InvenSense Inc
Form 424B4
November 16, 2011
Table of Contents

Filed Pursuant to Rule 424(b)4
Registration No. 333-167843

10,000,000 Shares

Common Stock

This is an initial public offering of shares of common stock of InvenSense, Inc.

InvenSense is offering 10,000,000 shares to be sold in the offering.

Prior to this offering, there has been no public market for our common stock. Our common stock has been approved for listing on the New York Stock Exchange under the symbol INVN.

See Risk Factors on page 10 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$ 7.500	$ 75,000,000
Underwriting discount	$ 0.525	$ 5,250,000
Proceeds, before expenses, to InvenSense	$ 6.975	$ 69,750,000

To the extent the underwriters sell more than 10,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 1,500,000 shares of common stock from the selling stockholders at the initial price to public less the underwriting discount. We will not receive any of the proceeds from the sale of shares by the selling stockholders.

The underwriters expect to deliver the shares against payment in New York, New York on November 21, 2011.

Goldman, Sachs & Co. **Morgan Stanley**

Oppenheimer & Co. **Piper Jaffray**

Baird **ThinkEquity LLC**

Prospectus dated November 15, 2011.

Table of Contents

Table of Contents

TABLE OF CONTENTS

Prospectus

Through and including December 10, 2011, (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

We have not authorized anyone to provide any information or to make any representations other than those contained in this prospectus or in any free writing prospectuses we have prepared. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered hereby but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus, including our consolidated financial statements and the related notes included in this prospectus and the information set forth under the headings Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations.

InvenSense, Inc.

We are the pioneer and a global market leader in intelligent motion processing solutions. We define motion processing as the ability to detect, measure, synthesize, analyze and digitize an object s motion in three-dimensional space. Our MotionProcessing solution is comprised of our proprietary MotionProcessor and MotionApps platform. Our single-chip MotionProcessor combines micro-electro-mechanical system, or MEMS, based motion sensors, such as accelerometers and gyroscopes, with mixed-signal integrated circuits (ICs) to deliver the world s first integrated MotionProcessing solution. Our MotionProcessors incorporate proprietary algorithms and firmware that intelligently process and synthesize sensor output for use by software applications. Our MotionApps platform, which consists of application programming interfaces (APIs) and calibration algorithms, helps accelerate the development of motion-based applications using our products. Our MotionProcessing solution is differentiated by its small form factor, high level of integration, performance, reliability and cost effectiveness. While our solutions have broad applicability across consumer, industrial, military and other industry verticals, we currently target consumer electronics within a variety of end markets that we believe demand a more intuitive and immersive user experience, such as console and portable video gaming devices, smartphones, tablet devices, digital still and video cameras, smart TVs (including digital set-top boxes, televisions and multi-media hard disk drives (HDDs)), 3D mice, navigation devices, toys, and health and fitness accessories. As of October 2, 2011 (the end of our second quarter of fiscal year 2012), we had shipped over 157 million units of our products. Our net revenue was $29.0 million, $79.6 million and $96.5 million for fiscal years 2009, 2010 and 2011, respectively, and our net income was $0.2 million, $15.1 million and $9.3 million for these periods, respectively. Our net revenue was $43.0 million and $78.7 million for the three and six months ended October 2, 2011, respectively, and our net income was $11.5 million and $20.5 million for these periods, respectively.

Historically, the incorporation of motion sensors in consumer electronics was limited primarily to accelerometers that provided basic motion sensing capabilities, such as tilt-sensing and changing screen orientation from portrait to landscape mode in smartphones. Devices incorporating these early motion sensors experienced strong demand, as they provided consumers with applications that included a more intuitive user interface. As consumers have become increasingly accustomed to motion-based applications, they have created a demand for applications that require more robust, intelligent motion processing solutions. Until recently, there have been a number of challenges that inhibited the development of such solutions. These challenges include accurately detecting complex motion across multiple axes with an integrated, small scale, cost-effective, single-chip component, and synthesizing and processing motion data into meaningful information for use in applications.

We believe our MotionProcessing solution addresses these challenges by integrating industry leading die size, cost effectiveness and performance while facilitating rapid application development and faster time-to-market. Just as microprocessors provide a platform for building computing applications and graphics processors enable visually rich applications, we believe there is an opportunity to deliver advanced, intelligent motion processing solutions that enable broader development and adoption of motion-based applications.

Table of Contents

Our Technology and Solutions

We believe we are the first provider of a motion processing solution for consumer devices. Our products span increasing levels of integration, from single-axis gyroscopes to fully-integrated, intelligent dual- and three-axis, and the industry s only six-axis, MotionProcessor units (MPUs). Our technology is comprised of five core proprietary components: our Nasiri-Fabrication platform, our advanced MEMS motion sensor designs, our application-specific mixed-signal circuitry for sensor signal processing, our sensor fusion algorithms in firmware that intelligently assimilate data from multiple sensors for use by end applications, and finally our MotionApps platform consisting of APIs and calibration algorithms.

Our Nasiri-Fabrication platform combines MEMS with standard complementary metal oxide semiconductors (CMOS) at the wafer level, which has allowed us to pioneer one of the industry s first high-volume, commercial MEMS fabless business models. We perform our own wafer-level sorting, testing and calibration using our proprietary automated testing equipment at our facilities in Taiwan. We sell our products through our direct worldwide sales organization and through our indirect channel of distributors to manufacturers of consumer electronics devices, original design manufacturers and contract manufacturers.

The competitive advantages of our technology and solutions are:

Highly integrated and cost-effective solutions enabled by our patented Nasiri-Fabrication platform. The foundation of our MotionProcessing solution is our patented Nasiri-Fabrication platform, which allows us to reduce the number of MEMS manufacturing steps, perform wafer-level testing and use wafer-level packaging, thereby reducing back-end costs and improving overall yield. By combining this unique process capability with our expertise in MEMS motion sensor designs, mixed-signal IC integration technologies, algorithms and firmware, we are able to produce MotionProcessing solutions with industry-leading integration and cost effectiveness.

Ability to rapidly accelerate time-to-market by leveraging our MotionApps platform. Our MotionApps platform provides APIs and calibration algorithms that simplify access to complex functionality commonly needed by our customers and application developers who intend to leverage our MotionProcessing solutions. We believe our MotionApps platform can significantly accelerate the time-to-market for software applications and consumer devices by eliminating the need to develop separate software libraries. In addition, our MotionApps platform enables device manufacturers with limited motion processing experience to rapidly incorporate higher level motion-enabled applications into their products.

Scalable MotionProcessing solution with opportunities for continuing integration. Our Nasiri-Fabrication platform enables the integration of multiple motion sensors, such as gyroscopes and accelerometers, on a single chip with processing capability. This enables the offloading of computation intensive motion processing from the main application processor to our chip. As a result, our solution delivers enhanced performance and reliability with a smaller form factor and at a lower cost, and saves customers the time and expense involved in selecting and integrating multiple sensors and processors from multiple suppliers. Over time, we believe we will be able to integrate more advanced features and functionalities into our solution.

Flexible manufacturing, performance and reliability. 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

Table of Contents

manufacturing process and product yields, resulting in lower cost and improved device performance and reliability. Our Nasiri-Fabrication platform provides low cost, integrated, hermetically sealed cavities at the die level to house the MEMS sensor, enabling greater reliability under harsh environmental conditions. The use of single crystal silicon in our MEMS fabrication process reduces sensitivity to interference from noise and vibrations, enabling higher performance and accuracy. As a result, our solutions enable a motion-based user interface that has greater tolerance to environmental factors.

Our Strategy

Our objective is to enable broad adoption of our MotionProcessing solutions. To accomplish our objective, we are pursuing the following key strategies:

Continue to leverage our Nasiri-Fabrication platform to drive performance, integration and cost advantages. We will continue to leverage our fabless model while also continually enhancing our fabrication process to maintain our leadership in size, sensor and system integration, performance and cost. Over the long term, we intend to pursue complementary MEMS markets to expand our product portfolio.

Advance our MotionProcessing platform technology leadership. We will continue to invest in advanced manufacturing processes, sensor design, firmware and system-level technology, device integration, platform solutions and market development activities to maintain our technological leadership in motion processing.

Drive broader and faster adoption of our MotionProcessing solutions in the consumer electronics market. In order to support and expand our customer base and promote the broad adoption of motion processing, we intend to continue to develop easy-to-integrate, complete solutions, grow our direct sales and field application engineering teams, and work closely with customers to facilitate the development of new use cases.

Expand and strengthen the third-party application developer community. We intend to continue to work closely with third-party software and application developers to create new, compelling use cases for motion processing, as well as to accelerate the development of compelling motion-based applications that leverage the unique capabilities of our solution.

Identify new and emerging markets for our MotionProcessing solutions. We intend to leverage the growing interest in motion processing into markets such as power tools, sports equipment, wearable computing and industrial applications.

Table of Contents

Risk Factors

Our business is subject to numerous risks, which are described in the section entitled Risk Factors immediately following this prospectus summary on page 10. In particular, the following considerations, among others, may offset our competitive strengths or have a negative effect on our growth strategy, which could cause a decline in the price of our common stock and result in a loss of all or a portion of your investment:

- We are dependent upon the continued market acceptance and adoption of motion processing, and, in particular, the adoption of our MotionProcessing solutions in consumer electronics products.

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

- Nintendo Co. Limited was our largest customer in fiscal years 2009, 2010 and 2011, comprising 80%, 85% and 73% of our net revenue, respectively. According to third-party reports, sales of the Nintendo Wii, which continue to account for a significant portion of our sales, have declined in each of Nintendo s last three fiscal years and are expected to continue to decline. The loss of, or a substantial reduction in, orders from Nintendo would materially reduce our net revenue and adversely impact our operating results.

- If we fail to expand sales in our current markets and penetrate new markets, particularly the market for smartphones and tablet devices, our net revenue and potential net revenue growth rate could be materially and adversely affected.

Corporate Information

We were incorporated in the State of California in June 2003 and reincorporated in the State of Delaware in October 2004. Our principal executive offices are located at 1197 Borregas Avenue, Sunnyvale, CA 94089. Our telephone number is (408) 988-7339. Our website is www.invensense.com. The reference to our website is an inactive textual reference only and the information contained on our website is not a part of this prospectus.

InvenSense™, MotionProcessing™, MotionProcessor™, DigitalMotion™, DMP™, MotionFusion™, MotionApps™, AirLock™, AirSign™, MotionCommand™, BlurFree™ and LoPed™ are our trademarks. Trade names, trademarks and service marks of other companies appearing in this prospectus are the property of the respective holders.

Table of Contents

The Offering

Common stock offered by us	10,000,000 shares
Common stock to be outstanding after this offering	79,322,687 shares
Underwriters option to purchase additional shares	Certain selling stockholders may sell up to 1,500,000 additional shares if the underwriters exercise their option to purchase additional shares.
Use of proceeds	We intend to use the net proceeds from this offering primarily for general corporate purposes, including working capital and capital expenditures. See the section titled Use of Proceeds. If the underwriters option to purchase additional shares is exercised, we will not receive any proceeds from the sale of such shares. See the section titled Principal and Selling Stockholders.
Risk factors	See the section titled Risk Factors and the other information included in this prospectus for a discussion of the factors you should consider carefully before deciding to invest in our common stock.
NYSE symbol	INVN

The number of shares of our common stock to be outstanding after this offering is based on 69,322,687 shares outstanding as of October 2, 2011, on an as converted basis, and excludes:

9,041,998 shares of common stock issuable upon the exercise of options outstanding as of October 2, 2011 with exercise prices ranging from $0.04 to $7.32 and a weighted average exercise price of $2.93 per share;

1,409,500 shares of common stock issuable upon the exercise of outstanding options granted subsequent to October 2, 2011 at an exercise price of $7.32 per share;

60,000 shares of Series A convertible preferred stock issuable upon the exercise of a warrant outstanding as of October 2, 2011 with an exercise price of $1.00 per share. Unless earlier exercised, upon the completion of this offering, this warrant will, in accordance with its terms, be converted into a warrant to purchase 150,000 shares of common stock with an exercise price of $0.40 per share;

377,121 shares of Series B convertible preferred stock issuable upon the exercise of warrants outstanding as of October 2, 2011 with a weighted average exercise price of $1.70 per share. Unless earlier exercised, upon the completion of this offering, these warrants will, in accordance with their terms, be converted into warrants to purchase 942,801 shares of common stock with a weighted average exercise price of $0.68 per share; and

10,703,759 shares of common stock available for future grant under our 2004 Stock Incentive Plan and our 2011 Stock Incentive Plan and additional shares of common stock that will be available for future grant under the automatic increase provisions of our 2011 Stock Incentive Plan.

