IMP INC
Form 10-Q
March 02, 2001

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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 December 24, 2000

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 [X] 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 December 24, 2000: 9,127,504

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IMP, Inc.
FORM 10-Q
Quarter Ended December 24, 2000

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IMP, Inc.
CONDENSED BALANCE SHEETS
(In thousands)
(unaudited)

ASSETS

	DECEMBER 24, 2000	MARCH 26, 2000
Current assets:		
Cash and cash equivalents	$ 201	$ 261
Accounts receivable - net of allowances for doubtful accounts and returns of $1,235 and $217	5,162	4,918
Accounts receivable from related party	780	85

Inventories	7,118	6,724
Other current assets	1,029	67
	--------	--------
Total current assets	14,290	12,055
Leasehold improvements and machinery and equipment	94,296	92,768
Less accumulated depreciation and amortization	(87,441)	(86,854)
	--------	--------
Net leasehold improvements and machinery and equipment	6,855	5,914
Deposits and other long term assets	378	422
	--------	--------
	$ 21,523	$ 18,391
	========	========

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Line of Credit	$ 2,782	$ 1,667
Current portion of equipment notes	486	2,524
Current portion of capital lease obligations	1,472	2,788
Convertible debenture from related party	3,500	--
Short-term loan from related party	51	--
Trade accounts payable	4,764	2,814
Accrued payroll and related expenses	1,023	1,162
Other current liabilities	3,707	3,096
	--------	--------
Total current liabilities	17,785	14,051
Equipment notes, less current portion	822	--
Capital lease obligations, less current portion	781	857
Stockholders' equity:		
Convertible preferred stock, $0.001 par value; 5,000 shares authorized; no shares issued and outstanding	--	--
Common stock, $0.01 par value; 50,000 shares authorized; 8,839 and 4,246 shares issued and outstanding	91	42
Additional paid-in capital	78,762	74,763
Accumulated deficit	(72,821)	(67,425)
Treasury stock; at cost, 203 shares	(3,897)	(3,897)
	--------	--------
Total stockholders' equity	2,135	3,483
	--------	--------
	$ 21,523	$ 18,391
	========	========

See 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	
	DECEMBER 24, 2000	DECEMBER 26, 1999
Net revenues:		
Components:		
Third party sales	$ 9,266	$ 7,374
Related party sales	377	--
Design and engineering services	532	1,366
	10,175	8,740
Cost of revenues:		
Components:		
Third party sales	8,954	5,893
Related party sales	160	--
Design and engineering services	398	702
	9,512	6,595
Gross profit	663	2,145
Operating expenses:		
Research and development	495	1,137
Selling, general and administrative	637	824
Total operating expenses	1,132	1,961
Income (loss) from operations	(469)	184
Interest and other expenses, net	(738)	(261)
Net loss	$ (1,207)	$ (77)
Basic and diluted net loss per share	$ (.14)	$ (.02)
Shares used in computing basic and diluted net loss per share	8,839	3,641

See notes to unaudited condensed financial statements.

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

	NINE MONTHS ENDED	
	DECEMBER 24, 2000	DECEMBER 26, 1999
Net revenues:		

Components:		
Third party sales	$ 23,779	$ 23,560
Related party sales	1,189	--
Design and engineering services	1,253	3,496
	26,221	27,056
Cost of revenues:		
Components:		
Third party sales	23,569	20,574
Related party sales	810	--
Design and engineering services	759	1,416
	25,138	21,990
Gross profit	1,083	5,066
Operating expenses:		
Research and development	2,458	3,912
Selling, general and administrative	2,992	3,443
Total operating expenses	5,450	7,355
Loss from operations	(4,367)	(2,289)
Interest and other expenses, net	(1,029)	(871)
Net loss	$ (5,396)	$ (3,160)
Basic and diluted net loss per share	$ (.73)	$ (.91)
Shares used in computing basic and diluted net loss per share	7,417	3,457

See notes to unaudited condensed financial statements.

