MEMSIC Inc
Form 10-Q
May 15, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from to

Commission File No. 001-33813

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

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

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

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

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

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

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

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

The number of shares of common stock, par value $0.00001 per share, of the registrant outstanding as of May 10, 2013 was 24,296,504.

MEMSIC, Inc.

FORM 10-Q, March 31, 2013

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

MEMSIC, Inc.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,008,973	$ 27,306,202
Restricted cash	2,775,600	2,867,896
Short-term investments	25,640,124	34,640,188
Accounts receivable, net of allowance for doubtful accounts of $8,334 and $18,774, respectively, as of March 31, 2013 and December 31, 2012	4,263,601	4,821,867
Inventories	8,457,249	9,840,659
Other current assets	2,568,587	2,285,923
Total current assets	77,714,134	81,762,735
Property and equipment, net	28,944,247	29,002,825
Long-term investments	2,500,000	2,500,000
Intangible assets, net	9,559,780	9,918,305
Other assets	137,810	144,106
Total assets	$ 118,855,971	$ 123,327,971
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,748,492	$ 3,778,672
Accrued expenses	2,772,148	3,934,975
Advance research funding	2,775,600	2,867,896
Current portion of note payable to bank	1,000,000	1,000,000
Total current liabilities	9,296,240	11,581,543
Note payable to bank, net of current portion	16,430,000	16,430,000
Building liability	8,160,395	8,135,115
Other liabilities	72,222	86,420
Total other liabilities	24,662,617	24,651,535
Stockholders’ equity:		
Common stock, $0.00001 par value; authorized, 45,000,000 shares; 24,246,886 and 24,219,685 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	243	242
Additional paid-in capital	103,140,260	102,813,203
Accumulated other comprehensive income	4,553,153	4,477,071
Accumulated deficit	(23,359,991)	(20,896,074)
MEMSIC, Inc. stockholders' equity	84,333,665	86,394,442

Non-controlling interest related to joint ventures		563,449		700,451
Total stockholders' equity		84,897,114		87,094,893
Total liabilities and stockholders’ equity	$	118,855,971	$	123,327,971

See notes to consolidated financial statements (unaudited)

MEMSIC, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31, 2013	2012
Net sales	$11,428,283	$20,017,053
Cost of goods sold	7,269,658	12,599,954
Gross profit	4,158,625	7,417,099
Operating expenses:		
Research and development	1,945,372	1,703,159
Sales and marketing	1,142,066	1,432,299
General and administrative	2,943,390	2,236,071
Depreciation	326,170	438,941
Amortization	450,944	396,123
Total operating expenses	6,807,942	6,206,593
Operating (loss) income	(2,649,317)	1,210,506
Other income:		
Interest and dividend income	33,035	107,774
Foreign exchange gain	80,503	(32,263)
Other, net	67,991	13,174
Total other income	181,529	88,685
Loss before income taxes	(2,467,788)	1,299,191
Provision for income taxes	30,307	68,583
Net (loss) income	(2,498,095)	1,230,608
Less: net (loss) income attributable to noncontrolling interests	(34,178)	30,104
Net (loss) income attributable to MEMSIC, Inc.	$(2,463,917)	$1,200,504
Net (loss) income per common share attributable to MEMSIC, Inc.:		
Basic	$(0.10)	$0.05
Diluted	$(0.10)	$0.05
Weighted average shares outstanding used in calculating net (loss) income per common share:		
Basic	24,168,301	23,846,864
Diluted	24,168,301	24,344,799

See notes to consolidated financial statements (unaudited)

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

	Three months ended March 31, 2013	2012
Net (loss) income	$(2,498,095)	$1,230,608
Other comprehensive income (loss):		
Unrealized gain on investments	124	-
Foreign currency translation adjustments	75,958	(76,186)
Comprehensive (loss) income	(2,422,013)	1,154,422
Less: (loss) income attributable to noncontrolling interest	(34,178)	30,104
Comprehensive (loss) income attributable to MEMSIC, Inc.	$(2,387,835)	$1,124,318

See notes to consolidated financial statements (unaudited)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock Shares	Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	MEMSIC, Inc. Stockholders' Equity	Non-controlling Interest	Total Equity
Balance at December 31, 2012	24,219,685	$242	$102,813,203	$4,477,071	$(20,896,074)	$86,394,442	$700,451	$87,094,893
Net loss				-	(2,463,917)	(2,463,917)	(34,178)	(2,498,095)
Foreign currency translation adjustment				75,958	-	75,958	-	75,958
Unrealized loss on investment				124	-	124	-	124
Exercise of options to purchase common stock	12,201	0	7,921			7,922		7,922
Issuance of restricted stock award	20,000	0	(0)			-		-
Stock compensation expense			319,136			319,136		319,136
Retirement of common stock	(5,000)					-		-
Dividend paid to non-controlling interest						-	(102,824)	(102,824)
Balance at March 31, 2013	24,246,886	$243	$103,140,260	$4,553,153	$(23,359,991)	$84,333,665	$563,449	$84,897,114

See notes to consolidated financial statements (unaudited)

