MEMSIC Inc
Form 10-Q
August 10, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 001-33813

MEMSIC, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	04-3457049 (I.R.S. Employer Identification No.)
One Tech Drive, Suite 325 Andover, Massachusetts (Address of principal executive offices)	01810 (Zip Code)

(978) 738-0900
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company x

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

The number of shares of common stock, par value $0.00001 per share, of the registrant outstanding as of August 6, 2012 was 24,134,585.

MEMSIC, Inc.

FORM 10-Q, June 30, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

MEMSIC, Inc.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$24,016,667	$51,914,128
Restricted cash	2,924,181	3,791,189
Short-term investments	34,888,943	6,814,728
Accounts receivable, net of allowance for doubtful accounts of $6,441 as of June 30, 2012 and December 31, 2011	4,106,366	6,068,904
Inventories	10,902,304	11,459,153
Other current assets	2,495,971	2,050,787
Total current assets	79,334,432	82,098,889
Property and equipment, net	29,991,934	30,998,489
Long-term investments	2,600,000	2,600,000
Goodwill	570,979	606,976
Intangible assets, net	10,334,402	11,091,532
Other assets	138,974	136,633
Total assets	$122,970,721	$127,532,519
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$3,830,804	$8,439,605
Accrued expenses	2,936,261	2,630,966
Advance research funding	2,924,181	3,791,189
Current portion of note payable to bank	1,000,000	500,000
Total current liabilities	10,691,246	15,361,760
Note payable to bank, net of current portion	16,430,000	17,430,000
Building liability	7,977,739	8,161,288
Other liabilities	106,343	124,180
Total other liabilities	24,514,082	25,715,468
Stockholders’ equity:		
Common stock, $0.00001 par value; authorized, 45,000,000 shares; 24,128,614 and 23,983,813 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	241	240
Additional paid-in capital	102,210,810	101,266,272
Accumulated other comprehensive income	4,035,217	4,363,930
Accumulated deficit	(19,169,045)	(19,908,135)

MEMSIC, Inc. stockholders' equity	87,077,223	85,722,307
Non-controlling interest related to joint ventures	688,170	732,984
Total stockholders' equity	87,765,393	86,455,291
Total liabilities and stockholders’ equity	$122,970,721	$127,532,519

See notes to consolidated financial statements (unaudited)

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MEMSIC, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net sales	$ 14,415,237	$ 15,372,634	$ 34,432,290	$ 28,327,554
Cost of goods sold	8,630,850	10,374,465	21,230,804	18,387,664
Gross profit	5,784,387	4,998,169	13,201,486	9,939,890
Operating expenses:				
Research and development	1,769,201	2,112,136	3,472,360	4,409,973
Sales and marketing	1,228,408	1,529,907	2,660,707	2,994,653
General and administrative	2,399,923	2,096,988	4,635,995	3,976,879
Depreciation	378,354	422,982	817,295	797,351
Amortization	413,886	402,231	810,008	808,166
Total operating expenses	6,189,772	6,564,244	12,396,365	12,987,022
Operating income (loss)	(405,385)	(1,566,075)	805,121	(3,047,132)
Other income:				
Interest and dividend income	125,259	98,366	233,034	181,855
Foreign exchange (loss) gain	(193,190)	328,799	(225,453)	519,475
Other, net	25,468	13,844	38,641	82,420
Total other income (expense)	(42,463)	441,009	46,222	783,750
Profit (loss) before income taxes	(447,848)	(1,125,066)	851,343	(2,263,382)
Provision (benefit) for income taxes	29,355	(3,084)	97,938	114,310
Net income (loss)	(477,203)	(1,121,982)	753,405	(2,377,692)
Less: net income (loss) attributable to non-controlling interests	(15,789)	(13,681)	14,315	58,790
Net income (loss) attributable to MEMSIC, Inc.	$ (461,414)	$ (1,108,301)	$ 739,090	$ (2,436,482)
Net income (loss) per common share attributable to MEMSIC, Inc.:				
Basic	$ (0.02)	$ (0.05)	$ 0.03	$ (0.10)
Diluted	$ (0.02)	$ (0.05)	$ 0.03	$ (0.10)
Weighted average shares outstanding used in calculating net income (loss) per common share:				
Basic	23,986,332	23,823,321	23,919,650	23,818,467

Diluted	23,986,332	23,823,321	24,404,777	23,818,467

See notes to consolidated financial statements (unaudited)

MEMSIC, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Net income (loss)	$ (477,203)	$ (1,121,982)	$ 753,405	$ (2,377,692)
Other comprehensive income (loss):				
Unrealized loss on investments	(1,054)	(811)	(1,057)	(811)
Foreign currency translation adjustments	(251,473)	361,962	(327,656)	545,640
Comprehensive income (loss)	(729,730)	(760,831)	424,692	(1,832,863)
Less: income (loss) attributable to noncontrolling interest	15,789	13,681	(14,315)	(58,790)
Foreign currency translation adjustment	-	-	-	3,025
Comprehensive income attributable to noncontrolling interests	15,789	13,681	(14,315)	(55,765)
Comprehensive income (loss) attibutable to MEMSIC, Inc.	$ (713,941)	$ (747,150)	$ 410,377	$ (1,888,628)

See notes to consolidated financial statements (unaudited)

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MEMSIC, Inc.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock Shares	Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	MEMSIC, Inc. Stockholders' Equity	Non-controlling Interest	Total Equity
Balance at December 31, 2011	23,983,813	$240	$101,266,272	$4,363,930	$(19,908,135)	$85,722,307	$732,984	$86,455,291
Net income					739,090	739,090	14,315	753,405
Foreign currency translation adjustment				(327,656)		(327,656)		(327,656)
Unrealized loss on short-term investment				(1,057)		(1,057)		(1,057)
Exercise of options to purchase common stock	144,801	1	193,597			193,538		193,538
Stock compensation expense			751,001			751,001		751,001
Dividend paid to Japan non-controlling interest							(59,129)	(59,129)
Balance at June 30, 2012	24,128,614	$241	$102,210,810	$4,035,217	$(19,169,045)	$87,077,223	$688,170	$87,765,393

See notes to consolidated financial statements (unaudited)

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MEMSIC, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended June 30, 2012	2011
Cash flows from operating activities:		
Net income (loss)	$753,405	$(2,377,692)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation	1,808,654	1,347,781
Amortization	805,093	807,221
Stock compensation expense	751,001	794,230
Deferred rent	(17,837)	49,294
Deferred income taxes	(3,725)	33,806
Changes in operating assets and liabilities:		
Restricted cash	833,490	586,642
Accounts receivable	1,946,748	(2,749,001)
Inventories	451,014	(580,922)
Other assets	(523,387)	(446,651)
Advance research funding	(833,490)	(586,642)
Accounts payable and accrued expenses	(4,304,093)	607,563
Net cash provided by (used in) operating activities	1,666,873	(2,514,371)
Cash flows from investing activities:		
Purchase of short-term investments	(28,075,075)	(1,354,353)
Proceeds from sale of long-term investments	-	200,000
Purchase of property and equipment	(1,075,088)	(1,095,474)
Net cash used in investing activities	(29,150,163)	(2,249,827)
Cash flows from financing activities:		
Cash dividend paid to non-controlling interest	(59,129)	(115,389)
Proceeds from exercise of options to purchase common stock	193,538	40,662
Payment to note payable to bank	(500,000)	-
Net cash used in financing activities	(365,591)	(74,727)
Effect of exchange rate changes on cash and cash equivalents	(48,580)	(379,781)
Net decrease in cash and cash equivalents	(27,897,461)	(5,218,706)
Cash and cash equivalents —beginning of period	51,914,128	55,694,205
Cash and cash equivalents —end of period	$24,016,667	$50,475,499

See notes to consolidated financial statements (unaudited)

MEMSIC, Inc.

Notes to Unaudited Consolidated Financial Statements

1. NATURE OF THE BUSINESS AND OPERATIONS

MEMSIC, Inc. (the Company) was incorporated on March 3, 1999 as a Delaware corporation. The Company is a leading provider of semiconductor sensor systems solutions based on micro electromechanical systems (MEMS) technology and advanced integrated circuit design. The Company's sensor and solution products have a wide range of applications for consumer electronics, mobile phones, automotive (airbags, rollover detection, electronic stability control and navigation systems), as well as business, industrial and medical applications.

MEMSIC, Inc. maintains its corporate headquarters in Massachusetts. All manufacturing operations are provided by its wholly-owned subsidiary, MEMSIC Semiconductor (Wuxi) Company Limited (MEMSIC Semiconductor) and its indirect wholly owned subsidiary, MEMSIC Transducer Systems Company Limited (MTS), which are located in the People's Republic of China (PRC). The Company also has a majority (51%) owned and controlled joint venture, Crossbow Japan Limited (Crossbow Japan) and an indirect majority (67%) owned and controlled joint venture, MEMSIC Wuxi Wireless Sensor Network Technology Company Limited (Wuxi WSN) in PRC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of the Company, MEMSIC Semiconductor, MTS, Crossbow Japan and Wuxi WSN. The Company presents all of Crossbow Japan's and Wuxi WSN's assets, liabilities, revenue and expenses, as well as the non-controlling interests in joint ventures in its consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying interim consolidated financial statements are unaudited. These financial statements and notes should be read in conjunction with the audited consolidated financial statements and related notes, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, which is on file with the Securities and Exchange Commission (SEC).

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such SEC rules and regulations. In the opinion of management, the unaudited interim consolidated financial statements and notes have been prepared on the same basis as the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, and include all adjustments (consisting of normal, recurring adjustments) necessary for the fair presentation of the Company's financial position at June 30, 2012, results of operations for the three and six months ended June 30, 2012 and 2011 and cash flows for the six months ended June 30, 2012 and 2011. The interim periods are not necessarily indicative of results to be expected for any other interim periods or for the full year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect at the date of the financial statements the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from these estimates.

Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Restricted Cash

The Company has presented cash on hand associated with advance research funding received from the Chinese government as restricted cash since the cash must be maintained in a separate bank account and used only for specified research projects.