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

	NINE MONTHS ENDED	
	DECEMBER 24, 2000	DECEMBER 26, 1999
Cash flows from operating activities:		
Net loss	$(5,396)	$(3,160)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,526	2,690
Provision for obsolete and slow moving inventory	88	--
Noncash warrant expense	184	35

Changes in operating assets and liabilities:		
Accounts receivable	(244)	2,477
Accounts receivable from related party	(695)	--
Inventories	(482)	49
Other current assets	(962)	--
Deposits and other long term assets	44	367
Trade accounts payable	1,950	(4,492)
Accrued payroll and related expenses	(139)	(372)
Other current liabilities	611	740
Net cash used in operating activities	(3,515)	(1,666)
Cash flows from investing activities:		
Net cash used for investing activities for purchases of machinery and equipment	(2,467)	(188)
Cash flows from financing activities:		
Proceeds from line of credit, net	1,115	(675)
Proceeds from equipment notes payable	282	1,731
Payments on equipment notes payable	(1,498)	(766)
Payments under capital lease obligations	(2,210)	(1,475)
Proceeds from capital lease obligations	818	--
Proceeds from related party debt	3,551	--
Proceeds from issuance of common stock	3,864	2,064
Net cash provided by financing activities	5,922	879
Net decrease in cash and cash equivalents	(60)	(975)
Cash and cash equivalents at beginning of period, net	261	1,606
Cash and cash equivalents at end of period, net	$ 201	$ 631
Supplemental information:		
Cash paid during the period for interest	1,211	$ 871
Acquisition of equipment under capital lease obligations	$ 2,251	$ 18

See notes to unaudited condensed financial statements.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 - BASIS OF PRESENTATION AND GOING CONCERN

Pursuant to the rules and regulations of the Securities and Exchange Commission, IMP, Inc. (the Company) has prepared the accompanying unaudited condensed financial statements. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The condensed financial information is unaudited, but reflects all adjustments consisting only of normal recurring adjustments which are, in the opinion of management, necessary for a fair statement of results for the interim periods presented. These condensed financial statements should be read in conjunction with the audited financial statements for the year ended March 26, 2000 included in the Company's Form 10-K. The results of operations for this interim period are not necessarily indicative of the results that may be expected for any other period or for the fiscal year that ends March

25, 2001. For financial reporting purposes, the Company's fiscal year ends on the last Sunday in March.

The accompanying unaudited condensed financial statements have been prepared assuming that the Company will continue as a going concern. During the months of August, September, and October 1999, the Company failed to make scheduled payments due under its equipment notes payable and substantially all of its capital lease obligations. As a result of these instances of non-payment, the Company is in default of these agreements and the revolving credit facility entered into on April 20, 1999 with The CIT Group due to a cross default clause in the revolving credit facility agreement.

The Company was successful in renegotiating the payment terms under the equipment notes payable and a number of capital lease obligations. However, the Company was unable to renegotiate the terms under one capital lease obligation. Due to ongoing liquidity deficiencies, the Company was unable to immediately exercise its buy-out option under this capital lease. The Company negotiated with the lessor and continued to lease the equipment on a month-to-month basis.

In November and December 2000, the Company exercised buyout options and refinanced several of its capital lease obligations. The refinanced and buyout amounts, totaling $1.1 million, were refinanced generally by entering into two year lease financing arrangements.

In November and December 2000, Teamasia Semiconductors India, Ltd. (Teamasia), owner of 62% of the Company's outstanding common stock, loaned the Company a total of $3.5 million under two convertible debenture agreements. The debentures mature in May and June 2001, respectively, bear zero interest, and are convertible at Teamasia's option into a total of 2 million shares of the Company's common stock.

Management believes that the additional liquidity provided by Teamasia and continued progress in implementing its operating plan will be sufficient to fund the Company's operations through March 2001.

If the Company is unable to meet its obligations under the renegotiated payment terms on its capital lease obligations, equipment notes, line of credit or other borrowing arrangements, or if management's operating plans do not materialize or if additional funding is not made available by Teamasia, 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 2 - CASH

The Company considers all highly liquid financial instruments purchased with a maturity of three months or less at the date of purchase to be cash equivalents. The fair market value of these highly liquid instruments approximates cost at December 24, 2000 and March 26, 2000.