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

	Three months ended March 31, 2013	2012
Cash flows from operating activities:		
Net (loss) income	$ (2,498,095)	$ 1,230,608
Adjustments to reconcile net (loss) income to cash used in operating activities:		
Depreciation	693,771	907,368
Amortization	486,493	400,784
Stock compensation expense	319,136	322,927
Deferred rent	(14,198)	(8,598)
Deferred income taxes	15,809	(2,050)
Changes in operating assets and liabilities:		
Restricted cash	101,208	417,993
Accounts receivable	428,566	(655,749)
Inventories	1,384,012	1,311,221
Other assets	(362,070)	(1,445,436)
Advance research funding	(101,208)	(417,993)
Accounts payable and accrued expenses	(2,059,868)	(2,317,465)
Net cash used in operating activities	(1,606,444)	(256,390)
Cash flows from investing activities:		
Purchase of short-term investments	(5,000,000)	(14,435,076)
Proceeds from sale of short-term investments	14,000,000	-
Purchase of property and equipment	(556,105)	(847,231)
Net cash provided by (used in) investing activities	8,443,895	(15,282,307)
Cash flows from financing activities:		
Cash dividend paid to non-controlling interest	(102,824)	(59,129)
Proceeds from exercise of options to purchase common stock	7,921	14,530
Net cash used in financing activities	(94,903)	(44,599)
Effect of exchange rate changes on cash and cash equivalents	(39,777)	(64,067)
Net increase (decrease) in cash and cash equivalents	6,702,771	(15,647,363)
Cash and cash equivalents —beginning of period	27,306,202	51,914,128
Cash and cash equivalents —end of period	$ 34,008,973	$ 36,266,765

See notes to consolidated financial statements (unaudited)

MEMSIC, Inc.

Notes to Unaudited Consolidated Financial Statements

1. NATURE OF THE BUSINESS AND OPERATIONS

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

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

Crossbow Japan

On February 5, 2013, the board of directors of Crossbow Japan voted to dissolve the joint venture as of March 31, 2013. On March 29, 2013, the Company, the other partner of the joint venture, Sumitomo Precision Products Co. Ltd. ("SPP") and Crossbow Japan signed a Termination Agreement to dissolve and liquidate the joint venture as of March 31, 2013. The Company expects that the liquidation and distribution of the net assets will be finalized during the year ended December 31, 2013. The Company and SPP also signed a Distributor Agreement to appoint SPP as the exclusive distributor of the Company's system solution products in Japan effective on April 1, 2013. The Company concluded that the dissolution will not represent a discontinued operation due to the significant continuing involvement as a result of the Distributor Agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Principles of Consolidation

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

Unaudited Interim Financial Information

The accompanying interim consolidated financial statements are unaudited. These financial statements and notes should be read in conjunction with the audited consolidated financial statements and related notes, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's

Annual Report on Form 10-K for the year ended December 31, 2012, 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, 2012, and include all adjustments (consisting of normal, recurring adjustments) necessary for the fair presentation of the Company’s financial position at March 31, 2013, results of operations for the three months ended March 31, 2013 and 2012 and cash flows for the three months ended March 31, 2013 and 2012. The interim periods are not necessarily indicative of results to be expected for any other interim periods or for the full year.

Use of Estimates

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

Cash Equivalents

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

Restricted Cash

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

Advance Research Funding

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

Advance research funding activities for the three months ended March 31, 2013 are as follows:

	Advanced Research Funding
Balance at January 1, 2013	$2,867,896
Funds received	450,828
Research and development activities	(95,250)
Property and equipment expenditures	(456,785)
Foreign exchange rate impact	8,912
Balance at March 31, 2013	$2,775,600

Short-term Investments

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

Foreign Currency

The Company's manufacturing operations and certain other operations are conducted by MEMSIC Semiconductor, MTS and Wuxi WSN. The functional currency of MEMSIC Semiconductor, MTS and Wuxi WSN is the Renminbi. Financial transactions between the Company and MEMSIC Semiconductor and MTS are conducted in United States dollars. At March 31, 2013 and December 31, 2012, the underlying currency for approximately 55.4% and 54.4% of consolidated assets, respectively, was the Renminbi. The functional currency of the acquired joint venture Crossbow Japan is the Japanese Yen. Financial transactions between the Company and Crossbow Japan are conducted in United States dollars. At March 31, 2013 and December 31, 2012, the underlying currency for approximately 0.6% and 1.4% of consolidated assets, respectively, was the Japanese Yen. The Company does not believe that it is subject to significant foreign exchange risk and, accordingly, has not utilized hedging strategies with respect to such foreign exchange exposure.

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

Net Income (Loss) per Common Share

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

Income Taxes

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

Inventories

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

Revenue Recognition

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

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

Stock-Based Compensation

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

3. LONG-TERM INVESTMENTS

Investments held by the Company at March 31, 2013 and December 31, 2012 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 a contractual maturity 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 March 31, 2013, the Company held one ARS investment: Illinois Educational Facilities Authority Select Auction Variable Rate Securities having a value at par of $3.0 million with a maturity date in 2028. The carrying value of this investment at March 31, 2013 was $2.5 million, net of a $0.5 million temporary unrealized impairment loss. The Company has classified this investment as a long-term asset due to liquidity issues experienced in global credit and capital markets as well as failed auctions since the first quarter of 2008. A failed auction means that the amount of securities submitted for sale at auction exceeded the amount of purchase orders. If an auction fails, the issuer becomes obligated to pay interest at penalty rates, and all of the auction rate securities the Company holds continue to pay interest in accordance with their stated terms. However, the failed auctions create uncertainty as to the liquidity of these securities.

