IMP INC
Form 10-Q
February 21, 2002

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 31, 2001

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	94-2722142
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
2830 North First Street, San Jose, CA	95134
(Address of principal executive offices)	(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 January 31, 2002: 7,017,000

IMP, Inc.
FORM 10-Q
Three Months and Nine Months Ended December 31, 2001

INDEX

IMP, Inc.
CONDENSED BALANCE SHEETS
(In thousands, except for par value)
(unaudited)

ASSETS

	DECEMB 20
Current assets:	
Cash and cash equivalents	$
Accounts receivable, net of allowances for doubtful accounts and returns of $100 and $2,540, respectively	4
Accounts receivable from related party	
Inventories	7
Other current assets	1
Total current assets	13
Property and equipment:	
Leasehold improvements	9
Machinery and equipment	85
	94
Less accumulated depreciation and amortization	89
Net property and equipment	4
Deposits and other long term assets	
Total assets	$ 18

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:	
Current portion of debt	
Convertible debentures to related party, net of discount of $582 at December 31, 2001	2
Current portion of capital lease obligations	2
Trade accounts payable	4
Accrued payroll and related expenses	1
Other current liabilities	1
Advances from investors	
Total current liabilities	13
Long term portion of capital lease obligations	
Convertible debentures to related party	
Total Liabilities	13
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; 10,000 shares authorized; 7,017 and 1,809 shares issued and outstanding, respectively	
Additional paid-in capital	86
Obligation to issue common stock	
Accumulated deficit	(77
Treasury stock, at cost, 41 shares	(3
Total stockholders' equity (deficit)	5
Total liabilities and stockholders' equity (deficit)	$ 18

See accompanying notes to unaudited condensed financial statements.

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

	THREE MONTHS ENDED		NINE M
	DECEMBER 31, 2001	DECEMBER 24, 2000	DECEMBER 31, 2001
Net revenues:			
Component	$ 5,454	$ 9,266	$ 19,514
Related party sales	--	377	--
Design and engineering services	--	532	86
	5,454	10,175	19,600
Cost of revenues			
Component	2,390	8,954	10,344
Related party sales	--	160	--
Design and engineering services	--	398	56

	2,390	9,512	10,400
Gross profit	3,064	663	9,200
Operating expenses:			
Research and development	247	495	1,391
Selling, general and administrative	2,889	637	6,540
Total operating expenses	3,136	1,132	7,931
Income (loss) from operations	(72)	(469)	1,269
Interest expense	(160)	(738)	(566)
Amortization of debt discount	(412)	--	(1,052)
Other income, net	661	--	798
Net income (loss)	$ 17	$ (1,207)	$ 449
Basic net income (loss) per share	$ 0.00	$ (.68)	$ 0.09
Diluted net income (loss) per share	$ 0.00	$ (.68)	$ 0.09
Shares used in computing basic net income (loss) per share	7,033	1,768	4,967
Shares used in diluted net income (loss) per share	7,033	1,768	5,085

See accompanying notes to unaudited condensed financial statements.

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

	NINE MO
	DECEMBER 31, 2001
Cash flows from operating activities:	
Net income (loss)	$ 449
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation and amortization	1,768
Provision for obsolete and slow moving inventory	--
Amortization of debt discount	1,052
Provision for doubtful accounts	1,255
Non-cash settlement of other liabilities	(1,207)
Gain on disposal of property and equipment	(658)
Changes in operating assets and liabilities:	
Accounts receivable	(3,170)
Accounts receivable from related party	282
Inventories	327

Other current assets	5
Deposits and other long term assets	33
Trade accounts payable	(2,781)
Accrued payroll and related expenses	278
Other current liabilities	(449)
Net cash used in operating activities	(2,816)
Cash flows from investing activities:	
Purchase of property and equipment	(421)
Proceeds from sales of property and equipment	19
Net cash used for investing activities	(402)
Cash flows from financing activities:	
Net proceeds from line of credit	--
Net borrowings (repayments) of advances from investors	(578)
Advanced proceeds for common stock issuance	6,000
Net repayments of revolving credit facility and equipment notes payable	(1,868)
Principal payments under capital lease obligations	(285)
Proceeds from capital lease obligations	--
Proceeds from issuance of common stock	--
Net cash provided by financing activities	(3,269)
Net increase (decrease) in cash and cash equivalents	51
Cash and cash equivalents at beginning of period	41
Cash and cash equivalents at end of period	$ 92
Supplemental information:	
Cash paid during the period for interest	$ --
Acquisition of equipment under capital lease obligations	$ --
Discount on convertible debentures	$ 1,633
Return of equipment and reduction of accounts payable	$ 253
Issuance of common stock to new investors	$ 6,000
Repayment of debt through sale of equipment	$ 765

See accompanying notes to unaudited condensed financial statements

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IMP, Inc.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - BASIS OF PRESENTATION

IMP, Inc. (the "Company") has prepared the accompanying unaudited interim condensed financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included. The results of operations for the three months and nine months ended December 31, 2001 are not necessarily indicative of the results to be expected for the entire year. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2001.

Subba, Mok LLC ("Subba Mok"), a limited liability company headquartered in the United States, owns approximately 72% of the common stock of the Company on a fully diluted basis. Teamasia, a private corporation headquartered in India, owns approximately 14% of the common stock of the Company on a fully diluted basis.

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

On October 2, 2001, the Company completed a five for one reverse stock split. All shares, options, warrants and per share amounts in the condensed financial statements have been retroactively adjusted to reflect this stock split.

The accompanying condensed financial statements have been prepared assuming that the Company will continue as a going concern. The Company incurred net losses of $10.5 million for the year ended March 31, 2001. For the nine months ended December 31, 2001, the Company generated net income of $449,000; however the current economic slowdown, the downturn in the semiconductor sector and the Company's liquidity problems cause significant uncertainty over the Company's ability to operate profitably. In addition, the Company has an accumulated deficit of $77.5 million as of December 31, 2001. The Company has failed to make required payments under various debt agreements and capital lease obligations, and as a result is in default with respect to these agreements. A number of vendors and other parties have filed suit against the Company for non-payment, and the Company is delinquent on the remittance of federal and state payroll withholding taxes in the amount of approximately $841,000.

During the fiscal year ended March 31, 2001 and the nine months ended December 31, 2001, management actively negotiated with the Company's creditors. As a result of these negotiations, the Company was able to bring current, refinance or pay off certain of its debt and lease obligations using cash from sales of stock, convertible debentures and advances from Subba Mok. As of December 31, 2001, the Company remained in default on all capital lease obligations.

The indebtedness related to agreements in which the Company is in default is classified as current on the Company's balance sheets as of December 31, 2001 and March 31, 2001 because such creditors and lessors had 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).

On May 10, 2001, the Company entered into a Memorandum of Understanding ("MOU") with Teamasia and Subba Mok to purchase 72% of the equity of the Company. The general terms of the MOU are as follows:

- the due date of the $3.5 million convertible debenture held by Teamasia was extended to no earlier than May 2002;

- the Company issued a warrant to Teamasia to purchase 319,800 shares of common stock at an exercise price of $1.10;

- the interest rate on the convertible debenture was raised from 0% to prime;

- The Company sold to Subba Mok 5,208,170 shares of common stock representing 72% of the Company's fully diluted equity for $6.0 million. As of December 31, 2001, all $6.0 million from Subba Mok had been received either in cash or by payments for operating expenses made by the investor on the Company's behalf.

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 would be canceling future orders. Revenues from IR for the three months ended December 31, 2001 and nine months ended December 31, 2001 totaled $389,000 and $3.4 million, respectively.

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 resulted from defaults under both the CIT agreement and related forbearance letters. CIT declared all obligations due and payable as of July 11, 2001. All amounts due to CIT were repaid on August 13, 2001. The Company is actively seeking additional sources of financing.

On July 26, 2001, the Company attended a hearing before a Nasdaq Listing Qualifications Panel concerning the Company's failure to comply with certain requirements for continued listing on The Nasdaq SmallCap Market. Nasdaq has determined the Company's securities will continue to be listed as long as certain conditions are met. The conditions require that stockholders equity, as reported in the Company's Quarterly Reports on Form 10-Q for the quarters ended September 30, 2001 and December 31, 2001, meet specified minimum amounts. In addition, the conditions require that the Company be able to demonstrate compliance with all requirements for continued listing on The Nasdaq SmallCap Market.

The Company incurred net losses of $10.5 million for the year ended March 31, 2001 and generated a net income $449,000 for the nine months ended December 31, 2001. At December 31, 2001, the Company had stockholders' equity of $5.17 million. Management has put in place plans to reduce the cost of operating the business, improve the operating efficiency of the Company's manufacturing facility and obtain new customers. In addition, the Company is actively seeking additional capital, both debt and equity. 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 or additional financing is not secured, 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 - 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 once defined development phases are completed by the Company and accepted by the customers.

During the year ended March 31, 2001, the Company entered into an agreement with a foundry customer whereby the Company agreed to sell wafers to the customer at a discount in exchange for certain equipment. The agreement required the Company to sell wafers to the customer such that the cumulative discount equaled the cost of the equipment of approximately $1.15 million, at which time the title of the equipment transferred to the Company. At the onset of the agreement the Company recorded the equipment and corresponding liability representing the value of the equipment. Prior to March 31, 2001, the customer cancelled its order, and under the terms of the agreement, was required to pay the Company for the completed work-in-process on the wafers. At March 31, 2001, the Company wrote down the value of the work-in-process inventory to approximately $177,000, management's best estimate at the time of the market value of the inventory.

During the quarter ended December 31, 2001, the Company reached a settlement with the customer. The settlement required the customer to purchase the work-in-process inventory for approximately $1.0 million. The settlement also required the Company to pay $150,000 to the customer to satisfy the remaining obligation for the equipment. As a result, during the quarter ended December 31, 2001, approximately $1.0 million was recognized by the Company as revenue. The Company paid the customer $75,000 and has recorded the remaining $75,000 as other liabilities.

NOTE 3 - CASH AND CASH EQUIVALENTS

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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 and cash equivalents. The fair market value of these highly liquid instruments approximates cost at December 31, 2001 and March 31, 2001.

NOTE 4 - 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 31, 2001	MARCH 31, 2001
Raw materials	$ 366	$ 848
Work-in-process	4,314	4,490
Finished goods	2,455	2,124
	$7,135	$7,462

During the quarter ended June 30, 2001, the Company re-evaluated the practical production capacity of its fabrication facility in light of measures taken to reduce the costs and improve the efficiency of the manufacturing process, as a result of the steep decline in the semiconductor market. 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 fabrication 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, overhead absorption is higher than it would have been using the prior estimate of production capacity.

NOTE 5 - PROPERTY AND EQUIPMENT

Property 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 for leasehold improvements or the estimated useful lives of the assets. The estimated useful life of equipment is five years.

NOTE 6 - FEDERAL AND STATE WITHHOLDING TAXES

The Company is delinquent on the remittance of federal and state payroll withholding taxes in the amounts of $841,000. The Company is currently negotiating a repayment plan with the taxing authorities. Additionally, the Company is subject to various penalties and interest in connection with the delinquent payments. The Company estimates that these penalties and interest will be in the range of $138,000 to $280,000, and therefore, in accordance with SFAS No. 5 "Accounting for Contingencies," has accrued $138,000 in the consolidated statement of operations.

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 income (loss) reported in the condensed statements of operations were necessary to determine net loss available to common stockholders.

Options to purchase 312,476 and 231,590 shares of common stock were outstanding at December 31, 2001 and December 24, 2000, respectively, but do not impact diluted earnings per share because the options' exercise price was greater than the average market price of the common shares during those periods. Warrants to purchase 381,545 shares of common stock were outstanding at December 31, 2001. Of these, 61,745 warrants are anti-dilutive and are excluded from the diluted earnings per share calculation. Of the remaining warrants, 138,247 have been considered in computation of diluted earnings per share based on the treasury stock method weighted for the period outstanding for the nine months ending December 31, 2001.

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NOTE 8 - LEASING ARRANGEMENTS AND COMMITMENTS

The Company leases certain machinery and equipment under long-term lease agreements 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. As of December 31, 2001, lease payments totaling $2,010,000 owed by the Company are past due.

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. As of December 31, 2001, amounts totaling $197,300 owed under this lease agreement are past due.

NOTE 9 - RELATED PARTY TRANSACTIONS

Two members of the Board of Directors own approximately 22% of Teamasia. The same two members of the Board of Directors own 66% of Subba Mok.

