

MEMSIC Inc
Form 10-Q
November 13, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

or

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

For the transition period from _____ to _____

Commission File No. 001-33813

MEMSIC, Inc.

(Exact name of registrant as specified in its charter)

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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 No

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

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares of common stock, par value \$0.00001 per share, of the registrant outstanding as of November 12, 2009 was 23,784,613.

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MEMSIC, Inc.

FORM 10-Q, September 30, 2009

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****MEMSIC, Inc.****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

| | September 30, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 69,690,299 | \$ 64,365,607 |
| Short-term investments | | 1,485,023 |
| Accounts receivable, net of allowance for doubtful accounts of \$6,441 as of September 30, 2009 and December 31, 2008 | 2,180,007 | 1,884,194 |
| Inventories | 4,854,880 | 6,267,911 |
| Deferred taxes | 66,928 | 78,204 |
| Other assets | 1,165,456 | 969,892 |
| Total current assets | 77,957,570 | 75,050,831 |
| Property and equipment, net | 14,186,613 | 13,351,721 |
| Long-term investments | 5,353,000 | 5,553,000 |
| Intangible assets, net | 972,856 | 978,256 |
| Deferred taxes | 51,647 | 36,439 |
| Other assets | 26,357 | 51,529 |
| Total assets | \$ 98,548,043 | \$ 95,021,776 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,943,544 | \$ 1,360,274 |
| Accrued expenses | 1,291,597 | 1,380,071 |
| Total current liabilities | 4,235,141 | 2,740,345 |
| Stockholders' equity: | | |
| Common stock, \$0.00001 par value; authorized, 45,000,000 shares; 23,784,613 and 23,694,425 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively | 238 | 237 |
| Additional paid-in capital | 97,779,429 | 96,538,040 |
| Accumulated other comprehensive income | 2,217,552 | 2,227,901 |
| Accumulated deficit | (5,684,317) | (6,484,747) |
| Total stockholders' equity | 94,312,902 | 92,281,431 |
| Total liabilities and stockholders' equity | \$ 98,548,043 | \$ 95,021,776 |

See accompanying notes to condensed consolidated financial statements (unaudited)

Table of Contents**MEMSIC, Inc.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|--------------|--|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net sales | \$ 7,067,583 | \$ 5,015,422 | \$ 22,759,693 | \$ 14,877,460 |
| Cost of goods sold | 4,147,180 | 2,443,262 | 12,505,427 | 7,638,592 |
| Gross profit | 2,920,403 | 2,572,160 | 10,254,266 | 7,238,868 |
| Operating expenses: | | | | |
| Research and development | 1,210,197 | 861,484 | 4,088,923 | 2,618,703 |
| Sales and marketing | 502,829 | 771,870 | 1,622,890 | 2,201,479 |
| General and administrative | 1,380,357 | 1,705,150 | 4,225,459 | 4,466,613 |
| Total operating expenses | 3,093,383 | 3,338,504 | 9,937,272 | 9,286,795 |
| Operating income (loss) | (172,980) | (766,344) | 316,994 | (2,047,927) |
| Other income (expense): | | | | |
| Interest and dividend income | 205,322 | 514,621 | 665,171 | 1,734,848 |
| Interest expense | | (49) | | (24,382) |
| Other, net | 68,651 | 218,400 | 107,286 | 382,838 |
| Total other income (expense) | 273,973 | 732,972 | 772,457 | 2,093,304 |
| Earnings (loss) before income taxes | 100,993 | (33,372) | 1,089,451 | 45,377 |
| Provision (benefit) for income taxes | 48,927 | (164,494) | 289,021 | (189,637) |
| Net income | \$ 52,066 | \$ 131,122 | \$ 800,430 | \$ 235,014 |
| Net income per common share: | | | | |
| Basic | \$ 0.00 | \$ 0.01 | \$ 0.03 | \$ 0.01 |
| Diluted | \$ 0.00 | \$ 0.01 | \$ 0.03 | \$ 0.01 |
| Weighted average shares outstanding used in calculating net income per common share: | | | | |
| Basic | 23,764,284 | 23,789,899 | 23,724,587 | 23,654,292 |
| Diluted | 24,102,339 | 23,884,400 | 23,981,367 | 23,883,286 |

See accompanying notes to condensed consolidated financial statements (unaudited)

Table of Contents**MEMSIC, Inc.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

| | Nine Months Ended September 30, | |
|--|--|-------------------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income | \$ 800,430 | \$ 235,014 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 1,518,353 | 1,184,557 |
| Stock compensation expense | 1,083,333 | 964,071 |
| Excess tax benefit from stock-based compensation arrangement | | (95,955) |
| Deferred income taxes | (3,992) | (80,166) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (295,813) | 2,807,379 |
| Inventories | 1,408,539 | (1,243,445) |
| Other assets | (273,717) | (760,425) |
| Accounts payable and accrued expenses | 1,544,345 | (2,066,482) |
| Net cash provided by operating activities | 5,781,478 | 944,548 |
| Cash flows provided by (used in) investing activities: | | |
| Purchase of short-term investments | | (18,700,000) |
| Proceeds from sale of short-term and long-term investments | 1,683,062 | 59,825,000 |
| Purchase of property and equipment | (2,249,733) | (4,872,187) |
| Net cash provided by (used in) investing activities | (566,671) | 36,252,813 |
| Cash flows provided by financing activities: | | |
| Proceeds from exercise of underwriter's over-allotment option to purchase common stock, net of offering costs of \$591,100 | | 7,638,900 |
| Payments of notes payable | | (1,000,000) |
| Proceeds from exercise of options to purchase common stock | 108,056 | 43,450 |
| Excess tax benefit from stock-based compensation arrangement | | 95,955 |
| Net cash provided by financing activities | 108,056 | 6,778,305 |
| Effect of exchange rate changes on cash and cash equivalents | 1,829 | (462,198) |
| Net increase in cash and cash equivalents | 5,324,692 | 43,513,468 |
| Cash and cash equivalents beginning of period | 64,365,607 | 20,708,794 |
| Cash and cash equivalents end of period | \$ 69,690,299 | \$ 64,222,262 |
| Supplemental non-cash financing and investing activities: | | |
| Acquisition of intangible asset in exchange for common stock | \$ | \$ 509,200 |

See accompanying notes to condensed consolidated financial statements (unaudited)

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MEMSIC, Inc.