Advance Research Funding

Advance research funding represents research funding granted by the Chinese government for specific research and development projects the Company is taking on. The amount received is initially recorded as a liability and subsequently recognized as a credit to research and development expenses in the statements of operations or to the carrying value of equipment purchased for the projects as the Company performs the projects and has complied with the conditions or performance obligations attached to the related government grants. There are no conditions under which amounts utilized are required to be refunded under the terms of the grants.

Advance research funding activities for the six months ended June 30, 2012 are as follows:

	Advanced Research Funding
Balance at January 1, 2012	$ 3,791,189
Research and development activities	(330,244)
Property and equipment expenditures	(501,495)
Foreign exchange rate impact	(35,268)
Balance at June 30, 2012	$ 2,924,181

Short-term Investments

Short-term investments consist primarily of bank certificate deposits, government and municipal bonds with maturities of one year or less. The Company classifies its short-term investments as “held-to-maturity”, which are carried at amortized cost.

Foreign Currency

The Company’s manufacturing operations and certain other operations are conducted by MEMSIC Semiconductor, MTS and Wuxi WSN. The functional currency of MEMSIC Semiconductor, MTS and Wuxi WSN is the Renminbi. Financial transactions between the Company and MEMSIC Semiconductor and MTS are conducted in United States dollars. At June 30, 2012 and December 31, 2011, the underlying currency for approximately 53.7% and 56.4% of consolidated assets, respectively, was the Renminbi. The functional currency of Crossbow Japan is the Japanese Yen. Financial transactions between the Company and Crossbow Japan are conducted in United States dollars. At June 30, 2012 and December 31, 2011, the underlying currency for approximately 1.2% of consolidated assets was the Japanese Yen. The Company does not believe that it is subject to significant foreign exchange risk and, accordingly, has not utilized hedging strategies with respect to such foreign exchange exposure.

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The financial statements of MEMSIC Semiconductor, MTS, Wuxi WSN and Crossbow Japan are translated into United States dollars in accordance with GAAP, utilizing the following method: assets and liabilities are translated at the exchange rate in effect at the end of the period, and revenues and expenses are translated at the weighted average exchange rate during the year. Cumulative translation gains and losses are included as a separate component of stockholders’ equity and reported as a part of comprehensive income. Transaction gains and losses are included in the consolidated statements of operations as incurred.

Net Income (Loss) per Common Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted-average common shares outstanding during the period. Diluted net income (loss) per share is calculated by dividing net income (loss) by the weighted-average common shares and potentially dilutive securities outstanding during the period using the treasury stock method.

Income Taxes

Deferred tax assets and liabilities relate to temporary differences between the financial reporting basis and the tax basis of assets and liabilities, the carryforward tax losses and available tax credits. Such assets and liabilities are measured using tax rates and laws expected to be in effect at the time of their reversal or utilization. Valuation allowances are established, when necessary, to reduce the net deferred tax asset to an amount more likely than not to be realized. For interim reporting periods, the Company uses the estimated annual effective tax rate except with respect to discrete items, whose impact is recognized in the interim period in which the discrete item occurred.

Inventories

Inventories are stated at the lower of cost (weighted average FIFO) or market. The Company evaluates its inventory for potential excess and obsolete inventories based on forecasted demands and records a provision for such amounts as necessary.

Revenue Recognition

The Company recognizes revenue from the sale of its products to its customers when all of the following conditions have been met: (i) evidence exists of an arrangement with the customer, typically consisting of a purchase order or contract; (ii) the Company’s products have been shipped and risk of loss has passed to the customer; (iii) the Company has completed all of the necessary terms of the purchase order or contract; (iv) the amount of revenue to which the Company is entitled is fixed or determinable; and (v) the Company believes it is probable that it will be able to collect the amount due from the customer based upon an evaluation of the customer’s creditworthiness. To the extent that one or more of these conditions has not been satisfied, the Company defers recognition of revenue. An allowance for estimated future product returns and sales price allowances is established at the date of revenue recognition. An allowance for uncollectible receivables is established by a charge to operations when, in the opinion of the Company, it is probable that the amount due to the Company will not be collected.

The Company sells its products to distributors as well as to end customers. Sales to distributors are made pursuant to distributor agreements, which allow for the return of goods under certain limited circumstances. Accordingly, the Company follows the following criteria for recognition of sales to distributors: (i) the selling price to the distributor is fixed or determinable at the date of shipment; (ii) the distributor’s obligation to pay the selling price is not contingent on resale of the product; (iii) the Company’s product has been shipped and risk of loss has passed to the distributor; (iv) it is probable that the amount due from the distributor will be collected; (v) the Company does not have significant future obligations to directly assist in the distributor’s resale of the product; and (vi) the amount of future returns can be reasonably estimated. Once these criteria are met, the Company recognizes revenue upon shipment to the distributor and estimates returns based on historical sales returns.

Stock-Based Compensation

The Company accounts for share-based payments to employees based on requirements that all share-based payments to employees, including grants of employee stock options, shall be recognized in the financial statements based on their fair values. The cost of equity-based service awards is based on the grant-date fair value of the award and is recognized over the period during which the employee is required to provide service in exchange for the award (vesting period). Stock-based compensation arrangements with non-employees are accounted for utilizing the fair value method or, if a more reliable measurement, the value of the services or consideration received. The resulting compensation expense is recognized for financial reporting purposes over the term of performance or vesting.

Recent Accounting Pronouncements

In September 2011, the FASB amended ASC 350, Intangibles — Goodwill and Other. This amendment is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The amended provisions are effective for reporting periods beginning on or after December 15, 2011. This amendment impacts testing steps only and, therefore, adoption will not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU 2011-05, which amended ASC 220, Comprehensive Income. This amendment was issued to enhance comparability between entities that report under GAAP and International Financial Reporting Standards (IFRS) and to provide a more consistent method of presenting non-owner transactions that affect an entity's equity. The amendment requires companies to present the components of net income and other comprehensive income either as one continuous statement or as two separate but consecutive statements. It eliminates the option to report other comprehensive income and its components as part of the statement of changes in shareholders' equity. Furthermore, regardless of the presentation methodology elected, the issuer will be required to present on the face of the financial statements a reclassification adjustment for items that are reclassified from other comprehensive income to net income. The methodology for the computation and presentation of earnings per share remains the same. The pronouncement is effective for fiscal years beginning after December 15, 2011 and is to be applied retrospectively. As this pronouncement relates to disclosure only, the adoption did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2011, the FASB issued ASU 2011-12, deferring a requirement in ASU 2011-05 that companies present reclassification adjustments for each component of accumulated other comprehensive income (AOCI) in both net income and other comprehensive income (OCI) on the face of the financial statements. Companies continue to be required to present amounts reclassified out of AOCI on the face of the financial statement in which the components of OCI are presented or to disclose those amounts in the notes to the financial statements. The FASB is reconsidering the presentation requirements for reclassification adjustments.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (ASU No. 2011-04). The amendments in this update apply to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity's shareholders' equity in the financial statements. ASU No. 2011-04 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or IFRS. ASU No. 2011-04 changes the wording used to describe many requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, ASU No. 2011-04 clarifies the FASB's intent about the application of existing fair value measurements. The amendments in this update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of ASU No. 2011-04 did not have a material effect on the Company's financial position, results of operations or cash flows.

3. LONG-TERM INVESTMENTS

Investments held by the Company at June 30, 2012 and December 31, 2011 consisted primarily of auction rate securities, or ARS, and are considered available for sale. These securities reset the interest or dividend rates by auctions held at intervals of 7, 28, 35 or 49 days, and at such dates the Company has the option to sell such securities. The auction rate securities held by the Company have contractual maturities of greater than 10 years.

These investments are carried at fair value, with the unrealized gains and losses, if any, net of tax, reported in other comprehensive income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities are included in interest and dividend income. Quarterly, management reviews the valuation of investments and considers whether any decline in value is deemed to be other than a temporary decline.

At June 30, 2012, the Company held one ARS investment: Illinois Educational Facilities Authority Select Auction Variable Rate Securities having a value at par of $3.0 million with a maturity date in 2028. The carrying value of this investment at June 30, 2012 was $2.6 million, net of a $0.4 million temporary unrealized impairment loss. The Company has classified this investment as a long-term asset due to liquidity issues experienced in global credit and capital markets as well as failed auctions since the first quarter of 2008. A failed auction means that the amount of securities submitted for sale at auction exceeded the amount of purchase orders. If an auction fails, the issuer becomes obligated to pay interest at penalty rates, and all of the auction rate securities the Company holds continue to pay interest in accordance with their stated terms. However, the failed auctions create uncertainty as to the liquidity of these securities.

Based on the Company’s expected operating cash flows, and other sources of cash, the Company does not expect the potential lack of liquidity in these investments to affect its ability to execute its current business plan in the near term.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company’s financial instruments consist primarily of cash equivalents, restricted cash, short-term investments, accounts receivable, long-term investments, accounts payable, notes payable, accrued expenses and long-term debt, The carrying amounts of the Company’s financial instruments, which include cash equivalents, restricted cash, short-term investments, accounts receivable, accounts payable, notes payable and accrued expenses, approximate their fair values due to the short-term nature of the instruments. Long-term investments are measured at fair value on a recurring basis. The Company’s long-term debt consists of a five-year project loan from Agriculture Bank of China and reflects currently available terms and conditions. Consequently, the carrying value of the Company’s long-term debt approximates fair value.

Fair Value Measurement

The Company accounts for assets and liabilities recognized or disclosed in the financial statements at fair value on a recurring basis in accordance with the provisions of ASC Topic 820.