Table of Contents

Except as otherwise indicated, all information in this prospectus assumes:

- the automatic conversion of all outstanding shares of our convertible preferred stock into an aggregate of 50,982,937 shares of common stock immediately prior to the completion of this offering;
- the filing of our amended and restated certificate of incorporation immediately prior to the completion of this offering;
- no exercise of options or warrants subsequent to October 2, 2011; and
- no exercise of the underwriters option to purchase additional shares of our common stock from the selling stockholders.

Table of Contents

Summary Consolidated Financial Data

The following tables summarize the consolidated financial data for our business. You should read this summary financial data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes, all included elsewhere in this prospectus.

We derived the summary consolidated financial data as of April 3, 2011, and for the fiscal years ended March 29, 2009, March 28, 2010 and April 3, 2011, from our audited consolidated financial statements included elsewhere in this prospectus. We derived the summary consolidated financial data as of October 2, 2011, and for the three and six months ended September 26, 2010 and October 2, 2011, from our unaudited interim consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results that may be expected in the future.

The pro forma net income per common share data is computed using the weighted average number of shares of common stock outstanding, after giving effect to the conversion (using the if-converted method) of all shares of our convertible preferred stock into common stock as though the conversion had occurred on the original date of issuance.

We end our fiscal quarters and years on Sundays, rather than using calendar periods. Our fiscal year is either a 52- or 53-week period ending on the Sunday closest to March 31. Our three most recent fiscal years ended on March 29, 2009 (fiscal year 2009), March 28, 2010 (fiscal year 2010) and April 3, 2011 (fiscal year 2011). Fiscal year 2011 was comprised of 53 weeks, while fiscal years 2010 and 2009 were comprised of 52 weeks. The second fiscal quarter in each of our two most recent fiscal years ended on September 26, 2010 (three months ended September 26, 2010) and October 2, 2011 (three months ended October 2, 2011).

Table of Contents

Consolidated Statement of Operations Data:

	Fiscal Year			Three Months Ended		Six Months Ended	
	2009	2010	2011	Sept. 26, 2010	October 2, 2011	Sept. 26, 2010	October 2, 2011
	(in thousands, except per share data)						
Net revenue	$ 29,025	$ 79,556	$ 96,547	$ 23,524	$ 43,034	$ 45,525	$ 78,661
Cost of revenue(1)	15,548	36,073	43,647	11,317	19,372	21,187	34,381
Gross profit	13,477	43,483	52,900	12,207	23,662	24,338	44,280
Operating expenses:							
Research and development(1)	8,545	13,085	15,826	3,309	4,965	7,588	9,341
Selling, general and administrative(1)	4,632	8,427	15,596	3,357	3,898	6,615	8,409
Total operating expenses	13,177	21,512	31,422	6,666	8,863	14,203	17,750
Income from operations	300	21,971	21,478	5,541	14,799	10,135	26,530
Other income (expense):							
Change in fair value of warrant liabilities(2)		(6,363)	(4,025)			(4,025)	
Other income (expense), net	(66)	(67)	31	17	28	15	209
Other income (expense) net	(66)	(6,430)	(3,994)	17	28	(4,010)	209
Income before income taxes	234	15,541	17,484	5,558	14,827	6,125	26,739
Income tax provision	38	399	8,137	2,357	3,372	4,043	6,260
Net income(3)	196	15,142	9,347	3,201	11,455	2,082	20,479
Net income allocable to preferred stockholders(3)	196	12,150	7,716	2,569	8,626	1,939	15,462
Net income attributable to common stockholders(3)	$	$ 2,992	$ 1,631	$ 632	$ 2,829	$ 143	$ 5,017
Net income per common share:							
Basic	$	$ 0.18	$ 0.09	$ 0.04	$ 0.15	$ 0.01	$ 0.28
Diluted	$	$ 0.17	$ 0.08	$ 0.03	$ 0.14	$ 0.01	$ 0.25
Weighted average shares outstanding in computing net income per share attributable to common stockholders:							
Basic	15,430	16,542	17,592	17,627	18,296	17,454	18,210
Diluted	17,519	20,867	22,202	21,923	22,865	22,076	22,706
Pro forma net income per common share (unaudited):							
Basic			$ 0.14		$ 0.17		$ 0.30
Diluted			$ 0.13		$ 0.15		$ 0.28

Weighted average shares outstanding pro forma (unaudited):			
Basic	67,903	69,091	68,763
Diluted	74,079	74,654	74,406

Table of Contents

(1) Includes stock-based compensation expense attributable to employees and non-employees as follows:

	Fiscal Year			Three Months Ended		Six Months Ended	
	2009	2010	2011	Sept. 26, 2010	October 2, 2011	Sept. 26, 2010	October 2, 2011
				(in thousands)			
Cost of revenue	$ 68	$ 233	$ 261	$ 66	$ 85	$ 132	$ 159
Research and development	184	536	946	233	302	451	646
Selling, general and administrative	258	537	983	247	431	497	801
Total stock-based compensation expense	$ 510	$ 1,306	$ 2,190	$ 546	$ 818	$ 1,080	$ 1,606

(2) Refers to the change in fair value of our warrants as required by ASC 815-40-15. Please see Note 6 to our consolidated financial statements for an additional explanation of the change in fair value of warrant liabilities.

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

The pro forma consolidated balance sheet data as of October 2, 2011 in the table below gives effect to the conversion of all outstanding shares of our convertible preferred stock into shares of our common stock as if the conversion had occurred at October 2, 2011. The pro forma as adjusted consolidated balance sheet data as of October 2, 2011 also gives effect to our receipt of the estimated net proceeds from this offering, based on an initial public offering price of $7.50 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

Consolidated Balance Sheet Data:

	As of October 2, 2011		
	Actual	Pro Forma	Pro Forma As Adjusted
		(in thousands) (unaudited)	
Cash and cash equivalents	$ 48,208	$ 48,208	$ 116,698
Short-term investments	9,532	9,532	9,532
Working capital(1)	74,906	74,906	144,123
Total assets	102,312	102,312	169,397
Total debt, including current portion	25	25	25
Convertible preferred stock	50,740		
Common stock	8,070	58,810	126,622
Total stockholders equity	82,431	82,431	150,243

(1) Working capital is defined as total current assets minus total current liabilities.

Table of Contents

RISK FACTORS

Investing in our common stock involves a high degree of risk. Before making an investment in our common stock, you should carefully consider the following risk factors, in addition to the other information included in this prospectus. If any of the following risks occur, our business, financial condition or results of operations would likely suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of the money you paid to buy our common stock.

Risks Related to Our Business

We are dependent upon the continued market acceptance and adoption of motion processing and, in particular, the adoption of our MotionProcessing solutions in consumer electronics products.

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

Market adoption and acceptance of motion processing technology, including our MotionProcessing platform, 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 processing will result in improved sales and market acceptance of their products. In addition, device manufacturers may not be able to integrate motion sensing 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 processing 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 processing technology into their products. At least one company has been successful in entering into a license agreement with a major video gaming manufacturer after commencing patent infringement litigation over these claims, and others have commenced patent infringement litigation as well as administrative proceedings before the United States International Trade Commission that attempt to prohibit the importation into the United States of the Nintendo Wii. Concern over potential patent infringement claims and related litigation may discourage consumer electronics manufacturers from incorporating motion processing functionality into their products. We have little control over market adoption and acceptance of our motion sensing products and motion processing technology, and, to the extent the market does not embrace the added functionality and performance that our products can provide to various consumer electronics products, our net revenue and operating results may be adversely affected.

We are particularly dependent upon the continued adoption of motion processing solutions, including our MotionProcessing solution, in mobile handheld devices, including smartphones and tablet devices. While smartphone manufacturers have begun to incorporate advanced motion sensing functionality, including three-axis gyroscopes, into their devices, if applications that utilize this functionality are not developed or if consumers do not find the applications provided by motion

Table of Contents

processing 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 in which we are designed into may negatively impact our net revenue.

The adoption of motion processing solutions, and, in particular, our MotionProcessing solution, in mobile handheld devices and other consumer electronics products, is dependent to a substantial degree upon the development of software applications written by third-party developers that utilize motion processing technology to provide a compelling user experience and consumer demand for such applications. If consumers or device manufacturers do not find the enhanced performance of devices employing motion processing technology to be compelling or sufficient to justify the additional cost of including the technology in their products, our net revenue and operating results may be adversely affected.

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

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

We face competition primarily from integrated semiconductor manufacturers, such as Analog Devices, Inc., Epson Toyocom Corporation, Freescale Semiconductor, Inc., Kionix, Inc. (a wholly owned subsidiary of Rohm Co., Ltd.), MEMSIC, Inc., Murata Manufacturing Co., Ltd., Panasonic Corporation, Robert Bosch GmbH, Sensor Dynamics, Inc. (recently acquired by Maxim Integrated Products, Inc.), Sony Corporation, STMicroelectronics N.V. and VTI Technologies, Inc. (recently acquired by Murata), from in-house development organizations within some of our potential customers and from smaller companies specializing in MEMS and motion-sensing products, including those that provide motion-sensing products offering less functionality at a lower cost, such as accelerometers. Our primary competitor in most of our target markets is STMicroelectronics. We also compete with large, sophisticated platform developers that may prefer to integrate less sophisticated motion sensors and to develop their own motion processing application interfaces for developers, marginalizing the total solution we offer. Additionally, competitors that have traditionally focused on industrial or automotive applications for MEMS motion sensors may pursue the consumer electronics market, thus intensifying competition for our products. We expect competition in the markets in which we participate to increase in the future as existing competitors improve or expand their product offerings.

Most of our current competitors have longer operating histories, significantly greater resources, greater brand recognition and a larger base of customers than we do. Some of our competitors also have in-house vertically integrated manufacturing capabilities. In addition, these competitors may have greater credibility with our existing or prospective customers and in some cases are already providing components for products to such existing and prospective customers that may in the future include motion processing solutions. 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

Table of Contents

to customers through rebates and similar programs. Finally, some of our competitors with multiple product lines may bundle their products to offer customers a broader product portfolio at a more competitive price point. These factors may make it difficult for us to gain or maintain market share.

To date, the significant majority of our net revenue has been attributable to demand for our products in the video gaming market. This market may decline or remain flat. Even if the market grows, such growth may not benefit the video game consoles 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 the video gaming market. Currently, there are three major providers of video gaming consoles, and our products have only been incorporated by one of these console providers. While the other two video gaming companies have introduced video gaming accessories or consoles that incorporate motion-based video gaming functionality, our MotionProcessing solutions have not been incorporated into these new products. Future generations of video gaming consoles and video gaming accessories may not adopt motion processing 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 video gaming accessories or consoles, if video gaming consoles or accessories that incorporate our products are not successful, or if video games that utilize the functionality provided by our MotionProcessing products are not successful, our net revenue and operating results will decline. Further, while the overall video gaming market has performed well over the past several years, even if we achieve design wins, the video gaming market or the market 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 video gaming companies, market saturation, the lack of compelling video game titles or the emergence of alternative forms of entertainment. Additionally, the video gaming market is subject to volatility from changes in the macroeconomic environment as well as industry specific trends, such as trends resulting from announcements by one of the major video gaming companies or from the console cycle of video gaming consoles. Any decline or volatility in the overall video gaming industry could cause our net revenue and operating results to fall short of expectations or decline.

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

Nintendo Co. Limited accounted for approximately 73% of our net revenue in fiscal year 2011. We expect that sales to Nintendo will continue to account for a substantial portion of our net revenue for the foreseeable future. The loss of, or a substantial reduction in orders from, Nintendo would have a significant negative impact on our business. While we work closely with Nintendo to develop forecasts for periods of up to one year, these forecasts are not legally binding and may be unreliable, and we do not typically obtain firm purchase orders or commitments from Nintendo that extend beyond a short period. Nintendo, like other customers, might increase, cancel, reduce or reschedule forecasts and orders with us on relatively short notice, which could expose us to the risks of insufficient capacity or excess inventory and could have a material adverse impact on our operating results. For example, Nintendo reduced its orders for our products below levels we had anticipated during fiscal years 2011 and 2010, which negatively impacted our net revenue.