Notes to Unaudited Condensed 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 and system solutions based on micro electromechanical systems (MEMS) technology and advanced integrated circuit design. The Company has integrated a MEMS technology-based inertial sensor, commonly known as an accelerometer, with mixed signal processing circuitry onto a single chip using a standard complementary metal-oxide-semiconductor (CMOS) process. This proprietary technology has allowed for sensor solutions at lower cost, higher performance and improved functionality. Utilizing a standard CMOS process allows easily integrated additional functions, the creation of new sensors to expand into magnetic, touch and flow sensors, as well as other MEMS application areas beyond accelerometers. Any application that requires the control or measurement of motion is a potential application for accelerometers. Accelerometer 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), located in the People's Republic of China (PRC).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of MEMSIC, Inc. and MEMSIC Semiconductor. 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 the 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, 2008, 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, 2008, and include all adjustments (consisting of normal, recurring adjustments) necessary for the fair presentation of the Company's financial position at September 30, 2009, results of operations for the three and nine months ended September 30, 2009 and 2008 and cash flows for the nine months ended September 30, 2009 and 2008. The interim periods are not necessarily indicative of results to be expected for any other interim periods or for the full year.

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MEMSIC, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Foreign Currency

The Company's manufacturing operations and certain other operations are conducted by MEMSIC Semiconductor. The functional currency of MEMSIC Semiconductor is the Renminbi. Financial transactions between the Company and MEMSIC Semiconductor are conducted in United States dollars. At September 30, 2009 and December 31, 2008, the underlying currency for approximately 38.1% and 38.6% of consolidated assets, respectively, was the Renminbi. 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.

The financial statements of MEMSIC Semiconductor are translated into United States dollars in accordance with U.S. GAAP. The functional currency of MEMSIC Semiconductor, the Renminbi, is translated into United States dollars 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.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash equivalents, accounts receivable, accounts payable, notes payable and accrued expenses, approximate their fair values due to the short-term nature of the instruments.

Net Income per Common Share

Basic net income per share is calculated by dividing net income by the weighted-average common shares outstanding. Diluted net income per share is calculated by dividing net income 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. At September 30, 2009, the Company's total inventory reserve balance was \$408,000.

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MEMSIC, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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 account for a significant amount of the Company's revenue. Sales to distributors are made pursuant to distributor agreements, which allow for the return of goods under certain 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 over the term of performance or vesting.

Recent Accounting Pronouncements

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective for the Company in the quarter ended September 30, 2009. The Codification brings together in one place all authoritative GAAP and substantially retains existing GAAP. This change did not affect the Company's consolidated financial statements.

In April 2009, the FASB issued ASC topic 320-10, *Investments - Debt and Equity Securities*, which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The standard does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The standard is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The standard does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, the standard requires comparative disclosures only for periods ending after initial adoption. The adoption of the standard did not have a material effect on the Company's financial position or results of operations.

In April 2008, the FASB issued ASC topic 350-30-35, *Determination of the Useful Life of Intangible Assets*, which amends the factors that must be considered in developing renewal or extension assumptions used to determine

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MEMSIC, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

the useful life over which to amortize the cost of a recognized intangible asset. The standard was effective for the Company on January 1, 2009. The adoption of the provisions of the standard did not have any impact on the Company's financial position and results of operations.

In December 2007, the FASB issued ASC topic 805, *Business Combinations*. This statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. For the Company, this statement is effective prospectively for business combinations for which the acquisition date is on or after January 1, 2009. The adoption of the provisions of this statement did not have any impact on the Company's financial position and results of operations.

In accordance with ASC topic 820, *Fair Value Measurements and Disclosures*, effective January 1, 2009, the Company adopted the applicable provisions which established a framework for measuring fair value and expands disclosures about fair value measurements including nonfinancial assets and liabilities. The adoption did not have a material impact on the Company's consolidated financial position, operations and cash flows.

3. LONG-TERM INVESTMENTS

Investments held by the Company at September 30, 2009 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 September 30, 2009, the Company held two ARS investments: Illinois Educational Facilities Authority Select Auction Variable Rate Securities having a value at par of \$3.0 million and Montana Health Facility Authority Select Auction Variable Rate Securities having a value at par of \$2.6 million. The Company has classified these investments as long-term assets due to liquidity issues that have recently been 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.

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:

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

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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 Company's assets measured at fair value on a recurring basis during the period include (in thousands):

| | Carrying amount as of September 30, 2009 | Level 1 | Level 2 | Level 3 | Valuation Technique |
|-------------------------|--|---------|---------|----------|------------------------|
| Auction rate securities | \$ 5,353 | \$ | \$ | \$ 5,353 | (B) |

The reconciliation of the Company's assets 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, 2009 | \$ 5,553 |
| Redemptions | (200) |
| Transfers to Level 3 | |
| <i>Gains and losses:</i> | |
| Reported in earnings | |
| Reported in other comprehensive loss | |
| Balance at September 30, 2009 | \$ 5,353 |

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 failed auctions and 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 September 30, 2009. The Company estimated the fair value of these securities at September 30, 2009 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

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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. In estimating the fair value of these investments, the Company 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 the 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 third quarter of 2009 resulted in no change in the unrealized impairment loss recorded at December 31, 2008. 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 income (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 off to fair value as a new cost basis and the amount of the write-down would be reflected as a charge to earnings.

4. INVENTORIES

Inventories consist of the following:

| | September 30, 2009 | December 31, 2008 |
|-----------------|-------------------------------|------------------------------|
| Raw materials | \$ 2,419,473 | \$ 1,575,554 |
| Work in process | 1,710,199 | 3,397,176 |
| Finished goods | 725,208 | 1,295,181 |
| Total | \$ 4,854,880 | \$ 6,267,911 |

5. 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. Options granted under the 2000 Plan may be incentive stock options, nonqualified stock options and/or restricted stock. The 2000 Plan provides 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.

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. 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

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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.