Fair Value of Financial Instruments - Carrying amounts of certain of the Company's financial instruments including cash and cash equivalents, accounts receivable, the line of credit, accounts payable and other accrued liabilities approximate fair value due to their short maturities. Based on borrowing rates currently

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available to the Company for loans with similar terms, the carrying values of the equipment notes and capital lease obligations approximate fair value. The fair value of the convertible debentures approximates their face amount due to their short maturity.

NOTE 3 - 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):

	DECEMBER 24, 2000	MARCH 26, 2000
Raw materials	$ 1,234	$ 722
Work-in-process	5,292	4,484
Finished goods	592	1,518
	$ 7,118	$ 6,724

NOTE 4 - LEASEHOLD IMPROVEMENTS, MACHINERY AND EQUIPMENT

Leasehold improvements and machinery and equipment are stated at cost and are amortized and depreciated using the straight-line method over the shorter of the period of the lease or the estimated useful lives of the assets. The estimated useful life of machinery and equipment is five years.

The Company evaluates recoverability of its long-lived assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of" (SFAS No. 121). SFAS No. 121 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair values are reduced for the costs of disposal. No losses from impairment have been recognized in the condensed financial statements.

NOTE 5 - REVENUE RECOGNITION

Component revenues are recognized as products are shipped except for sales through distributors, which are recognized on a sell-through basis. Design and engineering service revenues are recognized under design and engineering contracts as specific development phases are completed by the Company and accepted by the customers.

NOTE 6 - WARRANTS

On December 15, 2000, the Company issued warrants to certain entities and individuals to acquire 288,504 shares of common stock. The warrants were issued as compensation to these entities and individuals as settlement of a claim. The warrants were vested on the date issued, and are exercisable between December 15, 2001 and December 15, 2002 at $1.125 per share. The fair value of these warrants, totaling $184,065, was charged to selling, general and administrative expense in the quarter ended December 24, 2000.

The fair value of the warrants was computed using the Black-Scholes model using the following assumptions: zero dividends; 2 year term; 214% volatility; and 6.40% risk-free interest rate.

NOTE 7 - EARNINGS PER SHARE

Earnings per share are calculated in accordance with the provisions of SFAS No. 128 "Earnings per Share". SFAS No. 128 requires the Company to report both basic and diluted earnings per share. Basic EPS is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. For the periods presented, no adjustments to net loss reported in the condensed statements of operations were necessary to determine net loss available to common stockholders.

Options to purchase 921,403 and 139,031 shares of common stock outstanding at December 24, 2000 and December 26, 1999 respectively, debentures convertible into 2,000,000 shares of common stock and warrants to acquire 288,504 shares of common stock outstanding at December 24, 2000 have been excluded from the calculation of diluted EPS since they are antidilutive due to the net losses generated by the Company.

NOTE 8 - 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 two 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 that expires in December 2005. The Company also leases a facility in Pleasanton, California under a non-cancelable operating lease which expires in February 2003, with an option to extend the lease for an additional five-year term. The leases require the Company to pay taxes, insurance and maintenance expenses. Rental expense is recorded using the straight-line method.

The Company has entered into an agreement with a major customer to produce specified wafer products. Under the terms of the agreement the customer provided the Company with equipment valued at approximately $1.2 million to be used in the manufacturing process. In return the Company will provide a rebate on the price of wafers delivered until such time as the value of the cumulative rebate reaches $1.2 million. At that time, title to the equipment will be transferred to the Company. The terms of the agreement are equivalent to a financing transaction and the Company has recognized the equipment as an asset with a corresponding liability, included within other current liabilities, for the related rebate. The Company has not shipped any wafer products under the terms of this agreement, and at December 24, 2000, the liability remains at $1.2 million.