To date, a substantial majority of the products we have sold to Nintendo have been incorporated into the Wii MotionPlus accessory and Wii Remote Plus controller used with the Nintendo Wii video gaming console. Because a large portion of our net revenue is tied to Nintendo gaming products, we expect to remain dependent on the continued success of products and related video games utilizing motion processing for the foreseeable future.

Table of Contents

Reported sales of the Wii declined from 20.5 million units for the twelve months ended March 31, 2010 to 15 million units for the 12 months ended March 31, 2011. Forecasted sales of the Wii are reported to be approximately 13 million units for the 12 months ending March 31, 2012. The Wii is in the fifth year of its console cycle, which refers to the life cycle of video game consoles, which we believe is typically about five years. Nintendo has announced its intention to introduce a successor to the Wii. If sales of the Wii console decline, our sales based on Wii MotionPlus accessories and Wii Remote Plus controllers included with new console sales will also decline.

We do not know whether Nintendo will incorporate our products into their future video gaming consoles or related accessories. Further, Nintendo may choose to develop a second source for motion processing components in order to reduce its exposure to the risks associated with a single source of supply. In addition, Nintendo may in the future choose to adopt a solution that is different from ours or use motion processing components or motion processing solutions supplied by competitors or developed internally. Any of these developments would significantly harm our business.

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

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

We anticipate that there may be a significant near-term opportunity for our products in the market for handheld devices, such as smartphones, tablet devices and portable video gaming devices. 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, and it is this portion of the market that presents the most attractive opportunity for our MotionProcessing solutions. All of these potential 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 will require a substantial investment of our time and resources. Some of these companies produce products that already include motion sensors, and they may decide not to adopt our MotionProcessing solutions. Additionally, the smartphone market is subject to a unique set of industry dynamics, such as shorter design cycles and multiple devices and manufacturers. The market is highly competitive, and if we are unable to successfully navigate the unique dynamics of the smartphone market, or 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.

In addition, we are targeting the market for digital television and set-top box remote controls that we believe will benefit from motion processing functionality for enhanced user interfaces. Currently, applications for motion processing in this market are limited due to the limited marginal adoption of next generation digital televisions and set-top boxes that utilize a motion-based interface. While we believe this market represents a large growth opportunity, it is still in the early stages of development. If this market fails to develop as we anticipate, or if we are unable to manage our business in a way that allows us to capture this growth opportunity, our net revenue and operating results may be adversely affected.

Even if we are successful in securing design wins with handheld device manufacturers, many of them produce a large number of products and models, and our products may be incorporated into only a few of them. If we fail to penetrate this market or other new markets upon which we target our resources, or we are successful in penetrating only relatively low volume product lines, our net revenue and potential net revenue growth rate will be adversely affected and our financial condition could suffer.

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.

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 can require us to invest significant time and effort. Our products may not be selected during a customer s design process, and we may not generate net revenue despite incurring expenses and devoting significant resources to achieving a design win. Because the life cycles for our customers products can last several years and changing suppliers involves significant cost, time, effort and risk, our failure to be selected in a competitive design process can result in our foregoing net revenue from a given customer s product line for the life of that product.

Although we have a number of customers that have purchased our products in production volumes, such customers are significantly smaller than our largest customer. 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. 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.

The average selling prices of our products could decrease, which could have a material adverse effect on our net revenue and gross margins.

From time to time, we have reduced the average unit price of our products in anticipation of competitive pricing pressures, new product introductions by us or our competitors, product end-of-life programs and for other reasons. We expect that we will have to do so again in the future. We may experience substantial period-to-period fluctuations in future operating results due to the erosion of the average selling prices of our products. The consumer electronics markets that we are targeting are characterized by substantial price competition, which in turn creates pressure to reduce the prices of the components used in consumer electronics devices. In addition, we may be unable to negotiate favorable manufacturing prices with our foundries because of our relatively low volume of production. If we are unable to offset any reductions in our average selling prices by increasing our sales volumes or introducing new products with higher operating margins, our net revenue and gross margins will suffer. Additionally, because we do not operate our own MEMS fabrication facilities unlike many of our competitors, we may not be able to reduce our costs as rapidly as they do or our costs may potentially increase as a result of outsourcing these activities, which could also reduce our gross margins.

Table of Contents

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

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

- reduced control over delivery schedules, yields and product reliability;
- price increases;
- the failure of a key supplier to perform its obligations to us for technical, market or other reasons;
- challenges presented by introducing our fabrication processes to new suppliers or deploying them in new foundries;
- difficulties in establishing additional manufacturing suppliers if we are presented with the need to transfer our manufacturing process technologies to them;
- shortages of materials;
- misappropriation of our intellectual property; and
- limited warranties on wafers or products supplied to us.

The performance of our third-party manufacturers is outside of our control. At present, we depend upon Taiwan Semiconductor Manufacturing Company (TSMC) to manufacture most of our products. Although we are not obligated to purchase a specific volume of products from, or to contract with, TSMC on an exclusive basis, we anticipate that we will be dependent on TSMC to supply most of our commercial volume shipments of products during the remainder of this fiscal year and a substantial portion of our products in the following fiscal year. We expect that it would take approximately nine to 16 months to transition our manufacturing to new third-party manufacturers that have not already begun installing our manufacturing processes. Such a transition would likely require certain customers to qualify our new manufacturers. If one or more of our third-party contractors or other outsourcers fail to perform their obligations in a timely manner or at satisfactory quality levels, our ability to bring products to market, the reliability of our products and our reputation could suffer. For example, in 2007, one of our former third-party manufacturers failed to supply us with the number of wafer components that it had accepted as a firm commitment order, which adversely impacted our ability to meet our commitments to ship products to our customers. 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 foundry MEMS and CMOS wafer fabrication, assembly and packaging services. We make substantially all of our purchases through purchase orders based on our own rolling forecasts, and our third-party manufacturers are not required to supply us products beyond these forecasted quantities. Beyond minimal capacity guarantees, most of our third-party manufacturers do not have any obligations to provide us with additional capacity on a timely basis. We generally place orders for products with some of our suppliers approximately three to four months prior to the

Table of Contents

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

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

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

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 and motion processing functionality into our products. For instance, we are expanding our product line from three-axis gyroscopes to a six-axis device that includes both a three-axis gyroscope and three-axis accelerometer, and we intend to continue to introduce products integrating additional sensors and motion processing functionality. 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 six-axis device, which has not yet commenced production in commercial quantities. If we fail to introduce new or enhanced products with potentially greater integration that meet the needs of our customers or penetrate new markets in a timely fashion, we will lose market share and our operating results will be adversely affected.

Table of Contents

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

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

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

- any of our present or future patents or patent claims will not lapse or be invalidated, circumvented, challenged or abandoned;
- our intellectual property rights will provide competitive advantages to us;
- our ability to assert our intellectual property rights against potential competitors or to settle current or future disputes will not be limited by our agreements with third parties;
- any of our pending or future patent applications will be issued or have the coverage originally sought;
- our intellectual property rights will be enforced in jurisdictions where legal protection may be weak;
- third parties will not infringe our key intellectual property, and specifically, the Nasiri-Fabrication platform;

Table of Contents

- any of the trademarks, copyrights, trade secrets or other intellectual property rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged or abandoned; or

- we will not lose the ability to assert our intellectual property rights against others.

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

Monitoring unauthorized use of our intellectual property is difficult and costly. Unauthorized use of our intellectual property may have occurred or may occur in the future. Although we have taken steps to try to minimize the risk of this occurring, any such failure to identify unauthorized use and otherwise adequately protect our intellectual property would adversely affect our business. Moreover, if we are required to commence litigation, whether as a plaintiff or defendant, not only would this be time-consuming, but we would also be forced to incur significant costs and divert our attention and efforts of our employees, which could, in turn, result in product development delays, lower net revenue and higher expenses and potentially invite counter claims and other legal challenges.

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

We may face claims of intellectual property infringement, 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. For example, a third party has asserted that our Z-axis gyroscope infringes a patent held by it, and two of our competitors have made generalized assertions that our products may infringe patents held by them and have requested that we meet with them to discuss the matter. In the future other third parties may assert against us and our customers and distributors their patent and other intellectual property rights to technologies that are important to our business.

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

- cease the manufacture, use or sale of the infringing products, processes or technology;

- pay substantial damages for infringement;

- expend significant resources to develop non-infringing products, processes or technology;

Table of Contents

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

Substantially all of recent product shipments have been motion sensing devices incorporating two- and three-axis gyroscopes. We intend to introduce more highly integrated products in the future that include greater motion sensing functionality and further enhancements to on-board motion processing capabilities. We may not be successful in achieving market acceptance of our more highly integrated products on the financial or other terms that we expect to obtain. Any inability to do so could result in the loss of net revenue and earnings and potential inventory write-downs or obsolescence.

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. We generated approximately 73% of our net revenue for fiscal year 2011 from a single customer. As a result, we have only a limited operating history from which to predict future net revenue from multiple customers. 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 and other factors beyond our control, reduces our ability to accurately forecast quarterly or annual net revenue. We are currently expanding our staffing, implementing new internal systems, and increasing our expense levels in anticipation of future growth. If our net revenue does not increase as we expect relative to the growth of our operating expenses, our operating margins could be negatively affected or we could incur significant losses.

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

Our net revenue is generated on the basis of purchase orders with our customers rather than long-term purchase commitments. In addition, our customers can cancel purchase orders or defer the shipments of our products under certain circumstances. For example, in September 2009, our major customer requested that we delay shipment of products that we had expected to ship pursuant to firm purchase orders to that customer during the third quarter of fiscal year 2010. Our products are manufactured by third-party manufacturers according to our estimates of customer demand, which requires us to make separate demand forecast assumptions for every customer, each of which may introduce significant variability into our aggregate estimates. We have limited visibility into future customer demand and the product mix that our customers will require, which could adversely affect our net revenue forecasts and operating margins. Moreover, because products with motion processing 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 MotionProcessing solutions. Historically, because of this limited visibility, at times our actual results have been different from our forecasts of customer demand. Some of these differences have been material, leading to net revenue and margin forecasts different from the results we were actually able to achieve. For example, our major customer reduced its orders for our products below levels we had anticipated during fiscal year 2011. These differences may occur in the future. Conversely, if we were to underestimate customer demand or if sufficient manufacturing capacity were unavailable, we could be unable to take advantage of net revenue opportunities, potentially lose market share and damage our customer relationships and market reputation. In addition, any significant future cancellations or deferrals of product orders could materially and adversely impact our profit margins, increase our inventory write-downs due to product obsolescence and restrict our ability to fund our operations.

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

We have experienced significant growth in a short period of time. Our net revenue increased from $29.0 million in fiscal year 2009 to $79.6 million in fiscal year 2010 and $96.5 million in fiscal year 2011 and from $23.5 million and $45.5 million for the three and six months ended September 26, 2010, respectively, to $43.0 million and $78.7 million for the three and six months ended October 2, 2011, respectively. We may not achieve similar growth rates in future periods. You should not rely on our operating results for any prior quarterly or annual period as an indication of our future operating performance. If we are unable to maintain adequate net revenue growth, our financial results could suffer and our stock price could decline.

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

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

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

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

Our ability to effectively accomplish these activities may be adversely impacted by the fact that our current Chief Financial Officer recently joined us in May 2011. Changes to the leadership or other senior members of our finance organization could result in delays in making improvements to our financial and control systems. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities or develop new products, and we may fail to satisfy customer requirements, maintain product quality, execute our business plan or respond to competitive pressures.

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 will be subject to the rules adopted by the Securities and Exchange Commission, or SEC, pursuant to Section 404 of the Sarbanes-Oxley Act, or Section 404, which requires us to include, beginning with our Annual Report on Form 10-K for our

Table of Contents

fiscal year ending March 31, 2013, our management s report on and assessment of the effectiveness of our internal controls over financial reporting. Beginning with our fiscal year ending March 31, 2013, our independent auditors will be required to attest to and report on the effectiveness of our internal controls over financial reporting. Both we and our independent auditors will be testing our internal controls in connection with the Section 404 requirements and could, as part of that documentation and testing, identify areas for further attention or improvement. In the past, we have experienced material weaknesses in our internal control over financial reporting. While we have remediated these material weaknesses, there are no assurances that similar or new weaknesses will not occur.