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 weighted-average fair values per share of the options granted during the three and nine months ended September 30, 2009 were \$2.68 and \$1.54 respectively, while the weighted-average fair values per share of the options granted during the three and nine months ended September 30, 2008 were \$1.45 and \$2.07, respectively, utilizing the following assumptions:

| | Three months ended | | Nine months ended | |
|-------------------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Volatility | 81% | 65% | 77% - 81% | 64% - 65% |
| Expected dividend yield | 0% | 0% | 0% | 0% |
| Expected life | 5 years | 5 years | 5 years | 5 years |
| Risk free interest rate | 2.84% | 3.21% | 1.60% - 2.84% | 3.11% |
| Forfeitures | 30% - 46% | 21% | 27% - 46% | 22% |

As there was no public market for the Company's common stock prior to the Company's IPO in December 2007, and limited historical information on the volatility of its common stock since the date of the Company's IPO, the Company determined the volatility for options granted in the three and nine months ended September 30, 2009 and 2008 based on an analysis of reported data for a peer group of companies that issued options with substantially similar terms. The expected volatility of options granted has been determined using an average of the historical volatility measures of this peer group of companies for a period equal to the expected life of the option. The Company has not paid and does not anticipate paying cash dividends on its shares of common stock; therefore, the expected dividend yield is assumed to be zero. The expected life of options has been determined utilizing the "simplified" method as prescribed by ASC topic 718, *Compensation - Stock Compensation*. The risk-free interest rate is based on a zero coupon United States treasury instrument whose term is consistent with the expected life of the stock options. The Company applies an estimated forfeiture rate, based on its historical forfeiture experience, in determining the expense recorded in the Company's consolidated statement of operations.

The stock option activity under the 2000 and 2007 Plan for the nine months ended September 30, 2009 is as follows:

| | Options Outstanding | Weighted Average Exercise Price | Remaining Contractual Term in Years | Aggregate Intrinsic Value |
|---|---------------------|---------------------------------|-------------------------------------|---------------------------|
| Options outstanding at December 31, 2008 | 2,357,055 | \$ 5.26 | 8.5 | \$ 461,764 |
| Granted | 240,200 | 2.40 | | |
| Exercised | (90,188) | 1.20 | | |
| Cancelled | (373,738) | 4.22 | | |
| Options outstanding at September 30, 2009 | 2,133,329 | \$ 5.29 | 8.0 | \$ 2,645,000 |
| Options exercisable at September 30, 2009 | 676,318 | \$ 3.73 | 6.9 | \$ 1,292,844 |

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| | |
|--|---------|
| Options available for grant at September 30, 2009 | 571,575 |
|--|---------|

For the three and nine months ended September 30, 2009, the Company recorded stock-based compensation expense of \$338,311 and \$1,083,333, respectively, while stock-based compensation expense of \$320,900 and \$964,071, respectively, were recorded by the Company for the three and nine months ended September 30, 2008. At September 30, 2009, total unrecognized stock-based compensation expense expected to be charged to operations over the next four years is estimated to approximate \$3.5 million.

Table of Contents**MEMSIC, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

The intrinsic values (aggregate market value of the underlying common stock minus aggregate exercise price) of stock options exercised during the three and nine months ended September 30, 2009 were \$77,422 and \$230,147, respectively. The total fair value of options which became exercisable during the three and nine months ended September 30, 2009 were approximately \$508,000 and \$593,000, respectively.

Stock-based compensation expense related to stock options for the three and nine months ended September 30, 2009 and 2008 was allocated as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|----------------------------|-------------------------------------|------------|------------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Research and development | \$ 71,476 | \$ 57,342 | \$ 252,538 | \$ 164,452 |
| Sales and marketing | 52,007 | 58,473 | 178,356 | 156,192 |
| General and administrative | 214,828 | 205,085 | 652,439 | 643,427 |
| Total | \$ 338,311 | \$ 320,900 | \$ 1,083,333 | \$ 964,071 |

6. COMPREHENSIVE INCOME

Comprehensive income is defined to include all changes in stockholders' equity during the period other than those changes that result from investments by and distributions to stockholders. For the three and nine months ended September 30, 2009 and 2008, the Company's comprehensive income is the sum of net income and the foreign currency translation adjustment, as follows:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|------------|--|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net income | \$ 52,066 | \$ 131,122 | \$ 800,430 | \$ 235,014 |
| Foreign currency translation adjustment | 14,329 | 296,504 | (10,349) | 1,518,085 |
| Total comprehensive income | \$ 66,395 | \$ 427,626 | \$ 790,081 | \$ 1,753,099 |

7. COMMON STOCK

In December 2007, the Company completed its initial public offering (IPO) of 6,000,000 shares of its common stock at a price to the public of \$10.00 per share. The Company raised a total of \$52.6 million in net proceeds after deducting underwriting discounts and offering expenses. Upon the closing of the offering, all shares of the Company's redeemable convertible preferred stock automatically converted into 14,060,818 shares of common stock. The holders of the Company's common stock are entitled to one vote for each share held.

In January 2008, the underwriters of the Company's initial public offering exercised their over-allotment option to purchase 823,000 shares. The Company received net proceeds of \$7.6 million from this exercise, after deducting underwriting discounts and offering expenses. At September 30, 2009, the outstanding shares of the Company's common stock were 23,784,613. The Company has reserved 2,704,904 shares for the issuance of common stock upon exercise of stock options outstanding and available to grant under its stock option plans.

Table of Contents**MEMSIC, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (Continued)****8. NET INCOME PER COMMON SHARE**

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Numerator: | | | | |
| Net income | \$ 52,066 | \$ 131,122 | \$ 800,430 | \$ 235,014 |
| Denominator: | | | | |
| Basic weighted average shares | 23,764,284 | 23,789,899 | 23,724,587 | 23,654,292 |
| Dilutive effect of common stock equivalents | 338,055 | 94,501 | 256,780 | 228,994 |
| Diluted weighted average shares | 24,102,339 | 23,884,400 | 23,981,367 | 23,883,286 |

During the three and nine months ended September 30, 2009, the Company had 1.0 million and 1.1 million dilutive potential common shares in the form of stock options which were not included in the computation of net income per diluted share because these stock options would be anti-dilutive.

9. SEGMENT INFORMATION

The Company conducts its operations and manages its business in one segment, the development and design, manufacture and sale of semiconductor sensor systems solutions based on micro-electromechanical systems (MEMS) technology and advanced integrated circuit design. Within this segment, the Company's chief executive officer views the operations of the manufacturing unit and the sales and marketing organizations as an integrated business unit and utilizes enterprise wide operating results as the only factor in making operating decisions.

