FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-24**
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FILER

CLARE INC

CIK:**945123**| IRS No.: **042561471** | State of Incorp.:**MA** | Fiscal Year End: **0331**
Type: **10-Q** | Act: **34** | File No.: **000-26092** | Film No.: **1697614**
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 24, 2001

OR

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

Commission file no. 0-26092

CLARE INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MASSACHUSETTS	04-2561471
(State or other jurisdiction of incorporation or organization)	(IRS employer identification number)

78 CHERRY HILL DRIVE
BEVERLY, MASSACHUSETTS 01915
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

Registrant's telephone number, including area code: (978) 524-6700

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.

As of July 31, 2001, there were 9,819,490 shares of Common Stock, $.01 par value per share, outstanding.

CLARE INC.

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<TABLE>
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CLARE INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

<TABLE>
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<S>	JUNE 24, 2001 <C>	MARCH 31, 2001 <C>
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of $2,250 (Note 4)	$ 20,599	$ 22,968
Accounts receivable, less allowance for doubtful accounts	7,724	8,791
Inventories (Note 5)	14,492	14,915
Other current assets	1,758	1,796
Deferred income taxes	2,733	2,733
Total current assets	47,306	51,203
Property, plant and equipment, net	23,540	25,006
Acquired other intangible assets, net of accumulated amortization of $2,118 and $1,882, respectively (Note 10)	1,994	2,230
Goodwill, net of accumulated amortization of $3,610, respectively (Note 11)	6,697	6,697
Other assets	885	884
	$ 80,422	$ 86,020
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	$ 104	$ 153
Accounts payable	5,183	6,528
Accrued liabilities	3,198	4,236
Deferred Revenue	3,081	2,011
Total current liabilities	11,566	12,928
Capital lease obligations, net of current portion	39	42
Total liabilities	11,605	12,970
Stockholders' equity:		
Preferred stock, $ .01 par value- Authorized: 2,500,000 shares Issued and outstanding: None	--	--
Common stock, $ .01 par value- Authorized: 40,000,000 shares Issued 9,780,417 shares and 9,775,467 shares,		

respectively	98	98
Additional paid-in capital	97,356	97,341
Accumulated deficit	(27,867)	(23,619)
Treasury Stock, 30,000 shares, at cost	(165)	(165)
Accumulated other comprehensive loss	(605)	(605)
Total stockholders' equity	68,817	73,050
	$ 80,422	$ 86,020

</TABLE>

The accompanying notes are an integral part of the Consolidated Condensed Financial Statements.

CLARE INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED	
	JUNE 24, 2001	JUNE 25, 2000
<S>	<C>	<C>
Net sales	$ 15,278	$ 21,470
Cost of sales	13,204	14,559
Gross profit	2,074	6,911
Operating expenses:		
Selling, general and administrative	4,096	6,131
Research and development	2,375	3,044
Operating loss	(4,397)	(2,264)
Interest income	239	584
Interest expense	(10)	(40)
Other expense, net	(71)	(225)
Net Loss	$ (4,239)	$ (1,945)
Basic and diluted net loss per common and common share equivalent (Note 3)	$ (0.43)	$ (0.20)
Basic and diluted weighted average common and common share equivalent (Note 3)	9,779,275	9,594,361

</TABLE>

The accompanying notes are an integral part of the Consolidated Condensed Financial Statements.

CLARE INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

<TABLE>
<CAPTION>

	FOR THE THREE MONTHS ENDED	
	JUNE 24, 2001	JUNE 25, 2000

<S> <C> <C>

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (4,239)	$ (1,945)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,977	1,854
Compensation expense associated with stock options	15	--
Changes in assets and liabilities:		
Accounts receivable	1,067	413
Inventories	423	(2,757)
Other current assets	38	254
Other assets	(4)	(149)
Accounts payable	(1,345)	276
Accrued expenses	(1,038)	(873)
Deferred revenue	1,070	(99)
Net cash used in operating activities	(2,036)	(3,026)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment, net	(281)	(1,818)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of options	--	27
Payments of principal on long-term debt	(52)	(36)
Net cash used in financing activities	(52)	(9)
EFFECT OF EXCHANGE RATES ON CASH, CASH EQUIVALENTS AND INVESTMENTS	--	42
NET DECREASE IN CASH, CASH EQUIVALENTS AND INVESTMENTS	(2,369)	(4,811)
Cash and cash equivalents, beginning of period	22,968	37,267
Cash and cash equivalents, end of period	$ 20,599	$ 32,456
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 6	$ 59
Income taxes, net of refunds	$ (20)	$ 21