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 financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. In addition, investors perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements may adversely affect our stock price.

As part of our ongoing efforts to improve our financial accounting organization and processes, we have hired several senior accounting personnel in the United States. However, our Chief Financial Officer has only been with us since May 2011, and we have only recently hired additional senior personnel with SEC reporting experience. Accordingly, we may be unable to effectively manage our public company reporting obligations following this offering, which could adversely impact our business and results of operations.

Our primary customer, 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 Canada, Japan, Singapore, Taiwan and Thailand. Our largest customer is based in 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 and Thailand are subject to risks associated with uncertain political, economic and other conditions in Asia, such as political turmoil in the region and the outbreak of contagious diseases, such as the H1N1 virus. In particular, the recent earthquake and tsunami in Japan has created uncertainties concerning whether overall consumer demand for products that incorporate our devices will be reduced. Although these risks have not materially adversely affected our business, financial condition or results of operations to date, we cannot assure you that such risks will not do so in the future. We also cannot assure you 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

Table of Contents

terms, if at all. Any catastrophic loss to any of our facilities would likely disrupt our operations, delay production, shipments and net revenue and result in significant expenses to repair or replace the facility. In particular, any catastrophic loss at the Sunnyvale, California or Taiwan facilities would materially and adversely affect our business.

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

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

- changes in end-user demand for the products manufactured and sold by our customers;
- the receipt, reduction, cancellation or delay of significant orders by customers;
- the gain or loss of significant customers;
- market acceptance of our products and our customers products;
- our ability to develop, introduce and market new products and technologies on a timely basis;
- the timing and extent of product development costs;
- 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 and technological obsolescence;
- changes in our product mix or customer mix;

- intellectual property disputes;
- loss of key personnel or the shortage of available skilled workers; and
- the effects of competitive pricing pressures, including decreases in average selling prices of our products.

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

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

Our product development efforts require us to incur substantial research and development expense. Our research and development expense was \$15.8 million for fiscal year 2011 and \$5.0 million and \$9.3 million for the three and six months ended October 2, 2011, respectively, 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 occasionally have experienced delays in completing the development and introduction of new products and product enhancements, and we

Table of Contents

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.

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.

Our highly complex motion sensing and processing products may contain defects and bugs when they are first introduced or as new versions are released. We have in the past experienced, and may in the future experience, defects and bugs. There may be additional defects and bugs contained in our products that, due to our limited operating history, may not have manifested. If any of our products contains defects or bugs, or has reliability, quality or other problems, we may not be able to successfully correct such problems. Consequently, our reputation may be damaged and customers may be reluctant to buy our products, which could materially and adversely affect our ability to retain existing customers and attract new customers. In addition, these defects or bugs could interrupt or delay sales to our customers. If any of these problems are 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.

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 during the first year after such products are delivered, and we remain responsible and reliable for any latent defects caused by reasons attributable to us even after such one-year 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 98% of our net revenue in fiscal year 2011. In addition, approximately 42% of our employees are located in Asia, and substantially all of our

Table of Contents

products are manufactured, assembled or tested in Asia. Multiple factors relating to our international operations and to the particular countries in which we operate could have a material adverse effect on our business, financial condition and results of operations. These factors include:

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

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

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

The semiconductor and consumer electronics industries are highly cyclical and are characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. These industries experienced a significant downturn as part of the broader global recession in 2008 and 2009. Industry downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. The 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

Table of Contents

all of our motion processing 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 $27.2 million for the third quarter of fiscal 2011, declined to $23.9 million for the fourth quarter of fiscal 2011 and increased to $43.0 million for the second quarter of fiscal 2012, respectively. 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.

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.

If we do not achieve increased tax benefits as a result of our recently implemented corporate restructuring, 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. We anticipate achieving a reduction in our overall effective tax rate in future periods as well. 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.

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

Our sales contracts are primarily denominated in U.S. dollars and therefore substantially all of our net revenue is not subject to foreign currency risk. However, a strengthening of the U.S. dollar could increase the real cost of our products to our customers outside of the United States, which could adversely affect our financial condition and results of operations. Some of our operating expenses are incurred outside the United States, are denominated in foreign currency and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the New Taiwan Dollar. We

Table of Contents

do not currently hedge currency exposures relating to operating expenses incurred outside of the United States, but we may do so in the future. If we do not hedge against these risks, or our attempts to hedge against these risks are not successful, our financial condition and results of operations could be adversely affected.

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.

Risks Related to This Offering and Ownership of Our Common Stock

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

We anticipate that immediately following the completion of this offering, based on share ownership as of October 2, 2011, our executive officers and directors and their affiliates will beneficially own or control, directly or indirectly, an aggregate of 49,621,888 shares, or 60.6%, of our common stock (including 2,557,378 shares of common stock subject to outstanding options (including options granted subsequent to October 2, 2011) and warrants, in each case exercisable within 60 days of October 2, 2011). In particular, immediately following this offering, our President, Chief Executive Officer and Chairman, Mr. Nasiri, will beneficially own or control, directly or indirectly, an aggregate of 11,237,227 shares, or 13.9%, of our outstanding common stock (including 1,514,462 shares of common stock subject to outstanding options and warrants, exercisable within 60 days of October 2, 2011). Mr. Nasiri therefore will have significant influence over our management and affairs and over all matters requiring stockholder approval, including any change-of-control transaction, such as a merger or other sale of our company or all or substantially all of our assets, for the foreseeable future.

This concentrated control will limit your ability to influence some corporate matters and could result in some corporate actions that our other stockholders do not view as beneficial, such as failure to approve change of control transactions that could offer holders of our common stock a premium over the market value of our company. As a result, the market price of our common stock could be adversely affected.

Our stock price may be volatile, and you may not be able to resell shares of our common stock at or above the price you paid.

Prior to this offering, our common stock has not been traded in a public market. We cannot predict the extent to which a trading market will develop or how liquid that market might become. The

Table of Contents

initial public offering price may not be indicative of prices that will prevail in the trading market. The trading price of our common stock following this offering is therefore likely 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. These factors include:

- quarterly variations in our results of operations, those of our competitors or those of Nintendo, our largest customer;
- announcements by us or our competitors of acquisitions, design wins, new solutions, significant contracts, commercial relationships or capital commitments;
- general economic conditions and slow or negative growth of related markets;
- our ability to develop and market new and enhanced solutions on a timely basis;
- disruption to our operations;
- the emergence of new sales channels in which we are unable to compete effectively;
- any major change in our board of directors or management;
- changes in financial estimates including our ability to meet our future net revenue and operating profit or loss projections;
- changes in governmental regulations or in the status of our regulatory approvals;
- commencement of, or our involvement in, litigation; and
- changes in earnings estimates or recommendations by securities analysts.

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

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

Additional sales of our common stock in the public market after this offering, or the perception that these sales could occur, could cause the market price of our common stock to decline. Assuming no exercise of options or warrants prior to completion of this offering, upon completion of this offering, we will have 79,322,687 shares of common stock outstanding. Of the outstanding shares after completion of this offering, all of the 10,000,000 shares sold in this offering will be freely tradable immediately without further registration under the Securities Act of 1933, as amended, or the Securities Act, except that any shares held by our affiliates (as that term is defined under Rule 144 of the Securities Act) may be sold only in compliance with the limitations described in Rule 144. Subject to Rule 144 and the lock-up and market stand-off agreements described under the heading Shares Eligible for Future Sale Lock-Up and Market Stand-Off Agreements, the remaining outstanding shares after completion of the offering will be available for sale in the public market as follows:

- no shares of common stock will be eligible for immediate sale on the date of this prospectus; and

Table of Contents

69,322,687 shares of our common stock will be eligible for sale upon the expiration of the lock-up and market stand-off agreements, 180 days after the date of this prospectus, provided that shares held by our affiliates will remain subject to volume, manner of sale, and other resale limitations set forth in Rule 144.

The underwriters may, however, release all or a portion of the shares subject to lock-up agreements at any time without notice. To the extent shares are released before the expiration of the lock-up period and these shares are sold into the market, the market price of our common stock could decline.

In addition, after this offering, assuming no exercise of the underwriters option to purchase additional shares from the selling stockholders, the holders of 63,160,452 shares of common stock will be entitled to rights to cause us to register the sale of those shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares, other than shares purchased by our affiliates, becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration.

See the information under the caption Shares Eligible for Future Sale for a more detailed description of the shares that will be available for future sale upon completion of this offering.

We may apply the proceeds of this offering to uses that do not improve our operating results or increase the value of your investment.

We intend to use the net proceeds from the shares of common stock sold by us in this offering for general corporate purposes, including working capital, sales, general and administrative and research and development matters and on capital expenditures. We may also use a portion of our net proceeds to acquire or invest in other businesses or products or to obtain rights to other technologies. However, we do not have more specific plans for the net proceeds from this offering and will have broad discretion in how we use the net proceeds of this offering. These proceeds could be applied in ways that do not improve our operating results or increase the value of your investment.

Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

The initial public offering price of our common stock is substantially higher than the net tangible book value per share of our common stock immediately after this offering. Therefore, if you purchase our common stock in this offering, you will incur an immediate dilution of $5.63 in net tangible book value per share from the price you paid, based on the initial public offering price of $7.50 per share. The exercise of outstanding options and warrants will result in further dilution. For a further description of the dilution that you will experience immediately after this offering, see Dilution.

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.

Table of Contents

We will incur increased costs as a result of being a public company.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. We will incur costs associated with our public company reporting requirements. We also anticipate that we will incur costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act, as well as rules implemented by the SEC and the NYSE. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We also expect that these new rules and regulations may make it more difficult and expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

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 in connection with this offering, 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 acquiror from conducting a solicitation of proxies to elect the acquiror 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 ability of our board of directors to alter our bylaws without obtaining stockholder approval;

- the inability of our stockholders to call a special meeting of stockholders and to take action by written consent in lieu of a meeting;

- the required approval of the holders of at least two-thirds of the shares entitled to vote at an election of directors to adopt, amend, or repeal our bylaws;

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

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

Table of Contents

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. For a description of our capital stock, see Description of Capital Stock.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, particularly in the sections titled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, contains forward-looking statements that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as believe, may, estimate, continue, anticipate, intend, should, plan, expect, p or the negative of these terms or other similar expressions. The statements we make regarding the following subject matters are forward-looking by their nature:

- our belief that an intelligent motion processing platform would enable large scale development and adoption of motion-based applications in consumer electronics and other markets;
- our belief that certain end-markets pose significant unrealized opportunities for motion processing functionality, including large near-term opportunities in the video gaming, handset and tablet device markets and a large growth opportunity in the digital television and set-top box remote control markets;
- our expectations as to future sales of consumer electronics devices that could potentially integrate motion processors;
- our ability to accurately estimate future customer demand and obtain sufficient product yields from our third-party manufacturers on a timely basis;
- our anticipation that we will experience future growth, expand our intellectual property portfolio and increase our research and development expenses;
- our anticipation that we will realize increased tax benefits as a result of our corporate restructuring;
- our intention to qualify additional manufacturing facilities for wafer production, testing and packaging as our production needs increase;
- our ability to negotiate favorable manufacturing prices with our foundries and to transition our manufacturing to new foundries;
- our intention to develop and introduce more highly integrated products in the future that include greater motion sensing functionality and further enhancements to on-board motion processing capabilities;
- our expectations as to sales prices for our products;
- our belief in our ability to achieve design wins, maintain successful partnerships with our current customers, develop new customers, penetrate new markets and increase demand for our products;

our expectations as to our continued relationship with Nintendo and its use of our products in the Nintendo Wii and the Nintendo 3DS;

our expectations as to growth or volatility in the overall video gaming industry;

our expectation that our products will remain a component of customers products throughout any such product s life cycle;

our ability to protect our intellectual property in the United States and abroad;

our belief in the sufficiency of our cash flows to meet our needs for the next year;

our future financial and operating results;

Table of Contents

- our belief that our third-party liability exposure under indemnification obligations is minimal; and
- our belief in the availability of suitable additional facilities on commercially reasonable terms to accommodate the expansion of our operations, if required.