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

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

5. FAIR VALUE MEASUREMENT

Recurring Fair Value Measurement

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

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

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

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

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

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

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

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

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

The following table sets forth the Company's financial instruments that are measured at fair value on a recurring basis and presents them within the fair value hierarchy using the lowest level of input that is significant to the fair value measurement at March 31, 2013 (in thousands):

	Carrying amount as of March 31, 2013	Quoted prices in active markets available (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Valuation Technique
Cash equivalents	$34,009	$34,009	$-	$ -	(A)
Restricted cash	2,776	2,776	-	-	(A)
Short-term investments	25,640	25,640	-	-	(A)
Long-term investments	2,500	-	-	2,500	(B)

Total assets recorded at fair value	$64,925	$62,425	$-	$ 2,500

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

	Auction Rate Securities
Balance at January 1, 2013	$2,500
Redemptions	-
Transfers to Level 3	-
Gains and losses:	
Reported in earnings	-
Reported in other comprehensive loss	-
Balance at March 31, 2013	$2,500

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 this investment, due to the illiquidity of these securities under current market conditions, the Company has considered whether par value continues to be a reasonable basis for estimating the fair value of these ARS at March 31, 2013 and December 31, 2012. The Company estimated the fair value of these securities at March 31, 2013 and December 31, 2012 using broker valuations and internally-developed models of the expected future cash flows related to the securities as well as referencing a third party specialist's valuation. One of the more significant assumptions made in the Company's internally-developed models was the term of expected cash flows of the underlying auction rate securities and the discount related to the illiquidity of the investment. The Company developed several scenarios for the liquidation of the auction rate securities over periods that ranged from 3 to 7 years and applied discount rates of 1.80% to 3.58% for the respective period to calculate the discounted fair value. In estimating the fair value of this investment, the Company also considered the financial condition and near-term prospects of the issuers, the magnitude of the losses compared to the investment' cost, the length of time the investment 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 the investment until the anticipated recovery in market value occurs. Based on its estimated operating cash flows and other sources of cash, the Company intends to hold these auction rate securities for the foreseeable future, if necessary.

The Company's valuation analysis in the first quarter of 2013 did not result in a change to the unrealized impairment loss on record at December 31, 2012. As of March 31, 2013, the unrealized impairment loss is $500,000. The Company continues to monitor the market for auction rate securities and to assess its impact on the fair value of the Company's investments. If current market conditions deteriorate further, the Company may be required to record additional temporary unrealized losses in other comprehensive loss or, if the decline in fair value is judged to be other-than-temporary, the cost basis of the individual security may be written down to fair value as a new cost basis and the amount of the write-down would be reflected as a charge to earnings.

6. INVENTORIES

Inventories consist of the following:

	March 31, 2013	December 31, 2012
Raw materials	$3,687,362	$4,533,002
Work in process	2,509,741	3,083,008

Finished goods	2,260,146	2,224,649
Total	$8,457,249	$9,840,659

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7. INTANGIBLE ASSETS

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

As of March 31, 2013, intangible assets consisted of the following:

	Gross carrying amount	Accumulated amortization	Net carrying amount	Expected life (Years)
March 31, 2013				
Patents	$ 1,606,492	$ (421,585)	$ 1,184,907	15
Know-how	556,678	(538,122)	18,556	5
Trademarks	408,000	(408,000)	-	2
Customer relationships	4,982,350	(1,816,758)	3,165,592	8 - 10
Developed technology	7,658,026	(2,467,301)	5,190,725	8 - 10
	$ 15,211,546	$ (5,651,766)	$ 9,559,780	

Amortization expense expected over the next five years is approximately $1.5 million per year. Amortization expense amounted to $0.5 million and $0.4 million respectively for each of the three months ended March 31, 2013 and 2012.

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

8. NOTE PAYABLE TO BANK

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

The loan is collateralized by the buildings and land owned by MEMSIC Semiconductor as well as the land and intellectual property owned by MTS. The interest rate of the loan is a variable rate, adjusted semi-annually based on the LIBOR rate plus 4.00%. MTS has obtained agreement from the local government in Wuxi, China to fully subsidize the interest expense on a quarterly basis. There are no financial covenants required for this loan. As of March 31, 2013, $17.9 million has been withdrawn, $0.5 million has been repaid and $17.4 million is outstanding and $2.1 million is available for borrowing. Interest expense of approximately $0.2 million is paid on a quarterly basis and is fully subsidized by the Wuxi government. Based on the terms of the agreement, there are no circumstances in which amounts previously subsidized by the Wuxi government are repayable by the Company. In the remote event the Wuxi government is unable to fulfill its obligation, the Company would recognize the interest expense in its income statement. The repayment schedule of the principal amount is as follows:

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

9. BUILDING LIABILITY

In June 2010, the Company purchased a piece of land in Wuxi for approximately $4.0 million to build the MTS manufacturing facility. In August 2011, the Company completed construction of the MTS manufacturing facility with 14,000 square meters of total space to host the manufacturing of its system solution products. The construction cost of approximately $8.2 million was financed by the local Chinese government. In the third quarter of 2012, the Company was notified by the local Chinese government that the Company would be expected to make payments on the building beginning in February 2013. As of March 31, 2013, the Company has not received any invoice for further notice about this payment. However, since the third quarter of 2012, the Company has accrued a financing charge of $116,000 per quarter using the effective interest rate method at an annual rate of 8% on the construction cost of the building based on a 2009 memorandum with the local Chinese government while the Company is renegotiating with the local Chinese government the payment terms of the construction cost of the building. The $8.2 million construction cost of the building is reflected as a long-term liability and the accrued finance charge of $116,000 per quarter is net of the interest income in the accompanying consolidated financial statements.

10. STOCK BASED COMPENSATION

Description of Plan

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

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

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

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

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

- permits the granting of restricted stock units (“RSU”), performance-based stock awards and stock appreciation rights;
- eliminates the ability to reprice options;
- extends the expiration date of the plan to June 29, 2021;

- provides that awards may qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code of 1986, as amended; and
- incorporates certain other administrative provisions.