</TABLE>

The accompanying notes are an integral part of the Consolidated Condensed Financial Statements.

CLARE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
JUNE 24, 2001
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

1. FISCAL PERIODS

The Company's fiscal year is comprised of either 52 or 53 weeks and ends on the Sunday closest to March 31. Interim quarters are comprised of 13 weeks unless otherwise noted, and end on the Sunday closest to June 30, September 30 and December 31.

2. INTERIM FINANCIAL STATEMENTS

The unaudited interim consolidated condensed financial statements presented herein have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q and Regulation S-X pertaining to interim financial statements. Accordingly, these interim financial statements do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. The financial statements reflect all normal, recurring adjustments and accruals that management considers necessary for a fair presentation of the Company's financial position as of June 24, 2001, and results of operations for the three months ended June 24, 2001 and June 25, 2000. The results for the interim periods presented are not necessarily indicative of results to be expected for any future period. These financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2001 as filed with the Securities and Exchange Commission.

3. LOSS PER SHARE

Options to purchase 2,412,372 and 2,242,733 shares of common stock for the three months ended June 24, 2001 and June 25, 2000, respectively, were not included in calculating dilutive net loss per share because the effect would be anti-dilutive.

4. CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investment instruments with maturities of nine months or less to be cash equivalents. Cash equivalents and investments consisted of money market accounts and overnight demand notes at June 24, 2001 and March 31, 2001.

5. INVENTORIES

Inventories include materials, labor and manufacturing overhead, and are stated at the lower of cost (first-in, first-out) or market and consist of the following at June 24, 2001 and March 31, 2001:

<TABLE>
<CAPTION>

<S>	JUNE 24, 2001 <C>	MARCH 31, 2001 <C>
Raw Material...	$ 5,925	$ 5,618
Work in process..	5,936	6,205
Finished goods...	2,631	3,092
	-------	-------
	$14,492	$14,915
	=======	=======

</TABLE>

6. ACCRUED EXPENSES

Accrued expenses consist of the following at June 24, 2001 and March 31, 2001:

<TABLE>
<CAPTION>

<S>	JUNE 24, 2001 <C>	MARCH 31, 2001 <C>
Payroll and benefits...................................	$ 1,685	$ 1,566
Restructuring (Note 8).................................	233	580
Environmental remediation	365	450
Other..	915	1,640
	-------	-------
	$ 3,198	$ 4,236
	=======	=======

</TABLE>

7. CREDIT FACILITY

The Company has a $10.0 million committed revolving credit facility (the "Credit Facility") expiring December 31, 2001. Interest on 30-day loans is based on either LIBOR plus a spread ranging from 0.50% to 1.50%, based on Company performance or the higher of the latest Federal Funds rate plus 0.50% or the bank's reference rate. The Company must be 110% cash collateralized under the credit facility.

There have been no borrowings since the inception of the Credit Facility in March 1999. However, as of June 24, 2001 and March 31, 2001, the Company has $2,045 of letters of credit outstanding under the credit facility in connection with certain leases which are collateralized by $2,250 cash on deposit at the bank as of June 24, 2001 and March 31, 2001. The letters of credit expire on December 31, 2001 and will automatically renew annually at the discretion of the lessor. The cash collateral is included in restricted cash in the accompanying balance sheets. The Credit Facility also contains certain non-financial covenants. The Company was in compliance with all covenants as of June 24, 2001.