Revenues by geographical region are as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------|-------------------------------------|--------------|------------------------------------|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| Asia (excluding Japan) | \$ 3,094,348 | \$ 2,637,888 | \$ 13,938,822 | \$ 6,957,428 |
| Europe | 431,353 | 378,672 | 1,112,037 | 1,065,786 |
| Japan | 1,306,940 | 850,686 | 2,588,761 | 2,741,911 |
| North America | 2,234,942 | 1,148,176 | 5,120,073 | 4,109,092 |
| Other | | | | 3,243 |
| Total | \$ 7,067,583 | \$ 5,015,422 | \$ 22,759,693 | \$ 14,877,460 |

Revenues by product application are as follows:

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| | Three months ended | | Nine months ended | |
|------------------|---------------------|---------------------|----------------------|----------------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Mobile Phone | \$ 2,590,603 | \$ 2,045,714 | \$ 10,908,754 | \$ 5,069,739 |
| Consumer | 1,517,460 | 1,225,735 | 5,048,317 | 4,504,623 |
| Automotive | 2,456,610 | 1,294,009 | 5,562,843 | 4,074,560 |
| Industrial/other | 502,910 | 449,964 | 1,239,779 | 1,228,538 |
| Total | \$ 7,067,583 | \$ 5,015,422 | \$ 22,759,693 | \$ 14,877,460 |

Table of Contents**MEMSIC, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

Total assets by geographical region are as follows:

| | September 30, 2009 | December 31, 2008 |
|---------------|-------------------------------|------------------------------|
| United States | \$ 60,992,139 | \$ 58,369,649 |
| China | 37,555,904 | 36,652,127 |
| Total | \$ 98,548,043 | \$ 95,021,776 |

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

| | September 30, 2009 | December 31, 2008 |
|---------------|-------------------------------|------------------------------|
| United States | \$ 6,561,403 | \$ 6,557,971 |
| China | 13,977,422 | 13,376,535 |
| Total | \$ 20,538,825 | \$ 19,934,506 |

10. SUBSEQUENT EVENTS

The Company evaluated subsequent events occurring after the balance sheet date and up to the time of filing with the SEC on November 12, 2009 of its Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, 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 unaudited consolidated financial statements.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

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, billings 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, will, 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. Our accelerometer products are used to measure tilt, shock, vibration and acceleration, and have a wide range of applications such as mobile phones, automotive safety systems and video projectors. We combine proprietary thermal-based MEMS technology and advanced analog mixed signal processing circuitry design into a single chip using a standard CMOS process. In many instances, this approach allows us to provide sensor solutions at a lower cost, with higher performance and greater functionality than our competitors. In addition, our technology platform allows us to easily integrate additional functions or create new sensors to expand into magnetic, touch and flow sensors and related applications.

We have experienced significant growth since our products were first commercialized in 2001 primarily in the sales of our products for mobile phone applications and automotive applications. Although our growth in 2008 was adversely affected by the slowdown in the mobile handset market in China, the May 2008 earthquake in China and generally weak global economic conditions, our revenue grew in the nine months ended September 30, 2009 as a result of strong demand for our accelerometers in the mobile phone market in China and in the automotive market.

The outlook for the balance of 2009 is uncertain. Our business has been affected by the recent recession and is likely to be affected by it in the future, and there is no certainty that economic conditions will not deteriorate in the future. These uncertainties affect businesses such as ours in a number of ways, making it difficult to accurately forecast and plan our future business activities. Weak economic conditions may lead consumers and businesses to continue to postpone spending, which may cause our customers to cancel, decrease or delay their existing and future orders with us. In addition, the inability of customers to obtain credit could negatively affect our revenues and our ability to collect receivables. In addition, financial difficulties experienced by our suppliers or distributors could result in product delays, increased accounts receivable defaults and inventory challenges.

We expect that sales of our accelerometer products to continue to represent a predominant share of our revenue for the foreseeable future. We expect that sales of our first non-accelerometer products, including magnetic sensors, will begin to increase in the fourth quarter of 2009.

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

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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 such 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. We have experienced revenue growth due to an increase in the number of our products offered, an expansion of our customer base, an increase in the number of design-wins within any one OEM and ODM customer and an increase in the average revenue per design-win.

We manufacture our 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.

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*. While we sell our products to distributors as well as end customers, sales to distributors account for a significant amount of the total revenue.

Historically, our revenue has been derived primarily from shipments of our accelerometer products. 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 products generally decline due to the following factors, among others:

the semiconductor market is highly competitive, and as a result, the average selling prices of particular products 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.

Table of Contents*Net Sales by Application*

In the third quarter of 2009, net sales from mobile phone applications were the largest component of our total sales, representing 36.7% of total net sales. We expect that net sales from mobile phone applications will continue to be the largest component of our total sales in 2009.

Net sales from automotive applications increased in the third quarter of 2009, primarily due to the commencement of volume production of a customer's new automotive application that includes our product. We expect our sales from this new application will continue to grow and will offset the adverse impact on our net sales from our older applications by the global downturn in the automotive market. To increase net 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, and this market has been disproportionately affected by the current global downturn.

Net sales from consumer applications have fluctuated historically as a result of the generally short life cycle of consumer electronics and changes in our customer base. As our product offering and customer base for consumer applications continue to diversify, we expect net sales from consumer applications to fluctuate less. Net sales from industrial and other markets have been limited, and we do not expect revenue from these markets to contribute significantly to our total revenue in 2009.

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 | | | | Nine months ended | | | |
|------------------|--------------------|---------------|-----------------|---------------|-------------------|---------------|------------------|---------------|
| | September 30, | | | | September 30, | | | |
| | 2009 | | 2008 | | 2009 | | 2008 | |
| | Amount | % of Sales | Amount | % of Sales | Amount | % of Sales | Amount | % of Sales |
| Mobile Phone | \$ 2,591 | 36.7% | \$ 2,045 | 40.8% | \$ 10,909 | 47.9% | \$ 5,070 | 34.1% |
| Consumer | 1,517 | 21.5 | 1,226 | 24.4 | 5,048 | 22.2 | 4,505 | 30.3 |
| Automotive | 2,457 | 34.7 | 1,294 | 25.8 | 5,563 | 24.5 | 4,074 | 27.4 |
| Industrial/other | 503 | 7.1 | 450 | 9.0 | 1,240 | 5.4 | 1,228 | 8.2 |
| Total | \$ 7,068 | 100.0% | \$ 5,015 | 100.0% | \$ 22,760 | 100.0% | \$ 14,877 | 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 expect that significant customer concentration will continue for the foreseeable future. We have customers representing 10% or more of our net sales, which combined accounted for approximately 63.4% of our net sales in the first nine months of 2009, and 78.8% and 71.6%, respectively, of our net sales in 2008 and 2007.