As part of the stock purchase agreement entered into in October 1999, Teamasia agreed to purchase wafers from the Company commencing with the Company's quarter ended December 26, 1999. This agreement further stipulated that Teamasia's purchase commitments are not to be less than 25% of the Company's installed capacity for the quarters ended March 26, June 25 and December 24, 2000. Teamasia was not able to meet the minimum purchase commitment to satisfy this obligation. Teamasia agreed to allow the Company to manufacture and sell certain discrete products owned by Teamasia. Revenue from these discrete products for the three months ended December 31,2001 was $398,000.

Transactions and balances with Teamasia are as follows (in thousands):

	DECEMBER 31, 2001	DECEMBER 24, 2000
Revenue for the three months ended	$ --	$ 377
Revenue for the nine months ended	$ --	$1,189

	DECEMBER 31, 2001	MARCH 31, 2001
Accounts receivable	$ 438	$ 720
Accounts payable	$ --	$1,253
Convertible debenture, net of discount of $582 as of December 31, 2001	$2,918	$3,500

Transactions and balances with Subba Mok are as follows (in thousands):

	DECEMBE 200
Expenses paid by Subba Mok on the Company's behalf for the three months ended	2,9
Expenses paid by Subba Mok on the Company's behalf for the nine months ended	2,9
Advances due to investors	$ 6

In November 2000, Teamasia loaned the Company $1.2 million under a convertible debenture originally due on May 28, 2001. Under its original terms, 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 originally due on June 18, 2001. Under its original terms, 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, a Memorandum of Understanding (MOU) was entered into with Teamasia that modified the terms of the convertible debentures as follows:

- the due date for both debentures was extended until no earlier than May 2002;

- the Company agreed to issue a warrant to Teamasia to purchase 319,800 shares of common stock at an exercise price of $1.10;

- the interest rate was raised to prime; and

- the convertible debentures are convertible into common stock, at Teamasia's option, at a conversion ratio equal to $3.45 per share.

Under the MOU, the Company is required to issue warrants once the $6.0 million had been received. As of December 31, 2001, a total of $6.0 million had been received, however, warrants are pending to be issued. Because the terms of the warrants were fixed at the time the MOU was executed, 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 was determined using the Black-Scholes pricing model using the following assumptions: 221% volatility; zero dividends; 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 into which the convertible debentures are convertible at the stated conversion ratio of $3.45 per share.

The Company 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 debentures and is being amortized into interest expense over 12 months. During the three months and nine months ended December 31, 2001, $412,000, and $1,052,000 was amortized into interest expense, respectively.

NOTE 10 - RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies conditions intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS No. 142 specifies that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with determinable useful lives be amortized over their useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121.

The Company is required to adopt the provisions of SFAS No. 141 for any future business combination entered into. SFAS No. 142 is effective for the Company on April 1, 2002, and its adoption is not expected to have a significant impact on the Company's financial condition or results of operations until such time when significant goodwill or intangible assets are recorded by the Company.

In July 2001, FASB issued SFAS 143, "Accounting for Asset Retirement Obligations." SFAS 143 requires the recognition of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the carrying amount of the related long-lived asset is correspondingly increased. Over time, the liability is accreted to its present value and the related capitalized charge is depreciated over the useful life of the asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002. Management is currently reviewing the impact of adopting SFAS 143 on the Company.

In August 2001 the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 addresses accounting and reporting for the impairment or disposal of long-lived assets, including the disposal of a segment of a business. SFAS 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. Management is currently reviewing the impact of adopting SFAS 144 on the Company.

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, 2001 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, 2001 contained in the Company's Annual Report filed on Form 10-K.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2001

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

	THREE MONTHS ENDED	
	DECEMBER 31, 2001	DECEMBER 24, 2000
Total revenues	100.0%	100.0%
Cost of revenue	43.8	93.5
Gross margin	56.2	6.5
Operating expenses:		
Research and development	4.5	4.9
Selling, general and administrative	53.0	6.3

Operating income (loss)	(1.3)	(4.6)
Interest expense	(2.9)	(7.3)
Amortization of debt discount	(7.6)	--
Other income, net	12.1	--
Net income (loss)	0.3%	(11.9)%

During the quarter ended December 31, 2001, the Company generated net revenues of $5.45 million compared to $9.3 million for the same period of the prior year. The decrease in net revenues was due to decreased demand for the Company's foundry and power management products. The decreased demand for the Company's products reflects the industry wide slow down in demand for semiconductor products. Foundry product sales accounted for 65% of net revenues in the quarter ended December 31, 2001 and power management product sales accounted for 35% of net revenues in the quarter ended December 31, 2001. The sale of standard products are slowly increasing as percentage of the sales and we expect the trend to continue in the near future.

For the three months ended December 31, 2001, the Company's largest customers were Linfinity Microelectronics, National Semiconductor and International Rectifier, which accounted for approximately 31%, 17% and 7% of net revenues and 3%, 0%, and 7% of net accounts receivable at December 31, 2001, respectively. Revenues from National Semiconductor resulted from the one time sale of work-in-process inventory. The Company expects no revenue from National Semiconductor in the near future.

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COST OF REVENUES. Cost of revenues in the three months ended December 31, 2001 was $2.4 million, representing 43.8% of net revenues compared to $9.5 million, representing 93.5% of net revenues for the same quarter in the prior fiscal year. The decrease in cost of revenues as a percentage of revenues is a result of several actions taken by the Company, including:

- an aggressive program to reduce the costs and improve the efficiency of the manufacturing process;

- a reduction in force, reducing headcount from 201 on March 31, 2001 to 90 on December 31, 2001; and

- negotiations with vendors to reduce costs of raw materials and supplies.

The reduction in cost of revenues also includes the favorable effect of one time sale of work-in-process inventory to National Semiconductor. Excluding this transaction, the gross profit margin for the quarter ended December 31, 2001 would have been 50%.

During the quarter ended June 30, 2001, the Company re-evaluated the practical production capacity of its fabrication facility in light of the actions described above, as a result of the steep decline in the semiconductor market. 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 fabrication 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, overhead absorption is higher than it would have been using the prior estimated production capacity.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were $247,000 (4.5% of revenues) in the quarter ended December 31, 2001 compared to $495,000 (4.9% of revenues) in the corresponding quarter of the prior fiscal year. Costs of engineering resources associated with design revenues are included in cost of revenues. The reduction in research and development expenses is a result of cost control measures put in place. The Company believes that research and development expenses in absolute dollars will increase from current levels as it invests in the development, design and introduction of standard product, at the appropriate time, this may include an increase in staffing and related personnel compensation.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were $2.9 million (53.0% of revenues) in the quarter ended December 31, 2001, up from $ 637,000 (6.3% of revenues) in the same quarter of the prior year. The increase in selling, general and administrative expenses is due to increased sales and marketing, travel expenses and professional fees.

INTEREST EXPENSE. Interest expense was $160,000 for the quarter ended December 31, 2001, a decrease of $578,000 over the corresponding period in the prior year. The decrease in expenses is due to the pay off of the Company's operating line of credit in the quarter ended September 20,2001.

AMORTIZATION OF DEBT DISCOUNT. During the quarter ended June 30, 2001, the Company granted warrants in connection with the issuance of convertible debentures to Teamasia. The transaction also contained a beneficial conversion feature. The value of the warrants and the beneficial conversion feature, totaling $1.633 million, is reflected as a discount on the subordinated debenture and is being amortized over the term of the subordinated debenture which is one year. For the three months ended December 31, 2001, a non-cash charge of $412,000, representing the amortization of the discount associated with the warrant and beneficial conversion feature, was recorded by the Company.

OTHER INCOME, NET. During the three months ended December 31, 2001, the Company sold fully depreciated equipment and realized a gain totaling $578,000. Additionally, the Company realized a gain of $83,000 on the settlement of liabilities

NET INCOME (LOSS). The Company generated net income of $17,000 for the three months ended December 31, 2001, representing no earnings per share for either basic or diluted compared to a net loss of $1.2 million in the quarter ended December 24, 2000, or $.68 per share (both basic and diluted). Management has taken a number of actions that are designed to enable the Company to achieve profitable results at much lower revenue levels. Scaled down operations, cost control and improvements in its manufacturing efficiency are the major drivers of the Company's return to profitability.

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RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED DECEMBER 31, 2001

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	DECEMBER 24,

	31, 2001	2000
Total revenues	100.0%	100.0%
Cost of revenue	53.1	95.8
Gross margin	46.9	4.1
Operating expenses:		
Research and development	7.0	9.4
Selling, general and administrative	33.4	11.4
Income (loss) from operations	6.5	(16.7)
Interest expense, net	(2.9)	(3.9)
Amortization of debt discount	(5.4)	--
Other income, net	4.1	--
Net income (loss)	2.3%	(11.0)%

NET REVENUES. Net revenues for the nine months ended December 31, 2001 decreased 25.2% to $19.6 million compared to $26.2 million for the same period of the prior year. The decrease in net revenues was principally due to decreased demand for the Company's products, which reflects the downturn in the semiconductor market. Foundry product sales decreased 19.0% and accounted for 72% of net revenues in the first nine months of fiscal 2002, versus 67% in the first nine months of fiscal 2001. Standard product and design engineering sales decreased by 25.0%.

For the nine months ended December 31, 2001, the Company's largest customers were Linfinity Microelectronics, National Semiconductor and International Rectifier which accounted for approximately 23%, 16% and 8% of net revenues and 3%, 0%, and 7% of net receivables at December 31, 2001, respectively.

COST OF REVENUES. Cost of revenues for the nine months ended December 31, 2001 was $10.4 million representing 53.1% of net revenues, compared to $25.1 million, representing 95.8% of net revenues for the same period of the prior fiscal year. Gross margins improved in the first nine months of fiscal year 2002 due to the cost cutting measures taken by the Company and the recognition of approximately $1.0 million in revenues from National Semiconductor in the quarter ended December 31, 2001 as a result of the settlement of a cancelled sales order.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were $1.4 million (7.0% of revenues) in the nine months ended December 31, 2001 compared to $2.5 million (9.4% of revenues) in the corresponding period of the prior fiscal year. Cost of engineering resources associated with design revenue is included in cost of revenues. Management believes that research and development expenses in absolute dollars will increase from current levels.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were $6.5 million (33.4% of net revenues) in the nine months ended December 31, 2001 up from $3.0 million (11.4% of net revenues) in the same period of the prior year. The increase was primarily due to an increase in cost of sales and marketing expenses and sales administration, travel expenses and professional fees.

INTEREST EXPENSE. Interest expense was $566,000 for the nine months ended December 31, 2001, a decrease of $463,000 over the corresponding period in the prior year. The decrease reflects interest at the prime rate on the subordinated debenture, offset by a decline in the interest expense on the Company's operating line or credit that was paid off in August 2001.

AMORTIZATION OF DEBT DISCOUNT. During the quarter ended June 30, 2001, the

Company granted warrants in connection with the issuance of convertible debentures to Teamasia. The transaction also contained a beneficial conversion feature. The value of the warrants and the beneficial conversion feature, totaling $1.633 million, is reflected as a discount on the subordinated debentures and is being amortized over the term of the subordinated debentures, which is one year. For the nine months ended December 31,

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2001, a non-cash charge of $1,052,000, representing the amortization of the discount associated with the warrant and beneficial conversion feature, was recorded by the Company.

OTHER INCOME, NET. During the nine months ended December 31, 2001, the Company sold fully depreciated equipment and recognized gains of $658,000. Additionally the Company recognized $140,000 in gains related to the settlement of liabilities.

NET INCOME (LOSS). The Company generated net income of $449,000 for the nine months ended December 31, 2001. This represents earnings per basic and diluted common share of $0.09. For the corresponding period of the prior year, the Company generated a net loss of $5.4 million or $3.64 per share. The net income for the nine months ended December 31, 2001 resulted from cost cutting measures taken by the Company.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $92,000 at December 31, 2001 compared to $41,000 at March 31, 2001. In general, the increase resulted from decreased sales, cost cutting measures and advance proceeds from sale of stock, offset by growth in accounts receivable and disbursements to vendors and creditors.

Cash used in operating activities for the nine months ended December 31, 2001 totaled $ 2.8 million. The Company received $3.27 million net cash from financing activities during the nine months ended December 31, 2001, including $675,000 net cash as an advance from Subba Mok. The Company received proceeds from the sale of equipment totaling $19,000 and used $421,000 in cash to purchase equipment.

On May 10, 2001, the Company entered into an agreement with Subba Mok whereby Subba Mok agreed to acquire 72% of the equity of the Company for $6.0 million. Of this amount, $2.5 million was received in June 2001, $3.4 million was received in July 2001 and the remaining $100,000 was received in the quarter ended December 31, 2001. The proceeds were used to pay down certain borrowings and past due obligations.