8. RESTRUCTURING COSTS

In March 2001, the Company implemented a restructuring plan to better align its organization with its corporate strategy and recorded a restructuring charge of $723 in accordance with Emerging Issues Task Force Issue ("EITF") 94-3 and SEC Staff Accounting Bulletin 100. The restructuring charge included severance-related costs associated with a workforce reduction of approximately 20 persons across the following functions: manufacturing (15), general and administrative (1), research and development (4). At June 24, 2001, approximately $233 of the restructuring had not been paid. The total cash impact of the restructuring was approximately $723, all of which will be paid by the end of the fourth quarter of fiscal 2002.

9. NEW ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations". SFAS No. 141 supercedes APB No. 16 "Business Combinations" and FASB Statement No. 38 "Accounting for Preacquisition Contingencies of Purchased Enterprises". SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Accordingly, the Company will be adopting the provisions of this statement upon any business combination entered into after June 30, 2001.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets". This statement applies to goodwill and intangible assets acquired after June 30, 2001, as well as goodwill and intangible assets previously acquired. Under this statement goodwill as well as certain other intangible assets, determined to have an infinite life, will no longer be amortized. These assets will be reviewed for impairment on a periodic basis. Early adoption of this statement is permitted for non-calendar year-end companies whereby the entity's fiscal year begins after March 15, 2001 and its first interim period financial statements have not been issued. Pursuant to this statement, the Company elected to adopt the provisions as of 2001, the beginning of the Company's 2002 fiscal year. The goodwill associated with the Clare-Micronix acquisition is no longer subject to amortization over its estimated useful life. Such goodwill will be subject to an annual assessment for impairment by applying a fair-value-based test.

SFAS No. 142 supercedes Accounting Principles Board Opinion No. 17 ("APB 17"), "Intangible Assets". As such, this statement establishes the accounting and reporting for acquired goodwill and other intangible assets, (other than those acquired in a business combination), both initially upon acquisition and with respect to ongoing reporting requirements. Further, the statement requires that all reporting be done at the level of each reporting unit.

This standard was adapted as a change in accounting principle and was not applied retroactively to the financial statements of prior periods. See Notes 10 and 11 for additional disclosure information required by SFAS No. 142.

10. ACQUIRED OTHER INTANGIBLE ASSETS

<TABLE>
<CAPTION>

	AS OF JUNE 24, 2001	
($000s)	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
<S>	<C>	<C>
Amortized intangible assets		
Existing Technology-Clare Micronix	$2,456	$(1,842)
Purchased Technology-Teltone	1,656	(276)
Total	$4,112	$(2,118)

</TABLE>

<TABLE>

<CAPTION>

($000s)	AS OF MARCH 31, 2001 GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
<S>	<C>	<C>
Amortized intangible assets		
Existing Technology-Clare Micronix	$2,456	$(1,689)
Purchased Technology-Teltone	1,656	(193)
Total	$4,112	$(1,882)

</TABLE>

Aggregate amortization expense for amortized other intangible assets for the three months ended June 24, 2001 and June 25, 2000 is approximately $237. Additionally, future amortization expense on other intangible assets for each of the succeeding five fiscal years is approximated to be $3,324.

11. GOODWILL

The carrying amount of the Company's goodwill related to Clare-Micronix is $6,697 as of June 24, 2001 and March 31, 2001, respectively. Pursuant to SFAS 142, the Company is in the process of performing an annual assessment of impairment on the goodwill by applying a fair-value based test to be completed by September 30, 2001.

The pro forma effect on prior year earnings of excluding amortization expense, net of tax, is as follows:

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 25, 2000
<S>	<C>
Reported net loss	$(1,945)
Add back: Goodwill amortization	319
Net loss	$(1,626)
Basic and diluted loss per common share	
Reported net loss	$ (.20)
Add back: Goodwill amortization	.03
Net loss	$ (.17)

</TABLE>

With the adoption of SFAS 141, there were no changes to amortization expense on acquired other intangible assets.