ASC Topic 820 provides that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants based on the highest and best use of the asset or liability. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. ASC Topic 820 requires the Company to use valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities or market-corroborated inputs

Level 3: Unobservable inputs for which there is little or no market data and which require the Company to develop its own assumptions about how market participants would price the assets or liabilities

The valuation techniques that may be used to measure fair value are as follows:

A. Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities

B. Income approach - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about those future amounts, including present value techniques, option-pricing models and excess earnings method

C. Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost)

The following table sets forth the Company's financial instruments that are measured at fair value on a recurring basis and presents them within the fair value hierarchy using the lowest level of input that is significant to the fair value measurement at June 30, 2012 (in thousands):

	Carrying amount as of June 30, 2012	Quoted prices in active markets available (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Valuation Technique
Cash and cash equivalents	$ 24,017	$ 24,017	$ -	$ -	(A)
Restricted cash	2,924	2,924	-	-	(A)
Short-term investments	34,889	34,889	-	-	(A)
Long-term investments	2,600	-	-	2,600	(B)
Total assets recorded at fair value	$ 64,430	$ 61,830	$ -	$ 2,600	

The reconciliation of the Company's long-term investments, consist of auction rate securities measured at fair value on a recurring basis using unobservable inputs (Level 3) is as follows (in thousands):

	Auction Rate Securities
Balance at January 1, 2012	$ 2,600
Redemptions	-
Transfers to Level 3	-
Gains and losses:	
Reported in earnings	-
Reported in other comprehensive loss	-
Balance at June 30, 2012	$ 2,600

The Company historically accounted for the ARS held in its portfolio as available-for-sale investments. The carrying value of these ARS approximated fair value due to the frequent resetting of the interest rate. While the Company continues to earn interest at the specified contractual rate on those investments involved in failed auctions, due to the illiquidity of these securities under current market conditions, the Company has considered whether par value continues to be a reasonable basis for estimating the fair value of these ARS at June 30, 2012 and December 31, 2011. The Company estimated the fair value of these securities at June 30, 2012 and December 31, 2011 using broker valuations and internally-developed models of the expected future cash flows related to the securities as well as referencing a third party specialist’s valuation. One of the more significant assumptions made in the Company’s internally-developed models was the term of expected cash flows of the underlying auction rate securities and the discount related to the illiquidity of the investments. The Company developed several scenarios for the liquidation of the auction rate securities over periods that ranged from 3 to 7 years and applied discount rates of 1.85% to 3.63% for the respective period to calculate the discounted fair value. In estimating the fair value of these investments, the Company also considered the financial condition and near-term prospects of the issuers, the magnitude of the losses compared to the investments' cost, the length of time the investments have been in an unrealized loss position, the low probability that the Company will be unable to collect all amounts due according to the contractual terms of the security, whether the security has been downgraded by a rating agency, and the Company’s ability and intent to hold these investments until the anticipated recovery in market value occurs. Based on its estimated operating cash flows and other sources of cash, the Company intends to hold these auction rate securities for the foreseeable future, if necessary.

The Company's valuation analysis in the second quarter of 2012 did not result in a change to the unrealized impairment loss on record at December 31, 2011. As of June 30, 2012, the unrealized impairment loss is $400,000. The Company continues to monitor the market for auction rate securities and to assess its impact on the fair value of the Company's investments. If current market conditions deteriorate further, the Company may be required to record additional temporary unrealized losses in other comprehensive loss or, if the decline in fair value is judged to be other-than-temporary, the cost basis of the individual security may be written down to fair value as a new cost basis and the amount of the write-down would be reflected as a charge to earnings.

5. INVENTORIES

Inventories consist of the following:

		June 30, 2012		December 31, 2011
Raw materials	$	4,386,228	$	5,106,112
Work in process		3,145,078		3,258,397
Finished units		3,370,998		3,094,644
Total	$	10,902,304	$	11,459,153

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess cost of the Crossbow asset acquisition over the net fair value allocated to the assets acquired and liabilities assumed and to the acquired intangible asset that does not qualify for separate recognition according to ASC Topic 805. All goodwill acquired in the Crossbow acquisition has been allocated to the Company's system solutions product segment. At June 30, 2012, the Company reported goodwill of $570,979, which includes foreign exchange impact of $35,997 for the first six months of 2012.

The Company evaluates the goodwill annually at the end of the year and determines whether events or circumstances exist to indicate an impairment loss. The Company performed an annual impairment test for goodwill in December 2011 and concluded that impairment existed as of December 31, 2011 and recorded an impairment charge of $4.5 million in 2011.

The Company will continue to perform an annual impairment test for goodwill at the end of each fiscal year to determine potential impairment of the remaining goodwill. In addition to the annual goodwill impairment test, an interim test for goodwill impairment will be completed when an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying value. Conditions that would trigger an impairment assessment include, but are not limited to, a significant adverse change in legal factors or business climate that could affect the value of an asset.

Intangible Assets

Intangible assets relate to issued and applied-for patents on the Company's core technology and gas meter processing know-how purchased in May 2008, as well as trademarks, customer relationships and developed technology acquired from Crossbow Technology, Inc. on January 15, 2010.

As of June 30, 2012, intangible assets consisted of the following:

	Gross carrying amount	Accumulated amortization	Net carrying amount	Expected life (Years)
Patents	$ 1,355,622	$ (325,992)	$ 1,029,630	15
Know-how	590,625	(457,166)	133,459	5
Trademarks	408,000	(408,000)	-	2
Customer relationships	4,874,428	(1,305,841)	3,568,587	8 - 10
Developed technology	7,474,741	(1,872,015)	5,602,726	8 - 10
	$ 14,703,416	$ (4,369,014)	$ 10,334,402	

Amortization expense expected over the next five years is approximately $1.4 million per year. Amortization expense amounted to $0.4 million respectively for each of the three months ended June 30, 2012 and 2011.

The Company has considered the cash flows associated with the valuation of the definite-lived intangible assets and concluded that the straight line method best approximates the economic pattern of usefulness of those assets.

7. NOTE PAYABLE TO BANK

On June 30, 2010, MTS, a wholly owned subsidiary of MEMSIC Semiconductor, entered into a five-year project loan agreement with Agricultural Bank of China. The total loan available is $20 million, of which $15 million was used by the Company for the purchase of substantially all the assets acquired from Crossbow Technology, Inc., $3 million for working capital purposes and $2 million for the purchase of equipment to be used in the manufacture of the Company's system solution products.

The loan is collateralized by the buildings and land owned by MEMSIC Semiconductor as well as the land and intellectual property owned by MTS. The interest rate of the loan is a variable rate, adjusted semi-annually based on the LIBOR rate plus 4.00%. MTS has obtained agreement from the local government in Wuxi, China to fully subsidize the interest expense on a quarterly basis. There are no financial covenants required for this loan. As of June 30, 2012, $17.9 million has been withdrawn and $17.4 million is outstanding. $2.1 million is available for borrowing. Interest expense of approximately $0.2 million is paid on a quarterly basis and is fully subsidized by the Wuxi government. Based on the terms of the agreement, there are no circumstances in which amounts previously subsidized by the Wuxi government are repayable by the Company. In the remote event the Wuxi government is unable to fulfill its obligation, the Company would recognize the interest expense in its income statement. The repayment schedule of the principal amount is as follows:

Date	Payment Amount
June 29, 2013	$ 1,000,000
June 29, 2014	$ 2,500,000
June 29, 2015	$ 13,930,000
	$ 17,430,000

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8. BUILDING LIABILITY

In June 2010, the Company purchased a piece of land in Wuxi for approximately $4.0 million to build the MTS manufacturing facility. In August 2011, the Company completed construction of the MTS manufacturing facility with 14,000 square meters of total space to host the manufacturing of its system solution products. The construction cost of approximately $8.0 million was financed by the local Chinese government. The Company is currently negotiating with the local Chinese government the terms of an arrangement under which the Company will either lease the building for five years or purchase the building at cost from the government within five years. The $8.0 million cost of construction of the building is reflected as a long-term liability in the accompanying consolidated financial statements.

9. STOCK BASED COMPENSATION

Description of Plan

On March 29, 2000, the Company's stockholders and board of directors approved the 2000 Omnibus Stock Plan (the "2000 Plan"), as amended, under which 2,969,000 shares of the Company's common stock were reserved for issuance to directors, officers, employees, and consultants. With the adoption of the 2007 Plan discussed below, the Company no longer grants awards under the 2000 Plan.

On August 22, 2007, the Company's board of directors approved the 2007 Stock Incentive Plan (the "2007 Plan"), under which up to 3,000,000 shares of the Company's common stock may become available for issuance. At the adoption date, 1,526,425 shares were reserved for issuance. The reserved amount will increase by 300,000 shares at each of the five anniversaries of the adoption date, for a maximum of 3,000,000 shares issuable under the 2007 Plan.

Options granted under the 2000 Plan and the 2007 Plan may be incentive stock options or nonqualified stock options. Both the 2000 Plan and the 2007 Plan provide that the exercise price of incentive stock options must be at least equal to the market value of the Company's common stock at the date such option is granted. For incentive stock option grants to an employee who owns more than 10% of the outstanding shares of common stock of the Company, the exercise price on the incentive stock option must be 110% of market value at the time of grant. Granted options expire in ten years or less from the date of grant and vest based on the terms of the awards, generally ratably over four years.

Prior to December 19, 2007, there was no public market for the Company's common stock. Accordingly, the board of directors determined the market value of the common stock at the date of grant by considering a number of relevant factors, including the Company's operating and financial performance and corporate milestones achieved, the prices at which shares of convertible preferred stock in arm's-length transactions were sold, the composition of and changes to the management team, the superior rights and preferences of securities senior to the common stock at the time of each grant and the likelihood of achieving a liquidity event for the shares of common stock underlying stock options.

On December 9, 2009, the Company's board of directors approved the 2009 Nonqualified Inducement Stock Option Plan (the "2009 Plan") with an effective date on January 15, 2010, the closing date of the acquisition of Crossbow assets. Under the 2009 Plan, up to 1,250,000 shares of the Company's common stock may become available for issuance. On December 23, 2010, the Company's board of directors approved an Amended and Restated 2009 Nonqualified Inducement Stock Option Plan (the "Amended and Restated Plan") and an increase in shares of the Company's common stock available for issuance under the Amended and Restated Plan from 1,250,000 to 2,500,000. Except as otherwise determined by the Compensation Committee of the Company's board of directors, the form of option to be employed under the Amended and Restated Plan shall be substantially identical to the form of nonqualified option customarily used under the Company's 2007 Stock Incentive Plan.

On June 29, 2011 at its Annual Meeting of Stockholders, the Company's stockholders and board of directors approved the amendment and restatement of the Company's 2007 Plan. The Amended and Restated 2007 Plan

- permits the granting of restricted stock units ("RSU"), performance-based stock awards and stock appreciation rights;
- eliminates the ability to reprice options;

- extends the expiration date of the plan to June 29, 2021;
- provides that awards may qualify as “performance-based compensation” under Section 162(m) of the Internal Revenue Code of 1986, as amended; and
- incorporates certain other administrative provisions.