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

On June 28, 2012, the Company's shareholders voted to approve an amendment to the Company's amended and restated 2007 stock incentive plan, including increasing the number of shares of common stock issuable under the 2007 Plan by 1,500,000 shares. The maximum shares issuable under the 2007 Plan thus increased to 4,500,000 shares.

Valuation of Stock Options

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

No options were granted during the three months ended March 31, 2013 or 2012.

The Company accounts for stock options granted to consultants using the fair value method for the calculation of compensation cost. For the three months ended March 31, 2013 and 2012, the Company recorded compensation expense for stock option grants to consultants in the amount of approximately $1,000 and $0, respectively. At March 31, 2013, total unrecognized stock-based compensation expense for stock options granted to consultants was $14,000.

At March 31, 2013, total unrecognized stock-based compensation expense for stock options granted to the Company's employees and directors was approximately $2.3 million.

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

	Options Outstanding	Weighted Average Exercise Price	Remaining Contractual Term in Years	Aggregrate Intrinsic Value
Options outstanding at January 1, 2013	2,635,500	$4.59	6.3	$2,014,390
Granted	-	-	-	-
Exercised	(12,201)	0.65	-	-

Cancelled	(64,075)	3.67	-	-
Options outstanding at March 31, 2013	2,559,224	$4.58	6.1	$1,159,403
Options vested at March 31, 2013	1,375,950	$4.63	4.7	$816,197
Available for grant at March 31, 2013	4,123,637			

The intrinsic values (aggregate market value minus aggregate exercise price) of stock options exercised during the three months ended March 31, 2013 were $25,000 and $17,259, respectively. The total fair value of options vested during the three months ended March 31, 2013 and 2012 was approximately $54,000 and $164,000, respectively.

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

	Three months ended March 31, 2013	2012
Research and development	$73,907	$44,252
Sales and marketing	34,132	67,721
General and administrative	211,097	210,954
Total	$319,136	$322,927

The Company accounted for RSAs and RSUs using the fair value at the date of the grant for the calculation of compensation cost. For the three months ended March 31, 2013 and 2012, the Company recorded compensation expense for RSAs and RSUs in the amount of $183,000 and $67,000 respectively.

As of March 31, 2013, total unrecognized compensation expenses related to non-vested RSAs and RSUs were $0.1 million and $0.9 million, respectively. These expenses are expected to be recognized over a weighted average period of 2.0 years for RSAs and 2.7 years for RSUs.

A summary of RSA activity for the three months ended March 31, 2013 is as follows:

	Shares	Weighted Average Market Value at Grant Date
Nonvested at January 1, 2013	52,500	$3.41
Awarded	-	-
Vested	-	-
Forfeited	-	-
Nonvested at March 31, 2013	52,500	$3.41

A summary of RSU activity for the three months ended March 31, 2013 is as follows:

	Shares	Weighted Average Market Value at Grant Date
Nonvested at January 1, 2013	640,917	$3.08
Awarded	-	-
Vested	(66,750)	3.41
Forfeited	(22,500)	2.99
Nonvested at March 31, 2013	551,667	$3.04

11. COMMON STOCK

The Company reserved 7,287,028 and 5,838,625 shares at March 31, 2013 and 2012, respectively for issuance upon exercise of options to purchase common stock and upon vesting of RSUs.

12. NET INCOME (LOSS) PER COMMON SHARE

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

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Numerator:		
Net (loss) income attributable to MEMSIC, Inc.	$(2,463,917)	$1,200,504
Denominator:		
Basic weighted average shares	24,168,301	23,846,864
Dilutive effect of common stock equivalents	-	497,935
Diluted weighted average shares	24,168,301	24,344,799
Net (loss) income per common share to MEMSIC, Inc.		
Basic	$(0.10)	$0.05
Diluted	$(0.10)	$0.05

During the three months ended March 31, 2013 and 2012, the Company had 1.3 million and 1.6 million, respectively, potential common shares in the form of stock options and RSUs which were not included in the computation of net income (loss) per diluted share because these stock options and RSUs would be anti-dilutive.

13. SEGMENT INFORMATION

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

Revenues by product application

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

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	Three months ended March 31, 2013	2012
Mobile phone	$5,519,882	$11,746,724
Consumer	928,938	1,424,777
Automotive	3,183,337	3,693,704
Industrial/other	1,796,126	3,151,848
Total	$11,428,283	$20,017,053

Revenues and gross profit by product type

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

	Three months ended March 31, 2013	2012
Revenue		
Sensor products	$10,010,903	$17,208,017
System solution products	1,417,380	2,809,036
Total	$11,428,283	$20,017,053

	Three months ended March 31, 2013	2012
Gross Profit		
Sensor products	$ 3,615,663	$ 6,004,707
System solution products	542,962	1,412,392
Total	$ 4,158,625	$ 7,417,099

Revenues by geographical region

Revenue by geographic region, based upon customer location, for the three months ended March 31, 2013 and 2012 was as follows:

	Three months ended March 31, 2013	2012
Asia (excluding Japan)	$6,371,641	$12,725,236
Europe	762,304	1,027,094
Japan	1,219,933	2,237,817
North America	3,051,054	4,006,998
Other	23,351	19,908
Total	$11,428,283	$20,017,053

Total Assets by geographical region

Total assets by geographical region are as follows:

	March 31, 2013	December 31, 2012
United States	$52,327,142	$54,509,508
China	65,772,002	67,146,027
Japan	756,827	1,672,436
Total	$118,855,971	$123,327,971

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

	March 31, 2013	December 31, 2012
United States	$511,172	$517,960
China	28,432,919	28,484,568
Japan	156	297
Total	$28,944,247	$29,002,825

Total net assets by geographical region are as follows:

	March 31, 2013	December 31, 2012
United States	$57,358,196	$58,775,602
China	27,459,603	27,994,626
Japan	79,315	324,665
Total	$84,897,114	$87,094,893

14. CONTINGENCIES

On September 11, 2011, Trilogy Marketing, Inc. (Trilogy) commenced an action in the United States District Court for the Eastern District of Michigan, in which it alleges that MEMSIC has failed to pay sales representative commissions to Trilogy. The Company has not concluded that a loss of any magnitude in this matter is probable, and is unable to estimate the range of potential loss, if any, that might arise from this matter.