12. COMPREHENSIVE LOSS

The components of the Company's comprehensive loss are as follows:

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 24, 2001	THREE MONTHS ENDED JUNE 25, 2000
<S>	<C>	<C>
Net loss................................	$(4,239)	$(1,945)
Foreign currency translation adjustments, Net of taxes............................	--	40
Comprehensive loss......................	$(4,239)	$(1,905)

========   ========

</TABLE>

13. FINANCIAL INFORMATION BY SEGMENT

Reportable operating segments are Solid State Relays, Integrated Circuits and Reed Switches.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on gross profit. Revenues are attributed to geographic areas based on where the customer is located. The Company does not measure transfers of sales between Company segments. Segment information for the quarters ended June 24, 2001 and June 25, 2000 is as follows.

	SOLID STATE RELAYS	INTEGRATED CIRCUITS	REED SWITCHES	CORPORATE	TOTAL
THREE MONTHS ENDED - JUNE 24, 2001					
Net product sales from external customers.	$7,895	$5,009	$2,374	$ --	$15,278
Gross Profit............................	(223)	2,808	(511)	--	2,074
Depreciation and amortization............	1,207	440	330	--	1,977
Interest income..........................	--	--	--	239	239
Interest expense.........................	--	--	--	10	10
Property, plant and equipment............	16,227	2,791	4,522	--	23,540
THREE MONTHS ENDED - JUNE 25, 2000					
Net product sales from external customers.	$12,425	$3,775	$5,270	$ --	$21,470
Gross Profit............................	3,791	2,129	991	--	6,911
Depreciation and amortization............	1,098	506	250	--	1,854
Interest income..........................	--	--	--	584	584
Interest expense.........................	--	--	--	40	40
Property, plant and equipment............	15,833	7,294	3,603	--	26,730

Interest income and expense are considered corporate level activities and are therefore, not allocated to segments. Management believes transfers between geographic areas are accounted for on an arms' length basis.

Long-lived tangible assets by geographic area were as follows:

GEOGRAPHIC AREA	JUNE 24, 2001	MARCH 31, 2001
United States..	$23,443	$24,896
Belgium..	87	104
Taiwan...	10	6
	$23,540	$25,006

Revenues by geographic area for the three months ended June 24, 2001 and June 25, 2000 were as follows:

GEOGRAPHIC AREA	THREE MONTHS ENDED JUNE 24, 2001	THREE MONTHS ENDED JUNE 25, 2000
United States............................	$8,106	$9,774
Malaysia.................................	2,125	1,404
Taiwan...................................	730	1,000
Germany..................................	547	1,221
France...................................	520	1,012
United Kingdom...........................	467	1,183
Other....................................	2,783	5,876

	$15,278	$21,470

</TABLE>

14. SALE OF REED SWITCH BUSINESS

On July 26, 2001, the Company entered into a definitive agreement with Sumida REMtech Corporation, a subsidiary of Sumida Corporation of Japan, to sell all of the assets of its reed switch business for $8 million in cash. The closing is anticipated by mid-August and is subject to customary closing conditions. The Company does not anticipate recording any significant gain or loss in connection with the sale of its reed switch business.

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

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference are discussed in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2001, as filed with the Securities and Exchange Commission. See "Trends and Uncertainties" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

RESULTS OF OPERATIONS

The following table sets forth the relative percentage that certain income and expense items bear to net sales for the periods indicated:

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 24, 2001	THREE MONTHS ENDED JUNE 25, 2000
<S>	<C>	<C>
Net sales	100.0%	100.0%
Cost of sales	86.4	67.8
Gross profit	13.6	32.2
Operating expenses:		
Selling, general and administrative	26.8	28.6
Research and development	15.5	14.2
Operating loss	(28.7)	(10.6)
Interest income	1.6	2.7
Interest expense	(0.1)	(0.2)
Other expense, net	(0.5)	(1.0)
Net loss	(27.7)%	(9.1)%

</TABLE>

Net Sales. In the first quarter of fiscal 2002 revenues totaled $15.3 million compared with $21.5 million for the same period in fiscal 2001. This decrease was accounted for by significantly lower sales of solid state relays and reed switches offset, in part, by higher shipments of application specific integrated circuits at Clare Micronix.