We have experienced and will continue to experience fluctuations in demand from a significant number of customers, including many of our largest 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. For example, a design change in a product of a large OEM customer in 2007 for mobile phone applications resulted in a decrease of our sales to such customer in 2008. That customer accounted for 44.6% of our net sales in 2007.

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 the greater China region, our revenue has historically been primarily derived from products for mobile phone applications. We are also seeking to expand the consumer and industrial applications markets in the greater China region. In Japan, our revenue has primarily been

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derived from products for consumer applications, particularly projectors. We are also seeking to penetrate the automotive market

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in Japan. In North America, our revenue has primarily been derived from products for automotive applications. In Europe, our revenue has fluctuated. In 2008, we experienced a revenue increase from products for automotive applications in 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 September 30, | | | | Nine months ended September 30, | | | |
|------------------------|-------------------------------------|------------|----------|------------|------------------------------------|------------|-----------|------------|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| | Amount | % of Sales | Amount | % of Sales | Amount | % of Sales | Amount | % of Sales |
| Asia (excluding Japan) | \$ 3,094 | 43.8% | \$ 2,638 | 52.6% | \$ 13,939 | 61.2% | \$ 6,957 | 46.8% |
| Europe | 431 | 6.1 | 379 | 7.5 | 1,112 | 4.9 | 1,066 | 7.2 |
| Japan | 1,307 | 18.5 | 851 | 17.0 | 2,589 | 11.4 | 2,742 | 18.4 |
| North America | 2,236 | 31.6 | 1,147 | 22.9 | 5,120 | 22.5 | 4,109 | 27.6 |
| Other | | | | | | | 3 | 0.0 |
| Total | \$ 7,068 | 100.0% | \$ 5,015 | 100.0% | \$ 22,760 | 100.0% | \$ 14,877 | 100.0% |

Cost of Goods Sold

We are a semi-fabless company. 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. 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) outsourced processing fees paid to our third-party packaging service providers.

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 margin has decreased from 65.1% in 2007, to 47.9% in 2008 and 45.1% in the first nine months of 2009. Our gross profit and gross margin are affected 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 applications, which are sold to distributor customers, have historically had lower margins than our products for automotive products, which are sold directly to our OEM and ODM customers, and this trend has accelerated recently. The increase in the percentage of our net sales in products for mobile phone applications in recent years has therefore had an adverse effect on our overall gross margin. Notwithstanding the relatively lower margin in the mobile phone applications market, we expect to derive an increasing percentage of our total net sales from that market because of the significant potential for further revenue growth from increased penetration in that market.

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, consulting fees paid for outside design services; travel and other expenses; and beginning in 2006, 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 this trend to continue for the foreseeable future as we seek to diversify into non-accelerometer products and hire additional employees.

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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. While we expect the sales and marketing expense to increase in the long term 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, we expect such expenses to decrease in both absolute terms and as a percentage of total net sales in 2009 as a result of sales and marketing headcount reduction at the end of 2008.

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; depreciation and amortization expenses for non-manufacturing equipment; 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. We expect that our general and administrative expenses for 2009 in absolute terms will be consistent with 2008 levels. However, we expect that such expenses will decrease as a percentage of net sales.

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% and 9.5%, respectively. At December 31, 2008, the Company had gross U.S. net operating loss carryforwards of \$1.4 million, which expire in the year 2028. Included within this amount is approximately \$258,000 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. At December 31, 2008, we established a full valuation allowance against the U.S. deferred tax assets since we are in a three-year cumulative loss position in the United States. Our operating losses may be subject to limitations under provisions of the Internal Revenue Code.

Our policy is to reinvest any earnings of MEMSIC Semiconductor in our Chinese operations. We have not provided for the U.S. income taxes that could result from the distribution of such earnings to the U.S. parent. If these earnings were ultimately distributed to the U.S. in the form of dividends or otherwise, or if the shares of MEMSIC Semiconductor were sold or transferred, we would be subject to additional U.S. income taxes on these undistributed earnings.

PRC Tax

Our PRC taxes primarily consist of enterprise income tax, value-added tax, and certain other miscellaneous taxes. As of December 31, 2008, our Wuxi subsidiary had no PRC NOL carryforwards available to offset future PRC enterprise income tax. Beginning in 2009, our Wuxi subsidiary entered into a three-year period at a 50% reduced income tax rate.

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Enterprise Income Tax

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles. In accordance with Income Tax of China for Enterprises with Foreign Investment and Foreign Enterprises, or the Foreign Enterprise Income Tax Law, and the related implementing rules, foreign investment enterprises, or FIEs, incorporated in the PRC are generally subject to an enterprise income tax rate of 33%.

The Foreign Enterprise Income Tax Law and the related implementing rules provide certain favorable tax treatments to FIEs which qualify as high-technology companies and are registered and operate in designated high-technology zones in the PRC. Our Wuxi subsidiary is a high-technology FIE registered and operating in a designated high-technology zone. Accordingly, under the Foreign Enterprise Income Tax Law, its implementing rules and several local regulations, our Wuxi subsidiary is entitled to a preferential enterprise income tax rate of 15%. In addition, our Wuxi subsidiary is entitled to a five-year tax holiday, pursuant to which it is exempted from paying the enterprise income tax for 2007, the year in which it first had positive accumulated earnings, and 2008. After the two-year exemption period, our Wuxi subsidiary will be entitled to a 50% reduction from the then applicable income tax rate for each year from 2009 through 2011. After the expiration of this five-year tax holiday period, a preferential enterprise income tax rate of 15% may apply for so long as our Wuxi subsidiary continues to be recognized as a high-technology company especially supported by the PRC government.

To qualify as a high-technology company especially supported by the PRC government for PRC enterprise income tax purposes, a business entity generally must meet certain financial and non-financial criteria, including, but not limited to:

products or services of the business falling under the scope of high-technology especially supported by the PRC government ;

a minimum level of revenue generated from high-technology related sales or services as a percentage of total revenue;

a minimum number of employees engaged in research and development as a percentage of total number of employees; and

a minimum level of research and development expenses as a percentage of total revenue.