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

15. SUBSEQUENT EVENTS

On April 22, 2013, the Company entered into an Agreement and Plan of Merger to be acquired by IDG-Accel China Capital II, L.P. and its affiliates MZ Investment Holdings Limited and MZ Investment Holdings Merger Sub Limited (collectively, "IDG"), for $4.225 per share in cash. Affiliates of IDG currently hold approximately 19.5% of the company's outstanding common stock. IDG and its affiliates will acquire all the outstanding shares of common stock of MEMSIC that are not currently owned by them, including shares underlying outstanding in-the-money equity awards, for approximately $88.5 million. The merger agreement is subject to customary conditions, including a vote of the Company's stockholders. The transaction is expected to close during the third quarter of 2013.

The Company evaluated subsequent events occurring after March 31, 2013 through the date of filing of the Quarterly Report on Form 10-Q in which these financial statements are included, and concluded that except noted above, there was no event of which management was aware that occurred after the balance sheet date that would require any adjustment to the accompanying consolidated financial statements.

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

This information should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included in Item 1 of Quarterly Report on Form 10-Q and the audited consolidated financial statements and related notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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

Overview

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

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

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

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

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

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

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

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

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

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

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

Description of Certain Line Items

Net Sales

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

Our revenue has been derived from shipments of our sensor products and system solution 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 sensor products have tended to decline due to the following factors, among others:

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

- we may also elect to reduce our product prices as we are able to improve our manufacturing efficiency or to reduce our manufacturing costs. We may also reduce prices in order to increase market adoption of our products in certain markets;

- 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; and

- we may grant discounts to our large customers or OEM and ODM customers for high volume purchases.

Net Sales by Reportable Segment

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

	Three months ended March 31,					
	2013			2012		
	Amount	% of Sales		Amount	% of Sales	
Sensor products	$10,011	87.6	%	$17,208	86.0	%
System solution products	1,417	12.4		2,809	14.0	
Total	$11,428	100.0	%	$20,017	100.0	%

Net Sales by Application

In the first three months of 2013, net sales from mobile phone applications were the largest component of our total sales, representing 48.3% of total net sales, compared with 58.7% of total net sales for the corresponding period in 2012. The decrease was mainly due to the decrease of our magnetic sensor sales to a major mobile phone manufacturer, which declined to $1.9 million in the first three months of 2013, compared to $8.3 million in the corresponding period of 2012. Our sales to this major mobile phone manufacturer are expected to continue to decrease due to the decline of the average sales price and the winding down in sales volume of the phone models that our sensor is designed in. However, we expect mobile phone applications to continue to be the largest component of our total sales for the remainder of 2013.

Net sales from automotive applications were the second largest component of our total sales, representing 27.9% of total net sales, compared with 18.5% of total net sales for the corresponding period in 2012. The percentage increase was mainly due to lower total sales in 2013. To increase sales from the automotive market, we will continue to seek to increase sales from new automotive applications and to expand our customer base. However, revenue increases, if any, from the automotive market will require significant time, as the development lead time in this market is generally longer than other markets in which we participate.

Net sales from industrial and other applications decreased in the first three months of 2013 to $1.8 million, representing 15.7% of total net sales, compared to $3.2 million, or 15.7% of total net sales in the corresponding period of 2012. This decrease was mainly due to lower sales from our system solution products which have undergone product upgrading. Net sales from consumer applications decreased in the first three months of 2013 to $0.9 million, or 8.1% of total net sales, compared to $1.4 million, or 7.1% of total net sales in the corresponding period of 2012.

This decrease was primarily due to a decrease in sales of our accelerometer product in a digital camera application in the Japan market.

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 March 31,			
	2013		2012	
	Amount	% of Sales	Amount	% of Sales
Mobile phone	$5,520	48.3 %	$11,747	58.7 %
Consumer	929	8.1	1,425	7.1
Automotive	3,183	27.9	3,694	18.5
Industrial/other	1,796	15.7	3,151	15.7
Total	$11,428	100.0 %	$20,017	100.0 %

Net Sales by Customer Base

Our customers primarily consist of distributors, OEMs and ODMs. Historically, a small number of our customers have accounted for a substantial portion of our net sales. We have three customers representing 10% or more of our net sales, which accounted in the aggregate for approximately 56.3% of our net sales in the first quarter of 2013, compared with two customers representing 57.2% in the corresponding period of 2012. Sales to our largest customer declined by 76.7% in the first three months of 2013 compared to the corresponding period of 2012.

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

Net Sales by Geography

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

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 March 31,			
	2013		2012	
	Amount	% of Sales	Amount	% of Sales
Asia (excluding Japan)	$6,372	55.8 %	$12,725	63.6 %
Europe	762	6.6	1,027	5.1
Japan	1,220	10.7	2,238	11.2
North America	3,051	26.7	4,007	20.0
Other	23	0.2	20	0.1

Total	$11,428	100.0	%	$20,017	100.0	%

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Cost of Goods Sold

We are a semi-fabless company. We outsource wafer production for our accelerometer products and for a portion of the wafers used in our magnetic sensor products 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.