The preceding list is not intended to be an exhaustive list of all of our forward-looking statements. The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us. These statements are only predictions based upon our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. Other sections of this prospectus may include additional factors that could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time and it is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Before investing in our common stock, investors should be aware that the occurrence of the events described under the caption Risk Factors and elsewhere in this prospectus could have a material adverse effect on our business, results of operations and financial condition.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assume responsibility for the accuracy and completeness of the forward-looking statements. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus to conform these statements to actual results or to changes in our expectations.

This prospectus contains statistical data that we obtained from industry publications and reports. These publications generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. Although we believe the publications are reliable, we have not independently verified their data.

You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement of which this prospectus is a part with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds we will receive from this offering will be $66,254,000 million, at an initial public offering price of $7.50 per share, after deducting underwriting discounts and commissions and estimated offering expenses paid or payable by us. We will not receive any proceeds from the shares of common stock sold by the selling stockholders if the underwriters exercise their option to purchase additional shares, although we will pay the expenses, other than underwriting discounts and commissions, associated with the sale of those shares.

We intend to use the net proceeds from this offering for working capital, capital expenditures and other general corporate purposes. We may also use a portion of the net proceeds to acquire complementary businesses, products or technologies. However, we do not have negotiations underway, agreements reached or commitments made for any specific acquisitions at this time.

Pending any use, as described above, we plan to invest the net proceeds in a variety of capital preservation instruments, including short- and long-term interest-bearing investments, direct or guaranteed obligations of the U.S. government, certificates of deposit and money market funds.

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.

Table of Contents

CAPITALIZATION

The following table sets forth our capitalization as of October 2, 2011:

- on an actual basis;
- on a pro forma basis to reflect the conversion of all outstanding shares of our convertible preferred stock into 50,982,937 shares of our common stock; and
- on a pro forma as adjusted basis, giving effect to the filing of our amended and restated certificate of incorporation and the sale by us of 10,000,000 shares of common stock in this offering at an initial public offering price of $7.50 per share and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

You should read this table together with Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

	As of October 2, 2011		
	Actual	Pro Forma	Pro Forma As Adjusted
		(in thousands)	
Total debt, including current portion	$ 25	$ 25	$ 25
Stockholders equity:			
Series A convertible preferred stock, $0.001 par value; 8,060 shares authorized, 8,000 shares issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	9,019		
Series B convertible preferred stock, $0.001 par value; 6,566 shares authorized, 6,189 shares issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	22,840		
Series C convertible preferred stock, $0.001 par value; 15,510 shares authorized, 15,510 shares issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	18,881		
Common stock, $0.001 par value; 82,000 shares authorized, 18,340 shares issued and outstanding, actual; 82,000 shares authorized, 69,323 shares issued and outstanding, pro forma; 750,000 shares authorized, 79,323 shares issued and outstanding, pro forma as adjusted	8,070	58,810	126,622
Accumulated other comprehensive income	5	5	5
Retained earnings	23,616	23,616	23,616
Total stockholders equity	$ 82,431	$ 82,431	$ 150,243
Total capitalization	$ 82,456	$ 82,456	$ 150,268

The number of shares of our common stock to be outstanding after this offering is based on 69,322,687 shares outstanding as of October 2, 2011, on an as converted basis, and excludes:

9,041,998 shares of common stock issuable upon the exercise of options outstanding as of October 2, 2011 with exercise prices ranging from $0.04 to $7.32 and a weighted average exercise price of $2.93 per share;

Table of Contents

1,409,500 shares of common stock issuable upon the exercise of outstanding options granted subsequent to October 2, 2011 at an exercise price of $7.32 per share;

60,000 shares of Series A convertible preferred stock issuable upon the exercise of a warrant outstanding as of October 2, 2011 with an exercise price of $1.00 per share. Unless earlier exercised, upon the completion of this offering, this warrant will, in accordance with its terms, be converted into a warrant to purchase 150,000 shares of common stock with an exercise price of $0.40 per share;

377,121 shares of Series B convertible preferred stock issuable upon the exercise of warrants outstanding as of October 2, 2011 with a weighted average exercise price of $1.70 per share. Unless earlier exercised, upon the completion of this offering, these warrants will, in accordance with their terms, be converted into warrants to purchase 942,801 shares of common stock with a weighted average exercise price of $0.68 per share; and

10,703,759 shares of common stock available for future grant under our 2004 Stock Incentive Plan and our 2011 Stock Incentive Plan and additional shares of common stock that will be available for future grant under the automatic increase provisions of our 2011 Stock Incentive Plan.

Table of Contents

DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the amount per share paid by purchasers of shares of our common stock in this offering and the pro forma as adjusted net tangible book value per share of our common stock immediately after completion of this offering.

As of October 2, 2011, our pro forma net tangible book value was $82.4 million, or $1.19 per share. Pro forma net tangible book value per share represents the amount of our tangible assets less our liabilities, divided by the pro forma shares of common stock outstanding as of October 2, 2011, including the effect of the conversion of all outstanding shares of our preferred stock into common stock, which will occur immediately prior to the closing of this offering. Our pro forma as adjusted net tangible book value further includes the impact of our sale of 10,000,000 shares of common stock in this offering at an initial public offering price of $7.50 per share, after deducting the underwriting discounts and commissions and estimated offering expenses paid or payable by us. Our pro forma as adjusted net tangible book value at October 2, 2011 would have been $148.7 million, or $1.87 per share. This represents an immediate increase in pro forma net tangible book value of $0.68 per share to existing stockholders and an immediate dilution of $5.63 per share to new investors:

Initial public offering price per share of common stock		$ 7.50
Pro forma net tangible book value per share as of October 2, 2011, before giving effect to this offering	$ 1.19	
Increase in pro forma net tangible book value per share attributable to investors purchasing shares in this offering	$ 0.68	
Pro forma as adjusted net tangible book value per share after giving effect to this offering		$ 1.87
Dilution in pro forma net tangible book value per share to investors purchasing shares in this offering		$ 5.63

If all options and warrants outstanding as of October 2, 2011 were exercised in full, our pro forma as adjusted net tangible book value per share would be $1.97 per share, and the dilution in pro forma net tangible book value per share to investors in this offering would be $5.53 per share.

The following table summarizes on a pro forma as adjusted basis as of October 2, 2011:

- the total number of shares of common stock purchased from us by our existing stockholders and by new investors purchasing shares in this offering;
- the total consideration paid to us by our existing stockholders and by new investors purchasing shares in this offering, at an initial public offering price of $7.50 per share (before deducting underwriting discounts and commissions and estimated offering expenses payable by us); and
- the average price per share paid by existing stockholders and by new investors purchasing shares in this offering.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount (in thousands)	Percent	Per Share
Existing stockholders	69,322,687	87.4%	$ 40,560	35.1%	$ 0.59
New investors	10,000,000	12.6	75,000	64.9	7.50
Total	79,322,687	100%	$ 115,560	100%	$ 1.46

If all options and warrants outstanding as of October 2, 2011 were exercised in full on a cash basis, the number of shares held by the existing securityholders after this offering would be 79,457,486, or 88.8% of the total number of shares of our common stock outstanding, and the number of shares held by new investors would be 10,000,000, or 11.2% of the total number of shares of our common stock outstanding.

Except as otherwise indicated, the amounts set forth above are based on 69,322,687 shares of common stock outstanding as of October 2, 2011, on an as converted basis, and exclude:

- 9,041,998 shares of common stock issuable upon the exercise of options outstanding as of October 2, 2011 with exercise prices ranging from $0.04 to $7.32 and a weighted average exercise price of $2.93 per share;

- 1,409,500 shares of common stock issuable upon the exercise of outstanding options granted subsequent to October 2, 2011 at an exercise price of $7.32 per share;

- 60,000 shares of Series A convertible preferred stock issuable upon the exercise of a warrant outstanding as of October 2, 2011 with an exercise price of $1.00 per share. Unless earlier exercised, upon the completion of this offering, this warrant will, in accordance with its terms, be converted into a warrant to purchase 150,000 shares of common stock with an exercise price of $0.40 per share;

- 377,121 shares of Series B convertible preferred stock issuable upon the exercise of warrants outstanding as of October 2, 2011 with a weighted average exercise price of $1.70 per share. Unless earlier exercised, upon the completion of this offering, these warrants will, in accordance with their terms, be converted into warrants to purchase 942,801 shares of common stock with a weighted average exercise price of $0.68 per share; and

- 10,703,759 shares of common stock available for future grant under our 2004 Stock Incentive Plan and our 2011 Stock Incentive Plan, and shares of our common stock that will be available for future grant under the automatic increase provisions of our 2011 Stock Incentive Plan.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL DATA

We have derived the selected consolidated statement of operations data for the fiscal years ended March 29, 2009, March 28, 2010 and April 3, 2011, and selected consolidated balance sheet data as of March 28, 2010 and April 3, 2011, from our audited consolidated financial statements and related notes included elsewhere in this prospectus. We derived the selected consolidated statement of operations data for the three and six months ended September 26, 2010 and October 2, 2011, and selected consolidated balance sheet data as of October 2, 2011, from our unaudited interim consolidated financial statements and related notes included elsewhere in this prospectus. We have prepared the unaudited information on the same basis as the audited consolidated financial statements and have included, in our opinion, all adjustments, consisting only of normal recurring adjustments, that we consider necessary for fair presentation of the financial information set forth in those statements. Results for the three and six months ended October 2, 2011 are not necessarily indicative of the results to be expected for the fiscal year ending April 1, 2012. We have derived the statement of operations data for the fiscal years prior to March 29, 2009, and selected consolidated balance sheet data prior to March 28, 2010, from our audited financial statements not included in this prospectus. 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 prospectus.

Table of Contents

Consolidated Statement of Operations Data:

	Fiscal Year					Three Months Ended		Six Months Ended	
	2007	2008	2009	2010	2011	Sept. 26, 2010	October 2, 2011	Sept. 26, 2010	October 2, 2011
					(in thousands)				
Net revenue	$ 2,502	$ 7,778	$ 29,025	$ 79,556	$ 96,547	$ 23,524	$ 43,043	$ 45,525	$ 78,661
Cost of revenue(1)	3,545	6,867	15,548	36,073	43,647	11,317	19,372	21,187	34,381
Gross (loss) profit	(1,043)	911	13,477	43,483	52,900	12,207	23,662	24,338	44,280
Operating expenses:									
Research and development(1)	3,246	4,732	8,545	13,085	15,826	3,309	4,965	7,588	9,341
Selling, general and administrative(1)	1,678	2,878	4,632	8,427	15,596	3,357	3,898	6,615	8,409
Total operating expenses	4,924	7,610	13,177	21,512	31,422	6,666	8,863	14,203	17,750
(Loss) income from operations	(5,967)	(6,699)	300	21,971	21,478	5,541	14,799	10,135	26,530
Other expense:									
Change in fair value of warrant liabilities(2)		(101)		(6,363)	(4,025)			(4,025)	
Other income (expense), net	(1,326)	(60)	(66)	(67)	31	17	28	15	209
Other income (expense) - net	(1,326)	(161)	(66)	(6,430)	(3,994)	17	28	(4,010)	209
(Loss) income before income taxes	(7,293)	(6,860)	234	15,541	17,484	5,558	14,827	6,125	26,739
Income tax provision			38	399	8,137	2,357	3,372	4,043	6,260
Net (loss) income(3)	(7,293)	(6,860)	196	15,142	9,347	3,201	11,455	2,082	20,479
Net income allocable to preferred stockholders(3)	18	18	196	12,150	7,716	2,569	8,626	1,939	15,462
Net (loss) income attributable to common stockholders(3)	$ (7,311)	$ (6,878)	$	$ 2,992	$ 1,631	$ 632	$ 2,829	$ 143	$ 5,017
Net (loss) income per common share attributable to common stockholders:									
Basic	$ (0.77)	$ (0.56)	$	$ 0.18	$ 0.09	$ 0.04	$ 0.15	$ 0.01	$ 0.28
Diluted	$ (0.77)	$ (0.56)	$	$ 0.17	$ 0.08	$ 0.03	$ 0.14	$ 0.01	$ 0.25
Weighted average shares outstanding in computing net (loss) income per share attributable to common stockholders:									
Basic	9,415	12,321	15,430	16,542	17,592	17,627	18,296	17,454	18,210
Diluted	9,415	12,321	17,519	20,867	22,202	21,923	22,865	22,076	22,706
Pro forma net income per common share (unaudited):									
Basic					$ 0.14		$ 0.17		$ 0.30
Diluted					$ 0.13		$ 0.15		$ 0.28
Weighted average shares outstanding pro forma (unaudited):									
Basic					67,903		69,091		68,763
Diluted					74,079		74,654		74,406

(1) Includes stock-based compensation expense attributable to employees and non-employees as follows:

	Fiscal Year					Three Months Ended		Six Months Ended	
	2007	2008	2009	2010	2011	Sept. 26, 2010	October 2, 2011	Sept. 26, 2010	October 2, 2011
	(in thousands)								
Cost of revenue	$ 5	$ 41	$ 68	$ 233	$ 261	$ 66	$ 85	$ 132	$ 159
Research and development	48	125	184	536	946	233	302	451	646
Selling, general and administrative	15	89	258	537	983	247	431	497	801
Total stock-based compensation expense	$ 68	$ 255	$ 510	$ 1,306	$ 2,190	$ 546	$ 818	$ 1,080	$ 1,606

(2) Refers to the change in fair value of our warrants as required by ASC 815-40-15. Please see Note 6 to our consolidated financial statements for an additional explanation of the change in fair value of warrant liabilities.