If the PRC central government or applicable local governments determine that our Wuxi subsidiary is not or no longer qualifies as a high-technology company especially supported by the PRC government, our effective enterprise income tax rate would increase as a result.

In addition, as an FIE, our Wuxi subsidiary enjoys certain tax deductions for purchasing equipment made in China. Under the relevant regulation, if an FIE purchases Chinese-made equipment, and the price does not exceed the total investment amount of the FIE, for projects that fall within certain specified categories, 40% of the purchase price amount may be credited against the surplus between the amount of enterprise income tax payable in the current year and the amount paid in the previous year. If the credited amount is greater than the surplus, the excess amount can be carried forward for up to five years, subject to certain exceptions.

If our Wuxi subsidiary ceases to qualify for its current preferential enterprise income tax rates, we will consider options that may be available at the time that would enable it to qualify for other preferential tax treatment. To the extent we are unable to offset the expiration of, or the inability to obtain, preferential tax treatment with new tax exemptions, tax incentives or other tax benefits, our effective tax rate will increase. The amount of income tax payable by our Wuxi subsidiary in the future will depend on various factors, including, among other things, the results of operations and taxable income of our Wuxi subsidiary (which is in turn partially dependent on our internal transfer pricing policies) and the applicable statutory tax rate.

On March 16, 2007, the National People's Congress approved and promulgated a new tax law named Enterprise Income Tax Law, which took effect beginning January 1, 2008. Under the new tax law, FIEs and domestic companies are subject to a uniform tax rate of 25%. The new tax law provides a five-year transition period starting from its effective date for those enterprises which were established before the promulgation date of the new tax law and which were entitled to a preferential lower tax rate under the then effective tax laws or regulations. In accordance with regulations issued by the State Council, the tax rate of such enterprises may gradually transition to the uniform tax rate within the transition period. For those enterprises which are enjoying tax holidays, such tax

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holidays may continue until their expiration in accordance with the regulations issued by the State Council. While the new tax law equalizes the tax rates for FIEs and domestic companies, preferential tax treatment would continue to be given to companies in certain encouraged sectors and to entities classified as high-technology companies especially supported by the PRC government, whether FIEs or domestic companies.

Our Wuxi subsidiary has been qualified as a high-technology company especially supported by the PRC government. Therefore, a preferential enterprise income tax rate of 15% under the new tax law may apply to our Wuxi subsidiary. However, 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. That is to say, our Wuxi subsidiary may either choose to enjoy the exemption from enterprise income tax for 2007 and 2008 and a 50% reduction on the uniform enterprise income tax rate of 25% from 2009 to 2011, or, choose the preferential enterprise income tax rate of 15% for qualified high-technology companies under the new tax law. We believe the adoption of the transition-period preferential tax policy will be more beneficial to our Wuxi subsidiary. Therefore, commencing in the first quarter of 2009 and through 2011, the effective income tax rate for our Wuxi subsidiary is 12.5%.

As a result of the new tax law, following the year 2011, upon expiration of our 50% reduction from the then applicable income tax rate, our effective tax rate may increase, unless we are otherwise eligible for preferential treatment.

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, which is recorded as part of our cost of goods sold.

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 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, 2008, 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, 2008.

Table of Contents**RESULTS OF OPERATIONS**

The following tables set forth a summary of our unaudited consolidated 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 September 30, | | | | For the Nine Months Ended September 30, | | | |
|--|---|----------------|----------|----------------|--|----------------|-----------|----------------|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| | 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 | \$ 7,068 | 100.0% | \$ 5,015 | 100.0% | \$ 22,760 | 100.0% | \$ 14,877 | 100.0% |
| Cost of goods sold | 4,148 | 58.7 | 2,443 | 48.7 | 12,506 | 54.9 | 7,638 | 51.3 |
| Gross profit | 2,920 | 41.3 | 2,572 | 51.3 | 10,254 | 45.1 | 7,239 | 48.7 |
| Operating expenses: | | | | | | | | |
| Research and development | 1,210 | 17.1 | 861 | 17.2 | 4,089 | 18.0 | 2,619 | 17.6 |
| Sales and marketing | 503 | 7.1 | 772 | 15.4 | 1,623 | 7.1 | 2,201 | 14.8 |
| General and administrative | 1,380 | 19.5 | 1,705 | 33.9 | 4,225 | 18.6 | 4,467 | 30.0 |
| Total operating expenses | 3,093 | 43.7 | 3,338 | 66.5 | 9,937 | 43.7 | 9,287 | 62.4 |
| Operating income (loss) | (173) | (2.4) | (766) | (15.2) | 317 | 1.4 | (2,048) | (13.7) |
| Other income (expense): | | | | | | | | |
| Interest and dividend income | 205 | 2.9 | 514 | 10.3 | 665 | 2.9 | 1,735 | 11.7 |
| Interest expense | | | | | | | (24) | (0.2) |
| Other, net | 69 | 1.0 | 218 | 4.4 | 107 | 0.5 | 382 | 2.6 |
| Total other income (expense) | 274 | 3.9 | 732 | 14.7 | 772 | 3.4 | 2,093 | 14.1 |
| Earnings (loss) before income taxes | 101 | 1.4 | (34) | (0.5) | 1,089 | 4.8 | 45 | 0.4 |
| Provision (benefit) for income taxes | 49 | 0.7 | (165) | (3.3) | 289 | 1.3 | (190) | (1.3) |
| Net income | \$ 52 | 0.7% | \$ 131 | 2.8% | \$ 800 | 3.5% | \$ 235 | 1.7% |
| Net income available to common stockholders: | | | | | | | | |
| Basic | \$ 52 | 0.7% | \$ 131 | 2.8% | \$ 800 | 3.5% | \$ 235 | 1.7% |
| Diluted | \$ 52 | 0.7% | \$ 131 | 2.8% | \$ 800 | 3.5% | \$ 235 | 1.7% |

Quarter Ended September 30, 2009 Compared to Quarter Ended September 30, 2008

Net sales. Our net sales increased by 40.9% to \$7.1 million for the three months ended September 30, 2009 from \$5.0 million in the corresponding period of 2008. This increase was primarily attributable to increases in mobile phone sales in China and in automotive sales. Sales in mobile phone applications accounted for \$2.6 million in net sales in the three months ended September 30, 2009, compared to \$2.0 million in the corresponding period for 2008. Sales in automotive applications accounted for \$2.5 million for the three months ended September 30, 2009, compared to \$1.3 million in the corresponding period in 2008. The increase in sales in automotive applications was due to sales growth as a result of the commencement of volume production of a new application at one significant automotive customer.

