IMP INC
Form 10-Q
August 20, 2002

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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, 2002

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 number 0-15858

IMP, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-2722142 (IRS Employer Identification No.)
2830 North First Street, San Jose, CA (Address of principal executive offices) 95134 (Zip Code)	

Registrant s telephone number, including area code (408) 432-9100

(Former name, former address and former fiscal year if changed since last report)

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 the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, $0.01 par value outstanding at June 30, 2002:8,271,375

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IMP, Inc.
CONDENSED
BALANCE SHEETS
(In thousands, except per share data)
(unaudited)

	JUNE 30, 2002	MARCH 31, 2002
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$49	$31
Accounts receivable, net of allowances for doubtful accounts and returns of $150 and $150	2,407	3,565
Inventories	6,831	7,483
Other current assets	1,003	602
Total current assets	10,290	11,681
Property and equipment:		
Leasehold improvements	9,072	9,072
Machinery and equipment	85,443	84,835
	94,515	93,907
Less: Accumulated depreciation and amortization	88,450	88,071
Net property and equipment		

	6,065	5,836
Deposits and other long term assets	133	143
	$16,488	$17,660
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current Liabilities:		
Short-term debt	$215	$505
Convertible debentures due to related party, net	2,771	2,891
Current portion of capital lease obligations	2,050	1,828
Trade accounts payable	3,759	4,381
Accrued payroll and related expenses	1,567	1,410
Other current liabilities	863	1,746
Total current liabilities	11,225	12,761
Long term portion of capital lease obligations		
Total liabilities	$11,225	$12,761

Commitments and contingencies		
Stockholders equity (deficit):		
Convertible preferred stock, $0.001 par value; 1,000 shares authorized; no shares issued and outstanding		
Common stock, $0.01 par value; 20,000 shares authorized; 7,790 and 7,291 shares issued and outstanding	78	73
Additional paid in capital	86,826	86,464
Obligations to issue common stock		40
Treasury stock; at cost, 40 shares	(3,897)	(3,897)
Accumulated deficit	(77,744)	(77,781)
Total stockholders equity (deficit)	5,263	4,899
	$16,488	$17,660

See accompanying notes to unaudited condensed financial statements.

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IMP, Inc.
CONDENSED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(unaudited)

	THREE MONTHS ENDED	
	JUNE 30, 2002	**JUNE 30, 2001**
Net revenues:		
Component	$3,773	$7,382
Design and engineering services		
	3,773	7,382
Cost of revenues		
Component	$2,835	$4,925
Design and engineering services		
	2,835	4,925
Gross profit	938	2,457
Operating expenses:		

Research and development	494	588
Selling, general and administrative	513	1,020
Gain on disposal of fixed assets	(29)	
Total operating expenses	978	1,608
Income (loss) from operations	(40)	849
Interest expense	(238)	(423)
Other income, net	315	
Net income	$37	$426
Basic net income per share	$0.00	$0.23
Diluted net income per share	$0.00	$0.10

Shares used in computing basic net income (loss) per share	7,790	1,809
Shares used in diluted	10,371	4,390

See accompanying notes to unaudited condensed financial statements.

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IMP, Inc.
CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	THREE MONTHS ENDED	
	JUNE 30, 2002	JUNE 30, 2001
Cash flows from operating activities:		
Net income (loss)	$37	$426
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	448	684
Fees for late payments of capital lease		14
Gain on disposal of fixed assets	(29)	
Amortization of debt discount	170	228
Provision for doubtful accounts		566
Provision for obsolete and slow moving inventory		
Changes in operating assets and liabilities:		
Accounts receivable	1,158	(2,884)
Accounts receivable from related party		391
Inventories	652	(353)
Other current assets	(401)	95
Deposits and other long term assets	10	25
Trade accounts payable	(738)	(1,355)
Other current liabilities	(883)	2
Accrued payroll and related expenses	157	(41)

Net cash provided by (used in) operating activities
581 (2,202)

Cash flows from investing activities:

Purchase of property and equipment
(54) (16)
Proceeds from sale of property and equipment
21

Net cash provided by (used in) investing activities
(33) (16)

Cash flows from financing activities:

Proceeds from (repayments of) issuance of convertible debentures
(120)
Net repayments of short-term advance from related parties
(63) (513)
Net proceeds (repayments) from revolving credit facility
872
Proceeds from equipment notes payable

Repayments of equipment notes payable
(247)
Payments under capital lease obligations

	(120)	(184)
Net proceeds from line of credit		
Bank overdraft	20	
Advance proceeds from issuance of common stock		2,220
Proceeds from issuance of common stock		
Net cash provided by (used) in financing activities	(530)	2,395
Net increase in cash and cash equivalents	18	177
Cash and cash equivalents at beginning of period	31	41
Cash and cash equivalents at end of period	$49	$218
Supplemental information:		
Cash paid during the period for interest	$2	$78
Acquisition of equipment under capital lease obligations	$622	$

Issuance of common stock for settlement of liabilities	$367
Discount on convertible debentures	$1,635

Return of equipment and reduction of accounts payable	$8	$252

See accompanying notes to unaudited condensed financial statements.

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IMP, Inc.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

Business. IMP, Inc. (the Company), a Delaware corporation founded in 1981, develops and manufactures analog CMOS integrated circuit solutions for communications, computer and control applications.