In April 1999, the Company entered into an agreement with The CIT Group for a $9.5 million loan facility. Included in the facility were secured term loans for up to $2.0 million for equipment purchases and a revolving credit facility that allowed the Company to borrow up to $7.5 million based on qualifying accounts receivable and inventory balances at 1.5% over prime. On July 10, 2001, the CIT Group gave notice of termination and acceleration and demand for repayment for the revolving credit facility, including the equipment term loans. All amounts due to CIT were repaid in August 2001. Management is actively negotiating with several lenders to replace the CIT Group revolving credit facility.

The Company has been unable to meet its obligations under debt agreements and certain of its capital lease obligations. These instances of non-payment put the Company in default of these agreements.

The Company is currently delinquent in payments for federal and state withholding taxes in the amount of $841,000. The Company is working out a payment plan with appropriate agencies to pay off the amount Additionally, a number of vendors and suppliers have filed suit against the Company for non-payment.

Management has been actively negotiating with the Company's creditors. As a result of these negotiations, and by using proceeds from sales of stock in June 2000 and convertible debentures in November and December 2000 to Teamasia totaling $7,430,000, as well as additional proceeds from Subba Mok in June and July 2001 totaling $6.0 million, the Company has been able to bring current, pay off, or refinance certain of its debt obligations. The Company continues to be in default on all capital lease obligations.

As of December 31, 2001, the Company's short-term portion of debt and capital lease obligations totaled $5.6 million, which is comprised of (i) $3.5 million of convertible debentures due in May 2002, net of a discount of $582,000, (ii) $2.0 million of capital lease obligations and (iii) $675,000 of other debt obligations. The capital lease obligations are comprised of five individual leases, all of which are past due.

As of December 31, 2001, the Company no had long-term capital lease obligations.

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In May 2001, the Company entered into a MOU with Teamasia whereby Teamasia agreed, among other provisions, to extend the due date of $3.5 million of convertible debentures until May 2002. In addition, under the MOU, Subba Mok agreed to purchase stock representing 72% of the Company's fully diluted equity for $6.0 million, to be received in installments, the last of which was received in the quarter ended December 31, 2001.

FACTORS AFFECTING FUTURE RESULTS

Except for historical information contained herein, the matters set forth in this Report on Form 10-Q, including the statements in the following paragraphs, are forward-looking statements that are subject to certain risks and uncertainties including such factors as, among others, operating cash availability, delays in new product and process technology announcements and product introductions by the Company or its competitors, competitive pricing pressures, fluctuations in manufacturing yields, changes in the mix or markets in which products are sold, availability and costs of raw materials, reliance on subcontractors, the cyclical nature of the semiconductor industry, industry-wide wafer processing capacity, political and economic conditions in various geographic areas, and costs associated with other events, such as under utilization or expansion of production capacity, intellectual property disputes, litigation, or environmental regulation and other factors described below.

The Company has minimal financial resources and its operating needs are funded principally from the collection of accounts receivable and from the sale of common stock and convertible debentures to Teamasia in fiscal year 2001 and the sale of common stock to Subba Mok in fiscal year 2002. The Company continues to focus on restructuring its operations to conserve cash.

Excluding the two previous quarters, the Company has reported operating losses and total negative cash flow from operating activities since the second quarter of fiscal 1997. Unless a trend of increasing revenue is achieved or the Company is able to sustain a lower break-even point, the Company may continue to report losses and negative cash flows in the future.

The Company sells its products to distributors and manufactures in Southeast Asia, which is currently experiencing an economic downturn. Sales in this region accounted for 25% of the Company's net revenues in fiscal year 2001 and approximately 30% for the nine months ended December 31, 2001. If the region is not able to overcome its economic problems, there is no assurance that the Company's results of operations will not be adversely affected.

As a result of the severe downturn in the semiconductor market, the Company experienced a significant decrease in sales in the fourth quarter of fiscal year 2001, and the trend continued in the subsequent nine months ended December 31, 2001. The downturn in the semiconductor market is expected to continue for the foreseeable future and could compound the Company's liquidity issues.

In June 2001, International Rectifier Corporation (IR) notified the Company that it would be canceling future orders. Revenues for the year ended March 31, 2001 and three months and nine months ended December 31, 2001 totaled $9.3 million, $389,000 and $3.4 million respectively. The impact of this cancellation could have a significant negative impact on the results of operations of the Company. In subsequent quarters, although IR is expected to remain a customer, the Company expects the present level of revenue to continue in the near future.

The semiconductor industry is extremely capital intensive. To remain competitive, the Company must continue investing in advanced design tools, manufacturing equipment and process technologies. The Company anticipates significant continuing capital expenditure during the next several years. There can be no assurance that the Company will not be required to seek additional debt or equity financing to satisfy its cash and capital needs or that such financing will be available on terms satisfactory to the Company. If such financing is required and if such financing is not available on terms satisfactory to the Company, its operations would be materially adversely affected.

New products and process technology 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 or 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 could be adversely impacted.

Part of the Company's future product development strategy included the acquisition of the product portfolio of Epic Semiconductor based in Phoenix, Arizona. Such products are based on the UARTs and MOSFET technologies. The Company currently believes that,

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if successful in manufacturing and marketing of such products, these products could enhance the revenue of the Company. However there can be no assurance that the manufacturing and marketing of these products can be successfully implemented in a timely manner. From time to time, the Company has experienced manufacturing difficulties due to equipment failures that have caused delivery delays and product returns. There can be no assurance that the Company will not experience manufacturing problems and product delays in the future as a result of, among other reasons, changes to the process technologies, equipment failure, or production scheduling issues. The Company depends on outside contract assembly vendors to test, assemble and package its products, and, any delays in product delivery, quality and assembly problems from these outside contract assembly companies could adversely affect the Company's operating results.

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 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.

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 "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, which requires 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 before a Nasdaq Listing Qualifications Panel concerning the Company's failure to comply with certain requirements for continued listing on The Nasdaq SmallCap Market. Nasdaq has determined the Company's securities will continue to be listed as long as certain conditions are met. The conditions require that stockholders equity, as reported in the Company's Quarterly Reports on Form 10-Q for the quarters ended September 30, 2001 and December 31, 2001, meet specified minimum amounts. In addition, the conditions require that the Company be able to demonstrate compliance with all requirements for continued listing on The Nasdaq SmallCap Market. There can be no assurance that the Company will be able to comply with the terms of the conditions.

The Company has taken steps to complete a major upgrade to its manufacturing-execution software and hardware and currently is in the final stages of implementing financial application software and hardware. The Company expects that all upgrades to the financial system will be completed in the quarter ending March 31, 2002.

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, 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. 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.

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.

In 2001, we experienced difficulties meeting product specifications for certain customers and, as a result, accepted product returns from these customers. We have since implemented changes to our processes to ensure our products meet customer acceptance criteria, however, there can be no assurance that we will not be required to accept product returns in the future.

We manufacture all of our wafers at our fabrication facility in San Jose, California. 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; surpluses can result in larger than desired inventory levels. Our backlog consists of distributor and OEM customer orders required to be shipped within nine 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 executive officer, 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.

We face risks associated with potential acquisitions, investments, strategic partnerships and other ventures, including whether any such transactions can be identified, completed and the other party integrated with our business on favorable terms. In the ordinary course of our business, we regularly engage in discussions and negotiations relating to potential investments, strategic partnerships and acquisitions. We may acquire or make investments in complementary businesses, technologies, services or products, or enter into strategic partnerships with parties who can provide access to those assets, if appropriate opportunities arise in the future. From time to time, we have had discussions and negotiations with a number of companies regarding our acquiring, investing in or partnering with their businesses, products, services or technologies. Some of those discussions also contemplate the other party making an investment in our company. We may not identify suitable acquisition, investment or strategic partnership candidates or, if we do identify suitable candidates, we may not complete those transactions on commercially acceptable terms or at all. In addition, the key personnel of an acquired company may decide not to work for us. If we make acquisitions, we could have difficulty integrating the acquired products, services or technologies into our operations. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses which could adversely affect our operating results. Subba Mok, our majority stockholder, has publicly announced its intention to explore opportunities for us and affiliates of Subba Mok, including Teamasia and its affiliates, to work together on transactions involving assets and/or business operations that Subba Mok and/or its affiliates own presently or may develop in the future, including, without limitation, opportunities to share and mutually benefit from production, design, quality control and other assets and/or business operations applicable to the semiconductor industry, including, without limitation, the combination of our operations with the operations of another company. The share ownership held by Subba Mok permits Subba Mok to significantly influence or control most of the corporate decisions involving our company.

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. Changes in Securities and Use of Proceeds

On November 30, 2001, the Company completed the issuance of an aggregate of 5,482,000 shares of Common Stock to a group of investors, including Subba Mok, for an aggregate purchase price of $6.0 million. At the closing, the Company also (i) restructured the terms of $3.5 million of outstanding convertible debentures held by Teamasia and (ii) issued a warrant to purchase an aggregate of 319,800 shares of Common Stock to Teamasia at a per share exercise price of $1.10. The issuance of securities in this transaction was deemed exempt from registration under the Securities Act of 1933, as amended, in reliance on

Section 4(2), Regulation D and/or Regulation S promulgated thereunder. The investors represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution there of and appropriate legends were affixed to the certificates issued in this transaction. All recipients either received adequate information about the Company or had access, through employment or other relationships, to such information. The Company used the proceeds to repay the amount owed under its prior credit facility with The CIT Group and for working capital and general corporate purposes.

Item 3. 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.

Item 6. Reports on Form 8-K.

Report on Form 8-K dated December 17,2001

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 18, 2002.

IMP Inc.
Registrant

By: /s/ Subbarao Pinamaneni

Name: Subbarao Pinamaneni
Title: Chairman of the Board

margin:0px; text-indent:48px">Although federal securities laws provide a safe harbor for forward-looking statements made by a public company that files reports under the federal securities laws, this safe harbor is not available to issuers of penny stocks. As a result, we do not have the benefit of this safe harbor protection in the event of any legal action based upon a claim that the material provided by us contained a material misstatement of fact or was misleading in any material respect because of our failure to include any statements necessary to make the statements not misleading. Such an action could hurt our financial condition.

We have not paid dividends in the past and do not expect to pay dividends for the foreseeable future. Any return on investment may be limited to the value of the Common Stock.

No cash dividends have been paid on our common stock. We expect that any income received from operations will be devoted to our future operations and growth. We do not expect to pay cash dividends in the near future. Payment of dividends would depend upon our profitability at the time, cash available for those dividends, and other factors as our board of directors may consider relevant. If we do not pay dividends, the common stock may be less valuable because a return on an investor s investment will only occur if our stock price appreciates.

Stockholders may have difficulty trading and obtaining quotations for our common stock.

Our common stock trades on a limited basis, and the bid and asked prices for our common stock on the Over-the-Counter Bulletin Board may fluctuate widely in the future. As a result, investors may find it difficult to dispose of, or to obtain accurate quotations of the price of, our securities. This severely limits the liquidity of our common stock, and would likely reduce the market price of our common stock and hamper our ability to raise additional capital.

The market price of our common stock is likely to be highly volatile and subject to wide fluctuations.

Dramatic fluctuations in the price of our common stock may make it difficult to sell our common stock. The market price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to a number of factors, some of which are beyond our control. Such factors include:

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dilution caused by our issuance of additional shares of common stock and other forms of equity securities, in connection with future capital financings to fund our operations and growth, to attract and retain valuable personnel and in connection with future strategic partnerships with other companies;

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variations in our quarterly operating results;

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announcements that our revenue or income are below or that costs or losses are greater than analysts expectations;

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the general economic slowdown;

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sales of large blocks of our common stock by stockholders;

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announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments; and

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fluctuations in stock market prices and volumes;

These and other factors, and the impact of these risks, singly or in the aggregate, may result in material adverse changes to the market price of our common stock and/or our results of operations and financial condition.

Our amended and restated certificate of incorporation grants our board of directors the power to designate and issue additional shares of common and/or preferred stock.

Our authorized capital consists of 100,000,000 shares of common stock and 5,000,000 shares of preferred stock. Our preferred stock may be designated into series pursuant to authority granted by our certificate of incorporation, and on approval from our board of directors. The board of directors, without any action by our stockholders, may designate and issue shares in such classes or series as the board of directors deems appropriate and establish the rights, preferences and privileges of such shares, including dividends, liquidation and voting rights. The rights of holders of other classes or series of stock that may be issued could be superior to the rights of holders of our Series B Shares. The designation and issuance of shares of capital stock having preferential rights could adversely affect other rights appurtenant to our Series B Shares. Furthermore, any issuances of additional stock (common or preferred) will dilute the percentage of ownership interest of then-current holders of our capital stock and may dilute the Pacific Alliance s book value per share.