NOTE 9 - RELATED PARTY TRANSACTIONS

Teamasia, a private corporation headquartered in India involved in the manufacturing and sales of discrete semiconductor devices, owns 62% of the common stock of the Company, and has entered into a number of sales and financing transactions with the Company. The terms of these transactions may not reflect the terms of similar transactions entered into with unrelated parties.

In October 1999, the Company entered into a stock purchase agreement under which Teamasia purchased an aggregate of 671,173 shares of the Company's common stock outstanding for consideration of $2.1 million. The transaction closed during the quarter ended December 26, 1999.

On December 15, 1999, the Company and Teamasia entered into a second stock purchase agreement under which Teamasia and its affiliates were issued 4,793,235

shares of common stock in exchange for $3.9 million.

As part of the stock purchase agreement entered into in October 1999, Teamasia agreed to purchase wafers from the Company commencing on January 1, 2000. This agreement further stipulates that Teamasia's purchase commitments are not to be less than 25% of the Company's installed capacity for the quarters ended March 26, 2000, June 28, 2000 and September 24, 2000. However, the Company and Teamasia

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agreed to a two quarter delay as to the purchase quantity commitments. To date, Teamasia has not met the minimum purchase commitment.

On November 28, 2000, the Company issued $1.2 million of convertible debentures to Teamasia. The convertible debentures are due on May 28, 2001 and carry an interest rate of zero percent. At Teamasia's option, the principal can be converted into 685,714 shares of common stock, representing a conversion ratio of $1.75 per share.

On December 18, 2000 the Company issued $2.3 million of convertiable debentures to Teamasia. The convertible debenture is due on June 18, 2001 and carries an interest rate of zero percent. At Teamasia's option, the principal can be converted into 1,314,286 shares of common stock, representing a conversion ratio of $1.75 per share.

On December 18, 2000, the Company purchased $1.2 million of fabrication equipment from Teamasia. The equipment's sales price was determined through an independent appraisal of the equipment, and the sales price was approved by the Company's Board of Directors.

Certain sales to Teamasia are recorded when products are complete and ready for shipment, and Teamasia takes title and assumes risk of ownership. These products are stored at the Company's fabrication facility, segregated from the Company's inventory, until such time as Teamasia provides further shipping instructions. At December 24, 2000, products with a sales value of approximately $648,305 relating to sales to Teamasia remained at the Company's fabrication facility.

NOTE 10 - RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments, as well as other hedging activities. Because the Company does not currently hold any derivative instruments and does not engage in hedging activities, the Company expects the adoption of SFAS No. 133 will not have a material impact on its financial position, results of operations or cash flows. The Company will be required to adopt SFAS No. 133 in fiscal 2002 in accordance with SFAS No. 137, which delayed the required implementation of SFAS No. 133 for one year.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements" which provides guidance related to revenue recognition based on interpretations and practices followed by the SEC. SAB 101 was effective the first fiscal quarter of fiscal years beginning after December 15, 1999 and requires companies to report any changes in revenue recognition as a cumulative change in accounting principle at the time of implementation in accordance with Accounting Principles Board Opinion 20, "Accounting Changes". In March 2000, the SEC issued SAB 101A "Amendment: Revenue Recognition in Financial Statements," which delayed implementation of SAB 101 until the Company's first fiscal quarter of 2001. In June 2000, the SEC issued SAB 101B "Second Amendment: Revenue Recognition in

Financial Statements," which delayed the implementation of SAB 101 until the Company's fourth fiscal quarter of 2001. The Company will adopt SAB 101 and is currently in the process of evaluating the impact, if any, SAB 101 will have on its financial position or results of operations.

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

Except for the historical information contained herein, the matters discussed in this document are forward-looking statements that involve certain risks and uncertainties, including the risks and uncertainties set forth below under "Factors Affecting Future Results."

This information should 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 years ended March 26, 2000 and March 25, 1999, contained in the Company's Annual Report filed on Form 10-K.

RESULTS OF OPERATIONS - Third Quarter of Fiscal 2001 Compared to Third Quarter of Fiscal 2000

The following table sets forth certain items from the Company's condensed statements of operations as a percentage of net revenues for the periods indicated.