During the first quarter of 2013, our wireless system solution products and some of our inertial system solution products were manufactured by our indirect subsidiary in Wuxi, China through outsourcing most of the assembly process to third-party contract assembly vendors and performing final testing and programming functions in-house at our facility in Wuxi.

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 third-party packaging service providers and assembly vendors.

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

Gross Profit and Gross Margin

Our gross profit and gross margin from our sensor products have historically declined over time, due to 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 have historically had lower margins than our products for automotive products. We have continuously worked to stabilize and improve our gross margin through engineering redesign of our sensor products and by seeking to improve the manufacturing process to increase manufacturing efficiency. Notwithstanding the relatively low margins in the mobile phone applications market, we will seek to increase our market share in that market by introducing products with more functionalities and at a competitive cost, in the goal of capitalizing on the significant potential for revenue growth in that market.

The gross margin from systems solution products has fluctuated based on the mix of the product sales. Gross margins from wireless sensor network products are generally lower than those of inertial products.

Research and Development Expenses

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

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.

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.

Other Income (Expense)

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

Provision for Income Taxes

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

U.S. Tax

In the United States, we are subject to the federal income tax and the Massachusetts state income tax, which are approximately at the rates of 34.0% and 8.0%, respectively. At December 31, 2012, the Company had gross U.S. net operating loss carryforwards of $10.3 million, which expire in various amounts beginning in 2028. Included within this amount is approximately $367,000 of excess tax deductions associated with non-qualified stock options that have been exercised. When these excess tax benefits actually result in a reduction to currently payable income taxes, the tax benefit will be recorded as an increase to additional paid-in capital. The Company’s operating losses may be subject to limitations under provisions of the Internal Revenue Code.

PRC tax

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

Enterprise Income Tax

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

MEMSIC Semiconductor has been qualified as a “high-technology company especially supported by the PRC government” since 2008 and passed the “high-technology Company especially supported by the PRC government” review in 2011. Therefore, a preferential enterprise income tax rate of 15% under the new tax law will apply to MEMSIC Semiconductor from 2012 to 2014.

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

Our indirect Wuxi subsidiary and MEMSIC Semiconductor's wholly owned subsidiary MEMSIC Transducer Systems Company Limited ("MTS") is subject to the enterprise income tax rate of 25%. In 2013, MTS will apply for "high-technology Company especially supported by the PRC government". Once approved, a preferential enterprise income tax rate of 15% will apply to MTS.

See "Risk Factors—Risks Related to Doing Business in China—The discontinuation of any of the preferential tax treatments currently available to us in China could materially and adversely affect our business, financial condition and results of operations." included in our Annual Report on Form 10-K for the period ended December 31, 2012.

Other PRC taxes

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

Crossbow Japan Taxes

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

Critical Accounting Policies and Estimates

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

We consider an accounting policy to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. For a discussion of the critical accounting policies that we consider to be the most sensitive and that require the most significant estimates and assumptions used in the preparation of our consolidated financial statements, see our Annual Report on Form 10-K for the year ended December 31, 2012, 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, 2012.

Results of Operations

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

	For the three months ended March 31,			
	2013		2012	
	Amount	% of net sales	Amount	% of net sales
	(dollar amounts in thousands)			
Net sales	$11,428	100.0 %	$20,017	100.0 %
Cost of goods sold	7,270	63.6	12,600	62.9
Gross profit	4,158	36.4	7,417	37.1
Operating expenses:				
Research and development	1,945	17.0	1,703	8.5
Sales and marketing	1,142	10.0	1,432	7.1
General and administrative	2,943	25.8	2,236	11.2
Depreciation	326	2.9	439	2.2
Amortization	451	3.9	396	2.0
Total operating expenses	6,807	59.6	6,206	31.0
Operating (loss) income	(2,649)	(23.2)	1,211	6.1
Other income:				
Interest and dividend income	33	0.3	108	0.5
Foreign exchange gain	81	0.7	(32)	(0.2)
Other, net	68	0.6	13	0.1
Total other income	182	1.6	89	0.4
(Loss) income before income taxes	(2,467)	(21.6)	1,300	6.5
Provision for income taxes	30	0.3	69	0.3
Net (loss) income	(2,497)	(21.9)	1,231	6.2
Less: net (loss) income attributable to noncontrolling interests	(34)	(0.3)	30	0.1
Net (loss) income attributable to MEMSIC, Inc.	$(2,463)	(21.6)%	$1,201	6.1 %

Quarter Ended March 31, 2013 Compared to Quarter Ended March 31, 2012

Net sales. Our net sales decreased by 42.9% to $11.4 million for the three months ended March 31, 2013 from $20.0 million in the corresponding period of 2012. This decrease was primarily due to a decrease in net sales of our magnetic sensor product to a major mobile phone manufacturer, whose smart phone models in which our sensor is included are winding down in the market.

Cost of goods sold. Our cost of goods sold decreased by 42.3% to $7.3 million for the three months ended March 31, 2013 from $12.6 million for the corresponding period of 2012. This decrease was primarily due to the decrease in the volume of units sold in our magnetic sensor products.

Gross profit and gross margin. Our gross profit decreased by 43.9% to $4.2 million for the three months ended March 31, 2013 from $7.4 million in the corresponding period of 2012. Our gross margin percentage also decreased by approximately 0.7 percentage points to 36.4% for the three months ended March 31, 2013 from 37.1% in the corresponding period of 2012, due to increased manufacturing cost per unit resulting from lower production volume.