We are subject to Sarbanes-Oxley and the reporting requirements of federal securities laws, which can be expensive.

As a public reporting company, we are subject to Sarbanes- Oxley and, accordingly, are subject to the information and reporting requirements of the Securities Exchange Act of 1934 and other federal securities laws. The costs of compliance with Sarbanes-Oxley, of preparing and filing annual and quarterly reports, proxy statements and other information with the SEC, furnishing audited reports to our stockholders, and other legal, audit and internal resource costs attendant with being a public reporting company will cause our expenses to be higher than if we were privately held.

Compliance with corporate governance laws may negatively impact our operations.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and new SEC regulations, are creating uncertainty for public companies. We are required to invest significant management time and financial resources to comply with both existing and evolving standards for public companies, which will lead to increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities. If we are unable to successfully manage compliance activities, our operating results may suffer.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Pacific s offices are located at 986 West 2nd Street, Building 12-A, Bay 6, Ogden, UT 84404, and its telephone number at such address is 801-621-5200, the office, address and telephone number of our subsidiary, Superior.

As a result of our acquisition of Superior, our facilities will consist of the facilities of Superior, our operating subsidiary. The following table lists our principal facilities all of which are leased from non-affiliated lessors. Management believes that these properties are adequate for our current operational needs. We may, at some point, relocate, reorganize or consolidate various facilities for reasons of operating efficiencies or may open new plants to take advantage of perceived new economic opportunities. We are of the opinion that all properties are well maintained and appropriately insured.

Location	**Approximate Space**	**Monthly Payment**
Ogden Utah	35,000 sq. ft.	$7,125
Albuquerque, NM	4,000 sq. ft.	$2,083
Denver, CO	9,500 sq. ft.	$2,168

Superior s executive offices are located at 986 West 2nd Street, Building 12-A, Bay 6, Ogden, UT 84404, and its telephone number at such address is 801-621-5200. The lease expires April 30, 2011 and the monthly rate remains the same for the balance of the term.

The New Mexico facility lease expires March 31, 2012, and the monthly the rate increases to $2,125 April 1, 2010 and to $2,168 on April 1, 2011.

The Colorado facility lease expires on June 30, 2012, and the monthly rated increases to $2,389 on July 1, 2010 and to $2,468 on July 1, 2011.

ITEM 3. LEGAL PROCEEDINGS

As of December 31, 2009, we were not involved in any legal proceedings.

ITEM 4. RESERVED

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company s common stock is quoted on the OTC Bulletin Board under the trading symbol PALC. There currently is no active market for the Company s common stock. Trading in the Company s common stock is sporadically and trades are made on a workout basis with the market maker.

Fiscal year ended December 31,	**High**	**Low**
2009		
Fourth Quarter	$0.30	$0.18
Third Quarter	$0.30	$0.06
Second Quarter	$0.13	$0.05
First Quarter	$0.15	$0.05
2008		
Fourth Quarter	$0.20	$0.07
Third Quarter	$0.10	$0.10
Second Quarter	$0.10	$0.06
First Quarter	$0.06	$0.03
2007		
Fourth Quarter	$0.07	$0.03
Third Quarter	$0.09	$0.09
Second Quarter	$na*	$na*
First Quarter	$0.09	$0.07

*No trading activity during period.

Effective December 23, 2009, our outstanding shares were subject to a 20 for 1 reverse split. There has been virtually no activity in our common stock since that date. The prices in the above table reflect pre-split prices.

The closing price of our common stock on the OTCBB on April 9, 2010 was $5.00 per share. As of April 9, 2010, there were approximately 199 holders of record of our common stock and 3,882,267 shares of common stock outstanding based on information provided by our transfer agent, Fidelity Transfer Company, 8915 S. 700 E. Suite 102, Sandy UT 84070.

Dividends

We have not paid any dividends on our common stock since our inception and do not anticipate paying any dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board of Directors and will be dependent upon then-existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors our Board of Directors deems relevant.

Issuer Purchases of Equity Securities

During the year ended December 31, 2009, we did not purchase any of our own equity securities.

Shares Issued to Officers and Directors in Unregistered Transactions in 2009, 2008 and 2007

We issued shares of our common stock periodically to our officers and directors in unregistered transactions during 2009, 2008 and 2007. All of the following shares of common stock issued were issued in non registered transactions in reliance on Section 4(2) of the Securities Act of 1933, as amended (the Securities Act). The shares of common stock issued were as follows:

Issued To	Number of Shares	Date	Consideration
Mark A. Scharmann	447,350	11/9/2009	Compensation valued at $44,735
Mark A. Scharmann	1,000,000	11/9/2009	Conversion of debt totaling $50,000
Mark A. Scharmann	3,000,000	11/9/2009	Issued per Bankruptcy Plan on completion of Business Combination
Dan Price	55,500	11/9/2009	Compensation valued at $5,550
Dan Price	66,000	11/9/2009	Issued per Bankruptcy Plan on completion of Business Combination
David Knudson	596,550	11/9/2009	Compensation valued at $59,655
David Knudson	3,000,000	11/9/2009	Issued per Bankruptcy Plan on completion of Business Combination
Mark A. Scharmann	97,500	3/31/08	Compensation valued at $9,750
Dan Price	7,500	3/31/08	Compensation valued at $750
David Knudson	61,500	3/31/08	Compensation valued at $6,150
Mark A. Scharmann	82,500	6/30/08	Compensation valued at $8,250
Dan Price	4,500	6/30/08	Compensation valued at $450
David Knudson	67,500	6/30/08	Compensation valued at $6,750
Mark A. Scharmann	54,000	9/30/08	Compensation valued at $5,400
David Knudson	57,750	9/30/08	Compensation valued at $5,775
Mark A. Scharmann	87,750	12/31/08	Compensation valued at $8,775
Dan Price	5,250	12/31/08	Compensation valued at $525
David Knudson	62,700	12/31/08	Compensation valued at $6,270
Mark A. Scharmann	22,500	3/31/07	Compensation valued at $2,250
David Knudson	41,100	3/31/07	Compensation valued at $4,110
Mark A. Scharmann	25,500	6/30/07	Compensation valued at $2,550
Dan Price	95,250	6/30/07	Compensation valued at $9,525
David Knudson	6,000	6/30/07	Compensation valued at $600
Mark A. Scharmann	28,500	9/30/07	Compensation valued at $2,850
David Knudson	47,700	9/30/07	Compensation valued at $4,770
Mark A. Scharmann	115,500	12/31/07	Compensation valued at $11,550
Dan Price	174,000	12/31/07	Compensation valued at $17,400
David Knudson	22,500	12/31/07	Compensation valued at $2,250

Limitation on Directors Liability, Charter Provisions and Other Matters

Delaware law authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breach of directors fiduciary duty of care. The duty of care requires that, when acting on behalf of the corporation, directors must exercise an informed business judgment based on all material information reasonably available to them. Absent the limitations authorized by Delaware law, directors are accountable to corporations and their stockholders for monetary damages for conduct constituting gross negligence in the exercise of their duty of care. Delaware law enables corporations to limit available relief to equitable remedies such as injunction or rescission. Our Certificate of Incorporation limits the liability of our directors to us or to our stockholders (in their capacity as directors but not in their capacity as officers) to the fullest extent permitted by Delaware law.

The inclusion of this provision in the Certificate of Incorporation may have the effect of reducing the likelihood of derivative litigation against directors and may discourage or deter stockholders or management from bringing a lawsuit against directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited the Company and its stockholders.

Our Bylaws provide indemnification to our officers and directors and certain other persons with respect to certain matters. Insofar as indemnification for liabilities arising under the 1933 Act may be permitted to our directors and officers, we have been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable.

ITEM 6. SELECTED FINANCIAL DATA

The Company is a Smaller Reporting Company as defined under §229.10(f)(1) of Regulation S-K and is not required to provide the information required by this Item.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements and Risks

This discussion and analysis contains statements of a forward-looking nature relating to future events or our future financial performance or financial condition. Such statements are only predictions and the actual events or results may differ materially from the results discussed in or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in "Part I. Item 1A. Risk Factors" as well as those discussed elsewhere in this report. The historical results set forth in this discussion and analysis are not necessarily indicative of trends with respect to any actual or projected future financial performance. This discussion and analysis should be read in conjunction with the financial statements and the related notes thereto included elsewhere in this report. Factors that may cause actual results, our performance or achievements, or industry results, to differ materially from those contemplated by such forward-looking statements include without limitation:

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success in retaining or recruiting, or changes required in, our officers, key employees or directors;

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effectively competing in the air filtration products industry;

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potential ability to obtain additional financing to fund our business plan;

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our ability to generate revenues to enable us to operate at a profit.

Note on Results of Operations

We are a Delaware corporation which, prior to the acquisition of Superior, was an inactive shell corporation. At the time of the acquisition, we were a shell corporation and our business plan was to acquire through a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or other similar business combination, one or more businesses or assets. On June 26, 2009, we entered into an Exchange Agreement with the Superior Members and on October 30, 2009, we closed the acquisition. Additional details about Pacific Alliance s pre-Closing business plan is included in Pacific s Form 10-K for the year ended December 31, 2008 which is available at http://www.sec.gov. The discussion below in Results of Operations and Liquidity and Capital Resources reflects the combined post-acquisition company.

Factors Affecting Results of Operations

Historically, our operating expenses have exceeded our revenues resulting in net losses in fiscal years ended December 31, 2009 and 2008. In each of these periods, our operating expenses consisted primarily of the following:

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Cost of sales, which consists primarily of raw materials, components and production of our products, including applied labor costs and benefits expenses, maintenance, facilities and other operating costs associated with the production of our products;

.

Selling, general and administrative expenses, which consist primarily of salaries, commissions and related benefits paid to our employees and related selling and administrative costs including professional fees;

.

Research and development expenses, which consist primarily of equipment and materials used in the development of our technologies;

.

Depreciation and amortization expenses which result from the depreciation of our property and equipment, including amortization of our intangible assets; and

Results of Operations

Our management reviews and analyzes several key performance indicators in order to manage our business and assess the quality and potential variability of our revenues and cash flows. These key performance indicators include:

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Sales revenue, net of returns and trade discounts, which is an indicator of our overall business growth and the success of our sales and marketing efforts;

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Gross profit, which is an indicator of both competitive pricing pressures and the cost of sales of our products;

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Growth in our customer base, which is an indicator of the success of our sales efforts; and

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Distribution of revenue across our products offered.

The following summary table presents a comparison of our results of operations for the fiscal years ended December 31, 2008 and 2009 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	2008	**2009**
Net revenues	$ 667,581	$ 2,951,853
Cost of revenues	965,419	2,508,384
Gross profit (loss)	(297,838)	443,469
Selling, general, and administrative expenses	75,639	463,355
Research and development expenses	225,000	175,000
	54,310	80,529

Depreciation and amortization expenses		
Other income (expense)	-	(89,470)
Net loss	(373,477)	(109,356

Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Net Revenues. Sales for the year ended December 31, 2009 were $2,951,319 compared to sales of $667,581 for the year ended December 31, 2008. Sales increased 442 percent over the prior year due to more as more filter lines were being place in operation.

Cost of Revenues. Cost of Revenue for the year ended December 31, 2009 were $2,508,384 compared to Cost of Revenue of $965,419 for year ended December 31, 2008.

Gross Margins. Gross margin for the year ended December 31, 2009 increased to 15% compared to a negative contribution from the prior year. Gross margins are negatively impacted as new filter lines are placed in service. We are continuing to add new lines which will have a negative impact

Gross Profit. Gross profit was $443,469 for the year ended December 31, 2009 compared a negative contribution of $(297,838) for the year ended December 31, 2008. Gross profit is negatively impacted as new filter lines are placed in service. We expect gross margins to continue to improve as we gain experience on each of the filter lines.

Selling, General, and Administrative Expenses. SG&A was $463,355 for the year ended December 31, 2009 compared with SG&A of $75,639 for the year ended December 31, 2008. SG&A increased due to the opening of two direct sales offices in New Mexico and Colorado. As we add new sales offices and expanded operations SG&A will continue to increase.

Research and Development Expenses. Research and Development expenses were $175,000 for the year ended December 31, 2009 compared to $225,000 for the year ended December 31, 2008. Research and Development costs are incurred as new filter concepts and products are brought to market. We have developed various new products over the last two years and intend to continue this effort into the future.

Depreciation and Amortization Expenses. Depreciation was $80, 529 for the year ended December 31, 2009 compared to $54,310 for the year ended December 31, 2008. Depreciation expense has a direct correlation to the amount of equipment that is being placed in service. As new filter making lines are placed in service deprecation expense will continue to increase.