In September 2001, Subba Mok LLC (Subba Mok), a limited liability company headquartered in the United States of America, acquired approximately 72% of the common stock of the Company. As a result of the shares issued in connection with this transaction, the ownership of Teamasia Semiconductors (India) Ltd., (Teamasia), a private corporation headquartered in India, was reduced from approximately 51% to 14% of the Company.

In 2001, the Company changed its year end to March 31 of each year. Prior to the year ended March 31, 2001, the Company s fiscal year ended on the Sunday nearest to March 31.

NOTE 2 BASIS OF PRESENTATION

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. On an on-going basis, the Company evaluates its estimates, including those related to customer programs and incentives, product returns, bad debts, inventory values, financing operations, warranty obligations, order cancellation costs, restructuring, and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed 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.

Reverse stock split. Effective September 2001, the Company effected a one-for-five reverse split of its common stock. All shares and per share amounts in these financial statements have been retrospectively restated to reflect such reverse split.

Going concern. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company continues to experience severe liquidity problems and absorb cash in its operating activities and, as of June 30, 2002, the Company has a working capital deficiency, is in default under the terms of certain financing agreements, is delinquent in the payment of its federal unemployment taxes, and has limited financial resources available to meet its immediate cash requirements. These matters raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company has failed to make various scheduled payments due under its prior credit facility, equipment notes payable and its capital lease obligations. As a result the Company is in default with respect to these agreements. The Company has been successful in renegotiating the payments with all lease vendors and is on schedule in making payments per the new terms and continues to negotiate with others to settle the payment plans.

The indebtedness related to agreements in which the Company is in default is classified as current on the Company s balance sheets as of June 30, 2002 and March 31, 2002 because such creditors and lessors continue to have the right to effectively declare the principal amount of the Company s indebtedness to be immediately due and payable (or to exercise an equivalent remedy with respect to a capitalized lease).

In November 2000, Teamasia loaned the Company $1.2 million under a convertible debenture due on May 28, 2001. The debenture was non-interest bearing and convertible into 137,143 shares of common stock at Teamasia s option, representing a conversion ratio equal to $8.75 per share.

In December 2000, Teamasia loaned the Company an additional $2.3 million under a convertible debenture due on June 18, 2001. The debenture was non-interest bearing and convertible into 262,857 shares of common stock, at Teamasia s option, representing a conversion ratio equal to $8.75 per share.

In the year 2001 the convertible debentures were renegotiated whereby the notes became interest bearing at prime rate and the due dates were extended to June 2002 and subsequently extended further until August 15, 2002. In consideration for the extension, the Company has issued warrants to Teamasia to purchase 319,800 shares of common stock at an exercise price of $1.10. The convertible debentures are convertible into common stock, at Teamasia s option at a conversion ratio of $3.45 per share.

The transaction was completed in November 2001. The Company is further negotiating with Teamasia to convert the amount due under the convertible debenture to equity or extend to a further period and expects to complete the transaction before the end of September 2002; however, no assurances can be given that the Company will be able to complete such negotiations on terms favorable to the Company or complete such negotiations at all.

Certain Events Have Occurred Which May Have An Impact On The Company s Ability To Continue As A Going Concern, Including:

In June 2001, International Rectifier Corporation (IR) notified the Company that it was canceling future orders. Revenues from IR for the years ended March 31, 2001 and March 26, 2000 totaled $9.3 million and $7.7 million, respectively. Accounts receivable due from IR as of June 30, 2002 totaled $411,625. However IR continues to do business with the Company at a lower revenue and the revenues from IR for the year ended March 31, 2002 were$3.9 million and for the period ended June 30, 2002 were $0.3 million.

On July 10, 2001, CIT gave notice of termination and acceleration and demand for repayment for both the revolving credit facility and the term loan. This cancellation results from defaults under both the CIT agreement and related forbearance letters. CIT has declared all obligations due and payable as of July 11, 2001. The final payment to CIT has been made.

At June 30, 2002, the Company owed to the Internal Revenue Service (IRS) approximately $1,169,276 in federal unemployment taxes, including approximately $880,000 in delinquent taxes, penalties and interest. The Company has had discussions with the IRS in an effort to reach a mutually agreeable payment schedule. There can be no assurances that the Company will be able to reach a mutually agreeable settlement or, in the event that such a settlement is reached, that the Company will be able to comply with the payment terms of such settlement.

During the year ended March 31, 2002, management has put in place plans designed to reduce the costs of operating the business, improve the operating efficiency of the Company s manufacturing facility and obtain new customers. As a result of this effort, the Company generated operating income, reduced capital absorbed in operating activities and improved its working capital position during the year ended March 31, 2002. The Company continues to focus on its effort to reduce costs further. If the Company is unable to successfully continue to meet its obligations under the renegotiated payment terms on its borrowings, or if management s operating plans do not materialize, this could significantly and adversely impact the Company s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 REVENUE RECOGNITION

Component revenues are recognized as products are shipped except for sales through distributors, which are recognized on a sell-through basis. Sales to foreign distributors are FOB. IMP shipment location and the title of the products sold passes from the seller to the buyer at the FOB point. Design and engineering service revenues are recognized under design and engineering contracts once defined development phases are completed by the Company and accepted by the customers.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements. SAB No. 101 summarizes certain of the SEC s views in applying accounting principles generally accepted in the United States of America to revenue recognition in financial statements. Under SAB No. 101, no revenue can be recognized unless there is persuasive evidence of an arrangement, the fee is fixed or determinable, delivery has occurred and collectibility is probable. The Company adopted SAB No. 101 in the fourth quarter of fiscal year 2001, effective January 1, 2001. The adoption of SAB No. 101 did not have an impact on the Company s financial statements.