The approval of the amendment and restatement of the 2007 Plan does not change the number of shares available for awards under the 2007 Plan.

On June 28, 2012 at its Annual Meetings of Stockholders, the Company’s shareholders voted to approve an amendment to the 2007 Plan, including increasing the number of shares of common stock issuable under the 2007 Plan by 1,500,000 shares. The maximum shares issuable under the 2007 Plan thus increased to 4,500,000 shares.

Valuation of Stock Options

The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of an option award. The key input assumptions used in the Black-Scholes option pricing model include: (i) the risk-free interest rate is based on the yield available on U.S. Treasury zero-coupon bonds at the date of grant with maturity dates approximately equal to the expected life at the grant date, (ii) the expected life of the options is based on evaluations of historical and expected future employee exercise behavior; (iii) volatility is based on the implied volatility of the Company’s common stock, which the Company believes results in the best estimate of the grant-date fair value of employee stock options because it reflects the market’s current expectations of future volatility. Prior to January 1, 2010, due to limited historical information on the volatility of the Company’s common stock, the Company determined the volatility for options based on an analysis of reported data for a peer group of companies that issued options with substantially similar terms; and (iv) dividend yield of zero, as the Company has not paid dividends in the past and it does not expect to in the foreseeable future. The Company utilizes historical data to estimate pre-vesting forfeitures and records stock-based compensation expense only for those awards that are expected to vest.

The weighted-average fair value per share of the options granted during the three and six months ended June 30, 2012 was $2.23, while the weighted-average fair value per share of the options granted during the three and six months ended June 30, 2011 was $1.97, utilizing the following assumptions:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Volatility	67% - 71%	64%	67% - 71%	64%
Expected dividend yield	0%	0%	0%	0%
Expected life (years)	6.3 - 8.5	5.6	6.3 - 8.5	5.6 - 5.8
Risk free interest rate	1.15% - 1.44%	2.20%	1.15% - 1.44%	2.20% - 2.34%
Forfeitures	33% - 36%	37%	33% - 36%	36% - 37%

The Company accounts for stock options granted to consultants using the fair value method for the calculation of compensation cost. For the three months ended June 30, 2012 and 2011, the Company recorded compensation expense for stock option grants to consultants in the amount of approximately $1,000 and $7,000, respectively. At June 30, 2012, total unrecognized stock-based compensation expense for stock options granted to consultants was $17,800.

At June 30, 2012, total unrecognized stock-based compensation expense for stock options granted to the Company’s employees and directors was approximately $2.5 million.

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The stock option activity under the 2000, 2007 and 2009 Stock Plans is as follows:

	Options Outstanding	Weighted Average Exercise Price	Remaining Contractual Term in Years	Aggregrate Intrinsic Value
Options outstanding at January 1, 2012	2,338,805	$ 5.00	6.5	$ 1,131,474
Granted	615,000	2.23	-	-
Exercised	(106,468)	1.82	-	-
Cancelled	(54,100)	3.99	-	-
Options outstanding at June 30, 2012	2,793,237	$ 4.53	6.9	$ 1,850,058
Options vested at June 30, 2012	1,434,373	$ 4.70	5.4	$ 1,104,042
Available for grant at June 30, 2012	3,684,075			

The intrinsic values (aggregate market value minus aggregate exercise price) of stock options exercised during the three months ended June 30, 2012 and 2011 were $269,500 and $16,600, respectively. The total fair value of options vested during the three and six months ended June 30, 2012 was approximately $189,000 and $504,000, respectively. The total fair value of options vested during the three and six months ended June 30, 2011 was approximately $158,000 and $397,000, respectively.

Stock-based compensation expenses related to stock options, restricted stock awards ("RSAs") and RSUs were charged to the following expenses:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Research and development	$ 42,616	$ 63,385	$ 86,869	$ 184,579
Sales and marketing	22,437	21,914	90,158	87,929
General and administrative	363,021	307,515	573,975	521,722
Total	$ 428,074	$ 392,814	$ 751,001	$ 794,230

The Company accounted for RSAs and RSUs using the fair value at the date of the grant for the calculation of compensation cost. For the three and six months ended June 30, 2012, the Company recorded compensation expense for RSAs and RSUs in the amount of $207,000 and $344,000 respectively.

As of June 30, 2012, total unrecognized compensation expenses related to non-vested RSAs and RSUs were $166,000 and $2.1 million, respectively. These expenses are expected to be recognized over a weighted average period of 2.8 years for RSAs and 3.3 years for RSUs.

A summary of RSA activity for the six months ended June 30, 2012 is as follows:

	Shares	Weighted Average Market Value at Grant Date
Nonvested at January 1, 2012	140,000	$ 3.41
Awarded	-	-
Vested	(87,500)	3.41

Forfeited	-		-
Nonvested at June 30, 2012	52,500	$	3.41

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A summary of RSU activity for the six months ended June 30, 2012 is as follows:

	Shares	Weighted Average Market Value at Grant Date
Nonvested at January 1, 2012	534,000	$ 3.12
Awarded	310,000	3.42
Vested	(47,083)	3.18
Forfeited	(80,000)	3.03
Nonvested at June 30, 2012	716,917	$ 3.26

10. COMMON STOCK

The Company reserved 7,194,229 and 5,719,030 shares at June 30, 2012 and 2011, respectively for issuance upon exercise of options to purchase common stock and upon vesting of RSUs.

11. NET INCOME (LOSS) PER COMMON SHARE

The calculation of the numerator and denominator for basic and diluted net income (loss) per common share is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Numerator:				
Net income (loss) attributable to MEMSIC, Inc.	$(461,414)	$(1,108,301)	$739,090	$(2,436,482)
Denominator:				
Basic weighted average shares	23,986,332	23,823,321	23,919,650	23,818,467
Dilutive effect of common stock equivalents	-	-	485,127	-
Diluted weighted average shares	23,986,332	23,823,321	24,404,777	23,818,467
Net income (loss) per common share to MEMSIC, Inc.				
Basic	$(0.02)	$(0.05)	$0.03	$(0.10)
Diluted	$(0.02)	$(0.05)	$0.03	$(0.10)

During the six months ended June 30, 2012 and 2011, the Company had 1.5 million and 1.0 million, respectively, potential common shares in the form of stock options which were not included in the computation of net income (loss) per diluted share because these stock options would be anti-dilutive.

12. SEGMENT INFORMATION

The Company conducts its operations and manages its business in two reporting segments. The Company develops, designs, manufactures and markets (i) semiconductor sensor products (“sensor products”) based on micro-electromechanical systems (MEMS) technology and advanced integrated circuit design and (ii) sensor system solution products (“system solution products”) which incorporate sensors with on-board computing, wireless communications and systems and application software solutions and which initially consisted of the product lines acquired from Crossbow in January 2010. In making operating decisions, the Company's chief executive officer, who is the chief operating decision maker, considers the gross profit results of the sensor product reporting unit and the system solution product reporting unit separately, but utilizes enterprise wide operating expense and earning results. As the management resources and certain assets are shared between the reporting segments, it is not practical to report the earnings and assets separately.

Revenues by product application

The categorization of revenue by product application is determined using a variety of data points including the technical characteristics of the product, the end customer product and application into which the Company's product will be incorporated, and requires substantial judgment. Set forth below are the Company's revenues by product application for the periods presented.

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Mobile phone	$5,890,070	$7,493,107	$17,636,794	$12,152,859
Consumer	2,394,135	1,255,118	3,818,912	2,632,320
Automotive	3,376,208	3,459,332	7,069,912	7,300,479
Industrial/other	2,754,824	3,165,077	5,906,672	6,241,896
Total	$14,415,237	$15,372,634	$34,432,290	$28,327,554

Revenues and gross profit by product type

The following table summarizes revenue and gross profit by product categories.

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Revenue				
Sensor products	$ 12,004,181	$ 12,742,245	$ 29,212,198	$ 22,978,347
System solution products	2,411,056	2,630,389	5,220,092	5,349,207
Total	$ 14,415,237	$ 15,372,634	$ 34,432,290	$ 28,327,554

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Gross Profit				
Sensor products	$ 4,462,567	$ 3,695,571	$ 10,467,274	$ 7,037,849
System solution products	1,321,820	1,302,598	2,734,212	2,902,041
Total	$ 5,784,387	$ 4,998,169	$ 13,201,486	$ 9,939,890

Revenues by geographical region

Revenue by geographic region, based upon customer location, for the three and six months ended June 30, 2012 and 2011 was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Asia (excluding Japan)	$7,106,611	$8,677,298	$19,831,847	$14,917,216
Europe	954,874	708,644	1,981,968	1,683,888
Japan	2,848,416	1,306,243	5,086,233	3,226,937
North America	3,484,788	4,596,375	7,491,786	8,335,571

Other	20,548	84,074	40,456	163,942
Total	$14,415,237	$15,372,634	$34,432,290	$28,327,554

Total Assets by geographical region

Total assets by geographical region are as follows:

		June 30, 2012		December 31, 2011
United States	$	55,472,676	$	54,144,187
China		65,993,043		71,877,989
Japan		1,505,002		1,510,343
Total	$	122,970,721	$	127,532,519

Total long-lived assets by geographical region are as follows:

		June 30, 2012		December 31, 2011
United States	$	659,768	$	830,826
China		29,331,567		30,166,756
Japan		599		907
Total	$	29,991,934	$	30,998,489

13. CONTINGENCIES

The Company may be subject to claims that arise out of the ordinary course of business in legal disputes. In management's opinion, these matters will not have a material adverse effect on the financial position of the Company.