Net Loss. The net loss for the year ended December 31, 2009 was $109,356 compared to a net loss of $373,477 for the year ended December 31, 2008. The loss from operations relates to start up costs incurred during 2008 and 2009 as new filter making lines were being placed in service. The profitability from the older filter making lines will be offset by the new lines as they are added until the company reaches its normal operating capacity some time in 2011.

Liquidity and Capital Resources

Our principal sources of liquidity consist of cash and cash equivalents and payments received from our customers. We have no long-term liabilities, and we do not have any significant credit arrangements. Historically, our expenses have exceeded our revenues, resulting in operating losses. From time to time, we have obtained additional liquidity to fund our operations through the sale of shares of our equity securities. In assessing our liquidity, our management reviews and analyzes our current cash balances on-hand, short-term investments, accounts receivable, accounts payable, capital expenditure commitments and other obligations.

Cash Flows

The following table sets forth our consolidated cash flows for the fiscal years ended December 31, 2008 and 2009.

	2008	2009
Net cash (used by) operating activities	$ (717,680)	$(1,386,535)
Net cash (used by) investing activities	$ (223,000)	$ (98,529)
Net cash provided by financing activities	$ 1,170,809	$ 1,834,371
Net increase in cash and cash equivalents during period	$ 230,129	$ 349,307

Net Cash Used By Operating Activities. Cash used by operating activities was $1,386,535 for the year ended December 31, 2009 compared to $717,680 for the year ended December 31, 2008. The primary use of cash in operations relates to an increase in accounts receivables and inventory. As the company continues to expanded the will require additional cash to expand its operations.

Net Cash Used In Investing Activities. Cash used in investing activities was $98,529 for the year ended December 31, 2009 compared with $223,000 for the year ended December 31, 2008. The primary us of cash from investing activities was used to acquire additional filter making equipment. The company intends to expand its operations over the next two years which will require additional cash to facilitate this growth.

Net Cash Provided by Financing Activities. Cash from financing activities was $,1,834,371 for the year ended December 31, 2009 compared to $1,170,809 for the year ended December 31, 2008. As the operations continue to expand we will acquire additional capital to expand our oeprations.

Contractual Obligations and Commitments

The following table summarizes our contractual cash obligations and other commercial commitments at December 31, 2009.

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years
Facilities leases [1]	$				
$					
	$				
	$				
	$				
Total contractual cash obligations	$	$	$	$	$

(1) Superior s executive offices are located at 986 West 2nd Street, Building 12-A, Bay 6, Ogden, UT 84404, and its telephone number at such address is 801-621-5200. The lease expires April 30, 2011 and the monthly rate remains the same for the balance of the term. The New Mexico facility lease expires March 31, 2012, and the monthly the rate increases to $2,125 April 1, 2010 and to $2,168 on April 1, 2011. The Colorado facility lease expires on June 30, 2012, and the monthly rated increases to $2,389 on July 1, 2010 and to $2,468 on July 1, 2011.

Cash Position, Outstanding Indebtedness, and Future Capital Requirements

fSuperior has not compensated certain members of its management. Accordingly, our financial statements do not reflect compensation expenses for such persons. If we had compensated such management on a reasonable basis, our total operating expenses would have been greater, which would have adversely affected the size of our loss for fiscal years ended 2009 and 2008.

It is difficult to anticipate future levels of income and loss while the company expands its operation. During the second quarter of 2009, Superior opened two direct offices in Albuquerque, NM and Denver, CO. which reduced earnings from operations by approximately $76,000. On September 9th, 2009 Superior signed a ten year exclusive distribution and resale agreement with Petersen Incorporated and Energy Solutions, LLC related to its nuclear filtration line of products. We expect that this agreement will positively impact operations in fiscal 2010.

We anticipate that the execution of our business plan will result in a rapid expansion of our operations, which may place a significant strain on our management, financial and other resources. Our ability to manage the problems associated with the expansion of our business operations will depend, among other things, on our ability to monitor operations, control costs, maintain effective quality control, secure necessary marketing arrangements, expand internal management, technical information and accounting systems and attract, assimilate and retain qualified management and other personnel. If we fail to effectively manage these issues, we may not be profitable in the near future, or ever.

The difficulties in managing these various business issues will be compounded by a number of unique attributes of our anticipated business operations and business strategy. For example, we intend to introduce a new retail air filter product line that relies on various new concepts, a new radial pleat, a stackable concept which reduces freight costs and places twice the amount of product shelf as the standard product currently being used in the industry. We are using new filtration media that provides a higher level of filtration with a lower pressure drop which should generate energy savings. Many of these concepts are new to the industry and have only been test marketed in limited environments. Should these and other concepts not perform as expected, our financial condition and the results of our operations could be materially and adversely affected.

We believe we will have the ability to moderate our capital spending as we execute our business plan by the speed at which we expand the operations of the business hiring practices and promotional activities. If we elect to slow the speed, or narrow the focus of our business plan, we will be able to reduce our capital expenditures. Our actual ability to effectuate our proposed business plan will depend on a number of factors, however, including the speed of our expansion, the acceptance of products in the market, our ability to protect our intellectual property, as well as factors over which we may have little or no control, such as regulatory changes, changes in technology or our ability to meet the demand for our product. In addition, actual costs and revenues can vary from the amounts that Superior expects or budgets in its business plan, possibly materially, and those variations are likely to affect our ability to generate a profit or our need for additional financing.

If we need additional funding, and acquire that funding through the issuance of our equity securities, our stockholders may experience dilution in the value per share of their equity securities. The acquisition of funding through the issuance of debt could result in a substantial portion of our cash flow from operations being dedicated to the payment of principal and interest on that indebtedness, and could render us more vulnerable to competitive pressures and economic downturns.

Proposed Acquisition

On December 10, 2009, we entered into a non-binding letter of intent (LOI) relating to a proposed transaction (Proposed Transaction) to acquire Star Leasing, Inc., a North Carolina corporation (Star Leasing). We filed a Current Report on Form 8-K regarding the LOI on December 16, 2009.

The Proposed Transaction is subject to numerous conditions and there is no assurance that the Proposed Transaction will be completed. Conditions included, but were not limited to, the negotiation and execution of a definitive Merger Agreement by Pacific and Star Leasing, approval of the Proposed Transaction by the shareholders of Star Leasing, the completion of audited financial statements by Star Leasing and various other conditions. At this filing date, we believe all of the conditions to closing have been met except for completion of the audit. In anticipation of closing, we have advanced approximately $1,000,000 to Star Leasing over the last 4 months. At this time, Star Leasing is essentially operating as our subsidiary and we expect to finalize the transaction shortly.

Star Leasing is in the trucking industry and is a general commodity carrier. Star Leasing was founded in 1983 and currently has more than 100 employees. It has operations in 48 states, Canada and Mexico. Since its formation, Star Leasing has expanded its business to include full-circle logistical and brokerage services, warehousing, and distribution. Star Leasing provides local delivery for its warehousing and distribution services.

If the Proposed Transaction is completed, Pacific expects to own and operate Star Leasing as a wholly-owned subsidiary. Pacific will continue to own and operate its wholly-owned subsidiary, Superior Filtration Products, LLC (Superior). Pacific believes that the acquisition of Star Leasing will result in a synergistic relationship between Superior and Star Leasing.

Randall Menscer, a director and shareholder of Pacific is an officer, director and shareholder of Star Leasing.

Critical Accounting Policies.

We have adopted a number of critical accounting policies relating to our operation of the manufacture and distribution of air filtration products. These accounting policies require significant judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies, the underlying judgments and uncertainties regarding our application of those policies to our assets and operations and the likelihood that materially different amounts would be reported under different conditions or using different assumptions, are as follows:

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Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis, and market is based on realizable value.

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Specific costs related to obtaining patents and trademarks have been capitalized. Patents are amortized over their legal life of 20 years from the date of filing. Costs of trademarks are not amortized, since their lives are indefinite.

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Depreciation is computed on the straight-line method using estimated useful lives (depending on the type of asset) ranging from 3 to 5 years.

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Advertising costs are charged to operations when they are incurred.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Contractual Obligations and Commitments

Except for the payment of accrued taxes, rent and other payables, all of which are described in the financial statements attached hereto, we have no contractual commitments or obligations.

Inflation

The Company does not believe that inflation will negatively impact its business plans.

Recent Accounting Pronouncements

In June 2009, we adopted a new accounting standard for subsequent events, as codified in Accounting Standards Codification (ASC) 855-10 (formerly SFAS No. 165, Subsequent Events), which establishes general accounting standards and disclosure for events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This new standard is effective for interim and annual financial periods ending after June 15, 2009 and requires prospective application. The adoption of this new standard had no impact on our consolidated financial statements.

Effective July 1, 2009, we adopted the “FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles” (ASC 105), (formerly, SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles. This new standard establishes the “FASB Accounting Standards Codification™” (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). Rules and interpretive releases of the Securities and Exchange Commission (SEC) are also sources of authoritative GAAP for SEC registrants. The Codification now supersedes all previous-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification has now become non-authoritative. Now that the Codification is in effect, all of its content carries the same level of authority. We believe that the adoption of this standard will not have a material impact on our consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements required by this item are included on the pages immediately following the Index to Financial Statements appearing on page F-1

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in our independent accountants, Spector & Associates, LLP, or disagreements with them on matters of accounting or financial disclosure.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), an evaluation was performed under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our management, including our principal executive officer and our principal financial officer, concluded that the design and operation of these disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We are responsible for the preparation and integrity of our published financial statements. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and, accordingly, include amounts based on judgments and estimates made by our management. We also prepared the other information included in the annual report and are responsible for its accuracy and consistency with the financial statements.

We are responsible for establishing and maintaining a system of internal control over financial reporting, which is intended to provide reasonable assurance to our management and Board of Directors regarding the reliability of our financial statements. The system includes but is not limited to:

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a documented organizational structure and division of responsibility;

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established policies and procedures, including a code of conduct to foster a strong ethical climate which is communicated throughout the company;

.

regular reviews of our financial statements by qualified individuals; and

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the careful selection, training and development of our people.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Also, the effectiveness of an internal control system may change over time. We have implemented a system of internal control that was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

We have assessed our internal control system in relation to criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based upon these criteria, we believe that, as of December 31, 2009, our system of internal control over financial reporting was effective.

Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management s report in this annual report.

ITEM 9B. OTHER INFORMATION

On November 30, 2009, we filed a Definitive Information Statement and Notice of Action Taken Without a Stockholders Meeting (jointly, the Information Statement) to the holders of the Pacific Alliance s common stock as of December 1, 2009 (the Record Date) to provide information with respect to action taken by the written consent of the majority of our stockholders. The following proposals were approved by written consent:

1.

To increase the number of shares of common stock which we are authorized to issue from 100,000,000 to 250,000,000 and to increase the number of shares of preferred stock which we are authorized to issue from 5,000,000 to 20,000,000 (the Increased Capital Proposal); and

2.

To effect a one-for-twenty reverse split of our common stock (Reverse Split Proposal).

At the record date we had (i) 68,603,698 shares of common stock issued and outstanding, each share of which entitled the holder to one vote; (ii) 1,000,000 shares of Series A Convertible Preferred Stock issued and outstanding, each share of which entitled the holder to 606.6 votes; and (iii) 665,000 shares of Series B Convertible Preferred Stock issued and outstanding, each share of which entitled the holder to 20 votes. Accordingly, the total number of votes held by all of our shareholders is 688,503,698.

On November 11, 2009, stockholders who collectively held 93.51% of the eligible votes consented in writing to approve both the Increased Capital Proposal and the Reverse Split Proposal. More information about the proposals and the detailed vote totals are included in the above-referenced Definitive Information Statement available at www.sec.gov.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Below are the names and certain information regarding Pacific s executive officers and directors following the acquisition of Superior.

Name	Age	Position
Steve Clark	54	CEO/President/Treasurer/Director
Randall Menscer	59	Director
Mark Scharmann	51	Director
Dan Price	54	Director
David Knudson	50	Secretary/Director

Biographical information about the post-acquisition management of Pacific Alliance is set forth below:

Steve Clark. Mr. Clark is the current CEO of Superior Filtration Products. Previously Mr. Clark was the President and CEO of Flanders Corporation. He was the Chief Financial officer and Director from December 1995 through December of 2004. He became the Chief Executive officer in December 2004. From July 1992 through October 1995, he was the Chief Financial Officer of Daw Technologies, Inc., a specialty cleanroom contractor and customer of Superior. Prior to this he was a senior partner of Miller and Clark, an accounting and management services firm. Mr. Clark spent four years with Price Waterhouse, and an additional four years with Arthur Andersen, both accounting firms. He has Bachelor of Arts degrees in Accounting and Political Science and a Master of Business Administration Degree, all from the University of Utah.