(3) Please see Note 1 to our consolidated financial statements for an explanation of the method used to calculate net income allocable to preferred stockholders and net (loss) income attributable to common stockholders, including the method to calculate the number of shares used in the computation of the per share amounts.

Consolidated Balance Sheet Data:

	As of					
	April 1, 2007	March 30, 2008	March 28, 2009	March 28, 2010	April 3, 2011	October 2, 2011
	(in thousands)					
Cash and cash equivalents	$ 7,551	$ 8,649	$ 19,946	$ 22,394	$ 28,795	$48,208
Short-term investments				12,875	9,280	9,532
Long-term investments				2,008		
Working capital(1)	5,647	7,540	20,946	36,873	54,285	74,906
Total assets	10,510	12,874	34,545	54,450	70,746	102,312
Preferred stock warrant liability	804			7,852		
Total debt, including current portion	1,998	2,676	1,107	349	34	25
Redeemable convertible preferred stock	19,472					
Convertible preferred stock		28,370	39,192	38,364	50,241	50,740
Common stock	263	616	1,250	2,855	5,762	8,070
Total stockholders (deficit) equity	(13,763)	8,099	19,751	35,000	59,141	82,431

(1) Working capital is defined as total current assets minus total current liabilities.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors included elsewhere in this prospectus.

Overview

We are the pioneer and a global market leader in intelligent motion processing solutions. Our solutions are comprised of an integrated circuit (IC) that incorporates motion sensors, such as gyroscopes, with associated software on a single chip and are differentiated by their small form factor, high level of integration, performance, reliability and cost effectiveness. While our solutions have broad applicability, we currently target consumer electronics applications such as console and portable video gaming devices, smartphones, tablet devices, digital still and video cameras, smart TVs (including digital set-top boxes, televisions and multi-media HDDs), 3D mice, navigation devices, toys, and health and fitness accessories. We utilize a fabless model, leveraging current CMOS and MEMS foundries and semiconductor packaging supply chains.

We define motion processing as the ability to detect, measure, synthesize, analyze and digitize an object s motion in three-dimensional space. Our MotionProcessing solutions for consumer electronics applications span increasing levels of integration, from single-axis gyroscopes to fully-integrated, intelligent dual- and three-axis, and the industry s only six-axis, MotionProcessor units (MPUs). Our technology is comprised of five core proprietary components: our Nasiri-Fabrication platform, our advanced MEMS motion sensor designs, our application-specific mixed-signal circuitry for sensor signal processing, our sensor fusion algorithms in firmware that intelligently assimilate data from multiple sensors for use by end applications, and finally our MotionApps platform consisting of application program interfaces (APIs) and calibration algorithms.

Our current strategy is to continue targeting the consumer electronics market with MotionProcessing solutions that meet or exceed the performance and cost requirements of consumer electronics manufacturers, are easy to integrate and set industry performance benchmarks. Our ability to secure new customers depends on winning competitive processes, known as design wins. These selection processes are typically lengthy, and, as a result, our sales cycles will vary based on the market served, whether the design win is with an existing or a new customer and whether our product being designed into our customer s device is a first generation or subsequent generation product. Because the sales cycle for our products is long, we can incur design and development support expenditures in circumstances where we do not ultimately recognize any net revenue. We do not receive long-term purchase commitments from any of our customers, all of whom purchase our products on a purchase order basis. While product life cycles in our target market vary by application, once one of our solutions is incorporated into a customer s design, we believe that our solution is likely to remain a component of the customer s product for its life cycle because of the time and expense associated with redesigning the product or substituting an alternative solution. The trend is also supported by the increased likelihood that once a customer introduces one of our products into one of their devices, we believe they are likely to introduce it into others. Additionally, once a customer introduces one of our lower functionality sensors into their platforms, we believe they are more likely to adopt our more advanced MotionProcessing solutions.

Table of Contents

The history of our product development and sales and marketing efforts is, on a calendar year basis, as follows:

From our inception in 2003 through 2005, we were primarily engaged in the design and development of our analog gyroscopes. In this period, we also developed and refined our fabrication process, which we refer to as the Nasiri-Fabrication platform.

In 2006, we began volume shipments of our IDG family of integrated X-Y dual-axis analog gyroscopes for the compact digital camera market, the first commercially available sensors of that type. Subsequently, through 2008, we developed and shipped successive generations of these gyroscopes with enhanced performance and reduced die sizes. We began high-volume shipments of our IDG-600 to Nintendo beginning in May 2008.

In 2009, we began shipping enhanced and alternative versions of our single- and dual-axis analog gyroscopes as well as our ITG family of X-Y-Z three-axis digital output gyroscopes. We also significantly accelerated shipments of our products due to the broad market adoption of the Nintendo Wii MotionPlus accessory. In addition, we migrated our manufacturing processes to larger wafer sizes enabling significant cost efficiencies.

In 2010, we began volume shipments of our MPU-3000 family of motion processors with digital output, three-axis gyroscopes, and software development kits, designed to enable faster motion processing application development. In addition, we started shipping our ITG- and IMU-3000 family of products, which address a broader array of consumer applications than our analog products. We also started sampling our MPU-6000 family of integrated six-axis MotionProcessors that integrate a three-axis gyroscope and three-axis accelerometer on one chip with our MotionApps platform.

In 2011, our ITG/IMU/MPU-3000 family of products started high volume shipments for the portable gaming, smart TVs, smartphone and tablet markets.

Our fiscal periods end on Sundays, rather than the end of each calendar period. Our fiscal year is either a 52- or 53-week period, and ends on the Sunday closest to March 31. Our three most recent fiscal years ended on March 29, 2009 (fiscal year 2009), March 28, 2010 (fiscal year 2010) and April 3, 2011 (fiscal year 2011), and the current fiscal year will end on April 1, 2012 (fiscal year 2012). Fiscal year 2011 was comprised of 53 weeks, while fiscal years 2010 and 2009 were comprised of 52 weeks. The second fiscal quarter in each of our two most recent fiscal years ended on September 26, 2010 (three months ended September 26, 2010) and October 2, 2011 (three months ended October 2, 2011).

Our net revenue increased to $96.5 million in fiscal year 2011 from $79.6 million in fiscal year 2010 and to $43.0 million and $78.7 million for the three and six months ended October 2, 2011 from $23.5 million and $45.5 million for the three and six months ended September 26, 2010, respectively. At October 2, 2011, we had $57.7 million in cash, cash equivalents and short-term investments. We achieved positive operating cash flow of $7.9 million for fiscal year 2011 and $20.2 million for the six months ended October 2, 2011. We became profitable in fiscal year 2009 and achieved net income of $9.3 million, $15.1 million, and $0.2 million in fiscal years 2011, 2010 and 2009, respectively. We achieved net income of $11.5 million and $20.5 million for the three and six months ended October 2, 2011 compared to net income of $3.2 million and $2.1 million for the three and six months ended September 26, 2010, respectively.

We received 75%, 77%, 73%, 85% and 80% of our net revenue from sales to one customer for the three and six months ended September 26, 2010 and for fiscal years 2011, 2010 and 2009, respectively. For the three months ended October 2, 2011, three customers each accounted for 44%, 13% and 12% of our total net revenue. For the six months ended October 2, 2011, three customers each accounted for 30%, 18% and 11% of our total net revenue. At October 2, 2011, three customers

Table of Contents

accounted for 66%, 14% and 11% of our total accounts receivable. At April 3, 2011, three customers accounted for 43%, 16% and 16% of our total accounts receivable. At March 28, 2010, three customers accounted for 59%, 17% and 14% of our total accounts receivable.

Basis of Presentation

Net Revenue

We derive our net revenue from sales of our MotionProcessing solutions. We primarily sell our products through our worldwide sales organization directly to manufacturers of consumer electronics devices. To date, a significant majority of our net revenue has been derived from these direct sales, and we expect this trend to continue for the foreseeable future. We also sell our products through an indirect channel of distributors that fulfill orders for our products from manufacturers of consumer electronics devices, original design manufacturers and contract manufacturers.

We primarily sell our products directly to customers and distributors in Asia, which constituted 98% of our net revenue in fiscal year 2011 compared with 99% of our net revenue in fiscal year 2010 and 97% of our net revenue for the first six months of fiscal 2012. For fiscal years 2011, 2010 and 2009, we derived $95.7 million, $79.1 million and $28.7 million of net revenue from customers in foreign countries, respectively, and we derived $0.8 million, $0.5 million and $0.3 million of net revenue from customers in the United States, respectively. As of the end of the fiscal years ended 2011, 2010 and 2009, we had long-lived assets of $2.4 million, $2.2 million and $2.0 million, respectively, in foreign countries, and we had long-lived assets of $1.1 million, $0.9 million and $0.7 million, respectively, in the United States. For additional information about net revenue and long-lived assets by geographic region, refer to note 1 to our consolidated financial statements included in this prospectus.

We believe that a substantial majority of our net revenue will continue to come from sales to customers located in Asia, where most of the manufacturers of consumer electronics devices that use and may in the future use our products are located. As a result of this regional customer concentration, we may be subject to economic and political events and other developments that impact our customers in Asia. For more information, see the section titled Risk Factors Our business, financial condition and results of operations could be adversely affected by the political and economic conditions of the countries in which we conduct business.

Gross Profit

Gross profit is the difference between net revenue and the 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 provisions for excess and obsolete inventory.

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;
- product manufacturing yields;
- write-downs of inventory for excess quantity and technological obsolescence;
- new product introductions and enhancements both by us and by our competitors;

- product mix and average selling prices;
- the proportion of our products that are sold through direct versus indirect channels;
- our ability to attain volume manufacturing pricing from our foundry partners and suppliers; and
- growth in our headcount and other related costs incurred in our organization.

Research and Development

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

Selling, General and Administrative

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

Change in Fair Value of Warrant Liabilities

Change in fair value of warrant liabilities includes the changes in the fair value of our warrants as required by ASC 815-40-15. See Critical Accounting Policies and Estimates Financial Instruments with Characteristics of Both Liabilities and Equity .

Income Tax Provision

The provision for income taxes consists of our estimated Federal, State and foreign income taxes based on our pre-tax income. Our provision differs from the federal statutory rate primarily due to expenses that are not deductible for income taxes such as the changes in fair value of our warrant liability and certain stock-based compensation, research and development credits, state income taxes, and in fiscal year 2010, the reversal of our deferred income tax valuation allowance.

We have expanded our international operations and staff 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 are intended to result in a percentage of our pre-tax income being subject to foreign tax at relatively lower tax rates when compared to the 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 in future fiscal years as we completed the implementation of our international structure in fiscal year 2011. 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.

Table of Contents

Results of Operations

The following table sets forth certain consolidated statement of income data as a percentage of net revenue for the periods indicated.