Sales return allowance. The Company reduces sales for estimated returns of products. The sales return allowance is based on the Company s historical experience.

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NOTE 4 CASH AND CASH EQUIVALENTS

The Company considers all highly liquid financial instruments purchased with maturity of three months or less at the date of purchase to be cash and cash equivalents. The fair market value of these highly liquid instruments approximates cost at June 30, 2002 and March 31, 2002.

Carrying amounts of certain of the Company s financial instruments including cash and cash equivalents, accounts receivable, the revolving credit facility, accounts payable and other accrued liabilities approximate fair value due to their short maturities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying values of the note payable and capital lease obligations approximate fair value.

NOTE 5 INVENTORIES

Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in first-out basis) or market.

Inventories consist of the following (in thousands):

	JUNE 30, 2002	MARCH 31, 2002
Raw materials	$ 298	$ 363
Work-in-process	4,749	5,313
Finished goods	1,784	1,807
	$6,831	$7,483

During the year ended March 31, 2000, the Company re-evaluated the practical production capacity of its fabrication facility in the light of measures taken to reduce the costs and improve the efficiency of the manufacturing process, and considering the steep decline in the semiconductor market during the first six months of fiscal 2001. Prior to the quarter ended June 30, 2001, the practical capacity of the Company s fabrication facility was estimated to be approximately 3,000 wafers per week. After re-evaluating the production capacity of the fabrications facility in light of changes made to the production process, reductions in headcount and other considerations, management estimates the current production capacity to be approximately 1,200 wafers per week. Accordingly, to the extent actual production is at or near 1,200 per week, overhead absorption is higher than it would have been using the estimated production capacity of 3,000 wafers per week.

NOTE 6 BORROWINGS

The Company has entered into various borrowing arrangements to finance operations and equipment purchases. Borrowings consist of the following (in thousands):

	JUNE 30,	MARCH 31,

	2002	2002
Revolving credit facility	$	$
Bank overdraft	113	93
Equipment notes	102	349
Short term advance from related parties		63
Convertible debentures from related party	2,771	2,891
Total borrowings	2,987	3,396
Less current portion	2,987	3,396
Long term borrowings	$	$

Revolving Credit Facility. On April 30, 1999, the Company entered into a revolving credit facility with the CIT Group (CIT). The maximum and minimum amount of the borrowing under the facility was $9.5 million and $2.5 million, respectively. The Company was able to borrow up to $7.5 million secured by up to 80% of eligible accounts receivable and 25% of the Company s inventory of raw materials. Up to $1.0 million of the $7.5 million was based on the raw material inventory. The remaining $2.0 million of the facility was for term loans for equipment purchases. The original term of the facility was for a minimum period to April 30, 2002. However, due to default by the Company of the terms of the facility, on July 10, 2001, CIT terminated the facility and accelerated repayment of both the revolving credit facility and equipment term loans to July 11, 2001. All amounts due to CIT were paid in August, 2001.

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Short-term advance from related party. Subba Mok LLC advanced the Company various amounts during the year to cover operating expenses, and paid certain vendors directly on behalf of the Company. The advance does not bear interest and no repayment terms have been established. Total amount of such expenses /payments incurred are $0.6 millions.

Convertible debentures from related party. In November 2000, Teamasia loaned the Company $1.2 million under a convertible debenture due on May 28, 2001. The debenture was non-interest bearing and convertible into 137,143 shares of common stock at Teamasia s option, representing a conversion ratio equal to $8.75 per share.

In December 2000, Teamasia loaned the Company an additional $2.3 million under a convertible debenture due on June 18, 2001. The debenture was non-interest bearing and convertible into 262,857 shares of common stock, at Teamasia s option, representing a conversion ratio equal to $8.75 per share.

In May 2001, the convertible debentures were renegotiated whereby the notes became interest bearing at prime rate and the due dates were extended to June 2002. In consideration for the extension, the Company issued warrants to Teamasia to purchase 319,800 shares of common stock at an exercise price of $1.10 and subsequently further extended to September 15, 2002. The convertible debentures are convertible into common stock, at Teamasia s option at a conversion ratio of $3.45 per share.

As the terms of the warrants became fixed in May 2001, when the parties entered into a Memorandum of Understanding (MOU), the issuance of the warrants was recorded at that time. The convertible debentures and warrants have been recorded based on their relative fair values. The fair value of the warrants of $821,000 was determined by using the Black Scholes pricing model using the following assumptions: 221% volatility, zero dividend, 6.4% risk free interest rate, and 3 year term.

The Company also determined that the convertible debentures contained a beneficial conversion feature after allocating value to the warrants as described above. The beneficial conversion feature was calculated as the difference between the effective conversion price per share and the fair value of the common stock on the effective date of the MOU multiplied by the number of shares in to which the convertible debentures are convertible at the stated ratio of $3.45 per share.

The Company has recorded this transaction as follows:

Convertible debentures	$1,867,000
Warrants	821,000
Beneficial conversion feature	812,000
	$3,500,000

The combined warrants and beneficial conversion feature totaling $1.6 million has been recorded as a discount to the convertible debenture and is being amortized into interest expense over 12 months. During the fiscal year ended March 31, 2002 and quarter ended June 30, 2002, approximately $1,463,000 and $171,000 was amortized into interest expense.

During the fiscal year ended March 31, 2002, the Company offset $438,600 in receivables due from Teamasia against the carrying value of the convertible debentures.