Net sales by major product category were as follows:

<TABLE>
<CAPTION>

THREE MONTHS ENDED JUNE 24, 2001	THREE MONTHS ENDED JUNE 25, 2000

(IN MILLIONS)		
<S>	<C>	<C>
Solid State Relays.........................	$ 7.9	$ 12.4
Integrated Circuits........................	5.0	3.8
Reed Switches	2.4	5.3

</TABLE>

Solid state relays provide isolation and switching of signals and voltages. The primary application for the Company's relays is modems. Integrated circuits are used in a wide variety of both applications and markets. Principal applications for reed switches includes reed relays and cellular phones.

Net sales to customers located outside of the United States totaled $7.2 million in the first quarter of fiscal 2002 and $9.8 million in the first quarter of fiscal 2001. Net sales to customers in Asia and Europe represented 24% and 20%, respectively, of the Company's total net sales for the first quarter of fiscal 2002, and 21% and 30%, respectively for the first quarter of fiscal 2001.

Due to the inherent uncertainty of foreign exchange markets, the Company monitors its currency exposure and international economic developments and takes actions to reduce risk from foreign currency fluctuations. The Company will continue to focus on new markets and expansion of existing international markets.

Gross Profit. The Company's gross profit as a percentage of net sales decreased to 13.6% in the first quarter of fiscal 2002 from 32.2% in the same period of fiscal 2001. This decrease was principally the result of under absorption of overhead expenses associated with the under utilization of both the Beverly semiconductor fabrication facility and the reed switch factory in St. Louis.

Selling, General and Administrative Expense. Selling, general and administrative expenses decreased $2.0 million or 33% to $4.1 million in the first quarter of fiscal 2002 from $6.1 million in the same period in the prior fiscal year. The decrease was largely the result of lower employment, lower third party commissions, and lower spending for outside services. In addition, the Company adopted Statement of Financial Accounting Standard No. 142, Goodwill and Other Intangible Assets, and, as a result, ceased amortizing goodwill associated with the acquisition of Clare Micronix. This reduced expenses by $0.3 million in the first quarter of fiscal 2002.

Research and Development Expense. Research and development expense totaled $2.4 million for the first quarter of fiscal 2002, down $0.7 million, or 22%, from the same period in fiscal 2001, largely as the result of higher customer funding of non recurring engineering expense.

Interest Income. Interest income decreased by $0.3 million for the first quarter of fiscal 2002 from the same period in fiscal 2001 due to significantly lower average cash and investment balances.

Other (Expense) Income. In the first quarters of both fiscal 2002 and 2001, other (expense) income consists principally of net foreign currency transactional gains and losses.

Income Taxes. In the first quarter of both fiscal 2002 and fiscal 2001, the Company did not record a tax benefit for pre-tax losses because of the uncertainty that any tax benefit would be ultimately realizable.

TRENDS AND UNCERTAINTIES

Competition. Clare competes with various global companies. Certain competitors of the Company have greater manufacturing, engineering, or financial resources.

Customer Concentration. In the first quarter of fiscal 2002, the Company's ten largest customers accounted for 34% of total net sales. The Company is highly reliant upon continued revenues from its largest customers and any material delay, cancellation or reduction of orders from these customers could have a material adverse effect on the Company's future results.

Development of New Products. Technological change and new product introductions characterize the markets for the Company's products. In particular, the Company is dependent on the communications industry, which is characterized by intense competition and rapid technological change. The Company expects sales to the communications industry to continue to represent a significant portion of its sales for the foreseeable future. A decline in demand for communications related equipment such as facsimile machines, modems and cellular telephones would cause a significant decline in demand for the Company's products. The Company has invested heavily over the past several years in the capital expenditures necessary to develop new products. Slower than expected acceptance of new products will adversely affect the Company's operating results. To remain competitive, the Company must continue to develop new process and manufacturing capabilities to meet customer needs and introduce new products that reduce size and increase functionality and performance.

Fluctuations in Operating Results. The Company has experienced fluctuation in its operating results in the past and its operating results may fluctuate in the future. In addition, based on the recent capital expansions, the Company has increased its operational fixed costs.