Randall Menscer. Mr. Menscer is the current President and CEO of Star Leasing and the prior President and CEO of Shippers Freight Lines. Randall has been in the transportation, logistics and warehousing for over 38 years. Graduate of the University of Maryland with a degree in business. Randall has been on the advisory board to the Central Southern rate conference. Randall was a prior member of the advisory board for the National Business Conference and currently works with Chairman, Tom Cole, congressman from Oklahoma, on the National Business Development Committee.

Mark Scharmann. Mr. Scharmann was the President of Pacific Alliance from 1995 through the Acquisition. Mr. Scharmann has been a private investor and business consultant since 1981. Mr. Scharmann became involved in the consulting business following his compilation and editing in 1982 of a publication called Digest of Stocks Listed on the Intermountain Stock Exchange. In 1981 he compiled and edited an 800 page publication called the OTC Penny Stock Digest. Mr. Scharmann has rendered consulting services to public and private companies regarding reverse acquisition transactions and other matters. Mr. Scharmann was vice president of OTC Communications, Inc. from March 1984 to January 1987. From 1982 to 1996, he was the president of Royal Oak Resources Corporation. From 1994 to 1997, Mr. Scharmann was the President of Norvex, Inc., a shell corporation which completed an acquisition and in connection therewith, changed its name to Capital Title Group, Inc. Capital Title Group, Inc. (formerly NASDAQ CTGI) was purchased by LandAmerica (NYSE:LFG) for stock and cash in November of 2006. Mr. Scharmann was an officer of Immunotechnology Corporation from 1997 to 2006. Immunotechnology Corp. acquired Petals, Inc. (PDEC). He was President of Ogden Golf Company Corp., which recently acquired Bio Path Holdings, Inc. (BPTH). Mr. Scharmann is a promoter of Nightingale, Inc., a publicly-held shell corporation. Mr. Scharmann is an officer and director of Nevada Land Holding Company, a privately held corporation.

Dan O. Price. Since February 2001, Mr. Price has been working as an Enrollment Counselor for the University of Phoenix. From 1998 to October 2000, Mr. Price worked as an evaluator at Learning Technics, Kirkland, WA and Salt Lake City, UT. From 1993 to 1998, Mr. Price served as Vice-President of Corporate Development for Troika Capital Investment. Prior to that, Mr. Price worked for seven (7) years as the National Sales Director for a business providing electronic bankcard processing and other merchant services. For four (4) years he worked as an Organizational Manager involved in direct sales of educational material, with 50 sales people in the western states under his management. Mr. Price has been in sales and marketing for twenty (20) years and sales management and business management for fifteen (15) years. Mr. Price received his B.A. from Weber State College in 1983. He has served as an officer and director on two (2) small publicly traded companies.

David Knudson. Mr. Knudson has worked as a business consultant since 1985. He earned his B.S. Degree in Finance from Weber State College in 1984 and a B.S. Degree in Information Systems and Technologies at Weber State University in 1996. He has been an officer and director of several small publicly-held shell corporations. Mr. Knudson was also employed as an adjunct professor and from 1992 to 1996 was employed as a computer information systems consultant at Weber State University. Mr. Knudson is an officer and director of Nightingale, Inc., a publicly-held shell corporation. Mr. Knudson is an officer and director of Nevada Land Holding Company, a privately held corporation.

The Series A stockholders have the right to elect two of our five directors. The remaining directors are elected by all stockholders voting as a group. Inasmuch as the Series A stockholders own a majority of the votes, they, as a group, are able to control the vote on the three non-Series A directors.

Superior Management

Superior s management consists of the following persons:

Steve Clark, Chief Executive Officer. Biographical information about Mr. Clark is set forth above

Randall Menscer, Board of Director. Biographical information about Mr. Menscer is set forth above.

Raymond Nicholson, Board of Director. Mr. Nicholson, age 64, is the current President and Chief Executive Officer of Nicholson Electric Co., Inc. Raymond has an unlimited North Carolina electrical contracting and unlimited general contracting license. Raymond started the electrical contracting business in September, and military construction projects. At the present Raymond is semi retired from the electrical business and is currently doing commercial and residential developing.

Ocie Murray, Board of Director. Mr. Murray, age 66, is a practicing attorney who has extensive experience in matters involving corporate and business tax law, corporate entity establishment and acquisition, the structuring of effective business planning, regulatory compliance and the creation and actuation of effective corporate tax planning for domestic and international business transactions. He received his BA degree from Elon University, his JD degree from The College of William and Mary, and his LLM in Taxation degree from Georgetown University. He has worked as a trial attorney with the Internal Revenue Service for five years and has been in private practice for over twenty-five years. He has served as chairman of the Tax Section of the North Carolina Bar Association and as a member of both the Tax Council and Bankruptcy Council of the North Carolina

Bar Association.

Stephen Miklos, Board of Director. Mr. Miklos, age 47, is the current vice-president and partner of Sun Print Management. Sun Print Management is a Hewlett Packard Gold business partner, servicing the largest privately held HP lease base within the United States covering 46 states. Also, he is a partner in Total Service Solutions which provides both sales and service of IBM mainframe and midrange computers. Stephen is the 2007 Offshore Powerboat Racing world champion. He has held this title in 2002, 2003, and 2006. He has authored numerous technical, safety and competition protocols for the American Powerboat Association, Offshore Division. He is the corporate liaison for APBA Offshore GM Vortec HP3-8100 engine development program.

Corporate Governance

The Board of Directors is elected by and is accountable to the shareholders of the Company. The Board establishes policy and provides strategic direction, oversight, and control of the Company. The Board met 2 times during the year ended December 31, 2009. All directors attended 100% of the meetings of the Board. The Board has no separate audit, compensation, nominating or other committees. The entire board acts on all matters that would otherwise be presented to such committees. We are in the process of reviewing our corporate governance structure and considering the establishment of such committees.

Code of Ethics

We have not yet adopted a code of ethics that applies to all executive and financial officers, directors and employees of the Company, but intend to do so shortly.

Audit Committee Financial Expert

We have not established an audit committee or designated any person as our financial expert. We anticipate that we will establish an audit committee during the 2010 fiscal year. At this time, our entire board of directors acts as the audit committee.

Item 11. Executive Compensation

The following Summary Compensation Table sets forth the aggregate compensation paid or accrued by Pacific Alliance to our Principal Executive Officer, our Principal Financial Officer and certain other executive officers, (the Named Executive Officers) for the three years ended December 31, 2009.

Summary Compensation Table

Current Officers Name & Principal Position	Year	Salary ($)	Bonus ($)	Stock ($) (1)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Steven Clark[(2)]	2009	0	0	0	0	0	0	0	0
CEO, Pres.	2008	0	0	0	0	0	0	0	0
	2007	0	0	0	0	0	0	0	0
M. Scharmann[(2)]	2009	0	0	44,735	0	0	0	0	44,735
CEO, Pres.	2008	0	0	32,175	0	0	0	0	32,175
	2007	0	0	19,200	0	0	0	0	19,200
D. Knudson,	2009	0	0	59,655	0	0	0	0	59,655
Sec/Treas[(2)]	2008	0	0	24,925	0	0	0	0	24,925
	2007	0	0	35,805	0	0	0	0	35,805

(1) Stock compensation is paid in shares of common stock priced at $.10 per share.

(2) Mr. Clark became CEO and President on October 30, 2009. Mr. Scharmann and Mr. Knudson resigned as CEO/President and Treasurer, respectively, on October 30, 2009. Mr. Knudson remains the current Secretary. Mr. Clark acts as Treasurer in addition to CEO and President.

Options

We have not issued any options or warrants to any of our officers and directors for compensation during the last three fiscal years. Until June 2009, none of our officers and directors owned any options or warrants to acquire shares of our common stock. In June 2009, we issued Sycamore Ventures, LLC, Series 1 a warrant to purchase 500,000 shares of our common stock at $0.05 per share. Mark Scharmann and David Knudson are affiliates of Sycamore Ventures, LLC, Series 1.

Pension Benefits and Nonqualified Deferred Compensation

We do not provide pension benefits or provide any other qualified retirement plans or non-nonqualified deferred compensation plans for our employees or directors.

Employment Agreements

Pacific Alliance is currently not a party to any employment agreement. Prior to the closing of our acquisition of Superior, our officer were compensated at the rate of $75.00 per hour for services rendered to Pacific Alliance. Until such time as our stockholder s equity reached $350,000, our officers were issued shares of our common stock for services rendered. Such shares were valued at $.10 per share.

For the year ended December 31, 2009, we compensated our officers as follows:

Name	Compensation	Shares Issued
Mark Scharmann	$44,735	447,350
David Knudson	$59,655	596,550
Dan Price	$5,550	55,500

Business Combination Share Issuance

Our Bankruptcy Plan of Reorganization also provided that upon the completion of a Business Combination, our management group was issued shares of our common stock which amounted to 1% of the total shares issued in connection with such Business Combination. See **Shares Issued to Officers and Directors in Unregistered Transactions in 2009, 2008 and 2007** above.

SUPERIOR MANAGEMENT COMPENSATION

The following Summary Compensation Table sets forth the aggregate compensation paid or accrued by Superior to its Principal Executive Officer, Principal Financial Officer and certain other executive officers, (the Named Executive Officers) as of December 31, 2009 and 2008.

Summary Compensation Table

Current Officers Name & Principal Position	Year	Salary ($)	Bonus ($)	Total ($)
Steven Clark	2009	-0-	-0-	-0-
	2008	-0-	-0-	-0-
Ronald Menscer	2009	-0-	-0-	-0-
	2008	-0-	-0-	-0-

Options

Superior has not issued any options or warrants to any of its officers and directors for compensation since its inception.

Pension Benefits and Nonqualified Deferred Compensation

Superior does not provide pension benefits or provide any other qualified retirement plans or non-nonqualified deferred compensation plans for its employees or directors.

Employment Agreements

Superior is currently not a party to any employment agreement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plan Information

We are not a party to any equity compensation plan.

Security Ownership of Certain Beneficial Owners

As of April 9, 2010, the Company was not aware of any beneficial owners of more than five percent of its shares of outstanding common stock other than shareholders who are also officers or directors of the Company whose beneficial holdings of our common stock are described below.

Security Ownership of Management

The following table sets forth certain information, as of April 9, 2010 with respect to the beneficial ownership of the outstanding common stock by (i) any holder of more than five (5%) percent; (ii) each of Pacific s executive officers and directors; and (iii) Pacific s directors and executive officers as a group (assuming conversion of all Preferred A and B stock into common stock). Except as otherwise indicated, each of the stockholders listed below has sole voting and investment power over the shares beneficially owned.

Title of Class	**Name and Address of Beneficial Owner**	**Amount and Nature of Beneficial Ownership**	**Percent of Class**
Common Stock	Mark Scharmann(1) 1661 Lakeview Circle Ogden, UT 84403	1,526,925	4.09%
Common Stock	David Knudson(2) 1661 Lakeview Circle Ogden, UT 84403	332,083	0.89%
Common Stock	Dan Price(3) 1661 Lakeview Circle Ogden, UT 84403	11,852	0.03%
Common Stock	Steven Clark(4) 986 West 2nd Street, Building 12-A, Bay 6, Ogden, UT 84404	27,930,000	74.85%
Common Stock	Randall Menscer(5) 986 West 2nd Street, Building 12-A, Bay 6, Ogden, UT 84404	1,250,000	3.35%
Common Stock	Jan Clark(6) 986 West 2nd Street, Building 12-A, Bay 6, Ogden, UT 84404	26,180,000	70.16%
	Officers and Directors as a group (5)	31,050,860	83.55%

(1)

Mr. Scharmann was formerly the President of and is currently a Director of Pacific Alliance. The shares designated as owned by Mr. Scharmann include (i) shares currently owned of record in his own name; (ii) shares issued to him as compensation; (iii) shares currently owned of record by Troika Capital; and (iv) approximately 8,000 shares issuable upon the exercise of a Warrant owned by Sycamore attributed to Mr. Scharmann s 32% ownership of Sycamore.

(2)

Mr. Knudson is currently the Secretary and a Director of Pacific Alliance. The shares designated as owned by Mr. Knudson include (i) shares currently owned of record in his own name; (ii) shares issued to him as compensation; and (iii) approximately 1,250 shares issuable upon the exercise of a Warrant owned by Sycamore attributed to Mr. Knudson s 5% ownership of Sycamore.

(3)

Mr. Price was formerly the vice president of and is currently a Director of Pacific Alliance. The shares designated as owned by Mr. Price include shares owned of record in the name of Mr. Price.