Following further negotiations with Teamasia, the due date for the convertible debentures was extended to August 15, 2002, and the Company is in negotiations with Teamasia to convert the debentures into equity or to further extend the due date of the debentures; however, no assurances can be given that the Company will be able to complete such negotiations on terms favorable to the Company or complete such negotiations at all.

NOTE 7 LEASING ARRANGEMENTS AND COMMITMENTS

The Company leases certain machinery and equipment under long-term lease agreements, which are reported as capital leases. The terms of the leases range from four to five years, with purchase options at the end of the respective lease terms. The Company leases its San Jose facility under a non-cancelable operating lease, which will expire in December 2006. The lease requires the Company to pay tax, insurance and maintenance expenses. Rental expense is recorded using the straight-line method.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual future results could differ materially from those discussed here. Factors that would cause or contribute to such differences include, but are not limited to, those discussed in this section, as well as in the section entitled Business in our Form 10-K for the year ended March 31, 2002 filed with the Securities and Exchange Commission.

This information should also be read along with the unaudited condensed financial statements and notes thereto included in Item I of this Quarterly Report and the audited financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended March 31, 2002 contained in the Company s Annual Report filed in Form 10-K.

RESULTS OF OPERATIONS

The following table sets forth, as a percentage of net revenues, certain consolidated statement of operations data for the periods indicated.

	Three Months Ended	
	June 30, 2002	**June 30, 2001**
Total revenues	100.0%	100.0%
Cost of revenue	75.1	66.7
Gross margin	24.9	33.3
Operating expenses:		
Research and development	13.1	8.0
Selling, general and administrative	13.6	13.8
Gain on disposal of fixed assets	(0.8)	(0.0)
Operating income (loss)	(1.1)	11.5
Interest expense	(6.3)	(5.7)
Other income, net	8.3	

Net income	1.0%	5.8%

During the quarter ended June 30, 2002, the Company generated net revenues of $3.8 million compared to $7.4 million for the same period of the prior year. The decrease in net revenues was due to decreased demand for the Company s foundry products. Foundry product sales accounted for 36.25% of net revenues in the quarter ended June 30, 2002 and standard product sales accounted for 64% of net revenues in the quarter ended June 30, 2002. Among standard products supervisor series of products accounted for approximately 39% and discrete power devices accounted for 29% of the net revenue for the quarter ended June 30, 2002.

For the three months ended June 30, 2002, the Company s largest customers were International Rectifier, Signal Processing Technology and Dialog, which accounted for approximately 20%, 5% and 2% of net revenues and 9%, 1%, and 2% of net receivables at June 30, 2002, respectively.

COST OF REVENUES. Cost of revenues in the three months ended June 30, 2002 was $2.8 million, representing 75% of net revenues compared to $5.0 million, representing 67% of net revenues for the same quarter in the prior fiscal year. The increase in cost of revenues as a percentage of sales is a result of decreased revenue and underutilization of the manufacturing capacity.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were $493,700 (13.1% of revenue) in the quarter ended June 30, 2002 compared to $588,000 (8.0% of revenue) in the corresponding quarter of the prior fiscal year. Costs of engineering resources associated with design revenue are included in costs of sales in the quarter ended June 30, 2002.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were $513,000 (13.6% of net revenues) in the quarter ended June 30, 2002, down from $1,020,000 (14% of net revenues) in the same quarter of the prior year. The decrease in expenses is due to the cost cutting measures taken by the Company.

INTEREST EXPENSES. Interest expense for the three months ended June 30, 2002 was $238,000 as compared to $423,000 for the same quarter ended June 30, 2001. The decrease in interest expenses is due to decrease in borrowings.

OTHER INCOME, NET. Other income was $313,961 for the quarter ended June 30, 2002 compared to $Nil for the comparative quarter in the prior year.

NET INCOME (LOSS). The Company had a net income $36,570 for the three months ended June 30, 2002, or $0.004 per share, compared to a net income of $426,000 in the quarter ended June 30, 2001 or $0.23 (pre-split $.05) per share. The Company has taken a number of actions designed to enable the Company to show profitable results at much lower revenue levels than historical levels. Scaled down operations, cost control and improvements in our manufacturing efficiency are the major drivers of the Company s return to profitability.

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LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased to $49,000 at June 30, 2002 from $31,000 at March 31, 2002.

Net cash provided by operating activities in the quarter ended June 30, 2002 were $581,000 as compared to net cash used in operating activities in quarter ended June 30, 2001 of $2.2 million. The improvement of $2.8 million is primarily attributable to cash flow changes attributable to accounts receivables, which used 2.9 million cash flow for the quarter ended June 30, 2001 and provided $1.2 million of cash flow are the quarter ended June 30, 2002. During the quarter ended June 30, 2002, the Company s cash flows were favorably effected by approximately $1.0 million in receivables that were sold without recourse by the Company to an affiliated entity.

Net cash used for investing activities were $33,000 in quarter ended June 30, 2002 as compared to net cash used for investing activities of $16,000 in quarter ended June 30, 2001.

Net cash used in financing activities was $530,000 in quarter ended June 30, 2002 as compared to net cash provided by financing activities of approximately $2.4 million in quarter ended June 30, 2001.