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

	Three months ended March 31,					
	2013			2012		
	Amount	Margin %		Amount	Margin %	
Sensor products	$3,615	36.1	%	$6,005	34.9	%
System solution products	543	38.3		1,412	50.3	
Total	$4,158	36.4	%	$7,417	37.1	%

Gross profit from our sensor products decreased to $3.6 million in the first three months of 2013 from $6.0 million in the corresponding period of 2012. This decrease was due to continued price decline in the mobile market and decreased sales volume from our sensor product to mobile phone and digital camera applications. Gross margin of our sensor products increased to 36.1% in the first three months of 2013 from 34.9% in the corresponding period of 2012 as a result of the reduction in sales of lower margin mobile phone sales as a percentage of total net sales.

Gross profit of our system solution products decreased to $0.5 million in the first three months of 2013 from $1.4 million in the corresponding period of 2012. Gross margin of our system solution products decreased to 38.3% in the first three months of 2013 from 50.3% in the corresponding period of 2012. The decrease in the gross profit and the gross margin of our system solution products were mainly due to an increase in sales of a new wireless solution product which had a low gross margin in Japan and a decrease in sales of inertial products due to product transition.

Research and development. Our research and development expenses increased by 14.2% to $1.9 million for the three months ended March 31, 2013 from $1.7 million in the corresponding period of 2012. This increase was primarily due to the addition of engineering headcounts and tape-out cost related to new product development. Research and development expenses, as a percentage of total net sales also increased to 17.0% for the three months ended March 31, 2013 from 8.5% for the corresponding period of 2012. The percentage increase was primarily due to lower net sales in the first quarter of 2013 compared to the corresponding period of 2012. We expect our research and development expenses will continue to increase for the remainder of 2013 as we intend to invest in engineering resources to develop new products and system solutions.

Sales and marketing. Our sales and marketing expenses increased by 20.3% to $1.1 million for the three months ended March 31, 2013 from $1.4 million for the corresponding period of 2012. The decrease was primarily due to a reduced commission expense as a result of lower sales to the major mobile phone manufacturer as well as a temporary reduction of our sales and marketing headcounts. Sales and marketing expenses, as a percentage of total net sales, increased to 10.0% for the three months ended March 31, 2013 from 7.1% for the corresponding period of 2012 due to lower total net sales in the first quarter of 2013. We expect sales and marketing expense to increase for the remainder of 2013 as we plan to add additional technical sales in the U.S. market.

General and administrative. Our general and administrative expenses increased by 31.7% to $2.9 million for the three months ended March 31, 2013 from $2.2 million in the corresponding period of 2012. This increase was primarily due to legal and board fees related to the evaluation of the IDG merger proposal by the Special Committee of Directors of our Board. General and administrative expenses, as a percentage of total net sales also increased to 25.8% for the three months ended March 31, 2013 from 11.2% for the corresponding period in 2012 due to lower total sales in the first quarter of 2013.

Depreciation expense. Depreciation expense related to office equipment, computers, software, leasehold improvements and building spaces that are not used in the course of manufacturing our products. Depreciation expense for the three months ended March 31, 2013 decreased to $326,000 from $439,000 in the corresponding period of 2012 due to transfer of certain research and development equipment into manufacturing.

Amortization expense. Amortization expense was at $0.5 million for the three months ended March 31, 2013, compared to $0.4 million in the corresponding period of 2012. The increase was due to foreign exchange rate impact and increased patent amortization expenes.

Other income. Our other income was $182,000 for the three months ended March 31, 2013 compared to $89,000 in the corresponding period of 2012. The increase was primarily attributable to higher foreign exchange gain and other income, partially offset by lower net interest income resulted from an accrued interest expense of $116,000 booked in the first quarter of 2013 related to construction cost of the MTS building that was financed by the local Chinese government.

Provision for income taxes. Our income tax provision was $30,000 for the three months March 31, 2013 compared to an income tax provision of $69,000 in the corresponding period of 2012. Our income tax provision for the first quarter of 2013 reflected a tax provision of $32,000 related to income in Crossbow Japan, offset by a tax benefit of $2,000 related to a change in certain deferred tax assets in China.

Our income tax provision for the first quarter of 2012 reflected tax provision of $70,000 related to income in Crossbow Japan, offset by a tax benefit of $2,000 related to a change in the deferred tax assets in China.

Liquidity and Capital Resources

As of March 31, 2013, our principal sources of liquidity consisted of cash, cash equivalents and restricted cash of $36.8 million. In addition, our investments included $25.6 million of short-term investments and $2.5 million of auction rate securities that are classified as long-term investments on our balance sheet. The principal represented by the auction rate security will not be accessible to us until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. Based on our expected operating cash flows, and our other sources of cash, we do not expect the potential lack of liquidity in these investments to affect our ability to execute our current business plan in the near term. There can be no assurance that we would be able in the near term to liquidate these securities on favorable terms, or at all, and if we should require access to these funds sooner than we currently expect, our inability to sell these auction rate securities could adversely affect our liquidity and our financial flexibility.