14. SUBSEQUENT EVENTS

The Company evaluated subsequent events occurring after June 30, 2012 through the date of filing these financial statements, and concluded that there was no event of which management was aware that occurred after the balance sheet date that would require any adjustment to the accompanying consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This information should be read in conjunction with the unaudited condensed consolidation financial statements and related notes included in Item 1 of the Quarterly Report on Form 10-Q and the audited consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

This quarterly report on Form 10-Q contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include any expectation of earnings, revenues,or other financial items; any statements of the plans, strategies and objectives of management for future operations; factors that may affect our operating results; statements concerning new products or services; statements related to future capital expenditures; statements related to future economic conditions or performance; statements as to industry trends and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. These statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "target," "continue," and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. 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 Form 10-Q and in our other filings with the SEC. Furthermore, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We provide advanced semiconductor sensor and system solutions based on integrated MEMS technology and mixed signal circuit design. We operate and manage our business in two reporting segments. We develop, design, manufacture and market:

- semiconductor sensor products, which we refer to as sensor products, based on micro-electromechanical systems (MEMS) technology and advanced integrated circuit design; and

- sensor system solution products, which we refer to as system solution products, which incorporate sensors with on-board computing, wireless communications and systems and application software solutions.

In making operating decisions, our chief executive officer, who is the chief operating decision maker, considers the gross profit results of the sensor product segment and the system solution product segment separately, but utilizes enterprise wide operating expense and earning results.

Our sensor products combine proprietary thermal-based MEMS technology and advanced analog mixed signal processing circuitry design into a single chip using a standard CMOS process. This approach allows us to provide sensor solutions at a lower cost, with higher performance and greater functionality than our competitors. Our magnetic sensor product is based on AMR technology which provides higher accuracy, better sensitivity across temperature and lower power as compared to hall-effect based magnetic sensors. In addition, our technology platform allows us to easily integrate additional functions or create new sensors to expand into touch and flow sensors and related applications. Our sensor products have a wide range of applications such as mobile phones, automotive safety systems and video projectors.

Our system solution products consist primarily of wireless sensors that connect the physical environment with enterprise management and information systems to provide advanced monitoring, automation and control solutions for a range of industries, as well as inertial systems that provide end-users and systems integrators with MEMS-based solutions for measurement of static and dynamic motion in a wide variety of challenging environments, including avionics, remotely operated vehicles, agricultural and construction vehicles, automotive test and wind power turbines.

Our system solution products consisted primarily of the product lines we acquired from Crossbow Technology in January 2010, including the non-military portion of Crossbow's inertial navigation systems business and its wireless sensor network Mote and eKo environmental monitoring business.

We manufacture our sensor products utilizing a "semi-fabless" model by outsourcing the production of CMOS wafers and completing the post-CMOS MEMS process in-house. By outsourcing the standard CMOS manufacturing process, we are able to more efficiently manage our capital expenditures and cost of goods sold.

We manufacture our wireless system solution products and partial inertial system solution products through outsourcing most of the assembly process to third-party contract assembly vendors and performing final testing and programming functions in-house at our facility in Wuxi. Certain of our inertial system solution products, including FAA certified products, are manufactured by Crossbow Technology under a manufacturing agreement that expires on December 31, 2012.

We sell our products either to distributors, which then resell to OEMs and ODMs, or to OEM and ODM customers directly. Historically, a small number of our customers have accounted for a substantial portion of our revenue, and sales to our largest distributor customers and OEM and ODM customers have varied significantly. This significant variation is in part due to the fact that our sales are made on the basis of purchase orders rather than long-term contracts. Although our distributors generally provide us with non-binding rolling forecasts, our distributors generally have up to 30 days prior to delivery to cancel or reschedule shipments pursuant to our distribution agreements. This arrangement has added to the fluctuation and unpredictability of our sales. Because our products are a component of our customers' products, our sales performance is significantly affected by the sales performance of our customers' products. It is difficult for us to accurately forecast our product demand because in the case where we sell our products to distributors, we may not know the identity of the distributor's OEM and ODM customers and information regarding their demand.

OEM and ODM customers' products are complex and require significant time to define, design and ramp to volume production. Our sales cycle begins with our marketing and sales staff and application engineers engaging with our OEM and ODM customers' system designers and management, which is typically a multi-month, or even multi-year, process. If this process is successful, an OEM and ODM customer will decide to incorporate our solution in its product, which we refer to as a design-win. Because the sales cycles for our products are long, we incur expenses to develop and sell our products, regardless of whether we achieve the design-win and well in advance of generating revenue, if any, from those expenditures. Although we do not have long-term purchase commitments from any of our distributor customers or OEM and ODM customers, once one of our products is incorporated into an OEM's or ODM's design, it is likely to remain a part of the design for the life cycle of its product. We believe this to be the case because a redesign would generally be time consuming and expensive.

Description of Certain Line Items

Net Sales

Net sales represent gross revenue net of an allowance for the estimated amount of product returns and sales rebates from our customers. Sales to distributors are made pursuant to distributor agreements, which allow for the return of goods under certain circumstances. We recognize revenue in accordance with ASC Topic 605-15, Revenue Recognition.

Historically, our revenue has been derived primarily from shipments of our sensor products. As a result of our Crossbow acquisition in January 2010, net sales of system solution products have expanded and accounted for 16.7% of our net sales in the second quarter of 2012. The primary factors that affect our revenue are the sales volumes and average selling prices of our products. Growth in our net sales has generally been attributable to the increase in the unit volumes of our products, as the average selling prices of our sensor products have tended to decline due to the following factors, among others:

- the semiconductor component market is highly competitive, and as a result, the average selling prices of particular components generally experience rapid declines over the course of their respective product and technology life cycles. This trend has been particularly evident recently in the market for mobile phone applications. We seek to mitigate the impact of this trend on our business by continuing to rapidly design, develop and sell new generations of products with additional functionalities to replace older generation products;

- we may also reduce our product prices as we are able to increase our production yields by continuously improving the manufacturing efficiency or to reduce our manufacturing costs by re-engineering our product and reducing the overall material cost;

- changes in our product mix may affect the average selling prices of our products. For example, our products for consumer and mobile phone markets generally have lower average selling prices than products for the automotive market. The average selling prices of products may also be affected by our strategy to increase market adoption of our products in certain markets; and

- we occasionally grant discounts or modified payment terms to our large customers or OEM and ODM customers for high volume purchases.

Net Sales by Reportable Segment

Our sales consist of two reportable segments: sensor products that are used as components in our customers' products and system solution products that incorporate sensors with on-board computing, wireless communications and systems and application software solutions and offer a complete system solution to our customers. The following table sets forth our net sales by reportable segment for the periods indicated by amount and as a percentage of our net sales (dollar amounts in thousands).

	Three months ended June 30,				Six months ended June 30,			
	2012		2011		2012		2011	
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Sensor products	$ 12,004	83.3 %	$ 12,742	82.9 %	$ 29,212	84.8 %	$ 22,978	81.1 %
System solution products	2,411	16.7	2,630	17.1	5,220	15.2	5,349	18.9
Total	$ 14,415	100.0 %	$ 15,372	100.0 %	$ 34,432	100.0 %	$ 28,327	100.0 %

Net Sales by Application

In the first six months of 2012, net sales from mobile phone applications were the largest component of our total sales, representing 51.2% of total net sales, compared with 42.9% of total net sales for the corresponding period in 2011. The increase was primarily due to increased volume in magnetic sensor sales. We expect that sales from mobile phone applications will decrease in the second half of 2012 as our forecasted sales to one of our major mobile phone manufacturer are expected to decrease due to the continued decline of the average sales price and the winding down in sales volume of the phone models that our sensor are designed in. However, mobile phone applications will continue to be the largest component of our total sales for the remainder of 2012.

Net sales from automotive applications were the second largest component of our total sales, representing 20.5% of total net sales, compared with 25.8% of total net sales for the corresponding period in 2011. The decrease was due to the volume of the old rollover application ramping down. To increase sales from the automotive market, we will continue to seek to increase sales from new automotive applications and to expand our customer base. However, revenue increases, if any, from the automotive market will require significant time, as the development lead time in this market is generally longer than other markets in which we participate.

Net sales from industrial and other applications, representing 17.2% of total net sales, decreased in the first six months of 2012 compared to the corresponding period of 2011 due to the slow transition to upgraded new products. We expect net sales from industrial and other applications to stay flat for the remainder of 2012 while we work toward expanding these markets with new and upgraded products.

Net sales from consumer applications increased in the first six months of 2012 to $3.8 million, or 11.1% of total net sales, compared to $2.6 million, or 9.3% of total net sales in the corresponding period of 2011. This increase was primarily due to an increase in sales of our accelerometer product in the digital camera application in the Japan market. We expect sales from the digital camera application will remain strong for the remainder of 2012.

The following table sets forth our net sales by application for the periods indicated by amount and as a percentage of our net sales (dollar amounts in thousands).

	Three months ended June 30,				Six months ended June 30,			
	2012		2011		2012		2011	
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Mobile phone	$5,890	40.9 %	$7,493	48.7 %	$17,637	51.2 %	$12,153	42.9 %
Consumer	2,394	16.6	1,255	8.2	3,819	11.1	2,632	9.3
Automotive	3,376	23.4	3,459	22.5	7,070	20.5	7,300	25.8
Industrial/other	2,755	19.1	3,165	20.6	5,906	17.2	6,242	22.0
Total	$14,415	100.0 %	$15,372	100.0 %	$34,432	100.0 %	$28,327	100.0 %

Net Sales by Customer Base

Our customers primarily consist of distributors, OEMs and ODMs. Historically, a small number of our customers have accounted for a substantial portion of our net sales. We have three customers representing 10% or more of our net sales, which combined, accounted for approximately 58.3% of our net sales in the second quarter of 2012 compared with two customers representing 50.7% in the corresponding period of 2011.

We have experienced and will continue to experience fluctuations in demand from a significant number of customers. It is difficult for us to accurately forecast our product demand, particularly in the case of sales to our distributors, as we may not know the identity of the distributor’s OEM and ODM customers and lack information regarding their demand, and recent adverse macro-economic changes have increased the difficulty of accurately forecasting product demand and revenue. Occasionally, design changes in the products of our OEM and ODM customers have resulted in the loss of sales.

Net Sales by Geography

Our products are shipped to OEM and ODM customers worldwide. However, we focus on different application markets among geographical regions. In Asia (excluding Japan), our revenue is primarily derived from products for mobile phone applications. We are also seeking to expand the consumer and industrial applications markets in that region. In Japan, our revenue has primarily been derived from products for consumer applications, particularly projectors and digital cameras. We are also seeking to penetrate the automotive market in Japan. In North America, our revenue has primarily been derived from products for automotive applications. In Europe, our revenue has fluctuated. The Crossbow acquisition has broadened our sales in the industrial and other markets in North America, Japan and Europe.