The Company continues to experience severe liquidity problems and absorb capital infusion in its operating activities. As of June 30, 2002, the Company had a working capital deficiency, is in default under the terms of certain financing agreements, is delinquent in the payment of its federal unemployment taxes, and has limited financial resources available to meet its immediate cash requirements. These matters raise substantial doubt about the Company s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company made payments of $120,000 on capital lease obligations and $247,000 on equipment notes during the quarter ending June 30, 2002.

In April 1999, the Company entered into an agreement with The CIT Group for a $9.5 million facility. Included in the facility were secured term loans for up to $2.0 million for equipment purchases and a revolving credit facility that allows the Company to borrow up to $7.5 million based on qualifying accounts receivable and inventory balances at 1.5% over prime. In July 2001, the CIT Group gave notice of termination and acceleration and demand for repayment for the revolving credit facility, including the equipment term loans. As of March 31, 2002, there are no remaining balances outstanding under the revolving credit and equipment term loan financing arrangement with the CIT Group. Management is actively negotiating with several lenders to replace the CIT Group revolving credit facility.

During the second quarter of fiscal year 2000, the Company was unable to meets its obligations under its equipment notes payable and certain of its capital leases. These instances of non-payment put the Company in default of these agreements and in default of the revolving credit facility due to a cross default clause in the revolving credit facility agreement. As of June 26, 2000, the Company was in default of the revolving credit facility and capital lease obligations with an aggregate total balance of $4,934,000.

During fiscal year 2001, management actively negotiated with the Company s creditors. As a result of these negotiations, and from proceeds from sales of stock in June 2000 and convertible debentures in November and December 2000 to Teamasia totaling $7,430,000, the Company was able to bring current, pay off, or refinance certain of its debt and lease obligations. As of March 31, 2001, the Company remained in default of its revolving credit facility and equipment notes with an aggregate balance of $2,672,000.

As of June 30, 2002, the Company s current portion of debt and capital lease obligations of $2.99 million is comprised of (i) $217,000 of equipment notes, and (ii) $2.77 million of capital lease obligations The capital lease obligations are comprised of ten individual leases, all of which except one are current .

As of June 30, 2002, the Company s long term portion of capital lease obligations are nil. The Company s long-term portion of capital lease obligations outstanding were $528,000 and this is compromised of four lessors as at June 30, 2001.

In fiscal year 2002, the Company entered into an agreement with Teamasia whereby Teamasia agreed, among other provisions, to extend the due date of $3.5 million of convertible debentures until September 30, 2002. In addition, under the agreement, Subba Mok LLC, an investor group led by the Chairman of the Board of Directors purchased stock representing 72% of the Company s equity for $6.0 million. All proceeds were received by July 31, 2001.

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At June 30, 2002, the Company owed to the Internal Revenue Service (IRS) approximately $1,169,276 in federal unemployment taxes, including delinquent taxes, penalties and interest. The Company has had discussions with the IRS in an effort to reach a mutually agreeable payment schedule. There can be no assurances that the Company will be able to reach a mutually agreeable settlement or, in the event that such a settlement is reached, that the Company will be able to comply with the payment terms of such settlement.

Management has initiated several actions designed to improve the liquidity problems and maintain profitability. These actions include a reduction of headcount from 213 personnel to 78 personnel, the transfer of wafer testing services overseas and the consolidation of all operations in one building. These actions also include yield improvement and strengthening of the sales force to increase revenues generated by our standard products. In order to further improve the cash flow, the Company has issued shares of stock to certain of its vendors in lieu of making cash payments.

Management believes these measures will enable the Company to continue operations. However, there can be no assurance that these measures will be successful in sustaining the Company and additional actions may be necessary, including obtaining additional equity contributions. There can be no assurance that such financing will be available.

FACTORS AFFECTING FUTURE RESULTS

The Company has minimal financial resources and its operating needs in fiscal 2002 were funded principally from the collection of accounts receivable and from the sale of common stock to Subba Mok LLC. In the event cash flow from accounts receivable is reduced or interrupted by slow collections, or by a decrease in revenue generation, the Company will be unable to meet its obligations. The Company s independent auditors stated in their auditors report that the Company s severe liquidity problems raise substantial doubt about whether the Company can continue as a going concern. The Company continues to focus on restructuring its operations to conserve cash. The Company has reported operating income for the fiscal year 2002 and losses for the previous years starting from 1997. These losses continue to affect the cash flow.

Our cash balance has decreased over each of the last several quarters. As of June 30, 2002, we had cash and cash equivalents of approximately $49,000.

The Company sells its products to distributors and manufacturers in Southeast Asia, which is currently experiencing an economic downturn. Sales in this region accounted for approximately more than 60 % of the Company s net revenues in the quarter ended June 30, 2002. The Company experienced a slight growth in revenues from this region during fiscal year. However, should the region not be able to overcome its economic problems, there is no assurance that the Company s results of operations will not continue to be adversely affected.

As a result of the severe downturn in the semiconductor market, the Company experienced a significant drop off in sales in the fourth quarter of fiscal year 2001 and subsequent quarters of fiscal year 2002 and the quarter ended on June 30, 2002. The reduced sales and corresponding reduction in cash flow has compounded the Company s liquidity issues. The downturn in the semiconductor market is expected to continue for the foreseeable future, though IMP s revenue has stabilized due to a slight increase in revenue of its standard products.

In June 2001, International Rectifier Corporation (IR) notified the Company that it would be canceling future orders. IR continues to do business at reduced revenues with the Company.