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Cost of goods sold. Our cost of goods sold increased by 69.8% to \$4.1 million for the three months ended September 30, 2009 from \$2.4 million for the corresponding period in 2008. This increase was primarily due to the increase in the volume of units sold.

Gross profit and gross margin. Our gross profit increased by 13.5 % to \$2.9 million for the three months ended September 30, 2009 from \$2.6 million in the corresponding period of 2008. Our gross margin decreased by 10.0% points to 41.3% for the three months ended September 30, 2009 from 51.3% in the corresponding period of 2008, primarily as a result of the decreasing average selling prices of our products particularly in the mobile phone market in China.

Research and development. Our research and development increased by 40.5% to \$1.2 million for the three months ended September 30, 2009 from \$0.9 million in the corresponding period of 2008. This increase was primarily due to the increase in the research and supply costs related in developing new products and system solutions in this period as compared to the corresponding period of 2008. Research and development expenses, as a percentage of total net sales, decreased to 17.1% for the three months ended September 30, 2009 from 17.2% for the corresponding period of 2008.

Sales and marketing. Our sales and marketing expenses decreased by 34.8% to \$503,000 for the three months ended September 30, 2009 from \$772,000 for the corresponding period of 2008. The decrease was primarily

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due to headcount reduction in our sales and marketing department as a result of expense control initiatives taken in the fourth quarter of 2008. Sales and marketing expenses, as a percentage of total net sales, decreased to 7.1% for the three months ended September 30, 2009 from 15.4% for the corresponding period of 2008. We expect sales and marketing expense will increase in the fourth quarter of 2009 as we are adding resources to develop and sell new applications using our new products and system solutions.

General and administrative. Our general and administrative expenses decreased by 19.1% to \$1.4 million for the three months ended September 30, 2009 from \$1.7 million in the corresponding period of 2008. This decrease was primarily due to discretionary expense control. General and administrative expenses, as a percentage of total net sales, decreased to 19.5% for the three months ended September 30, 2009 from 33.9% for the corresponding period in 2008.

Other income. Our other income was \$274,000 for the three months ended September 30, 2009 compared to \$732,000 in the corresponding period of 2008. The decrease was primarily due to a decrease in interest income as a result of lower interest rates.

Provision for income taxes. Our income tax provision was \$49,000 for the three months ended September 30, 2009 compared to an income tax benefit of \$165,000 in the corresponding period of 2008. Our income tax provision for the third quarter of 2009 reflected principally income tax expense of \$49,000 recorded by our Wuxi subsidiary, related to earnings in China, at the effective rate of 12.5%. Our tax benefit for the three months ended September 30, 2008 reflected principally a tax credit of \$99,000 due to losses generated in the U.S. and a deferred tax credit of \$66,000 recorded by our Wuxi subsidiary. Beginning in 2009, our Wuxi subsidiary started its three-year tax holiday period at one-half the unified tax rate of 25%, which will extend until 2011 at which time the rate will increase to 25%.

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

Net sales. Our net sales increased by 53.0% to \$22.8 million for the nine months ended September 30, 2009 from \$14.9 million in the corresponding period of 2008. This increase was primarily attributable to the increase in mobile phone sales in China as a result of the China economic stimulus plan and the increase in the accelerometer adoption rate in the mobile phone market. Sales in mobile phone applications accounted for \$10.9 million in net sales in the nine months ended September 30, 2009, compared to \$5.1 million in the corresponding period for 2008. Sales in automotive applications accounted for \$5.6 million for the nine months ended September 30, 2009, compared to \$4.1 million in the corresponding period in 2008.

Cost of goods sold. Our cost of goods sold increased by 63.7% to \$12.5 million for the nine months ended September 30, 2009 from \$7.6 million for the corresponding period in 2008. This increase was primarily due to the increase in the volume of units sold.

Gross profit and gross margin. Our gross profit increased by 41.7% to \$10.3 million for the nine months ended September 30, 2009 from \$7.2 million in the corresponding period of 2008. Our gross margin decreased by 3.6% points to 45.1% for the nine months ended September 30, 2009 from 48.7% in the corresponding period of 2008.

Research and development. Our research and development increased by 56.1% to \$4.1 million for the nine months ended September 30, 2009 from \$2.6 million in the corresponding period of 2008. This increase was primarily due to the increase in the research contract and supply costs related in developing new products and system solutions in this period as compared to the corresponding period of 2008. Research and development expenses, as a percentage of total net sales, increased to 18.0% for the nine months ended September 30, 2009 from 17.6% for the corresponding period of 2008.

Sales and marketing. Our sales and marketing expenses decreased by 26.3% to \$1.6 million for the nine months ended September 30, 2009 from \$2.2 million for the corresponding period of 2008. The decrease was primarily due to headcount reduction in our sales and marketing department as a result of expense control initiatives taken in the fourth quarter of 2008. Sales and marketing expenses, as a percentage of total net sales, decreased to 7.1% for the nine months ended September 30, 2009 from 14.8% for the corresponding period of 2008.

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General and administrative. Our general and administrative expenses decreased by 5.4% to \$4.2 million for the nine months ended September 30, 2009 from \$4.5 million in the corresponding period of 2008. This decrease was primarily due to discretionary expense control. General and administrative expenses, as a percentage of total net sales, decreased to 18.6% for the nine months ended September 30, 2009 from 30.0% for the corresponding period in 2008.

Other income. Our other income was \$0.8 million for the nine months ended September 30, 2009 compared to \$2.1 million in the corresponding period of 2008. The decrease was primarily due to a decrease in interest income as a result of lower interest rates.

Provision for income taxes. Our income tax provision was \$289,000 for the nine months ended September 30, 2009 compared to an income tax benefit of \$190,000 in the corresponding period of 2008. Our income tax provision for the first nine months of 2009 reflected principally income tax expense recorded by our Wuxi subsidiary, related to earnings in China, at the effective rate of 12.5%. Our tax benefit for the nine months ended September 30, 2008 reflected a tax credit of \$99,000 due to a loss generated in the U.S. and the recognition of certain deferred tax assets in China.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2009, our principal sources of liquidity consisted of cash and cash equivalents of \$69.7 million. 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 primarily consist of salaries, wages and commissions for our non-manufacturing related employees.

