

MEMSIC Inc  
Form 10-Q  
August 12, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-33813

**MEMSIC, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**04-3457049**  
(I.R.S. Employer  
Identification No.)

**One Tech Drive, Suite 325**  
**Andover, Massachusetts**  
(Address of principal executive offices)

**(978) 738-0900**  
**01810**  
(Zip Code)

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of common stock, par value \$0.00001 per share, of the registrant outstanding as of August 11, 2009 was 23,755,675.

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**MEMSIC, Inc.**

**FORM 10-Q, June 30, 2009**

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 67,806,880	\$ 64,365,607
Short-term investments		1,485,023
Accounts receivable, net of allowance for doubtful accounts of \$6,441 as of June 30, 2009 and December 31, 2008	2,036,956	1,884,194
Inventories	5,120,714	6,267,911
Deferred taxes	110,795	78,204
Other assets	1,442,501	969,892
<b>Total current assets</b>	<b>76,517,846</b>	<b>75,050,831</b>
Property and equipment, net	14,072,191	13,351,721
Long-term investments	5,353,000	5,553,000
Intangible assets, net	952,622	978,256
Deferred taxes	48,169	36,439
Other assets	86,530	51,529
<b>Total assets</b>	<b>\$ 97,030,358</b>	<b>\$ 95,021,776</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,800,077	\$ 1,360,274
Accrued expenses	1,355,992	1,380,071
<b>Total current liabilities</b>	<b>3,156,069</b>	<b>2,740,345</b>
Stockholders equity:		
Common stock, \$0.00001 par value; authorized, 100,000,000 shares; 23,754,925 and 23,694,425 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	238	237
Additional paid-in capital	97,407,211	96,538,040
Accumulated other comprehensive income	2,203,223	2,227,901
Accumulated deficit	(5,736,383)	(6,484,747)
<b>Total stockholders equity</b>	<b>93,874,289</b>	<b>92,281,431</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 97,030,358</b>	<b>\$ 95,021,776</b>

See accompanying notes to condensed consolidated financial statements (unaudited)



**Table of Contents****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net sales	\$ 9,117,444	\$ 3,603,810	\$ 15,692,110	\$ 9,862,038
Cost of goods sold	4,916,605	2,474,293	8,358,247	5,195,330
Gross profit	4,200,839	1,129,517	7,333,863	4,666,708
Operating expenses:				
Research and development	1,708,561	976,619	2,878,726	1,757,220
Sales and marketing	543,282	717,512	1,120,061	1,429,609
General and administrative	1,422,405	1,467,935	2,845,102	2,761,461
Total operating expenses	3,674,248	3,162,066	6,843,889	5,948,290
Operating income (loss)	526,591	(2,032,549)	489,974	(1,281,582)
Other income (expense):				
Interest and dividend income	201,984	507,708	459,849	1,220,227
Interest expense		(8,719)		(24,333)
Other, net	35,174	60,518	38,635	164,438
Total other income (expense)	237,158	559,507	498,484	1,360,332
Earnings (loss) before income taxes	763,749	(1,473,042)	988,458	78,750
Provision (benefit) for income taxes	72,556	(39,765)	240,094	(25,143)
Net income (loss)	\$ 691,193	\$ (1,433,277)	\$ 748,364	\$ 103,893
Net income (loss) per common share:				
Basic	\$ 0.03	\$ (0.06)	\$ 0.03	\$ 0.00
Diluted	\$ 0.03	\$ (0.06)	\$ 0.03	\$ 0.00
Weighted average shares outstanding used in calculating net income (loss) per common share:				
Basic	23,710,172	23,669,765	23,704,406	23,580,877
Diluted	23,998,572	23,669,765	23,920,548	23,886,185

See accompanying notes to condensed consolidated financial statements (unaudited)

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 748,364	\$ 103,893
<b>Adjustments to reconcile net income to cash provided by (used in) operating activities:</b>		
Depreciation and amortization	1,024,585	900,830
Stock compensation expense	745,022	643,170
Excess tax benefit from stock-based compensation arrangement		(95,955)
Deferred income taxes	(44,439)	(28,082)
<b>Changes in assets and liabilities:</b>		
Accounts receivable	(152,762)	3,348,310
Inventories	1,139,803	(704,118)
Other assets	(554,795)	(2,079,569)
Accounts payable and accrued expenses	466,495	(1,412,065)
<b>Net cash provided by operating activities</b>	<b>3,372,273</b>	<b>676,414</b>
<b>Cash flows provided by (used in) investing activities:</b>		
Purchase of short-term investments		(18,700,000)
Proceeds from sale of short-term investments	1,682,951	57,000,000
Purchase of property and equipment	(1,687,485)	(4,148,207)
<b>Net cash provided by (used in) investing activities</b>	<b>(4,534)</b>	<b>34,151,793</b>
<b>Cash flows provided by financing activities:</b>		
Proceeds from exercise of underwriter's over-allotment option to purchase common stock, net of offering costs of \$591,100		7,638,900
Payments of notes payable		(1,000,000)
Proceeds from exercise of options to purchase common stock	74,150	43,375
Excess tax benefit from stock-based compensation arrangement		95,955
<b>Net cash provided by financing activities</b>	<b>74,150</b>	<b>6,778,230</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(616)</b>	<b>947,145</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,441,273</b>	<b>42,553,582</b>
Cash and cash equivalents beginning of period	64,365,607	20,708,794
Cash and cash equivalents end of period	\$ 67,806,880	\$ 63,262,376
<b>Supplemental non-cash financing and investing activities:</b>		
Acquisition of intangible asset in exchange for common stock	\$	\$ 509,200