The semiconductor industry is extremely capital intensive. To remain competitive, the Company will have to continue investing in advanced design tools, manufacturing equipment and process technologies. The Company will be required to seek additional debt or equity financing to satisfy its cash needs and such financing may not be available on terms satisfactory to the Company. If such financing is not available on terms satisfactory to the Company, its operations would be materially adversely affected.

New products and process technologies require significant research and development expenditures. However, there can be no assurance that the Company will be able to develop and introduce new products in a timely manner that new products will gain market acceptance or that new process technologies can be successfully implemented. If the Company is unable to develop new products in a timely manner, and to sell them at gross margins comparable to the Company s current products, the future results of operations will be adversely impacted.

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Although we are not currently a party to any material litigation relating to patents and other intellectual property rights, because of technological developments in the semiconductor industry, it may be possible that certain of our designs or processes may involve infringement of existing patents. We also cannot be sure that any of our patents will not be invalidated, circumvented or challenged, that the rights granted there under will provide competitive advantages to us or that any of our pending or future patent applications will be issued. We have from time to time received, and may in the future receive, communications from third parties asserting patents, mask work rights, or copyrights on certain of our products and technologies. Although we are not currently a party to any material litigation, if a third party were to make a valid intellectual property claim and a license were not available on commercially reasonable terms, our operating results could be materially and adversely affected. Litigation, which could result in substantial cost and a drain on our limited resources, may also be necessary to enforce our patents or other intellectual property rights or to defend us against claimed infringement of the rights of others.

The Company is subject to a variety of federal, state, and local governmental regulations related to the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous chemicals and gases used in its manufacturing process. Although the Company believes that its activities conform to presently applicable environmental regulations, the failure to comply with present or future regulations could result in penalties being imposed on the Company, suspension of production or a cessation of operations. There can be no assurance that regulatory changes or changes in regulatory interpretation or enforcement will not render compliance more difficult and costly. Any failure of the Company to control the use of, or adequately restrict the discharge of, hazardous substances, or otherwise comply with environmental regulations, could subject it to significant future liabilities.

Effective April 1999, our common stock was moved from the Nasdaq National Market to the Nasdaq SmallCap Market where it continues to trade under the symbol IMPXC. Our common stock trading price remains below $5.00 per share and could also be subject to the requirements of certain rules promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), which require additional disclosure by broker-dealers in connection with any trades involving a stock defined as a penny stock (generally, any non-Nasdaq equity security that has a market price of less than $5.00 per share, subject to certain exceptions). The additional burdens imposed upon broker-dealers by such requirements could discourage broker-dealers from trading in our common stock. Additionally, future announcements concerning the Company, its competitors or its principal customers, including quarterly operating results, changes in earnings estimates by analysts, technological innovations, new product introductions, governmental regulations or litigation may cause the market price of the Company s Common Stock to continue to fluctuate substantially. Further, in recent years the stock market has experienced extreme price and volume fluctuations that have particularly affected the market prices of equity securities of many high technology companies and that often have been unrelated or disproportionate to the operating performance of such companies. These fluctuations, as well as general economic, political and market conditions such as recessions or international currency fluctuations may materially adversely affect the market price of the common stock.

On July 26, 2001, the Company attended a hearing with Nasdaq representatives to discuss the delisting of the Company s common stock from the exchange. The reasons for the delisting hearing include low stock price over a continued period of time, late filings of Forms 10-K and 10-Q and the financial weakness of the Company. As a result of this hearing, the Company agreed to meet certain filing deadlines in connection with its reporting obligations under the Securities Exchange Act of 1934, maintain certain financial requirements and complete a reverse stock split. We are required to maintain a minimum bid price for our common stock by September 2002. The Company does not know whether it will be able to maintain its Nasdaq listing.

The ability of the Company to transition from the fabrication of lower-margin products to higher-margin products, including both those developed by the Company and those for which it serves as a third-party foundry, is very important for the Company s future results of operations. Rapidly changing customer demands may result in the obsolescence of existing Company inventories. There can be no assurances that the Company will be successful in its efforts to keep pace with changing customer demands. In this regard, the ability of the Company to develop higher-margin products will be materially and adversely affected if it is unable to retain its engineering personnel due to the Company s current business climate.

Many of our competitors have substantially greater technical, manufacturing, and financial and marketing resources than we do. Our international sales are primarily denominated in U.S. currency. Consequently, changes in exchange rates that strengthen the U.S. dollar could increase the price in local currencies of our products in foreign markets and make our products relatively more expensive than our competitor s products that are denominated in local currency. We expect continued strong competition from existing suppliers and the entry of new competitors. Such competitive pressures could reduce the market acceptance of our products and result in market price reductions and increases in expenses that could adversely affect our business, financial condition or results of operations.

The fabrication of integrated circuits is a highly complex and precise process. Minute impurities, contaminants in the manufacturing environment, difficulties in the fabrication process, defects in the masks used to print circuits on a wafer, manufacturing equipment failure, wafer breakage or other factors can cause a substantial percentage of wafers to be rejected or numerous die on each wafer to be nonfunctional. The majority of our costs of manufacturing are relatively fixed, and, consequently, the number of shippable die per wafer for a given product is critical to our results of operations. If we do not achieve acceptable manufacturing yields, or if we experience product shipment delays, or if we encounter capacity constraints, or issues related to volume production ramp-ups, our financial condition or results of operations would be materially and adversely affected. We have from time to time in the past experienced lower than expected production yields, which have delayed product shipments and adversely affected gross margins. Moreover, we cannot be sure that we will be able to maintain acceptable manufacturing yields in the future.