Full Utilization of the Wafer Fabrication Facility. The Company operates a semiconductor facility in Beverly, Massachusetts. To date, lower demand in semiconductor products has not allowed the Company to fully utilize the facility and has contributed to a decline in the Company's overall gross margin rate. This facility must be effectively and fully utilized in order for the Company's projected efficiencies to be fully realized. The continuing lack of effective utilization could have a material, adverse effect on the Company's future operating results.

International Operations. The Company's international operations are subject to several risks including, but not limited to, fluctuations in the value of foreign currencies, changes to import and export duties or regulations, and difficulty in collecting accounts receivable. While, to date, these factors have not had a material effect on the Company's results, there can be no assurance that there will not be such an impact in the future.

Liquidity. The Company's cash balance was $20.6 million at the end of first three months of fiscal 2002. The Company believes that this cash, the availability of operating leases for capital additions, cash available through a $10.0 million committed revolving credit facility, and proceeds from the sale of the Company's reed switch business should be adequate to cover its needs for the balance of this fiscal year. If the Company is unable to access adequate sources of capital this could have a material adverse effect on the Company's results.

Markets. The Company continues to evaluate its operations and product offerings in order to invest in or potentially divest of certain business or market opportunities.

Reliance on Key Suppliers. The Company relies on certain suppliers of raw materials and services for sole source supply of critical items. There can be no assurance that in the future the Company's suppliers will be able to meet the Company's demand needs effectively and on a timely basis. Also, the suppliers could experience their own business disruption which could have a material adverse effect on future results.

LIQUIDITY AND CAPITAL RESOURCES

During the three months ended June 24, 2001, the Company's cash, cash equivalents and investments decreased by $2.4 million. Operations used $2.0 million of cash during this period, including $4.2 million in net losses offset, partly, by $2.0 million in non-cash depreciation and amortization expense. Capital expenditures during the quarter totaled $0.3 million.

The Company maintains a $10.0 million committed revolving credit facility ("credit facility"). No borrowings have been made against this credit facility, however, the credit facility has been used to obtain letters of credit totaling $2.0 million as security for future operating lease payments.

The Company is exposed to currency exchange rate fluctuations as they pertain to its operations in Europe. The exchange rate between the U.S. dollar and Euro has fluctuated since the inception of the Euro on January 1, 1999. The Company attempts to minimize exchange risk by converting the Euro funds to U.S. dollars as often as practicable.

The Company believes that cash, cash equivalents, and investments; amounts available under its credit agreement and operating lease facilities; and the proceeds from the sale of the Company's reed switch business will be sufficient to satisfy its working capital needs and planned capital expenditures for the balance of this fiscal year. However, there can be no assurance that events in the future will not require the Company to seek additional capital sooner or, if so required, that adequate capital will be available on terms acceptable to the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's primary market risk exposures are in the areas of interest rate risk and foreign currency exchange rate risk. The Company's primary interest rate risk would be related to borrowings under its revolving credit agreement. The interest rate on those borrowings fluctuates with changes in short-term borrowing rates. There were no borrowings from the credit facility during the year.

The Company is also exposed to currency exchange rate fluctuations as they pertain to its operations in Europe. Operations in Europe were denominated in Belgium Francs through March 31, 1999. The Company hedged its currency exposure by entering into forward exchange contracts. The Company has denominated its Europe operations in Euro, effective April 1, 1999. The exchange rate between the U.S. dollar and Euro has fluctuated since the inception of the Euro on January 1, 1999. The Company has not engaged in currency hedging activities since April 1, 1999 and attempts to minimize exchange risk by converting Euro funds to U.S. dollars as often as practicable.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject to routine litigation incident to the conduct of its business. None of such proceedings is considered material to the business or the financial condition of the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

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.

C.P. CLARE CORPORATION

By: /s/ Harry Andersen

Harry Andersen
SENIOR VICE PRESIDENT AND CHIEF
FINANCIAL OFFICER

Date: August 3, 2001