	Three Months Ended	
	December 24, 2000	December 26, 1999
Total revenues	100.0%	100.0%
Cost of Revenue	93.5	75.5
Gross Margin	6.5%	24.5%
Operating Expenses:		
Research and development	4.9	13.0
Selling, general and administrative	6.3	9.4
Income (loss) from operations	(4.7)	2.1
Interest and other expenses, net	(7.2)	(3.0)
Income (loss) before provision for income taxes	(11.9)	(0.9)
Provision for income taxes	--	--
Net loss	(11.9)%	(0.9)%

Net Revenues. Net revenues for the third quarter of fiscal 2001 were $10.2 million compared to $8.7 million for the same period of the prior year. The increase in net revenues was due to increased demand for the Company's foundry

and power management products. Foundry product sales accounted for 77% of net revenues in third quarter fiscal 2001, versus 62% in third quarter of fiscal 2000. Power management product sales accounted for 17% of net revenues in third quarter of fiscal 2001, from 6% in the third quarter of fiscal 2000. The Company continues to focus on sales of standard power management products.

In third quarter of fiscal 2001, the Company's largest customers were International Rectifier, National Semiconductor and Linfinity Microelectronics, which accounted for approximately 30%, 16% and 11% of net revenues and 32%, 24% and 7% of net receivables, respectively.

Cost of revenues. Cost of revenue in the third quarter of fiscal 2001 was $9.5 million, representing 93% of net revenues for the quarter, compared to $6.6 million, representing 74% of net revenues, for the same quarter in the prior fiscal year. The increase in cost of revenues as a percentage of sales in the third quarter reflects downward price pressure on the Company's foundry products well as low manufacturing yields on recently introduced standard products. The Company is achieving improving yields as it gains experience in the manufacture of these specific new products.

Research and Development Expenses. Research and development expenses were $0.5 million (5% of revenue) in the third quarter of fiscal 2001 compared to $1.1 million (13% 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. The Company believes that research and development expenses in absolute dollars will increase from current levels as it invests in the development and introduction of standard products.

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Selling, General and Administrative Expenses. Selling, general and administrative expenses were $0.6 million (6% of net revenues) in the third quarter of fiscal 2001 down from $0.9 million (10% of net revenues) in the same quarter of the prior year. Renegotiated sales commission agreements resulted in lower commission expenses.

Other Income and Expenses. Net interest expense was $738,281 for the third quarter of fiscal year 2001 compared to $261,000 in the same quarter of the prior year. The increase in the third quarter of fiscal 2001 was primarily attributable to an increase in average borrowings and one-time fees and expenses associated with the financing and buyout of certain capital lease obligation purchase options as compared to third quarter of fiscal 2000.

Net Loss. The Company had a net loss of $1.2 million in the third quarter fiscal 2001, or $0.14 per share, compared to a net loss of $0.1 million in third quarter fiscal 2000 or $0.02 per share. The fiscal 2001 net loss was primarily attributable to lower yields from the production process.

RESULTS OF OPERATIONS - First Nine Months of Fiscal 2001 Compared to First Nine Months of Fiscal 2000

The following table sets forth certain items from the Company's condensed statements of operations as a percentage of net revenues for the periods indicated.

	Nine Months Ended	
	December 24, 2000	December 26, 1999

Total revenues	100.0%	100.0%
Cost of Revenue	95.8	81.3
Gross Margin	4.2%	18.7%
Operating Expenses:		
Research and Development	9.4	14.5
Selling, general and administrative	11.4	12.7
Loss from operations	(16.6)	(8.5)
Interest and other expenses, net	(4.6)	(3.2)
Loss before provision for income taxes	(21.2)	(11.7)
Provision for income taxes	--	--
Net loss	(21.2)%	(11.7)%

Net Revenues. Net revenues for the nine months ended December 24 of fiscal 2001 fell 3% to $26.5 million compared to $27.2 million for the same period of the prior year. The decrease in net revenues was principally due to decreased demand for the Company's standard products. Foundry product sales increased 12% and accounted for 73% of net revenues in first nine months of fiscal 2001, versus 63% in the first nine months of fiscal 2000. Power management product sales increased over 159% and accounted for 17% of net revenues in first nine months of fiscal 2001, from 6% in the first nine months of fiscal 2000.