We manufacture all of our wafers at our fabrication facility in San Jose. Given the unique nature of our processes, it would be difficult to arrange for independent manufacturing facilities to supply such wafers in a short period of time. Any inability to utilize our manufacturing facility as a result of fire, natural disaster or utility interruption, otherwise, would have a material adverse effect on our financial condition or results of operations. Although we believe that we have adequate capacity to support our near term plans, we have in the past subcontracted the fabrication of a portion of our wafer production to outside foundries, and may need to do so again. At the present time, there are several wafer foundries that are capable of supplying certain of our needs. However, we cannot be sure that we will always be able to find the necessary foundry capacity.

Due to the relatively long manufacturing cycle for integrated circuits, we build some of our inventory before we receive orders from our customers. Because of inaccuracies inherent in forecasting the demand for such products, inventory imbalances periodically occur that result in surplus amounts of some of our products and shortages of others. Such shortages can adversely affect customer relationships, and surpluses can result in larger than desired inventory levels. Our backlog consists of distributor and OEM customer orders required to be shipped within six months following the order date. Customers may generally cancel or reschedule orders to purchase products without penalty. As a result, to reflect changes in their needs, customers frequently revise the quantities of our products to be delivered and their delivery schedules. Because backlog can be canceled or rescheduled without significant penalty, we do not believe our backlog is a meaningful indicator of future revenue. In addition, our backlog includes our orders from domestic distributors as to which revenues are not recognized until the products are sold by the distributors. Such products when sold may result in revenue lower than the stated backlog amounts as a result of discounts that we authorize at the time of sale by the distributors.

The Company utilizes various external silicon wafer service foundries (for epitaxial growth) and assembly sites to assemble and package its products. Any product delivery delays, quality and manufacturing problems from these external operations could adversely affect the Company s operating results.

We depend on a number of subcontractors for certain of our manufacturing processes, such as epitaxial deposition services. If any of these subcontractors fails to perform these processes on a timely basis, there could be manufacturing delays, which would materially adversely affect our results of operations. Currently, we purchase certain materials, including silicon wafers, on a purchase order basis from a limited number of vendors. Any interruption or termination of supply from any of these suppliers would have a material adverse effect on our financial condition, results of operations, or liquidity. Our products are packaged by a limited group of third party subcontractors in Southeast Asia. Certain of the raw materials included in such products are obtained from sole source suppliers. Although we are trying to reduce our dependence on our sole and limited source suppliers, disruption or termination of any of these sources could occur and such disruptions could have a material adverse effect on our financial condition or results of operations. As is common in the industry, independent third party subcontractors in Asia currently assemble all of our products. In the event that any of our subcontractors were to experience financial, operational, production or quality assurance difficulties resulting in a reduction or interruption in our supply, our operating results would be adversely affected until alternate subcontractors, if any, became available.

The present and future success of the Company depends on its ability to continue to attract, retain and motivate qualified senior management, sales and technical personnel, particularly highly skilled semiconductor design and development personnel, and process engineers, for whom competition is intense. The Company is currently engaged in an executive search to hire a chief financial officer and a controller. The loss of key executive officers, key design and development personnel, or process engineers, or the inability to hire and retain sufficient qualified personnel could have a material adverse effect on the Company s business, financial condition and results of operations. There can be no assurance that the Company will be able to retain these employees.

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Recent Accounting Pronouncements.

In June 2000, SFAS No. 133 was amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Hedging Activities*, which amended or modified certain issues discussed in SFAS No. 133. SFAS No. 138 is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 and SFAS No. 138 establish accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. The statements also require that changes in the derivative s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. At this time, the Company does not engage in derivative instruments or hedging activities. Accordingly, there was no impact on the Company s financial statements from the adoption of SFAS No. 133 and SFAS No. 138.

In June 2001, the Financial Accounting Standards Board finalized SFAS No. 141 (SFAS No. 141), *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS No. 141 also requires that the Company recognize acquired intangible asserts apart from goodwill if the acquired intangible assets meet certain criteria. SFA No. 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS No. 142, that the Company reclassify the carrying amounts of intangible assets and goodwill base on the criteria in SFAS No. 141.

SFAS No. 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS No. 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS No. 142. SFAS No. 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS No. 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS No. 142. At this time, the Company does not expect that the implementation of SFAS No. 142 will have any material impact on its financial position, results of operations or cash flows.

In August 2001, the FASB issued SFAS No. 143 (SFAS 143) *Accounting for Obligations Associated with the Retirement of Long-Lived Assets*. SFAS 143 addresses financial accounting and reporting for the retirement obligation of an asset. SFAS 143 states that companies should recognize the asset retirement cost, at its fair value, as part of the cost asset and classify the accrued amount as a liability in the balance sheet. The asset retirement liability is then accreted to the ultimate payout as interest expense. The initial measurement of the liability would be subsequently updated for revised estimates of the discounted cash outflows. SFAS 143 will be effective for fiscal years beginning after June 15, 2002. At this time, the Company does not expect that the implementation of SFAS 143 will have any material impact on its financial position, results of operations, or cash flows.

In October 2001, the FASB issued SFAS No. 144 (SFAS 144) *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 supersedes the SFAS No. 121 by requiring that one accounting model to be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and by broadening the presentation of discontinued operation to include more disposal transactions. SFAS 144 will be effective for fiscal years beginning after December 15, 2001. At this time, the Company does not expect that the implementation of SFAS 144 will have any material impact on its financial position, results of operations, or cash flows.