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

On June 30, 2010, our indirect Wuxi subsidiary, MEMSIC Transducer Systems Company Limited, or MTS, obtained a $20 million, five-year project loan from Agricultural Bank of China. Of this amount, $15 million was used by MTS to purchase from us substantially all the assets that we purchased from Crossbow Technology, Inc., $3 million was available for working capital purposes and $2 million was available for the purchase of equipment to build the manufacturing capacity for the system solution products. This loan is collateralized by the buildings and land owned by our Wuxi subsidiaries as well as the intellectual property purchased by MTS from us. The interest rate of the loan is a variable rate, adjusted semi-annually based on the LIBOR rate plus 4.00%. MTS has obtained agreement from the local Wuxi government to fully subsidize the interest expense on a quarterly basis. As of March 31, 2013, $17,930,000 has been withdrawn, $500,000 has been repaid and $17,430,000 is outstanding. The repayment schedule of the principal amount is as follows:

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

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

Operating Activities

Net cash used in operating activities for the three months ended March 31, 2013 was $1.6 million, which was derived from net loss of $2.5 million, adjusted to reflect a net increase related to non-cash items, and a net decrease relating to changes in balances of operating assets and liabilities. The adjustment related to non-cash items, an increase of $1.5 million, was mainly attributable to depreciation and amortization expense of $1.2 million, stock compensation expense of $0.3 million and an increase in deferred income tax of $16,000, offset by a decrease in deferred rent of $14,000. The adjustment related to changes in the balances of operating assets and liabilities, a net decrease in cash of $0.6 million, was primarily the result of a decrease of $2.1 million in accounts payable and accrued expenses and an increase of $0.3 million in other assets, offset by decreases of $1.4 million in inventory and $0.4 million in accounts receivable.

Net cash used in operating activities for the three months ended March 31, 2012 was $0.3 million, which was derived from a net income of $1.2 million, adjusted to reflect a net increase related to non-cash items, and a net decrease relating to changes in balances of operating assets and liabilities. The adjustment related to non-cash items, an increase of $1.6 million, was mainly attributable to depreciation and amortization expense of $1.3 million, stock-based compensation of $0.3 million, deferred rent and income tax of $11,000. The adjustment related to changes in the balances of operating assets and liabilities, a net decrease in cash of $3.1 million, was primarily the result of increases of $0.7 million in accounts receivables due to increased sales, $1.4 million increase in other assets and $2.3 million decrease in accounts payable and accrued expenses, offset by a $1.3 million decrease in inventory.

Investing Activities

Net cash provided by investing activities for the three months ended March 31, 2013 was $8.4 million, primarily consisting of $14.0 million of proceeds from sale of short-term investments, offset by $5.0 million used for the purchase of short term investments and $0.6 million used for the purchase of property and equipment, mainly attributable to expansion of our sensor manufacturing capacity in China.

Net cash used in investing activities for the three months ended March 31, 2012 was $15.3 million, primarily consisting of $14.4 million used to purchase short term investments and $0.8 million used for the purchase of property and equipment mainly attributable to expansion of our sensor manufacturing capacity in China.

Financing Activities

Net cash used in financing activities for the three months ended March 31, 2013 was $95,000, consisting cash dividend of $103,000 paid to the minority owner of Crossbow Japan, offset by proceeds of $8,000 from exercise of options to purchase common stock.

Net cash used in financing activities for the three months ended March 31, 2012 was $45,000, consisting cash dividend of $59,000 paid to the minority owner of Crossbow Japan, offset by proceeds of $14,000 from exercise of options to purchase common stock.

Off-Balance Sheet Arrangements

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

Item 4. Controls and Procedures

A. Evaluation of Disclosure Controls and Procedures

Based on the evaluation of our disclosure controls and procedures (as defined in the Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) required by Exchange Act Rules 13a15(b) or 15d-15(b), our chief executive officer and our principal financial and accounting officer have concluded that as of March 31, 2013, 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 March 31, 2013 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

On September 11, 2011, Trilogy Marketing, Inc. (Trilogy) commenced an action in the United States District Court for the Eastern District of Michigan, in which it alleges that MEMSIC has failed to pay sales representative commissions to Trilogy. We have not concluded that a loss of any magnitude in this matter is probable, and are unable to estimate the range of potential loss, if any, that might arise from this matter.

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, 2012, except as follows:

New regulations related to conflict minerals may force us to incur additional expenses, may make our supply chain more complex and may result in damage to our relationships with customers.

On August 22, 2012, as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC adopted new disclosure regulations for public companies that manufacture products that contain certain minerals and their derivatives, namely tin, tantalum, tungsten or gold, known as conflict minerals, if these minerals are necessary to the functionality or production of the company’s products. These regulations require such issuers to report annually whether or not such minerals originate from the Democratic Republic of Congo and adjoining countries and in some cases to perform extensive due diligence on their supply chains for such minerals. The implementation of these new requirements could adversely affect the sourcing, availability and pricing of conflict minerals used in the manufacture of semiconductor devices, including our products. In addition, we may incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals used in our products. Since our supply chain is complex, the due diligence procedures that we implement may not enable us to ascertain the origins for these minerals or determine that these minerals are DRC conflict free, which may harm our reputation. We may also face difficulties in satisfying customers who may require that our products be certified as DRC conflict free, which could harm our relationships with these customers and lead to a loss of revenue. These new requirements also could have the effect of limiting the pool of suppliers from which we source these minerals, and we may be unable to obtain conflict-free minerals at competitive prices, which could increase our costs and adversely affect our manufacturing operations and our profitability.

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

The net proceeds to us of our initial public offering in 2007, including the net proceeds from exercise of underwriters’ over-allotment option were approximately $60.2 million. Through March 31, 2013, we have applied approximately $11.2 million of the net proceeds to fund capital expenditures for the expansion of our manufacturing facility in Wuxi, $7.3 million to the construction of two new buildings adjacent to that facility and $4.0 million to the purchase of a piece of land to build the MTS manufacturing facility and manufacturing equipment, and $18.0 million to the Crossbow acquisition. We invested the balance of $19.7 million of the net proceeds from our initial public offering in money market funds and auction rate securities, pending other uses.

Item 6. Exhibits

	Filed with	Incorporated by Reference
Exhibit		