In first nine months of fiscal 2001, the Company's largest customers were International Rectifier, National Semiconductor and Linfinity Microelectronics, which accounted for approximately 29%, 16% and 11% of net revenues and 22%, 17% and 6% of net receivables, respectively.

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Cost of revenues. Cost of revenues in the first nine months of fiscal 2001 was $25.1 million, representing 96% of net revenues for the nine months, compared to $22.0 million, representing 81% of net revenues, for the same period in the prior fiscal year. Gross margins declined in the first nine months and reflect downward price pressure on the Company's foundry products.

Research and Development Expenses. Research and development expenses were $2.5 million (9% of revenue) in the first nine months of fiscal 2001 compared to $3.9 million (14% of revenue) in the corresponding period of the prior fiscal year. Costs of engineering resources associated with design revenue are included in costs of sales. The Company believes that research and development expenses, in absolute dollars and as a percent of sales, will increase significantly from current levels.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $3.0 million (11% of net revenues) in the first nine months of fiscal 2001 down from $3.5 million (13% of net revenues) in the same period of the prior year. The decrease was primarily due to cost reduction efforts in marketing, sales and administration and a renegotiation of sales commission agreements which resulted in lower commission expenses.

Other Income and Expenses. Net interest expense was $1,029,000 for the first nine months of fiscal year 2001 compared to $871,000 in the same period of the prior year. The increase in the first nine months of fiscal 2001 was primarily attributable to the one-time fees and expenses associated with refinancing and

buyout of certain capital lease obligation purchase options as compared to same period in fiscal 2000.

Net Loss. The Company had a net loss of $5.4 million for the first nine months fiscal 2001, or $0.73 per share, compared to a net loss of $3.2 million for the first nine months fiscal 2000 or $0.91 per share. The fiscal 2001 and 2000 net losses were primarily attributable to low factory utilization.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased to $0.2 million at December 24, 2000 from $0.3 million at March 26, 2000. At June 25, 2000 cash and cash equivalents were $2.2 million due to the cash from the sale of equity securities of $3.9 million offset by net repayment of debts. The decrease in cash and cash equivalents during the third quarter related primarily to operating and investing activities.

Cash and cash equivalents used for investing activities were $2.3 million in the first nine months of fiscal 2001, and approximately $0.2 million in the first nine months of fiscal 2000, reflecting cash invested in property and equipment acquisitions.

In April 1999, the Company entered into an agreement with The CIT Group for a $9.5 million financing facility. Included in the $9.5 million is a facility for up to $2.0 million in secured term loans and a facility which allows the Company to borrow up to $7.5 million in debt financing based on accounts receivable and inventory balances at rates of between 1.5% and 2.5% over prime. On December 24, 2000 the outstanding balance was $2.8 million and there was no additional borrowing availability under the line.

During the second quarter of fiscal year 1999, the Company was unable to meet 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 entered into in April 1999 and other leases due to cross default clauses in the these agreements. In November and December 2000, the Company exercised buyout options and refinanced several of its capital lease agreements. The refinanced and buyout amounts, totaling $1.1 million, were refinanced by the Company, generally by entering into two year lease financing arrangements.

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The Company's operating needs are funded principally from the collection of accounts receivable. Should the Company's cash flow from collection of accounts receivable decline by reason of delays in collections or a decrease in sales, the Company could again be unable to meet its current obligations.

The Company's cash and cash equivalents have fluctuated significantly over each of the past several quarters. Cash increased in the first quarter of fiscal 2001, due to the sale of equity securities to Teamasia for $3.9 million. A substantial portion of the proceeds has been used to pay existing obligations and fund operations. In the third quarter of fiscal 2001 Teamasia loaned the Company $3.5 million under convertible debenture agreements. The proceeds were used to pay existing obligations, purchase capital equipment and fund operations. If the Company again incurs operating losses and negative cash flow, it will need to obtain additional funding to remain in operation. The Company is focused on cost reduction and manufacturing yield improvements to minimize the need for future capital infusions.