	Fiscal Year			Three Months Ended		Six Months Ended	
	2009	2010	2011	September 26, 2010	October 2, 2010	September 26, 2010	October 2, 2011
Net revenue	100%	100%	100%	100%	100%	100%	100%
Cost of revenue	54	45	45	48	45	47	44
Gross profit	46	55	55	52	55	53	56
Operating expenses:							
Research and development	29	16	16	14	12	17	12
Selling, general and administrative	16	11	16	14	9	15	11
Total operating expenses	45	27	33	28	21	32	23
Income from operations	1	28	22	24	34	21	33
Change in fair value of warrant liabilities		(8)	(4)			(9)	
Other income (expense), net							
Income before income taxes	1	20	18	24	34	12	33
Income tax provision		1	8	10	8	9	8
Net income	1%	19%	10%	14%	26%	3%	25%

Comparison of the Second Quarter and First Six Months of Fiscal Years 2011 and 2012 and Fiscal Years 2009, 2010 and 2011

Net Revenue

	Fiscal Year			Three Months Ended		Six Months Ended	
	2009	2010	2011	September 26, 2010	October 2, 2011	September 26, 2010	October 2, 2011
				(in thousands)			
Net revenue	$ 29,025	$ 79,556	$ 96,547	$ 23,524	$ 43,034	$ 45,525	$ 78,661

Net revenue for the second quarter and first six months of fiscal year 2012 increased by $19.5 million and $33.1 million, or 83% and 73%, from the second quarter and first six months of fiscal year 2011, respectively, primarily due to higher volume shipments of our more advanced products to an expanded customer base including manufacturers of smartphones, tablet devices and digital television and set-top box remote controls. Total unit shipments increased by 94% and 73% for the second quarter and first six months of fiscal year 2012, respectively, compared to the same periods of the prior fiscal year. Overall average unit selling price for the second quarter and first six months of fiscal year 2012 decreased by approximately 5.5% and 0.4%, respectively, compared to the same periods of the prior fiscal year as a result of the change in our product mix.

Net revenue for fiscal year 2011 increased by $17.0 million, or 21%, year-over-year, primarily due to a change in our product mix as we began to ship higher volumes of our more advanced products. Total unit shipments increased by 34% year-over-year, while the overall average unit selling price of our products declined less than 10%. The percentage increase in revenues was primarily attributable to the expansion of our customer base to include manufacturers of smartphones, tablet devices and digital television and set-top box remote controls. Net revenue from our largest customer increased by 4% year-over-year, reflecting a change in the product mix sold to them in connection with their introduction of a new product. We expect our customer base to further expand as sales to manufacturers of smartphones and tablet devices increase, which we believe will reduce our customer concentration in future years.

Table of Contents

Net revenue for fiscal year 2010 increased by $50.5 million, or 174%, year-over-year, primarily due to an increase in shipments of our dual-axis gyroscope products. Total unit shipments increased by 176% year-over-year, while the overall average unit selling price of our products was materially unchanged. Net revenue from the sale of products to our largest customer increased by 194% year-over-year as our products became more fully integrated into their video gaming consoles.

Cost of Revenue and Gross Profit

	Fiscal Year			Three Months Ended		Six Months Ended	
	2009	2010	2011	September 26, 2010	October 2, 2011	September 26, 2010	October 2, 2011
	(dollars in thousands)						
Cost of revenue	$ 15,548	$ 36,073	$ 43,647	$ 11,317	$ 19,372	$ 21,187	$ 34,381
% of net revenue	54%	45%	45%	48%	45%	47%	44%
Gross profit	$ 13,477	$ 43,483	$ 52,900	$ 12,207	$ 23,662	$ 24,338	$ 44,280
% of net revenue	46%	55%	55%	52%	55%	53%	56%

Gross profit for the second quarter and first six months of fiscal year 2012 increased by $11.5 million and $19.9 million, or 94% and 82%, respectively, compared to the same periods of the prior year, due to an increase of unit shipments of our products and year-over-year improvements in our production yields and efficiency . Gross profit as a percentage of sales, or gross margin, for the same periods also increased due to improvements in our production yields and efficiency partially offset by a write-down of inventory related to excess and obsolete material. Amounts charged to cost of goods sold for the second quarter and first six months of fiscal year 2012 were $1.9 million and $2.4 million, respectively, related to excess and obsolete inventory. We expect future period gross margins to fluctuate due to changes in product mix, average unit selling prices and manufacturing costs.

Gross profit for fiscal year 2011 increased by $9.4 million, or 22%, year-over-year, due to the 34% increase in unit shipments of our products, primarily driven by increased sales to manufacturers of smartphones, tablet devices, and digital television and set-top box remote controls, continued improvements in our production yields and efficiency, and the release of our latest generation products. Gross margin remained consistent due to lower outsourced manufacturing cost resulting from an increase in the volume of units produced, offset by a decline in the average selling price per unit.

Gross profit for fiscal year 2010 increased by $30.0 million, or 223%, year-over-year, due to the 176% increase in unit shipments of our products primarily driven by increased sales to our largest customer, a significant increase in our production yields and efficiency, and the release of the latest generation of smaller and lower cost products. Gross margin also increased due to lower manufacturing costs resulting from an increase in the volume of units produced.

Research and Development

	Fiscal Year			Three Months Ended		Six Months Ended	
	2009	2010	2011	September 26, 2010	October 2, 2011	September 26, 2010	October 2, 2011
	(dollars in thousands)						
Research and development	$ 8,545	$ 13,085	$ 15,826	$ 3,309	$ 4,965	$ 7,588	$ 9,341
% of net revenue	29%	16%	16%	14%	12%	17%	12%

Table of Contents

Research and development expense for the second quarter and first six months of fiscal year 2012 increased by $1.7 million and $1.8 million, or 50% and 23%, respectively, compared to the same periods of the prior year. The increase for the second quarter of fiscal year 2012 was primarily attributable to increased personnel costs, mask and foundry expenses, equipment and software costs and consulting and outside services costs of $0.6 million, $0.6 million, $0.2 million and $0.2 million, respectively. The increase for the first six months was primarily attributable to increased personnel costs, equipment and software costs, consulting and outside services costs and mask and foundry expenses of $0.8 million, $0.4 million, $0.3 million and $0.1 million, respectively. Research and development headcount was 94 at the end of the second quarter of fiscal year 2012 and 88 at the end of the second quarter of fiscal year 2011.

Research and development expense for fiscal year 2011 increased by $2.7 million, or 21%, year-over-year. The increase was primarily attributable to the growth of our research and development organization to support expanding product development initiatives. Research and development headcount increased to 83 from 67 year-over-year, resulting in a year-over-year increase in personnel costs of $3.5 million. The majority of headcount growth in fiscal year 2010 occurred in the second half of that fiscal year, which resulted in a relatively higher expense in fiscal year 2011 because those new employees were employed for the entirety of fiscal year 2011. This increase in research and development expense was partially offset by lower costs related to engineering materials and outside services expenses.

Research and development expense for fiscal year 2010 increased by $4.5 million, or 53%, year-over-year. The increase was primarily attributable to the expansion of our research and development organization to support new product development initiatives. Research and development headcount increased to 67 from 41 year-over-year, resulting in a year-over-year increase in personnel costs of $3.7 million. Additionally, year-over-year, engineering materials, depreciation and outside services expenses increased.

Selling, General and Administrative

	Fiscal Year			Three Months Ended		Six Months Ended	
	2009	2010	2011	September 26, 2010	October 2, 2011	September 26, 2010	October 2, 2011
				(dollars in thousands)			
Selling, general and administrative	$ 4,632	$ 8,427	$ 15,596	$ 3,357	$ 3,898	$ 6,615	$ 8,409
% of net revenue	16%	11%	16%	14%	9%	15%	11%

Selling, general and administrative expense for the second quarter and first six months of fiscal year 2012 increased by $0.5 million and $1.8 million, or 16% and 27%, respectively compared to the same periods in the prior year. The increase in the second quarter of 2012 was primarily attributable to increased personnel costs of $0.8 million, offset by lower professional services costs of $0.3 million, as compared to the same period in the prior year. The increase in the first six months of 2012 was primarily attributable to increased personnel costs and accounting and legal professional services costs of $1.4 million and $0.3 million, respectively, compared to the same period in the prior year. Selling, general and administrative headcount increased to 88 at the end of the second quarter of fiscal year 2012 from 65 at the end of the second quarter of fiscal year 2011.

Selling, general and administrative expense for fiscal year 2011 increased $7.2 million, or 85%, year-over-year, primarily as a result of expenses associated with the need to support the increased demand for our products, including expansion of our global sales operations, and increased expenses related to establishing an organizational infrastructure to support a public reporting company. Selling, general and administrative headcount increased to 71 from 51 year-over-year, resulting in a year-over-

Table of Contents

year increase in personnel costs of $3.5 million. The majority of headcount growth in fiscal year 2010 occurred in the second half of that fiscal year, which resulted in a relatively higher expense in fiscal year 2011 because those new employees were employed for the entirety of fiscal year 2011. Additionally, in fiscal year 2011, we expensed $1.4 million in deferred offering costs.

Selling, general and administrative expense for fiscal year 2010 increased $3.8 million, or 82%, year-over-year, primarily as a result of expenses associated with the need to support the increased demand for our products, including expansion of our global sales operations. Selling, general and administrative headcount increased to 51 from 18 year-over-year, resulting in a year-over-year increase in personnel costs of $3.6 million.

Income From Operations

	Fiscal Year			Three Months Ended		Six Months Ended	
	2009	2010	2011	September 26, 2010	October 2, 2011	September 26, 2010	October 2, 2011
	(dollars in thousands)						
Income from operations	$ 300	$ 21,971	$ 21,478	$ 5,541	$ 14,799	$ 10,135	$ 26,530
% of net revenue	1%	28%	22%	24%	34%	22%	34%

Income from operations for the second quarter and first six months of fiscal year 2012 increased by $9.3 million and $16.4 million, or 167% and 162%, respectively, compared to the same periods of the prior year, primarily due to increased unit shipments, increased gross profit and lower operating expenses as a percentage of sales.

Income from operations for fiscal year 2011 decreased by $0.5 million, or 2%, year-over-year, primarily due to increased research and development expense due to increased headcount and increased selling, general and administrative expense associated with the need to support increased demand for our products and the write-off of $1.4 million of costs associated with this offering.

Income from operations for fiscal year 2010 increased by $21.7 million, year-over-year, primarily due to increased unit shipments in fiscal year 2010 versus fiscal year 2009.

Change in Fair Value of Warrant Liabilities

During fiscal year 2011, we recorded charges of $4.0 million resulting from the increase in fair value of warrants to purchase shares of our preferred stock, compared to $6.4 million recorded in fiscal year 2010. Under the provisions of ASC 815-40-15 adopted on March 30, 2009, we determined that warrants to purchase preferred stock previously recorded in stockholders equity, should be reclassified as liabilities and recorded at their fair value at each balance sheet date, with the increase or decrease in fair value reported in change in valuation of warrant liabilities in the consolidated statements of income. On March 30, 2009, we reclassified the carrying value of the preferred stock warrants from common stock to a long-term liability. The difference between the fair value of the warrants at March 30, 2009 of $1.5 million and the amount previously recorded in stockholders equity of $0.8 million was $0.7 million, which was recorded as an adjustment to the opening balance of accumulated deficit upon adoption.

Effective June 25, 2010, we amended our certificate of incorporation to remove certain provisions from our preferred stock that had resulted in our warrants being previously classified as liabilities. On that date, the fair value of the warrants, $11.9 million, was reclassified to stockholders equity. Accordingly, for periods after June 27, 2010, we will not be required to reflect changes in fair value of warrant liabilities in our consolidated statements of income.

Table of Contents

Other Income (Expense)

	Fiscal Year			Three Months Ended		Six Months Ended	
	2009	2010	2011	September 26, 2010	October 2, 2011	September 26, 2010	October 2, 2011
				(in thousands)			
Interest income	$ 215	$ 34	$ 91	$ 23	$ 8	$ 47	$ 14
Interest expense	(267)	(100)	(16)			(17)	
Other income (expense), net	(14)	(1)	(44)	(6)	20	(15)	195
Total	$ (66)	$ (67)	$ 31	$ 17	$ 28	$ 15	$ 209

Other income was $28,000 and $209,000 for the second quarter and first six months of fiscal year 2012, respectively. Other income for the six months of fiscal 2012 consisted primarily of realized gains on the sale of property and equipment. Interest income in the second quarter and first six months of fiscal year 2012 decreased by $15,000 and $33,000, or 65% and 70%, respectively, compared to the same periods of the prior fiscal year, due to lower investment yields on cash and investment balances.