Critical Accounting Policies:

Use of Estimates. The Company s discussion and analysis of its financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to customer programs and incentives, product returns, bad debts, inventory values, financing operations, warranty obligations, order cancellation costs, restructuring, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed 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.

Basis of Presentation. The Company s financial statements have been prepared assuming that the Company will continue as a going concern. The Company continue to experience severe liquidity problems and absorb cash in its operating activities and, as of March 31, 2002, have a working capital deficiency, are in default under the terms of certain financing agreements, are delinquent in the payment of its federal unemployment taxes, and have limited financial resources available to meet immediate cash requirements. These matters raise substantial doubt about Company s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Revenue recognition. Component revenues are recognized as products are shipped except for sales through distributors, which are recognized on a sell-through basis. Sales to foreign distributors are FOB IMP S shipment location and the title of the products sold passes from the seller to the buyer at the FOB shipping point. Design and engineering service revenues are recognized under design and engineering contracts once defined development phases are completed by the Company and accepted by the customers.

In December 1999, the Securities and Exchange Commission (the SEC) issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements. SAB No. 101 summarizes certain of the SEC s views in applying accounting principles generally accepted in the United States of America to revenue recognition in financial statements. Under SAB No. 101, no revenue can be recognized unless there is persuasive evidence of an arrangement, the fee is fixed or determinable, delivery has occurred and collectibility is probable. The Company adopted SAB No. 101 in the fourth quarter of fiscal year 2001, effective beginning of fiscal year 2001. The adoption of SAB No. 101 did not have an impact on Company s financial statements.

Sales return allowance. The Company reduces sales for estimated returns of products. The sales return allowance is based on our historical experience.

Allowance for bad debts. The Company maintains an allowance for bad debts based on estimated unrealizable account receivables. Management estimates the allowance based on an analysis of specific customers, taking into consideration the age of the past due account and an assessment of the customer s ability to pay.

Inventory. The Company values its inventory at the lower of the actual cost to market and/or manufacture the inventory. The management regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on Company s estimated forecast of product demand and production requirements for the next twelve months. As demonstrated during 2002, demand for Company s products can fluctuate significantly. A significant increase in the demand for the products could result in a short-term increase in the cost of inventory purchases while a significant decrease in demand could result in an increase in the amount of excess inventory quantities on hand. Additionally, the Company s estimates of future product demand may prove to be inaccurate, in which case Company may have understated or overstated the provision required for excess and obsolete inventory. In the future, if management believes that inventory is determined to be overvalued, the Company would be required to recognize such costs in the cost of goods sold at the time of such determination. Likewise, if the inventory is determined to be undervalued, the Company may have over-reported the costs of goods sold in previous periods and would be required to recognize such additional operating income at the time of sale. Therefore, although the Company make every effort to ensure the accuracy of the forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of closing inventory and reported operating results.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk related to changes in interest rates, and foreign currency exchange rates. The Company does not use derivative financial instruments for speculative or trading purposes.

Interest Rate Sensitivity: The Company has various debt instruments outstanding that mature by June, 2002. Certain of these instruments have interest rates that are based on associated rates that may fluctuate over time based on economic changes in the environment, such as the Prime Rate. The Company is subject to interest rate risk, and could be subjected to increased interest payments if market interest rates fluctuate. The Company estimates that a five percent increase in interest rates would cause interest expense to increase by an immaterial amount.

Due to its international sales, the Company is exposed to risks associated with foreign exchange rate fluctuations. Those exposures may change over time as business practices evolve and could have a material adverse effect on the Company s operating results and financial condition. All of the Company s sales are denominated in U.S. dollars. An increase in the value of the U.S. dollar relative to foreign currencies could make the Company s products more expensive, reducing the demand for the Company s products. A decline

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in the demand of the Company s product could have a material adverse effect on the Company s operating results, financial position, or liquidity. European currency issues are not material due to the Company s minimal contact with European markets.

At June 30, 2002, the Company had approximately $1.83 million of outstanding obligations under capital lease arrangements. As the lease payments associated with these arrangements do not have variable interest rates, an increase of 10 percent in short-term would not have material impact on the Company s net income or cash flows. The Company does not hedge any interest rate exposures.

Since the Company does not have any significant exposure to changing interest rates, the Company did not undertake any specific actions to cover exposure to interest rate risk and the Company is not a party to any interest rate risk management transactions. The Company did not purchase or hold any derivative financial instruments for trading purposes.

Foreign Currency Exchange Risk. All of the Company s financial transactions are conducted in US dollars.

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IMP, Inc.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Company was named as one of 88 defendants in a legal action brought by the Lemelson Medical Foundation for patent violations. In December 2000, we settled all outstanding claims for $150,000 due in three annual installments, the last of which is due in December 2002. We are party to litigation in the ordinary course of business. Any adverse outcome in any of these matters could have a material adverse affect on our business and results of operations.

Item 2. Defaults by the Company on its Senior Securities

On July 10, 2001, CIT gave notice of termination and acceleration and demand for repayment for both the revolving credit facility and the term loan. This cancellation results from defaults under both the CIT agreement and related forbearance letters. CIT has declared all obligations due and payable as of July 11, 2001. All amounts due to CIT were repaid on August 13, 2001. No new financing has been secured.

SIGNATURES

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

Date: August 19, 2002.	IMP Inc. Registrant
By: /s/Subbarao Pinamaneni	

Name:
Title: Subbarao Pinamaneni
Chairman of the Board

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