See accompanying notes to condensed consolidated financial statements (unaudited)



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**MEMSIC, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**1. NATURE OF THE BUSINESS AND OPERATIONS**

MEMSIC, Inc. (the Company) was incorporated on March 3, 1999 as a Delaware corporation. The Company is a leading provider of semiconductor sensor systems solutions based on micro electromechanical systems (MEMS) technology and advanced integrated circuit design. The Company has integrated a MEMS technology-based inertial sensor, commonly known as an accelerometer, with mixed signal processing circuitry onto a single chip using a standard complementary metal-oxide-semiconductor (CMOS) process. This proprietary technology has allowed for sensor solutions at lower cost, higher performance and improved functionality. Utilizing a standard CMOS process allows easily integrated additional functions, the creation of new sensors to expand into magnetic, touch and flow sensors, as well as other MEMS application areas beyond accelerometers. Any application that requires the control or measurement of motion is a potential application for accelerometers. Accelerometer products have a wide range of applications for consumer electronics, mobile phones, automotive (airbags, rollover detection, electronic stability control and navigation systems), as well as business, industrial and medical applications.

MEMSIC, Inc. maintains its corporate headquarters in Massachusetts. All manufacturing operations are provided by its wholly-owned subsidiary, MEMSIC Semiconductor (Wuxi) Company Limited (MEMSIC Semiconductor), located in the People's Republic of China (PRC).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

***Principles of Consolidation***

The accompanying unaudited consolidated financial statements include the accounts of MEMSIC, Inc. and MEMSIC Semiconductor. All significant intercompany balances and transactions have been eliminated in consolidation.

***Unaudited Interim Financial Information***

The accompanying interim consolidated financial statements are unaudited. These financial statements and notes should be read in conjunction with the audited consolidated financial statements and related notes, together with the management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, which is on file with the Securities and Exchange Commission (SEC).

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such SEC rules and regulations. In the opinion of management, the unaudited interim consolidated financial statements and notes have been prepared on the same basis as the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, and include all adjustments (consisting of normal, recurring adjustments) necessary for the fair presentation of the Company's financial position at June 30, 2009, results of operations for the three and six months ended June 30, 2009 and 2008 and cash flows for the six months ended June 30, 2009 and 2008. The interim periods are not necessarily indicative of results to be expected for any other interim periods or for the full year.

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### ***Use of Estimates***

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

### ***Cash Equivalents***

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

### ***Foreign Currency***

The Company's manufacturing operations and certain other operations are conducted by MEMSIC Semiconductor. The functional currency of MEMSIC Semiconductor is the Renminbi. Financial transactions between the Company and MEMSIC Semiconductor are conducted in United States dollars. At June 30, 2009 and December 31, 2008, the underlying currency for approximately 37.5% and 38.6% of consolidated assets, respectively, was the Renminbi. The Company does not believe that it is subject to significant foreign exchange risk and, accordingly, has not utilized hedging strategies with respect to such foreign exchange exposure.

The financial statements of MEMSIC Semiconductor are translated into United States dollars in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 52, *Foreign Currency Translation*. The functional currency of MEMSIC Semiconductor, the Renminbi, is translated into United States dollars utilizing the following method: assets and liabilities are translated at the exchange rate in effect at the end of the period, and revenues and expenses are translated at the weighted average exchange rate during the year. Cumulative translation gains and losses are included as a separate component of stockholders' equity and reported as a part of comprehensive income. Transaction gains and losses are included in the consolidated statements of operations as incurred.

### ***Fair Value of Financial Instruments***

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

### ***Net Income (loss) per Common Share***

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted-average common shares outstanding. 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. The Company recorded an additional provision of \$262,000 for the three months ended June 30, 2009.

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### ***Revenue Recognition***

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

The Company sells its products to distributors as well as to end customers. Sales to distributors account for a significant amount of the Company's revenue. Sales to distributors are made pursuant to distributor agreements, which allow for the return of goods under certain circumstances. Accordingly, the Company follows the provisions of SFAS No. 48, *Revenue Recognition When Right of Return Exists*. SFAS No. 48 includes 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.

During the second quarter of 2008, the Company reversed \$2.0 million in revenue from the sale of printed circuit boards for use in the Olympic torch project that was recorded in the first quarter of 2008.

### ***Stock-Based Compensation***

The Company accounts for share-based payments to employees in accordance with SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)). SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The cost of equity-based service awards is based on the grant-date fair value of the award and is recognized over the period during which the employee is required to provide service in exchange for the award (vesting period). Stock-based compensation arrangements with non-employees are accounted for utilizing the fair value method or, if a more reliable measurement, the value of the services or consideration received. The resulting compensation expense is recognized for financial reporting over the term of performance or vesting.

### ***Recent Accounting Pronouncements***

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162*, (SFAS No. 168). The FASB Accounting Standards Codification, or Codification, will become the source of authoritative U.S. GAAP recognized by the FASB applicable to non-governmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will no longer be authoritative. SFAS No. 168 will not be effective for the Company until the nine-month period ended September 30, 2009 and is not expected to have a material effect on the Company's financial position or results of operations.

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In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* ( SFAS No. 165 ), which establishes general standards for disclosure of and accounting for events that occur after the balance sheet date but