The following table sets forth our net sales by geographical region for the periods indicated by amount and as a percentage of our net sales (dollar amounts in thousands).

	Three months ended June 30,				Six months ended June 30,			
	2012		2011		2012		2011	
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Asia (excluding Japan)	$7,107	49.3 %	$8,677	56.5 %	$19,832	57.6 %	$14,917	52.7 %

Europe	955	6.6		709	4.6		1,982	5.8		1,684	5.9	
Japan	2,848	19.8		1,306	8.5		5,086	14.8		3,227	11.4	
North America	3,485	24.2		4,596	29.9		7,492	21.7		8,335	29.4	
Other	20	0.1		84	0.5		40	0.1		164	0.6	
Total	$14,415	100.0	%	$15,372	100.0	%	$34,432	100.0	%	$28,327	100.0	%

The increase in net sales to Japan in the second quarter of 2012 is mainly attributable to increased accelerometer sales from digital camera application.

Cost of Goods Sold

We are a semi-fabless company. For our sensor products, we outsource wafer production to third-party foundries and complete the post-CMOS MEMS and most of the packaging, assembly and testing functions in-house. We also purchase our ceramic packaging materials from third-party suppliers.

Our wireless system solution products and part of the inertial system solution products were manufactured by MTS, our indirect subsidiary in Wuxi, China through outsourcing most of the assembly process to third-party contract assembly vendors and performing final testing and programming functions in-house at our facility in Wuxi. We have extended the manufacturing agreement with Crossbow Technology to provide for support of manufacturing certain non-FAA certified products and all of the FAA certified products until December 31, 2012.

Cost of goods sold consists of: (i) cost of wafer, ceramic and other materials purchased from third parties; (ii) manufacturing overhead, primarily consisting of salaries and wages of our quality control employees and manufacturing-related management employees, depreciation, and equipment and parts; (iii) direct labor, primarily consisting of salaries and wages of our manufacturing operators; and (iv) processing fees paid to third-party packaging service providers and assembly vendors.

Our relationships with third-party foundry and packaging service providers do not provide for guaranteed levels of production capacity at pre-determined prices. As a result, our outsourcing costs relating to wafer production, and to a lesser extent, packaging services, are susceptible to sudden changes based on conditions in the global semiconductor market and our service providers' available capacity.

Gross Profit and Gross Margin

Our gross profit and gross margin from our sensor product have been continuously challenged by a variety of factors, including average selling prices of our products, our product application mix, prices of wafers, excess and obsolete inventory, pricing by competitors, changes in production yields, and percentage of sales conducted through distributors. Our products for mobile phone and consumer applications have historically had lower margins than our products for automotive and industrial applications. We have continuously worked to stabilize and improve our gross margin through engineering redesign of our sensor and increased manufacturing efficiency. In the second quarter of 2012, our gross margin improved to 40.1% from 32.5% in the corresponding period of 2011 as a result of our cost reduction effort and the decrease of our net sales to mobile phone application as a percentage of total sales. Notwithstanding the relatively lower margin in the mobile phone applications market, we will seek to increase our market share in that market by introducing improved low cost sensor products because of the significant potential for further revenue growth in the mobile phone applications market.

The gross margin from systems solution products improved in the past year, reflecting the reduced cost associated with our transfer of manufacturing to our Wuxi, China operations. The gross margin from systems solution products fluctuates based on the mix of product sales. Gross margins from wireless sensor network products are generally lower than those of inertial products. In the second quarter of 2012, the gross margin from system solution products increased to 54.9% from 49.5% in the corresponding period of 2011, mainly due to an increase in the inertial product sales.

Research and Development Expenses

Research and development expenses are recognized as they are incurred and primarily consist of salaries and wages of research and development employees; research costs, primarily consisting of mask costs and prototype wafers and consulting fees paid for outside design services; travel and other expenses; and stock-based compensation attributable to our research and development employees.

Historically, research and development expenses have increased both in absolute terms and as a percentage of total net sales. We expect our research and development expenses in absolute terms to increase for the remainder of 2012 as we seek to diversify into non-accelerometer products. However, research and development expenses as a percentage of total net sales are expected to decline as our total net sales continue to increase.

Sales and Marketing Expenses

Sales and marketing expenses primarily consist of wages, salaries and commissions for our sales and marketing personnel; consulting expenses, primarily consisting of sales consulting services and software application consulting services; travel expenses; independent sales representatives' commissions; office rental; market promotion and other expenses and stock-based compensation. We expect sales and marketing expense to increase for the remainder of 2012 as we continue to invest in sales and marketing resources to develop new market applications, expand our sales marketing network and engage in additional marketing and promotional activities.

General and Administrative Expenses

General and administrative expenses primarily consist of salaries and wages for administrative personnel; costs for professional services, including legal, tax and accounting services; travel and entertainment expenses; office supply and other office-related expenses; office rental expenses; other expenses, such as utilities, insurance and provision for accounts receivable; and stock-based compensation.

Our general and administrative expenses increased in the first six months of 2012 due to added corporate quality and IT resources and expanded operations in Wuxi China. We expect that in the near term our general and administrative expenses will remain flat at the current level.

Other Income (Expense)

Other income (expense) primarily consists of interest income earned on our investments of cash and cash equivalents, and interest expense incurred on our borrowings and net foreign currency exchange gains and losses.

Provision for Income Taxes

We conduct sales through our headquarters in Andover, Massachusetts. Our Wuxi subsidiary is primarily engaged in manufacturing and engineering activities and does not conduct direct sales to customers. For internal accounting and PRC tax purposes, we account for the transfers of goods from our Wuxi subsidiary to our U.S. headquarters as sales, and calculate the transfer price of such sales based on a markup of manufacturing and operating costs. We believe the prices of these sales were consistent with the prevailing market prices.

U.S. Tax

In the United States, we are subject to the federal income tax and the Massachusetts state income tax, which are approximately at the rates of 34.0% and 8.25%, respectively. At December 31, 2011, the Company had gross U.S. net operating loss carryforwards of $8.7 million, which expire in various amounts beginning in 2028. Included within this amount is approximately $289,000 of excess tax deductions associated with non-qualified stock options that have been exercised. When these excess tax benefits actually result in a reduction to currently payable income taxes, the tax benefit will be recorded as an increase to additional paid-in capital. The Company's operating losses may be subject to limitations under provisions of the Internal Revenue Code.

PRC tax

Our PRC taxes primarily consist of enterprise income tax, value-added tax, and certain other miscellaneous taxes.

Enterprise Income Tax

Under the "Enterprise Income Tax Law" of China, which took effect on January 1, 2008, Foreign Invested Enterprises (FIEs) and domestic companies are subject to a uniform tax rate of 25%. In addition, preferential tax treatment would continue to be given to companies (FIEs or domestic) in certain encouraged sectors and to entities classified as "high-technology companies especially supported by the PRC government". A company needs to meet certain qualification requirements in order to be eligible for this preferential tax treatment. The qualification will be reviewed every three years.

MEMSIC Semiconductor has been qualified as a "high-technology company especially supported by the PRC government" since 2008 and passed the "high-technology Company especially supported by the PRC government" review in 2011. Therefore, a preferential enterprise income tax rate of 15% under the new tax law will apply to MEMSIC Semiconductor from 2012 to 2014. Prior to 2012, according to the relevant transition preferential tax policies issued by the State Council, the preferential enterprise income tax rate under the new tax law and the transition-period preferential tax policy can not apply simultaneously. MEMSIC Semiconductor chose a 50% reduction on the uniform enterprise income tax rate of 25% from 2009 to 2011, with an effective tax rate of 12.5%.

The new tax law and its implementing rules provide that dividends paid by a PRC entity to a non-resident enterprise for tax purposes is subject to PRC withholding tax at a rate of 10% subject to reduction by an applicable tax treaty with the PRC. We expect that a 10% withholding tax will apply to dividends paid to us by our Wuxi subsidiary, but this treatment will depend on our status as a non-resident enterprise of China. For detailed discussion of PRC tax issues related to resident enterprise status, see "Risk Factors -Risks Related to Doing Business in China - We may be treated as a resident enterprise for PRC tax purposes under the Enterprise Income Tax Law effective as of January 1, 2008, which may subject us to PRC income tax for any dividends we pay to our non-PRC stockholders" in our Annual Report on Form 10-K for the year ended.

Our indirect Wuxi subsidiary and MEMSIC Semiconductor's wholly owned subsidiary MEMSIC Transducer Systems Company Limited ("MTS") is subject to the enterprise income tax rate of 25%. In 2012, MTS will apply for "high-technology Company especially supported by the PRC government". Once approved, a preferential enterprise income tax rate of 15% will apply to MTS.

See "Risk Factors—Risks Related to Doing Business in China—The discontinuation of any of the preferential tax treatments currently available to us in China could materially and adversely affect our business, financial condition and results of operations." included in our Annual Report on Form 10-K for the period ended December 31, 2011.

Other PRC taxes

Other miscellaneous PRC taxes primarily consist of property tax, land-use tax and stamp tax which are accounted for in our general and administrative expenses, and education surcharge and City maintenance and construction tax, which is recorded as part of our cost of goods sold.

Crossbow Japan Taxes

Our majority owned joint venture in Japan is subject to Japan taxes including enterprise income tax, value-added tax, and certain other miscellaneous taxes. The effective income tax rate for Crossbow Japan is 40%.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We consider an accounting policy to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. For a discussion of the critical accounting policies that we consider to be the most sensitive and that require the most significant estimates and assumptions used in the preparation of our consolidated financial statements, see our Annual Report on Form 10-K for the year ended December 31, 2011, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations--Critical Accounting Policies." There has been no change in our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2011.