As of September 30, 2009, our investments included \$5.3 million (net of \$247,000 impairment loss taken at December 31, 2008) of auction rate securities. Auction rate securities are generally long-term fixed income instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, typically every 7, 28, 35 or 49 days. Due to liquidity issues that have recently been experienced in global credit and capital markets, certain of the auction rate securities we hold have failed at auction, meaning 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 we hold continue to pay interest in accordance with their stated terms. However, the failed auctions create uncertainty as to the liquidity in the near term of these securities. As a result, we have classified the \$5.3 million of auction rate securities we held at September 30, 2009 as long-term investments.

Based on our expected operating cash flows and our other sources of cash, we do not expect the potential lack of liquidity in our auction rate securities classified as long-term investments to affect our ability to execute our current business plan in the foreseeable future. However, the principal represented by these investments 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. 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 believe that our current cash 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 to maintaining adequate manufacturing capacity, the continuing market acceptance of our products, payment terms for major contracts and customers, 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

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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 nine months ended September 30, 2009 was \$5.8 million, which was derived from a net income of \$0.8 million, adjusted to reflect a net increase relating to non-cash items and a net increase relating to changes in balances of operating assets and liabilities. The adjustments relating to non-cash items, a net increase of \$2.6 million, were primarily due to depreciation and amortization expense of \$1.5 million and stock-based compensation expense of \$1.1 million. The adjustments related to changes in balances of operating assets and liabilities, a net increase in cash of \$2.4 million, were primarily attributable to a \$1.4 million reduction of inventories due primarily to increased unit sales and a \$1.5 million increase in accounts payable and accrued expenses, offset by a \$0.3 million increase in accounts receivable due to the increase in net sales and a \$0.3 million increase in other assets, primarily due to an increase in certain prepaid expenses including insurance, VAT receivables and supplier deposits.

Net cash provided by operating activities for the nine months ended September 30, 2008 was \$0.9 million, which was derived from a net income of \$0.2 million adjusted to reflect a net increase relating to non-cash items and a net decrease relating to changes in balances of operating assets and liabilities. The adjustments relating to non-cash items, a net increase of \$2.0 million, were primarily due to depreciation and amortization expense of \$1.2 million, stock based compensation expense of \$1.0 million, excess tax benefit from stock-based compensation of \$ 96,000 and deferred income tax of \$80,000. The adjustments related to changes in balances of operating assets and liabilities, a net decrease in cash of \$1.3 million, primarily consisted of a \$2.1 million reduction in accounts payable and accrued expenses primarily related to initial public offering expenses; \$1.2 million increase in inventories, primarily due to a decrease in sales forecast; and a \$0.8 million increase in other assets, primarily due to an increase in certain prepaid expenses, offset by a \$2.8 million reduction of account receivables due to collection of payments.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2009 was \$0.5 million, primarily consisting of proceeds from sale of short-term and long-term investments of \$1.7 million, which was offset by the purchase of property and equipment for expanding our manufacturing capacity of \$2.2 million.

Net cash provided in investing activities for the nine months ended September 30, 2008 was \$36.2 million, primarily consisting of proceeds from sale of short-term investments of \$59.8 million, which was offset by the purchase of property and equipment for expanding our manufacturing capacity of \$4.9 million and the purchase of short-term investments of \$18.7 million.

Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2009 was \$0.1 million, reflected proceeds from exercise of options to purchase common stocks.

Net cash provided by financing activities for the nine months ended September 30, 2008 was \$6.8 million, primarily due to the underwriters exercise of their over-allotment option in January 2008, resulting in net proceeds of \$7.6 million, which was offset by the payment of a bank loan of \$1.0 million.

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.

Table of Contents**Item 3. 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 September 30, 2009, 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 September 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION**Item 1. Legal Proceedings**

From time to time, we are a party to various legal proceedings incidental to our business. However, we have no legal proceedings currently pending that are expected to be material to our operations or financial presentation.

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, 2008.

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

The net proceeds to us of our initial public offering, after deducting underwriting discounts and offering expenses, were approximately \$60.2 million. Through September 30, 2009, we have applied approximately \$2.6 million of the net proceeds to fund capital expenditures for the expansion of our manufacturing facility in Wuxi and \$6.0 million to the construction of two new buildings adjacent to that facility. We have invested the balance of \$51.6 million of the net proceeds from our initial public offering in money market funds and auction rate securities, pending other uses.

We repurchased no shares of our common stock during the three months ended September 30, 2009.

Item 4. Submission of Matters to a Vote of Security Holders.

Our stockholders adopted the following proposals at our Special Meeting in Lieu of Annual Meeting of Stockholders held on September 30, 2009:

| | For | Withhold |
|--|------------|-----------|
| 1. To elect the following to the board of directors to serve for three-year terms as Class II directors: | | |
| Roger W. Blethen | 19,258,302 | 2,954,675 |
| Yang Zhao | 19,211,771 | 3,001,206 |

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| | For | Against | Abstain |
|---|------------|---------|---------|
| 2. To approve an amendment to our Certificate of Incorporation to reduce our authorized capital stock from 110,000,000 shares, divided into 100,000,000 shares of common stock and 10,000,000 shares of preferred stock, to 50,000,000 shares of capital stock, divided into 45,000,000 shares of common stock and 5,000,000 shares of preferred stock: | 17,451,161 | 68,990 | 2,000 |
| 3. To ratify the selection of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2009: | 22,200,682 | 12,294 | 0 |

Table of Contents**Item 6. Exhibits**

| Exhibit No. | Description | Filed with This Form 10-Q | Incorporated by Reference | | Exhibit No. |
|----------------|---|---------------------------------|---------------------------|--------------------|----------------|
| | | | Form | Filing Date | |
| 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 |
| 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 | | | |

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SIGNATURES

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

MEMSIC, Inc.

Dated: November 13, 2009

By: /s/ YANG ZHAO
Yang Zhao
Chief Executive Officer and President
Principal Executive Officer

Dated: November 13, 2009

By: /s/ PATRICIA NIU
Patricia Niu
Principal Financial and Accounting Officer