Interest income in fiscal year 2011 increased by $0.1 million, or 168%, year-over-year, primarily due to nominally higher investment yields received on higher invested cash and investment balances during the period.

Interest expense in each of fiscal years 2011, 2010, 2009 and the six months of fiscal 2012 compared to the same periods of the prior fiscal year decreased due to lower outstanding debt balances.

Income Tax Provision

	Fiscal Year			Three Months Ended		Six Months Ended	
	2009	2010	2011	September 26, 2010	October 2, 2011	September 26, 2010	October 2, 2011
				(in thousands)			
Provision for income taxes	$ 38	$ 399	$ 8,137	$ 2,357	$ 3,372	$ 4,043	$ 6,260

Our provision for income taxes was $3.4 million and $6.3 million for the second quarter and first six months of fiscal year 2012, respectively, compared to $2.4 million and $4.0 million for the same periods in the prior year. The increase in the provision for income taxes was primarily due to the increase in income before taxes to $14.8 million and $26.7 million for the second quarter and first six months of fiscal year 2012, respectively, compared to $5.6 million and $6.1 million for the same periods in the prior year, offset by a lower effective tax rate resulting from the establishment of our international structure. The effective tax rates for the second quarter and first six months of fiscal year 2012 were approximately 22.7% and 23.4%, respectively, and differ from the statutory federal rate of 35% primarily due to a foreign tax rate differential of (13.2)%, partially offset by nondeductible expenses related to stock compensation of (2.3)%.

Our provision for income taxes was $8.1 million in fiscal year 2011, compared to $0.4 million and $38,000 in fiscal years 2010 and 2009, respectively. The increase in the provision for income taxes in fiscal year 2011 was due primarily to a $7.2 million reduction of our tax valuation allowance in fiscal year 2010 to reflect the anticipated utilization of deferred tax assets and the increase in net income from the prior year. We expect to recognize benefits from the establishment of our international structure during future reporting periods which will reduce our effective tax rate.

Table of Contents

At the end of fiscal year 2011, we had approximately $18.7 million and $0.3 million of California state and foreign net operating loss carryforwards, respectively. The California state net operating loss carryforwards expire between 2017 and 2022. Additionally, we have California state and foreign research tax credit carryforwards of approximately $0.9 million and $0.2 million, respectively. The California state credits are not subject to expiration under current California state tax law.

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		
	2009	2010	2011
Income tax provision at the federal statutory rate	34.0%	35.0%	35.0%
State tax, net of federal benefit	2.3	1.9	
Research and development credits	(121.9)	(3.2)	(2.0)
Foreign tax rate differential	108.1	(1.5)	(0.4)
Non-deductible stock compensation	63.6	2.8	3.7
Change in fair value of warrant liabilities		15.1	8.1
Change in valuation allowance	(25.4)	(46.6)	2.4
Other	(44.3)	(0.9)	(0.3)
Effective tax rate	16.4%	2.6%	46.5%

Net Income

	Fiscal Year			Three Months Ended		Six Months Ended	
	2009	2010	2011	September 26, 2010	October 2, 2011	September 26, 2010	October 2, 2011
				(dollars in thousands)			
Net income	$ 196	$ 15,142	$ 9,347	$ 3,201	$ 11,455	$ 2,082	$ 20,479
% of net revenue	1%	19%	10%	14%	27%	5%	26%

Net income for the second quarter and first six months of fiscal year 2012 increased by $8.3 million and $18.4 million, or 258% and 884%, respectively, compared to the same periods of the prior year, primarily due to increased unit shipments, increased gross profit, lower operating expenses as a percentage of sales, the absence of charges related to warrants to purchase preferred stock and a decrease in the effective tax rate.

Net income for fiscal year 2011 decreased $5.8 million, or 38%, compared to the same period of the prior year, primarily due to increased headcount and increased selling, general and administrative expense associated with the need to support increased demand for our products and the write-off of $1.4 million of costs associated with this offering.

Net income for fiscal year 2010 increased by $14.9 million, year-over-year, primarily due to increased unit shipments in fiscal year 2010 versus fiscal year 2009.

Quarterly Results of Operations

The following tables set forth our unaudited consolidated statements of operations for the first and second quarter of fiscal year 2012, for each of the four quarters covering fiscal year 2011 and for each of the four quarters covering fiscal year 2010, both in terms of dollars and as a percentage of net

Table of Contents

revenue. The quarterly data have been prepared on the same basis as the audited financial statements included elsewhere in this prospectus 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. Results for the fiscal quarters ended July 3, 2011 and October 2, 2011 are not necessarily indicative of the results to be expected for the fiscal year ending April 1, 2012. You should read this information together with our consolidated financial statements and the related notes included elsewhere in this prospectus. Historical results are not necessarily indicative of the operating results expected in future reporting periods.

Table of Contents

Fiscal Year 2011 and First and Second Quarter of Fiscal Year 2012:

	Three Months Ended					
	June 27, 2010	September 26, 2010	December 26, 2010	April 3, 2011	July 3, 2011	October 2, 2011
	(in thousands)					
Net revenue	$ 22,001	$ 23,524	$ 27,170	$ 23,852	$ 35,627	$ 43,034
Cost of revenue	9,870	11,317	11,827	10,633	15,009	19,372
Gross profit	12,131	12,207	15,343	13,219	20,618	23,662
Operating expenses:						
Research and development	4,279	3,309	3,792	4,446	4,376	4,965
Selling, general and administrative	3,258	3,357	4,863	4,118	4,511	3,898
Total operating expenses	7,537	6,666	8,655	8,564	8,887	8,863
Income from operations	4,594	5,541	6,688	4,655	11,731	14,799
Change in fair value of warrant liabilities	(4,025)					
Other income (expense), net	(2)	17	(16)	32	181	28
Income before income taxes	567	5,558	6,672	4,687	11,912	14,827
Income tax provision	1,686	2,357	1,955	2,139	2,888	3,372
Net income (loss)	$ (1,119)	$ 3,201	$ 4,717	$ 2,548	$ 9,024	$ 11,455

	Three Months Ended					
	June 27, 2010	September 26, 2010	December 26, 2010	April 3, 2011	July 3, 2011	October 2, 2011
Net revenue	100%	100%	100%	100%	100%	100%
Cost of revenue	45	48	44	45	42	45
Gross profit	55	52	56	55	58	55
Operating expenses:						
Research and development	19	14	14	19	12	12
Selling, general and administrative	15	14	18	17	13	9
Total operating expenses	34	28	32	36	25	21
Income from operations	21	24	24	19	33	34
Change in fair value of warrant liabilities	(18)					
Other income (expense), net						
Income before income taxes	3	24	24	19	33	34
Income tax provision	8	10	7	9	8	8
Net income (loss)	(5)%	14%	17%	10%	25%	26%

Table of Contents

Fiscal Year 2010:

	Three Months Ended			
	June 28, 2009	September 27, 2009	December 27, 2009	March 28, 2010
	(in thousands)			
Net revenue	$ 21,451	$ 25,660	$ 19,037	$ 13,408
Cost of revenue	9,589	11,341	8,772	6,371
Gross profit	11,862	14,319	10,265	7,037
Operating expenses:				
Research and development	2,491	3,123	3,560	3,911
Selling, general and administrative	1,664	1,963	2,309	2,491
Total operating expenses	4,155	5,086	5,869	6,402
Income from operations	7,707	9,233	4,396	635
Change in fair value of warrant liabilities	(1,693)	(1,057)	493	(4,106)
Other expense, net	(16)	(16)	(30)	(5)
Income (loss) before income taxes	5,998	8,160	4,859	(3,476)
Income tax provision	9	10	221	159
Net income (loss)	$ 5,989	$ 8,150	$ 4,638	$ (3,635)

	Three Months Ended			
	June 28, 2009	September 27, 2009	December 27, 2009	March 28, 2010
Net revenue	100%	100%	100%	100%
Cost of revenue	45	44	46	48
Gross profit	55	56	54	52
Operating expenses:				
Research and development	12	12	19	29
Selling, general and administrative	8	8	12	19
Total operating expenses	20	20	31	48
Income from operations	35	36	23	4
Change in fair value of warrant liabilities	(8)	(4)	3	(31)
Other expense, net				
Income (loss) before income taxes	27	32	26	(27)
Income tax provision			1	1
Net income (loss)	27%	32%	25%	(28)%

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

Our quarterly net revenue has increased and experienced less fluctuation during fiscal year 2011 as compared to fiscal year 2010, most notably in the third and fourth quarters of fiscal year 2011, primarily as a result of customer product introductions as well as new sales to manufacturers of smartphones and tablet devices. Our quarterly net revenue fluctuated during fiscal year 2010, most notably in the third and fourth quarters. Net revenue declined in these quarters compared to the first and second quarters of fiscal year 2010 due to holiday-related seasonality. In addition, during the third quarter of fiscal year 2010, our largest customer requested that we delay shipment of products we had expected to ship pursuant to firm purchase orders. Subsequent to these decisions but prior to the end of the third quarter, this customer increased its orders for the fourth quarter of fiscal year 2010.

We have experienced fluctuations in gross profit generally due to variability in our quarterly net revenues as well as manufacturing cost efficiencies. Our products are manufactured by third-party manufacturers according to our estimates of future customer demand, of which we have limited visibility. If we inaccurately forecast demand for our products, we may be unable to obtain adequate and cost-effective foundry or assembly capacity from our third-party manufacturers to meet our customers delivery requirements, or we may accumulate excess inventories, which could adversely impact our gross margins.

Our operating expenses generally increased over the eight quarters in fiscal years 2010 and 2011 and the first two quarters of fiscal year 2012 in absolute dollars primarily as a result of our increase in headcount related to our investment in the development of new products and our corporate infrastructure to support higher levels of sales and to operate as a public company.

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

During fiscal years 2010 and 2011, we recorded charges of $6.4 million and $4.0 million, respectively, resulting from the increase in fair value of our warrant liabilities. The fair value of our warrant liabilities was adjusted each quarter based primarily on changes in the estimated fair value of our common stock. Effective June 25, 2010, we amended our certificate of incorporation to remove certain provisions from our preferred stock that had resulted in our warrants being previously classified as liabilities. On that date, the fair value of the warrants, $11.9 million, was reclassified to stockholders equity. Accordingly, for periods after June 27, 2010, we are not required to reflect changes in fair value of warrant liabilities in our consolidated statements of income.

Liquidity and Capital Resources

Since our inception, our operations have been financed primarily by net proceeds of $50.2 million from the issuance of shares of our preferred stock and $7.9 million and $20.2 million in cash generated from operations in fiscal years 2011 and 2010, respectively. As of October 2, 2011, we had $57.7 million of cash, cash equivalents and short-term investments. Although the majority of our sales in fiscal year 2011 and the first and second quarters of fiscal year 2012 were generated from a limited number of customers, we increased the number of total customers and the volume of sales to those customers during fiscal year 2011 and the first and second quarters of fiscal year 2012. We expect that trend to continue as the markets for our products develop. We believe our current cash, along with net cash provided by operating activities, will be sufficient to satisfy our liquidity requirements for the next 12 months. 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.

Our primary uses of cash are to fund operating expenses, purchases of inventory and the acquisition of property and equipment. Cash used to fund operating expenses excludes the impact of

Table of Contents

non-cash items such as depreciation and stock-based compensation and is impacted by the timing of when we pay these expenses as reflected in the change in our outstanding accounts payable and accrued expenses.

Our primary sources of cash are cash receipts on accounts receivable from our shipment of products to customers and distributors. Aside from the growth in amounts billed to our customers, net cash collections of accounts receivable are impacted by the efficiency of our cash collections process, which can vary from period to period depending on the payment cycles of our major customers and distributors.

Below is a summary of our cash flows (used in) provided by operating activities, investing activities and financing activities for the periods indicated:

	Fiscal Year			Six Months Ended	
				September 26,	October 2,
	2009	2010	2011	2010	2011
	(in thousands)				
Net cash (used in) provided by operating activities	$ (23)	$ 20,178	$ 7,892	$ 2,403	$ 20,231
Net cash (used in) provided by investing activities	(1,715)	(17,256)	3,497	(6,298)	(1,356)
Net cash (used in) provided by financing activities	13,035	(474)			