Even as the Company focuses on short-term liquidity concerns, management recognizes the need to identify the additional capital that will be required in

the long term to foster the Company's continued operations. To maintain the Company's liquidity and capital resources, the Company is focused on short and medium term cash and balance sheet management.

FACTORS AFFECTING FUTURE RESULTS

The Company's business, financial condition and results of operations have been, and in the future may be, affected by a variety of factors, including those set forth below and elsewhere in this report.

There May Be an Immediate Short-term Need for Cash Infusion into the Company

We have reported operating losses and negative cash flow, except for the sale of securities to Teamasia, since the second quarter of fiscal 1997. Unless the current trend of increasing revenue is sustained, there is substantial risk that we will continue to report losses and negative cash flow in the future. Our cash balance has fluctuated significantly over each of the last several quarters. As of December 24, 2000 we had cash and cash equivalents of approximately $201,046. If the Company is unable to reverse its current trend of unprofitable operations, we will need to obtain additional funding to remain in operation.

The Company has minimal financial resources and operating needs are funded principally from operations and the collection of accounts receivable. Should the cash flow from accounts receivable be reduced or interrupted by slow collections, limited borrowing capabilities from our line of credit, or by a decrease in revenue generation, the Company could very quickly find itself again unable to meet its obligations. Should such a cash flow shortfall occur, the potential sources for additional capital investment are neither in place nor identified. There can be no assurance that such funding will be available to us at reasonable rates, if at all.

Our Common Stock Price May Be Volatile Because Our Stock Trades on the Nasdaq Smallcap Market

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 "IMPX." 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 technology companies and that often have been unrelated or disproportionate to the operating performance

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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 Company's common stock.

Control by Existing Shareholders

As of December 24, 2000, Teamasia Semiconductors (India) Ltd. and its affiliates beneficially owned, in the aggregate, 62% of the fully diluted common stock of the Company. As a result, these stockholders, acting together, possess significant voting power over the Company, giving them the ability among other things to influence significantly the election of the Company's Board of Directors and approve significant corporate transactions. Such control could include a merger, consolidation, takeover or other business combination involving the Company, or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain total control of the Company.

Our Success Depends on Our Development and Marketing of New Analog Products.

In the long term, our success depends on our ability to develop new analog integrated circuit products for existing and new applications, to introduce such products in a timely manner, and to gain customer acceptance for our products. The development of new analog integrated circuits is highly complex and from time to time we have experienced delays in developing and introducing new products. Successful product development and introduction depends on a number of factors including new product definition, timely completion of design and testing of new products, achievement of acceptable manufacturing yields and market acceptance of our and our customers' products. Moreover, successful product design and development depends on our ability to attract, retain and motivate qualified analog design engineers, of which there is a limited number. There can be no assurance that we will be able to meet these challenges or adjust to changing market conditions as quickly and cost-effectively as necessary to compete successfully.

Due to the complexity and variety of analog circuits, the limited number of analog circuit designers and the limited effectiveness of computer-aided design systems in the design of analog circuits, we cannot be certain that we will be able to continue to successfully develop and introduce new products on a timely basis. We seek to design alternate source products that have already achieved market acceptance from other vendors, as well as new proprietary IMP products. However, we cannot be sure that any products we introduce will be accepted by customers or that any product initially accepted by our customers will result in significant ongoing production orders. If we fail to continue to develop, introduce and sell new products successfully, we could experience material and adverse affects to our long-term business and operating results.

Our Success Will be Dependent Upon Our Ability to Fabricate Higher-Margin Products.

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.

We May Not Be Able to Compete Successfully Against Current and Future Competitors.

Many of our competitors have substantially greater technical, manufacturing, 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 decrease our competitiveness against overseas competitors. Due to the current demand for semiconductors of all types,

including both foundry services and analog integrated circuits, 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.

