Available for Sale Investments

Short-term available for sale investments consist of securities with original maturities of three through twelve months. Long-term available for sale investments which have maturities exceeding twelve months beyond the balance sheet date are classified as long-term investments in the Company s condensed consolidated balance sheets. The Company s investments are classified as available for sale since the sale of these investments may be required prior to their stated maturity to implement management s liquidity-related strategies. Available for sale securities are carried at fair value with temporary unrealized gains and losses, net of taxes, reported as a component of stockholders equity.

At July 1, 2012, of the $108.0 million of the Company s cash and cash equivalents, $85.0 million was cash and $23.0 million was cash equivalents invested in money market funds. As of July 1, 2012, $30.4 million of the $108.0 million of cash and cash equivalents were held by our foreign subsidiaries. If these funds are needed for our operations in the United States, the Company would be required to accrue and pay U.S. taxes to repatriate these funds. However, the Company s intent is to indefinitely reinvest these funds outside of the United States, and the Company s current plans do not demonstrate a need to repatriate them to fund U.S. operations. Additionally, as of July 1, 2012, the Company had short-term available for sale investments of $12.4 million and long-term available for sale investments of $37.0 million totaling $49.4 million. As shown in the table below, the money market funds held by the Company were classified as Level 1 assets. The U.S. agency securities investments, commercial paper, and corporate notes and bonds were classified as Level 2 assets where the fair value was determined from non-binding market consensus prices that are corroborated by observable market data.

At April 1, 2012, of the $153.6 million of the Company s cash and cash equivalents, $135.0 million was cash and $18.6 million was cash equivalents invested in money market funds. As of April 1, 2012, $29.3 million of the $153.6 million of cash and cash equivalents were held by our foreign subsidiaries. Additionally, the Company had available for sale investments totaling $4.1 million. As shown in the table below, the money market funds as well as the U.S treasury investments held by the Company were classified as Level 1 assets. The U.S. agency securities investments were classified as Level 2 assets where the fair value was determined from non-binding market consensus prices that are corroborated by observable market data.

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

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

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

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

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Fair value measurements at each reporting date were as follows:

July 2012:

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

	July 2012 Balance	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Other Unobservable Inputs Level 3
		(in thousands)		
Money Market Funds	$ 22,603	$ 22,603	$	$
Corporate Notes and Bonds	42,071		42,071	
Commercial Paper	1,989		1,989	
U.S. Agency Securities	5,705		5,705	
Total	$ 72,368	$ 22,603	$ 49,765	$
Cash equivalents	$ 22,959	$ 22,609	$ 350	$
Long-term investments	12,436	9,079	3,357	
Short-term investments	36,973	34,624	2,349	
Total	$ 72,368	$ 66,312	$ 6,056	$

	July 2012 Amortized Cost	Unrealized Loss	July 2012 Estimated FMV
Corporate Notes and Bonds	$ 42,136	$ (65)	$ 42,071
Commercial Paper	$ 1,995	$ (6)	1,989
U.S. Agency Securities	$ 5,356	$ (1)	5,355
Cash			85,077
Cash equivalents			22,959
Total Aggregate Fair Value			$ 157,451

There were no transfers of assets measured at fair value between Level 1 and Level 2 during the three months ended July 1, 2012.

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

April 2012:

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

	April 2012 Balance	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Other Unobservable Inputs Level 3
		(in thousands)		
Money Market Funds	$ 17,712	$ 17,712	$	$
U.S. Treasury	1,000	1,000		
U.S. Agency Securities	3,979		3,979	
Total	$ 22,691	$ 18,712	$ 3,979	$
Cash equivalents	$ 18,562	$ 17,712	$ 850	$
Short-term investments	4,129	1,000	3,129	
Total	$ 22,691	$ 18,712	$ 3,979	$

	April 2012 Amortized Cost	Unrealized Gain	April 2012 Estimated FMV
		(in thousands)	
U.S. Treasury	$ 1,000	$	$ 1,000
U.S. Agency Securities	3,129		3,129
Total Available for Sale Investments	$ 4,129	$	$ 4,129
Cash			135,081
Cash equivalents			18,562
Total Aggregate Fair Value			$ 157,772

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

Table of Contents

INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Balance Sheet Details

Inventories

Inventories at July 2012 and April 2012 consisted of the following:

	July 2012	April 2012
	(in thousands)	
Work in progress	$ 17,323	$ 9,021
Finished goods	2,614	3,219
Total Inventory	$ 19,937	$ 12,240

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets at July 2012 and April 2012 consisted of the following:

	July 2012	April 2012
	(in thousands)	
Prepaid expenses	$ 1,034	$ 1,040
Advance to vendors	1,127	548
Tax receivable	724	1,106
Deferred tax assets	1,420	1,418
Other current assets		