(4)

Mr. Clark was a Superior Member. He is currently the CEO/President/Treasurer and a Director of Pacific Alliance. The shares designated as being owned by Mr. Clark includes 1,750,000 shares owned of record in his own name and 26,180,000 shares owned of record by Jan Clark, the wife of Steve Clark.

(5)

Mr. Menscer was a Superior Member. He is a Director of Pacific Alliance.

(6)

Ms. Jan Clark was a Superior Member and is the wife of Steve Clark

Changes in Control

On June 26, 2009, Pacific Alliance Corporation, a Delaware corporation Pacific or the Company), entered into an Exchange Agreement (the Exchange Agreement) with Superior Filtration Products, LC, a Florida limited liability

Company (Superior), and the members of Superior (Superior Members). The Exchange Agreement and the acquisition agreed to therein, was closed (the Closing) on October 30, 2009 (the Closing Date). At the Closing, Pacific acquired all of the outstanding membership interests of Superior (Superior Member Interests) from the Superior Members in exchange for 1,000,000 shares of Pacific Series A Convertible Preferred Stock (Series A Preferred Stock), subsequently converted into 606,600,000 shares of the Company s common stock. Upon conversion, a change of control was effected with the Superior Members owning approximately 88.04% of the total shares of Pacific common stock then issued and outstanding immediately following the Closing.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Regarding Pacific Alliance

As part of its Plan of Reorganization, Pacific Alliance issued 5,000,000 shares of its common stock to Troika Capital in consideration of $25,000 and Troika s agreement to provide an additional $75,000 in equity or debt funding to pay our tax obligations.

From 1998 to 2005, Troika Capital, affiliate of Mark Scharmann, the President of Pacific Alliance, made loans totaling $508,281. During the same period, Pacific Alliance made loan repayments of $278,194. All of such loans were unsecured and bore interest at the rate of 10% per annum.

During 2006, Troika Capital loaned $27,923 to Pacific Alliance. Such loan is due on demand and bears interest at 10% per annum. During 2006, Pacific Alliance issued 20,000,000 shares of its common stock to Mark Scharmann, our president as payment of $100,000 of outstanding notes.

During 2007, Mark Scharmann, our former president, loaned $87,228 to Pacific Alliance. Such loan is due on demand and bears interest at 10% per annum.

During 2008, Mark Scharmann, our former president, loaned $84,018 to Pacific Alliance. Such loan is due on demand and bears interest at 10% per annum.

During 2009, Mark Scharmann, our former president, converted loans and interest aggregating $50,000 to 1,000,000 shares of our common stock.

Sycamore Ventures, LLC, Series 1 (Sycamore), an affiliate of Pacific Alliance s former president, Mark Scharmann, and current Secretary, David Knudson loaned Superior $250,000 for Superior s use as working capital prior to the closing of the Exchange Agreement. In exchange for Sycamore making such loan to Superior, Pacific Alliance has issued Sycamore warrants to purchase 500,000 shares of Pacific s common stock at a price of $0.05 per share. Such warrants will be exercisable for a term of five years. If Pacific Alliance completes a 1-for-20 reverse stock split, the Warrant will entitle Sycamore to purchase 25,000 shares of Pacific Alliance common stock at a price of $1.00 per share.

The Company s officers and directors were issued shares of the Company s common stock for services rendered during the last three years in the following amounts:

Year	Officer	Shares Issued or Accrued	Value of Services
2009	Mark Scharmann	447,350	$ 44,735
2009	Dan Price	55,500	$ 5,500
2009	David Knudson	596,000	$ 59,655
2008	Mark Scharmann	321,750	$ 32,175
2008	Dan Price	17,250	$ 1,725
2008	David Knudson	249,450	$ 24,945
2007	Mark Scharmann	192,000	$ 19,200
2007	Dan Price	28,500	$ 2,850
2007	David Knudson	358,050	$ 35,805

Regarding Superior

None.

Director Independence

None of our directors are deemed to be independent.

Item 14. Principal Accounting Fees and Services

Independent Auditors

Spector & Associates, LLP was appointed as the Company s auditor for the years ended December 31, 2009 and December 31, 2008.

Fees billed to the Company by Spector & Associates, LLP

			2009		2008
(1)	Audit Fees	$	38,800	$	18,500
(2)	Tax Fees	$	-0-	$	-0-
(3)	Other Fees	$	-0-	$	-0-

(1) Audit fees billed to the Company by Spector & Associates, LLP were for all professional services performed in connection with the audit of the Company's annual financial statements and review of those financial statements, reviews of our quarterly reports on Form 10-QSB. Audit fees during 2009 and 2008 also included audit services related to our compliance with Section 404 of the Sarbanes-Oxley Act regarding our internal controls over financial reporting.

(2) Tax services generally include fees for services performed related to tax compliance, consulting services.

(3) Spector & Associates, LLP did not bill the Company for other services during 2009 or 2008.

All audit and non-audit services and fees are pre-approved by the Audit Committee or by the Chairman of the Audit Committee pursuant to delegated authority.

Effective May 6, 2003, the Securities and Exchange Commission adopted rules that require that before Spector & Associates, LLP was engaged by us to render any auditing or permitted non-audit related service, the engagement be:

approved by our Audit Committee; or

entered into pursuant to pre-approval policies and procedures established by the Audit Committee, provided the policies and procedures are detailed as to the particular service, the Audit Committee is informed of each service, and such policies and procedures do not include delegation of the Audit Committee s responsibilities to management.

All of the above services and fees were reviewed and approved by our entire Board of Directors either before or after the respective services were rendered. Our Board of Directors has considered the nature and amount of fees billed by Spector & Associates, LLP and believes that the provision of services for activities unrelated to the audit is compatible with maintaining Spector & Associates, LLP independence.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)

Documents filed with this report.

1.

Financial Statements:

See Index to Financial Statements on page F-1

2.

Financial Statement Schedules:

Financial statement schedules are omitted because they are not required or are not applicable or the required information is shown in the financial statements or notes thereto.

3.

Exhibits:

The exhibits to this report are listed on the Exhibit Index below.

(b)

Description of exhibits

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation (1)
3.2	Bylaws (1)
10.1	Exchange Agreement (2)
10.2	Amendment to Exchange Agreement (3)
21.1	Subsidiaries of Registrant
31	Certification of Chief Executive and Financial Officer in accordance with 18 U.S.C. Section 1350, as adopted by Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive and Financial Officer in accordance with 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002

(1) Previously filed.

(2) See exhibit to Form 8-K filed June 30, 2009.

(3) See Form 8-K filed August 6, 2009

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: April 15, 2010

PACIFIC ALLIANCE CORPORATION

By: /s/ Steven Clark

Steven Clark

CEO, President, Principal Executive and Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 15th day of April 2010.

/s/Steven Clark

Steven Clark

CEO, President, Principal Executive and Financial
Officer, Director

/s/Randall Menscer
Randall Menscer
Director

/s/Mark Scharmann
Mark Scharmann
Director

/s/Dan Price

Dan Price

Director

/s/David Knudson

David Knudson

Secretary/Director

PACIFIC ALLIANCE CORPORATION

CONSOLIDATED BALANCE SHEETS

See notes to consolidated financial statements

PACIFIC ALLIANCE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

See notes to consolidated financial statements

PACIFIC ALLIANCE CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

See notes to consolidated financial statements

PACIFIC ALLIANCE CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (CONTINUED)

See notes to consolidated financial statements

PACIFIC ALLIANCE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

See notes to consolidated financial statements

PACIFIC ALLIANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 HISTORY OF OPERATIONS

Pacific Alliance Corporation (Pacific or the Company), whose name was changed from Pacific Syndication, Inc. in 1997, was originally incorporated in December 1991 under the laws of the State of Delaware. It also became a California corporation in 1991. Pacific Syndication, Inc. was engaged in the business of videotape duplication, standard conversion and delivery of television programming. In 1994, Pacific Syndication, Inc. merged with Kaiser Research, Inc.

The Company filed a petition for Chapter 11 under the Bankruptcy Code in June 1995. The debtor in possession kept operating until December 21, 1995, when all assets, except cash and accounts receivable, were sold to a third party, Starcom. The purchaser assumed all post-petition liabilities and all obligations collateralized by the assets acquired.

In 1997, a reorganization plan was approved by the Bankruptcy Court, and the remaining creditors of all liabilities subject to compromise, excluding tax claims, were issued 1,458,005 shares of the Company s common stock in March 1998, which corresponds to one share for every dollar of indebtedness. Each share of common stock issued was also accompanied by an A warrant and a B warrant. The warrants expired in June 2002, and none were exercised. The IRS portion of tax liabilities was payable in cash by quarterly installments (see note 5). Repayment of other taxes is still being negotiated.

On October 30, 2009, the Company completed a "reverse acquisition" transaction with Superior Filtration Products LLC ("Superior), from which the Company acquired all of the outstanding membership interest of Superior from the Superior Members in exchange for 1,000,000 shares of Pacific Series A Convertible Preferred Stock (Series A Preferred Stock). Not earlier than December 1, 2009, the 1,000,000 shares of Series A Preferred Stock are convertible into 606,000,000 pre-split shares of the Company s common stock. Assuming that the shares of Series A Preferred Stock had been converted into Pacific s common stock on the closing date, the Superior Members would own approximately 88.04% of the total shares of Pacific s common stock then issued and outstanding following the Closing. The reverse acquisition was completed pursuant to the Exchange Agreement (the Exchange Agreement) dated as of June 26, 2009, amended on July 31, 2009. Subsequent to the Merger, the Company continued as the surviving entity and ceased being a shell company as that term is defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended ("Exchange Act").

For accounting purposes, Superior is the acquirer in the reverse acquisition transaction, and consequently the assets and liabilities and the historical operations reflected in the financial statements are those of Superior and are recorded at the historical cost basis of Superior. All shares and per share data prior to the acquisition have been restated to reflect the stock issuance as a recapitalization of Superior. Since the reverse acquisition transaction is in substance a recapitalization of the Company and is not a business combination, pro forma information is not presented. Such pro forma statements of operations would be substantially identical to the historical statements of operations of the Company, which are presented in the accompanying consolidated statements of operations.

PACIFIC ALLIANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 HISTORY OF OPERATIONS (CONTINUED)

Superior was organized under the laws of the state of Florida on October 22, 2007 and is headquartered in Ogden, Utah. Superior designs, manufactures and markets a broad range of air filtration products, including (i) high-end High Efficiency Particulate Air (HEPA) filters, with at least 99.97% efficiency rating, and Absolute Isolation Barriers for the creation of synthesized atmospheres to control manufacturing environments and for the absolute control and containment of contaminants and toxic gases in certain manufacturing processes; (ii) mid-range filters for individual and commercial use, which fall under specifications which are categorized by minimum efficiency reporting values (MERV) ratings established by the American Society of Heating Refrigeration and Air Conditioning Engineers ("ASHRAE"); and (iii) standard-grade, low cost filters with efficiency ratings at 35% or better for standard residential and commercial furnace and air conditioning applications.

Superior management believes that despite Superior s relative recent formation, it is already beginning to be recognized for quality products, expertise in the filtration industry, and innovation in air filtration. As a manufacturer of commercial, industrial, and residential air filters, Superior makes a variety of products for removing and controlling airborne particulates and gaseous contaminants.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principle of Consolidation and Reclassification: The accompanying consolidated financial statements include the accounts of Pacific Alliance Corporation and its subsidiaries after elimination of all intercompany accounts and transactions. Certain reclassifications have been made to the 2008 financial statements to conform with the 2009 financial statements presentation. Such reclassification had no effect on net losses previously reported.

Use of estimates: The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

Revenue Recognition: The Company recognizes revenues from the sale of products, and related costs of products sold, where persuasive evidence of an arrangement exists, delivery has occurred, the seller s price is fixed or determinable and collectibility is reasonably assured. This generally occurs when the customer receives the product or at the time title passes to the customer. Sales incentives and returns are estimated and recognized at the date of shipment based upon historical activity and current agreements with customers. The Company evaluates these estimates on a regular basis and revises them as necessary.

Accounts Receivable: The Company grants credit to all qualified customers and generally requires no collateral. Accounts receivable are carried at cost less an allowance for losses, if an allowance is deemed necessary. The Company does not accrue finance or interest charges. The Company evaluates its accounts receivable and determines the requirement for an allowance for losses, based upon history of past write-offs, collections and current credit conditions. A receivable is written off when it is determined that all reasonable collection efforts have been exhausted and the potential for recovery is considered remote. Management determine that no allowance for losses were required as of December 31, 2009 and 2008.

PACIFIC ALLIANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents: For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Inventory: Inventory is stated at the lower of cost or market with cost determined using the first-in, first out (FIFO) method.