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If Protection of Our Trademarks and Proprietary Rights is Inadequate, Our Business Will Be Materially Harmed.

It is 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 thereunder 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, maskwork rights, or copyrights on certain of our products and technologies. If a third party were to make a further 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 to us and diversion of our 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.

If We Cannot Manufacture Products in Sufficient Quantity or Quality, Our Business Will Be Materially Harmed.

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 achieve acceptable manufacturing yields in the future.

We manufacture all of our wafers at the one 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 would have a material adverse effect on our financial condition or results of operations. We believe that we have adequate capacity to support our near term plans, and 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 alternative foundry capacity, if required.

Our Inability to Forecast Correctly Could Adversely Affect our Relationships With Customers and Result in Larger Than Desired Inventory Levels

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 demand, inventory imbalances periodically

occur that result in surplus amounts of some of our products and shortages of others. Shortages can adversely affect customer relationships while surpluses can result in excess inventory or obsolescence issues. 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 significant penalty. Customers frequently revise the quantities of our products to be delivered and their delivery schedules to their customer's changing needs. Consequently, we do not believe our backlog is a meaningful indicator of future revenue. In addition, our backlog includes orders from domestic distributors for 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 may authorize at the time of sale by the distributors.

If Our Subcontractors are Unable to Perform in a Timely Manner or We are Unable to Obtain Materials Necessary for Our Products, Our Business will be Materially Harmed

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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 could 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 could have a material adverse effect on our financial condition and results of operations. Our products are packaged by a limited group of third party subcontractors in Indonesia and other Asian countries. 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.

If We Fail to Comply with Environmental and Safety Regulations, Our Business Will Be Materially Harmed.

Federal, state, and local regulations impose a variety of safety and environmental controls on the storage, handling, discharge and disposal of certain chemicals and gases used in semiconductor manufacturing. Our facilities have been designed to comply with these regulations, and we believe that our activities are conducted in material compliance with such regulations. We cannot be sure, however, that interpretation and enforcement of current or future environmental regulations will not impose costly requirements upon us. If we fail to control adequately the storage, use and disposal of regulated substances, we could incur future liabilities.

Increasing public attention has been focused on the safety and environmental impacts of electronic manufacturing operations. While to date we have not experienced any materially adverse effects on our business from such regulations, we cannot be sure that changes or new interpretations of such regulations will not impose costly equipment, facility or other requirements.

Dependence on Key Personnel

The present and future success of the Company depends on its ability to continue to attract, retain and motivate qualified senior management, including a Chief Executive Officer and Chief Financial Officer, sales and technical personnel, particularly highly skilled semiconductor design and development personnel, and process engineers, for whom competition is intense. 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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IMP, Inc.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The previously disclosed securities class action and derivative lawsuits filed against the Company and certain of its present and former officers and directors have been settled and all claims dismissed with prejudice.

The Lemelson Medical Foundation has filed patent violation legal actions against 88 semiconductor companies. The Company has been named as a defendant in this action, and the Company satisfied this specific claim.

Item 3. Defaults by the Company on its Senior Securities

The Company has failed to make its scheduled payments due during the months of August, September, and October 1999 under its credit facilities and certain of its equipment leases, for a total aggregate amount of $1,035,654.

Item 5. Other Information

On February 13, 2001, Mr. A.S. Thiyaga Rajan was elected to the Company's Board of Directors. Mr. Rajan is a Managing Director of Aquarius Investment Advisors Pte Ltd.

Item 6. Reports on Form 8-K.

6.1 Convertible Debenture Due May 28, 2001. (Incorporated by reference to the Form 8-K filed by the Registrant on December 6, 2001).

6.2 Convertible Debenture Due June 18, 2001. (Incorporated by reference to the Form 8-K filed by the Registrant on January 16, 2001).

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: February 26, 2001 IMP, Inc.
Registrant

By: /s/ Sugriva Reddy

Name: Sugriva Reddy
Title: Chief Executive Officer