Results of Operations

The following tables set forth a summary of our unaudited statements of operations data for the periods described by amount and as a percentage of our total net sales. This information should be read together with our unaudited consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. The operating results in any period are not necessarily indicative of the results that may be expected for any future period:

	For the three months ended June 30,				For the six months ended June 30,			
	2012		2011		2012		2011	
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales
	(dollar amounts in thousands)				(dollar amounts in thousands)			
Net sales	$14,415	100.0 %	$15,372	100.0 %	$34,432	100.0 %	$28,327	100.0 %
Cost of goods sold	8,631	59.9	10,374	67.5	21,231	61.7	18,387	64.9
Gross profit	5,784	40.1	4,998	32.5	13,201	38.3	9,940	35.1
Operating expenses:								
Research and development	1,769	12.3	2,112	13.7	3,472	10.1	4,410	15.6
Sales and marketing	1,228	8.5	1,530	10.0	2,661	7.7	2,995	10.6
General and administrative	2,400	16.6	2,097	13.6	4,636	13.5	3,977	14.0
Depreciation	378	2.6	423	2.8	817	2.4	797	2.8
Amortization	414	2.9	402	2.6	810	2.3	808	2.8
Total operating expenses	6,189	42.9	6,564	42.7	12,396	35.9	12,987	45.8
Operating income (loss)	(405)	(2.8)	(1,566)	(10.2)	805	2.4	(3,047)	(10.7)
Other income:								
Interest and dividend income	125	0.9	98	0.6	233	0.7	182	0.6
Foreign exchange gain	(193)	(1.4)	329	2.2	(225)	(0.7)	519	1.8
Other, net	25	0.2	14	0.1	39	0.1	82	0.3
Total other income (expense)	(43)	(0.3)	441	2.9	47	0.1	783	2.7
Income (loss) before income taxes	(448)	(3.1)	(1,125)	(7.3)	852	2.5	(2,264)	(8.0)
Provision (benefit) for income taxes	29	0.2	(3)	(0.0)	98	0.2	114	0.4
Net income (loss)	(477)	(3.3)	(1,122)	(7.3)	$754	2.3	$(2,378)	(8.4)
Less: net income attributable to	(16)	(0.1)	(14)	(0.1)	14	0.1	59	0.2

noncontrolling interests								
Net income (loss) attributable to MEMSIC, Inc.	$(461)	(3.2)%	$(1,108)	(7.2)%	$740	2.2%	$(2,437)	(8.6)%

Quarter Ended June 30, 2012 Compared to Quarter Ended June 30, 2011

Net sales. Our net sales decreased by 6.2% to $14.4 million for the three months ended June 30, 2012 from $15.4 million in the corresponding period of 2011. This decrease was primarily due to a decrease in net sales of our magnetic sensor product to a major mobile phone manufacturer, whose market sales of the smart phone models in which our sensor is included have declined.

Cost of goods sold. Our cost of goods sold decreased by 16.8% to $8.6 million for the three months ended June 30, 2012 from $10.4 million for the corresponding period of 2011. This increase was primarily due to the decrease in the volume of units sold from our magnetic sensor products.

Gross profit and gross margin. Our gross profit increased by 15.7% to $5.8 million for the three months ended June 30, 2012 from $5.0 million in the corresponding period of 2011. Our gross margin percentage increased by approximately 7.6 percentage points to 40.1% for the three months ended June 30, 2012 from 32.5% in the corresponding period of 2011 due to the decrease of our net sales to mobile phone application as a percentage of total sales and our continuous cost reduction effort.

Our gross profit and gross margin by reportable segment are shown in the following table (dollars in thousands):

	Three months ended June 30,			
	2012		2011	
	Gross Profit	Margin %	Gross Profit	Margin %
Sensor products	$ 4,462	37.2 %	$ 3,696	29.0 %
System solution products	1,322	54.9	1,302	49.5
Total	$ 5,784	40.1 %	$ 4,998	32.5 %

Gross profit from our sensor products increased to $4.5 million for the three months ended June 30, 2012 from $3.7 million for the corresponding period of 2011 as a result of the decrease, as a percentage of sales, in sales of our lower margin magnetic sensor product to a major mobile phone manufacturer. Gross margin of our sensor products also increased to 37.2% for the three months ended June 30, 2012 from 29.0% for the corresponding period of 2011 as a result of our continued effort in cost reduction of our magnetic sensor product through engineering redesign of the product, manufacturing efficiency enhancement and yield improvement as well as the reduction of sales of lower margin mobile phone sales as a percentage of total net sales.

Gross profit of our system solution products stayed flat at $1.3 million for the three months ended June 30, 2012 as compared to the corresponding period of 2011 despite the decrease in net sales from the system solution product. Gross margin of our system solution products increased to 54.9% for the three months ended June 30, 2012 from 49.5% for the corresponding period in 2011. The increase in the gross margin of our system solution products in the second quarter of 2012 was mainly due to an increase, as a percentage of net sales, in sales of the inertial solution product which generally had a higher gross margin than the wireless sensor network product.

Research and development. Our research and development expenses decreased by 16.2% to $1.8 million for the three months ended June 30, 2012 from $2.1 million in the corresponding period of 2011. This decrease was primarily due to a decrease in engineering headcount, the timing difference in the occurrence of the tape-out, testing and material costs related to developing new products in our sensor product business and a decrease in consulting and testing expenses related to upgrading and reengineering of our system solutions products. Research and development expenses, as a percentage of total net sales, decreased to 12.3% for the three months ended June 30, 2012 from 13.7% for the corresponding period of 2011. We expect our research and development expenses will increase for the remainder of 2012 as we intend to invest in engineering resources to develop new products and system solutions.

Sales and marketing. Our sales and marketing expenses decreased by 19.7% to $1.2 million for the three months ended June 30, 2012 from $1.5 million for the corresponding period of 2011. The decrease was primarily due to a reduced commission expense as well as a restructuring of our sales and marketing department in the first quarter of 2012 to focus on more marketing effort in developing new applications and new markets with higher gross margin. Sales and marketing expenses, as a percentage of total net sales, decreased to 8.5% for the three months ended June 30, 2012 from 10.0% for the corresponding period of 2011.

General and administrative. Our general and administrative expenses increased by 14.4% to $2.4 million for the three months ended June 30, 2012 from $2.1 million in the corresponding period of 2011. This increase was primarily due to the addition of corporate quality and IT resources and expanded operations in Wuxi, China. General and administrative expenses, as a percentage of total net sales, increased to 16.6% for the three months ended June 30, 2012 from 13.6% for the corresponding period in 2011.

Depreciation expense. Depreciation expense related to office equipment, computers, software, leasehold improvements and building spaces that are not used in the course of manufacturing our products. Depreciation expense for the three months ended June 30, 2012 decreased to $378,000 from $423,000 in the corresponding period of 2011 due to transfer of certain research and development equipment into manufacturing.

Amortization expense. Amortization expense remained at $0.4 million for the three months ended June 30, 2012 and 2011.

Other income (expense). Our other expense was $43,000 for the three months ended June 30, 2012 compared to other income of $441,000 in the corresponding period of 2011. The decrease was primarily attributable to a foreign exchange loss of $193,000 in the second quarter of 2012 as compared to a foreign exchange gain of $329,000 in the corresponding period of 2011.

Provision for income taxes. Our income tax provision was $29,400 for the three months June 30, 2012 compared to an income tax benefit of $3,000 in the corresponding period of 2011. Our income tax provision for the second quarter of 2012 reflected tax provision of $11,700 related to income in Crossbow Japan and tax provision of $17,700 related to income in MEMSIC Semiconductor.

Our income tax benefit was $3,000 for the three months ended June 30, 2011. Our income tax benefit for the second quarter of 2011 reflected a tax benefit of $7,000 related to a change in the deferred tax assets in China and an income tax benefit of $19,000 related to a net loss in Crossbow Japan, offset by a provision of $23,000 related to certain deferred tax liabilities.

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

Net sales. Our net sales increased by 21.6% to $34.4 million for the six months ended June 30, 2012 from $28.3 million in the corresponding period of 2011. This increase was primarily attributable to an increase in net sales of our magnetic sensor product to the mobile phone applications and an increase in net sales of our accelerometer product to the digital camera application.

Cost of goods sold. Our cost of goods sold increased by 15.5% to $21.2 million for the six months ended June 30, 2012 from $18.4 million for the corresponding period in 2011. This increase was primarily due to the increase in the volume of units sold in our sensor products.

Gross profit and gross margin. Our gross profit increased by 32.8% to $13.2 million for the six months ended June 30, 2012 from $9.9 million in the corresponding period of 2011. Our gross margin percentage increased by approximately 3.2 percentage points to 38.3% for the six months ended June 30, 2012 from 35.1% in the corresponding period of 2011.

Our gross profits and gross margins by reportable segment for the six months ended June 30, 2012 and 2011 are shown in the following table (dollars in thousands):

	Six months ended June 30,			
	2012		2011	
	Gross Profit	Margin %	Gross Profit	Margin %
Sensor products	$ 10,467	35.9 %	$ 7,038	30.6 %
System solution products	2,734	52.4	2,902	54.3
Total	$ 13,201	38.3 %	$ 9,940	35.1 %

Gross profit from our sensor products increased to $10.5 million for the six months ended June 30, 2012 from $7.0 million for the corresponding period of 2011, primarily due to the decrease, as a percentage of net sales, in sales of our lower margin magnetic sensor product to a major mobile phone manufacturer. Gross margin of our sensor products also increased to 35.9% for the six months ended June 30, 2012 from 30.6% for the corresponding period of 2011 as a result of our continued effort in cost reduction of our magnetic sensor product through engineering redesign of the product, manufacturing efficiency enhancement and yield improvement as well as the reduction of sales of lower margin margin mobile phone sales as a percentage of total net sales.

Gross profit of our system solution products decreased to $2.7 million for the six months ended June 30, 2012 from $2.9 million for the corresponding period of 2011. Gross margin of our system solution products decreased to 52.4% for the six months ended June 30, 2012 from 54.3% for the corresponding period in 2011. The decreases in the gross profit and the average gross margin of our system solution products in the first six months of 2012 were mainly due to an increase in sales of a new wireless solution product which had a low gross margin in Japan.

Research and development. Our research and development expenses decreased by 21.3% to $3.5 million for the six months ended June 30, 2012 from $4.4 million in the corresponding period of 2011. This decrease was primarily due to a decrease in engineering headcount and a decrease in consulting and testing expenses related to upgrading and reengineering of our system solutions products. Research and development expenses, as a percentage of total net sales, decreased to 10.1% for the six months ended June 30, 2012 from 15.6% for the corresponding period of 2011.