Shipping and Handling Costs: The Company records costs related to shipping and handling of revenue in cost of sales for all periods presented.

Property and Equipment: Property and Equipment are stated at cost. Depreciation of property and equipment is computed on the straight-line method based on the estimated useful lives ranging from five to seven years. Leasehold improvements are amortized over the life of the lease. Depreciation expense was $68,140 and $54,310 for the year ended December 31, 2009 and 2008, respectively.

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Gains and losses from retirement or replacement are included in other income (expense).

Income Taxes: Income tax expense is based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts.

Prior to merger, Superior is treated as a partnership for federal and state income tax purposes and doest not incur income taxes. Instead, its earnings and losses are included in the personal returns of the members and are taxed depending on their personal tax situations. The financial statements for year ended December 31, 2008 do not reflect a provision for income taxes.

As a limited liability company, each member s liability is limited to amounts reflected in their respective member accounts.

Income (Loss) Per Common Share: The Company accounts for income (loss) per share in accordance with ASC 260 (formerly SFAS No. 128), Earnings Per Share. ASC 260 requires that presentation of basic and diluted earnings per share for entities with complex capital structures. Basic earnings per share includes no dilution and is computed by dividing net income (loss) available to common stockholders by the weighted average number of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of an entity. Diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares and excludes dilutive potential common shares outstanding, as their effective is anti-dilutive. Dilutive potential common shares consist primarily of stock warrants and shares issuable under convertible preferred stocks and convertible debt.

PACIFIC ALLIANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-employees Equity Transactions: The Company accounts for equity instruments issued to non-employees in accordance with the provisions of ASC 505 (formerly SFAS No. 123R) and the Emerging Issues Task Force (EITF) Issue No. 00-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.* ASC 505 states that equity instruments that are issued in exchange for the receipt of goods or services should be measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. Under the guidance in Issue 00-18, the measurement date occurs as of the earlier of (a) the date at which a performance commitment is reached or (b) absent a performance commitment, the date at which the performance necessary to earn the equity instruments is complete (that is, the vesting date).

Fair Value Measurements: On January 1, 2008, the Company adopted the provision of ASC 820-10 (formerly SFAS No. 157), "*Fair Value Measurements,*" except as it applies to those nonfinancial assets and nonfinancial liabilities for which the effective date ahs been delayed by one year. The Company measures at fair value certain financial assets and liabilities, including its marketable securities trading

ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are described below:

?

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

?

Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

?

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The Company s financial instruments consist principally of cash and cash equivalents, accounts receivable, and accounts payable. Pursuant to the ASC 820, the fair value of the cash equivalents is determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. Management believes that the recorded values of other financial instruments approximate their current fair values because of their nature and respective relatively short maturity dates or durations.

Recent Accounting Pronouncements: In June 2009, the Financial Accounting Standards Board (FASB) issued ASC Statement No. 105, *the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (ASC 105). ASC 105 will become the single source authoritative nongovernmental U.S. generally accepted accounting principles (GAAP), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force, and related accounting literature. ASC 105 reorganized the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant SEC guidance organized using the same topical structure in

PACIFIC ALLIANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

separate sections. The Company adopted ASC 105 on July 1, 2009. The adoption of ASC 105 did not have an impact on the Company s financial position or results of operations.

PACIFIC ALLIANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In April, 2009, the FASB issued FASB ASC 810-10-65 (Prior authoritative literature: SFAS No. 164, "Not-for-Profit Entities: Mergers and Acquisitions") which governs the information that a not-for-profit entity should provide in its financial reports about a combination with one or more other not-for-profit entities, businesses or nonprofit activities and sets out the principles and requirements for how a not-for-profit entity should determine whether a combination is in fact a merger or an acquisition. This standard is effective for mergers occurring on or after Dec. 15, 2009 and for acquisitions where the acquisition date is on or after the beginning of the first annual reporting period, beginning on or after Dec. 15, 2009. This standard does not apply to the Company since the Company is considered a for-profit entity.

In May 2009, FASB issued FASB ASC 855-10 (Prior authoritative literature: SFAS No. 165, "Subsequent Events"). FASB ASC 855-10 establishes principles and requirements for the reporting of events or transactions that occur after the balance sheet date, but before financial statements are issued or are available to be issued. FASB ASC 855-10 is effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009. As such, the Company adopted these provisions at the beginning of the interim period ended June 30, 2009. Adoption of FASB ASC 855-10 did not have a material effect on our financial statements.

In June 2009, the FASB ASC 860-10 (Prior authoritative literature: issued SFAS No. 166, "Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140"), which eliminates the concept of a qualifying special-purpose entity ("QSPE"), clarifies and amends the de-recognition criteria for a transfer to be accounted for as a sale, amends and clarifies the unit of account eligible for sale accounting and requires that a transferor initially measure at fair value and recognize all assets obtained and liabilities incurred as a result of a transfer of an entire financial asset or group of financial assets accounted for as a sale. This standard is effective for fiscal years beginning after November 15, 2009. The Company is currently evaluating the potential impact of this standard on its financial statements, but does not expect it to have a material effect.

In June 2009, the FASB issued FASB ASC 810-10-65 (Prior authoritative literature: SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)") which amends the consolidation guidance applicable to a variable interest entity ("VIE"). This standard also amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is therefore required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. Previously, the standard required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. This standard is effective for fiscal years beginning after November 15, 2009, and for interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the potential impact of the adoption of this standard on its financial statements, but does not expect it to have a material effect.

PACIFIC ALLIANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In July 2009, the FASB ratified the consensus reached by EITF (Emerging Issues Task Force) issued EITF No. 09-1, (ASC Topic 470) Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance (EITF 09-1). EITF 09-1 is effective for fiscal years that beginning on or after December 15, 2009 and requires retrospective application for all arrangements outstanding as of the beginning of fiscal years beginning on or after December 15, 2009. Share-lending arrangements that have been terminated as a result of counterparty default prior to December 15, 2009, but for which the entity has not reached a final settlement as of December 15, 2009 are within the scope. Effective for share-lending arrangements entered into on or after the beginning of the first reporting period that begins on or after June 15, 2009. The Company does not expect the provisions of EITF 09-1 to have a material effect on the financial position, results of operations or cash flows of the Company.

In August 2009, the FASB issued ASU No. 2009-04, *Accounting for Redeemable Equity Instruments Amendment to Section 480-10-S99*. This ASU represents an update to Section 480-10-S99, *Distinguishing Liabilities from Equity*, per EITF Topic D-98, *Classification and Measurement of Redeemable Securities*. The adoption of ASU 2009-04 will not have a material impact on the Company's results of operations or financial position.

In September 2009, the FASB issued Accounting Standards Update ("ASU") 2009-08, *Earnings Per Share* (amendments to Section 260-10-S99). This update includes technical corrections to FASB ASC Section 260-10-S99, *Earnings Per Share,* based on EITF Topic D-53, *Computation of Earnings Per Share for a Period That Includes Redemption or an Induced Conversion of a Portion of a Class of Preferred Stock* and EITF Topic D-42, *The Effect of the Calculation of Earnings Per Share for the Redemption or Induced Conversion of Preferred Stock*. The Company does not expect the implementation of this update to have an impact on its results of operations or financial position.

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements*, which amends FASB ASC Topic 605, *Revenue Recognition*, and ASU 2009-14, *Certain Arrangements That Include Software Elements*, which amends FASB ASC Topic 985, *Software*. ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company does not expect the adoption of ASU 2009-13 or ASU 2009-14 to have a material impact on the Company's results of operations or financial position.

PACIFIC ALLIANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In December 2009, the FASB issued ASU 2009-17, *Improvements to Financial Reporting Involved with Variable Interest Entities*, which codifies SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* issued in June 2009. ASU 2009-17 requires a qualitative approach to identifying a controlling financial interest in a variable interest entity ("VIE"), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. ASU 2009-17 is effective for annual reporting periods beginning after November 15, 2009. The Company does not expect the adoption of ASU 2009-17 to have a material impact on its results of operations or financial position.

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures About Fair Value Measurements*, which requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. ASU 2010-06 is effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures which are effective for annual periods beginning after December 15, 2010. The Company does not expect the adoption of ASU 2010-06 to have a material impact on its results of operations or financial position.

NOTE 3 MERGER

Pursuant to terms of an Exchange Agreement dated June 26, 2009, amended on July 31, 2009, the Company acquired all of the outstanding membership interest of Superior from the Superior Members in exchange for 1,000,000 shares of Pacific Series A Convertible Preferred Stock (Series A Preferred Stock). Not earlier than December 1, 2009, the 1,000,000 shares of Series A Preferred Stock are convertible into 30,330,000 post-split (606,600,000 pre-split) shares of the Company s common stock. Assuming that the shares of Series A Preferred Stock had been converted into Pacific s common stock on the closing date, the Superior Members would own approximately 88.04% of the total shares of Pacific s common stock then issued and outstanding following the Closing.

The acquisition is a reverse takeover transaction whereby Superior is identified as the acquirer (accounting parent) of Pacific. The purchase price of Superior is assumed to be equal to its book value and no goodwill is recorded on the transaction. The amount ascribed to the shares issued to the Superior s members represents the net book value of Pacific at date of closing October 30, 2009.

In connection with the Exchange Agreement and pursuant to the provisions of the Company s bankruptcy plan of reorganization, the Company issued 303,300 post-split (6,066,000 pre-split) shares of its common stock to its former management.

Simultaneously to the Closing of the Merger, the Company issued a total of 5,850 post-split (117,000 pre-split) shares of its common stock to its former management for services rendered pursuant to the provisions of the Company s bankruptcy plan of reorganization.

Simultaneously to the Closing of the Merger, the Company issued a total of 100,000 post-split (2,000,000 pre-split) shares of its common stock for a payable of $200,000.

PACIFIC ALLIANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 MERGER (CONTINUED)

Simultaneously to the Closing of the Merger, the Company agreed to issue a total of 25,000 post-split (500,000 pre-split) shares of its common stock for a payable of $25,000. The shares were issued in 2010.

Simultaneously to the Closing of the Merger, the Company converted $179,183 principal of notes and accrued interest into 234,305 post-split (4,686,092 pre-split) shares of the Company s common stock.

Details of the net liabilities assumed from Pacific at book value at the closing date are as follows:

Supplemental Information for Pacific Alliance Corporation:

Summary Balance Sheets

PACIFIC ALLIANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 MERGER (CONTINUED)

Stockholders' Deficit

Summary Statements of Operations

PACIFIC ALLIANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

PACIFIC ALLIANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 TAX LIABILITIES

The company has various tax liabilities. These liabilities have been indemnified by a prior officer and director of the company. The company has recorded the full amount of these potential liabilities.

NOTE 6 NOTES PAYABLE TO RELATED PARTIES

As of December 31, 2009, the Company had a note payable of $167,600 to the spouse of the Company s CEO. The note bears interest at 8% per annum and due on demand.

During 2009, the Company received $250,000 from issuing a note payable to an affiliate of Pacific s former president and current secretary. The note is unsecured, due in three months from the date of the note, and bears interest at 8% per annum. The note was repaid in October 2009. In consideration of the note payable, the Company also issued a warrant to purchase 25,000 post-split (500,000 pre-split) shares of the Company s common stock. The warrant is exercisable at $1.00 post-split ($0.05 pre-split) per share and expires on June 30, 2014.

NOTE 7 NOTES PAYABLE TO OTHERS

During 2009, the Company received $260,000 from other notes payable. The notes are unsecured, due in one year from the date of the note agreement and bear interest at 8% per annum. On November 17, 2009, notes payable to others amounted to $543,390, including accrued interest of $33,490, was converted into shares of the Company s common stock.

As of December 31, 2008, the balance of the notes payable to others was $250,000, and classified as long-term.

PACIFIC ALLIANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 SUBSCRIPTION RECEIVABLE

On November 1, 2007, Superior agreed to issue 1,250,000 membership units of Superior (approximately 4% of total membership units) to a service provider for a subscription receivable of $1,250,000. The consideration for the units shall be payable in kind by and through the freight services provided by the provider. As of December 31, 2009 and December 31, 2008, the balance of the subscription receivable was $885,761 and $1,155,532, respectively. The Company is planning to acquire the service provider see note 17.

On December 6, 2007, the Company agreed to issue 1,100,000 membership units of the Company (approximately 3.6% of total membership units) for a note receivable of $250,000. The note carries interest at 8% and due on December 5, 2011.

NOTE 9 STOCKHOLDERS EQUITY

<u>Reverse Stock Split</u>

Effective December 23, 2009, the Company filed a Certificate of Amendment to the Company s Restated Certificate of Incorporation which effected a reverse stock split of the Company s common stock at a reverse split ratio of one share fo