Sales and marketing. Our sales and marketing expenses decreased by 11.2% to $2.7 million for the first six months of 2012 from $3.0 million for the corresponding period of 2011. The decrease was primarily due to a reduced commission expense as well as a restructuring of our sales and marketing department to focus on more marketing effort in developing new applications and new markets with higher gross margin. Sales and marketing expenses, as a percentage of total net sales, decreased to 7.7% for the six months ended June 30, 2012 from 10.6% for the corresponding period of 2011.

General and administrative. Our general and administrative expenses increased by 16.6% to $4.6 million for the first two quarters of 2012 from $4.0 million in the corresponding period of 2011. This increase was primarily due to the addition of corporate quality and IT resources and expanded operations in Wuxi, China. General and administrative expenses, as a percentage of total net sales, decreased to 13.5% for the six months ended June 30, 2012 from 14.0% for the corresponding period in 2011.

Depreciation expense. Depreciation expense related to office equipment, computers, software, leasehold improvements and building spaces that are not used in the course of manufacturing our products. Depreciation expense for the six months ended June 30, 2012 increased to $817,000 from $797,000 in the corresponding period of 2011 due to starting the usage of new research and development equipment and occupation of the MTS new building in August 2011.

Amortization expense. Amortization expense remained flat at $0.8 million for the first six months of 2012 and 2011.

Other income. Our other income was $47,000 for the six months ended June 30, 2012 compared to $0.8 million in the corresponding period of 2011. The decrease was primarily attributable to a foreign exchange loss of $225,000 in the first six months of 2012 as compared to a foreign exchange gain of $519,000 in the corresponding period of 2011.

Provision for income taxes. Our income tax provision was $98,000 for the six months ended June 30, 2012 compared to an income tax provision of $114,000 in the corresponding period of 2011. Our income tax provision for the first six months of 2012 reflected a tax provision of $81,000 related to income in Crossbow Japan and a provision of $16,000 related to income in MEMSIC Semiconductor.

Our income tax provision for the first six months of 2011 reflected a tax provision of $80,000 related to income in Crossbow Japan and a provision of $45,000 related to certain deferred tax liabilities, offset by a tax benefit of $11,000 related to a change in the deferred tax assets in China.

Liquidity and Capital Resources

As of June 30, 2012, our principal sources of liquidity consisted of cash and cash equivalents of $26.9 million. In addition, our investments included $34.9 million of short-term investments and $2.6 million of auction rate securities that have failed at auction and that are classified as long-term investments on our balance sheet. The principal represented by the auction rate security will not be accessible to us until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. Based on our expected operating cash flows, and our other sources of cash, we do not expect the potential lack of liquidity in these investments to affect our ability to execute our current business plan in the near term. There can be no assurance that we would be able in the near term to liquidate these securities on favorable terms, or at all, and if we should require access to these funds sooner than we currently expect, our inability to sell these auction rate securities could adversely affect our liquidity and our financial flexibility.

We outsource certain steps of the manufacturing process to third parties while conducting the remaining steps in-house. As a result, our principal uses of cash historically have consisted of payments to our suppliers for the costs related to the outsourcing of wafer fabrication and outsourced processing fees paid to and materials purchased from third parties, as well as payments for our manufacturing overhead and equipment purchases. Other significant cash outlays consist of capital expenditures, including the construction of our buildings in China. We also have used cash to fund salaries, wages and commissions for our non-manufacturing related employees.

On June 30, 2010, our newly established indirect Wuxi subsidiary, MEMSIC Transducer Systems Company Limited, or MTS, obtained a $20 million, five-year project loan from Agricultural Bank of China. Of this amount, $15 million was used by MTS to purchase from us substantially all the assets that we purchased from Crossbow Technology, Inc., $3 million is for working capital purposes and $2 million for the purchase of equipment to build the manufacturing capacity for the system solution products. This loan is collateralized by the buildings and land owned by our Wuxi subsidiaries as well as the intellectual property purchased by MTS from us. The interest rate of the loan is a variable rate, adjusted semi-annually based on the LIBOR rate plus 4.00%. MTS has obtained agreement from the local Wuxi government to fully subsidize the interest expense on a quarterly basis. As of June 30, 2012, $17,930,000 has been withdrawn and $17,430,000 is outstanding. The repayment schedule of the principal amount is as follows:

Date	Payment Amount
June 29, 2013	$ 1,000,000
June 29, 2014	$ 2,500,000
June 29, 2015	$ 13,930,000
	$ 17,430,000

We believe that our current cash, proceeds of our project loan from the Agricultural Bank of China and cash flow from operations will be sufficient to meet our anticipated cash needs, including working capital requirements and capital expenditures for at least the next twelve months. Our future cash requirements will depend on many factors, including our operating income, the timing of our new product introductions, the costs of maintaining adequate manufacturing capacity, the continuing market acceptance of our products, or other changing business conditions and future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from banks. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would be dilutive to our stockholders. The incurrence of indebtedness would divert cash for working capital requirements and capital expenditures to service debt and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our stockholders. If we are unable to obtain additional equity or debt financing, our business, operations and prospects may suffer.

Operating Activities

Net cash provided by operating activities for the six months ended June 30, 2012 was $1.7 million, which was derived from a net income of $0.8 million, adjusted to reflect a net increase related to non-cash items, and a net decrease relating to changes in balances of operating assets and liabilities. The adjustment related to non-cash items, an increase of $3.3 million, was mainly attributable to depreciation and amortization expense of $2.6 million, stock-based compensation of $0.8 million, offset by a decrease in deferred rent and income tax of $22,000. The adjustment related to changes in the balances of operating assets and liabilities, a net decrease in cash of $2.4 million, was primarily the result of a decrease of $4.3 million in accounts payable and accrued expenses and an increase of $0.5 million in other assets, offset by decreases of $1.9 million in accounts receivables due to decreased sales and $0.5 million decrease in inventory.

Net cash used in operating activities for the six months ended June 30, 2011 was $2.5 million, which was derived from a net loss of $2.4 million, adjusted to reflect a net increase related to non-cash items, and a net decrease relating to changes in balances of operating assets and liabilities. The adjustment related to non-cash items, an increase of $3.0 million, was mainly attributable to depreciation and amortization expense of $2.2 million, stock-based compensation of $0.8 million, an increase in deferred rent of $49,000 and an increase in deferred tax assets of $34,000. The adjustment related to changes in the balances of operating assets and liabilities, a net decrease in cash of $3.2 million, was primarily the result of increases of $2.7 million in accounts receivables due to increased sales, $0.6 million increase in inventories and $0.4 million increase in other assets, partially offset by a $0.6 million increase in accounts payable and accrued expenses.

Investing Activities

Net cash used in investing activities for the six months ended June 30, 2012 was $29.2 million, primarily consisting of $28.1 million used to purchase short term investments and $1.1 million used for the purchase of property and equipment mainly attributable to expansion of our sensor manufacturing capacity in China.

Net cash used in investing activities for the six months ended June 30, 2011 was $2.2 million, primarily consisting of $1.1 million used for the purchase of property and equipment mainly attributable to expansion of manufacturing operations in China and $1.3 million used to purchase short term investments offset by proceeds of $0.2 million from a partial redemption of one of our auction rate securities.

Financing Activities

Net cash used in financing activities for the six months ended June 30, 2012 was $0.4 million, consisting $0.5 million repayment of bank loan by MTS and cash dividend of $59,000 paid to the minority owner of Crossbow Japan, offset by proceeds of $0.2 million from exercise of options to purchase common stock.

Net cash used in financing activities for the six months ended June 30, 2011 was $75,000, consisting cash dividend of $115,000 paid to the minority owner of Crossbow Japan, offset by proceeds of $41,000 from exercise of options to purchase common stock.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements, other than property and equipment operating leases, nor do we have any transactions, arrangements or other relationships with any special purpose entities established by us, at our direction or for our benefit.

Item 4. Controls and Procedures

A. Evaluation of Disclosure Controls and Procedures

Based on the evaluation of our disclosure controls and procedures (as defined in the Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) required by Exchange Act Rules 13a15(b) or 15d-15(b), our chief executive officer and our principal financial and accounting officer have concluded that as of June 30, 2012, the end of the period covered by this report, our disclosure controls and procedures were effective.

B. Changes in Internal Controls

There were no changes in our internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f), that occurred during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

There has been no material change in the risk factors disclosed under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The net proceeds to us of our initial public offering in 2007, including the net proceeds from exercise of underwriters' over-allotment option were approximately $60.2 million. Through June 30, 2012, we have applied approximately $10.6 million of the net proceeds to fund capital expenditures for the expansion of our manufacturing facility in Wuxi, $7.3 million to the construction of two new buildings adjacent to that facility and $4.0 million to the purchase of a piece of land to build the MTS manufacturing facility and manufacturing equipment, and $18.0 million to the Crossbow acquisition. We invested the balance of $20.3 million of the net proceeds from our initial public offering in money market funds and auction rate securities, pending other uses.

Item 6. Exhibits

			Incorporated by Reference		
Exhibit No.	Description	Filed with This Form 10-Q	Form	Filing Date	Exhibit No.
3.1	Second Amended and Restated Certificate of Incorporation of MEMSIC, Inc.		8-K	December 19, 2007	3.1
3.2	Amended and Restated By-Laws of MEMSIC, Inc.		S-1/A	November 30, 2007	3.4
4.1	Form of common stock certificate.		S-1/A	December 7, 2007	4.2
4.2	Fifth Amended and Restated Investor Rights Agreement.		S-1	September 28, 2007	4.3
4.4	2009 Nonqualified Inducement Stock Plan		10Q	November 14, 2011	4.4
31.1	Chief Executive Officer certification required by Rule 13a-14(a)	X			
31.2	Principal Accounting Officer certification required by Rule 13a-14(a)	X			
32.1	Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350	X			
32.2	Principal Financial and Accounting Officer certification pursuant to 18 U.S.C. Section 1350	X			

SIGNATURES

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

	MEMSIC, Inc.	
Dated: August 10, 2012	By:	/S/ YANG ZHAO Yang Zhao Chief Executive Officer and President Principal Executive Officer
Dated: August 10, 2012	By:	/S/ PATRICIA NIU Patricia Niu Principal Financial and Accounting Officer

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