

INVIVO CORP  
Form 10-Q  
February 13, 2001

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U.S. Securities And Exchange Commission  
Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2000

OR

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

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

COMMISSION FILE NUMBER 0-15963

INVIVO CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction  
Of incorporation)

77-0115161  
(IRS Employer Identification No.)

4900 HOPYARD RD. SUITE 210, PLEASANTON, CALIFORNIA 94588  
(Address of principal executive offices) (Zip Code)

TELEPHONE: (925) 468-7600  
(Registrant's telephone number)

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

The number of shares outstanding of the issuer's Common Stock, par value \$.01 per share, at December 31, 2000 was 4,393,249 shares.

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PART I. FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS

INVIVO CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	DECEMBER 31, 2000	JUNE 30, 2000
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 460,300	969,800
Short term investments	7,369,100	6,817,600
Trade receivables, net	14,527,100	14,656,600
Inventories	10,443,900	10,132,000
Deferred income taxes	1,081,000	1,343,000
Prepaid expenses and other current assets	637,500	407,200
	-----	-----
Total current assets	34,518,900	34,326,200
Property and equipment, net	6,087,200	6,139,600
Intangible assets	8,301,500	8,439,700
Other assets	553,900	570,500
	-----	-----
	\$ 49,461,500	49,476,000
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,954,000	2,725,600
Accrued expenses	2,540,200	3,381,100
Current portion of long-term debt and bank borrowings	142,700	142,700
Income taxes payable	1,192,200	1,347,200
	-----	-----
Total current liabilities	5,829,100	7,596,600
Long-term debt, excluding current portion	1,315,700	1,392,900
Deferred income taxes	123,000	118,000
Other liabilities	52,000	52,000
	-----	-----
Total liabilities	7,319,800	9,159,500
	-----	-----
Stockholders' equity:		
Common stock	43,900	43,600
Additional paid-in capital	26,335,500	26,257,300
Retained earnings	15,767,100	14,041,800
Accumulated other comprehensive loss	(4,800)	(26,200)
	-----	-----
Total stockholders' equity	42,141,700	40,316,500

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Commitments and contingencies	-----	-----
	\$ 49,461,500	49,476,000
	=====	=====

See accompanying notes to consolidated financial statements.

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INVIVO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS EN DECEMBER 3
	2000	1999	2000
	-----	-----	-----
Sales	\$ 13,034,000	13,027,700	25,707,300
Cost of goods sold	6,702,100	6,851,200	13,123,500
	-----	-----	-----
Gross profit	6,331,900	6,176,500	12,583,800
	-----	-----	-----
Operating expenses:			
Selling, general and administrative	4,335,800	3,763,700	8,607,600
Research and experimental	719,800	638,700	1,492,500
	-----	-----	-----
Total operating expenses	5,055,600	4,402,400	10,100,100
	-----	-----	-----
Income from operations	1,276,300	1,774,100	2,483,700
	-----	-----	-----
Other income (expense):			
Interest income	99,100	95,900	214,500
Interest expense	(31,100)	(33,300)	(64,200)
Other, net	-	(1,200)	-
	-----	-----	-----
Income before income taxes	1,344,300	1,835,500	2,634,000
	-----	-----	-----
Income tax expense	463,800	624,200	908,700
	-----	-----	-----
Net income	\$ 880,500	\$ 1,211,300	1,725,300
	=====	=====	=====
Basic net income per common share	\$ .20	\$ .28	.39

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Weighted average common Shares outstanding (basic)	4,393,249	4,309,084	4,387,229
Diluted net income per common Share	\$ .20	\$ .27	.38
Weighted average common Shares outstanding (diluted)	4,473,133	4,500,029	4,481,909

See accompanying notes to consolidated financial statements.

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INVIVO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

SIX MONTHS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,725,300	2,369,500
Adjustments to reconcile net income to Cash provided by operating activities:		
Depreciation and amortization	781,300	647,100
Deferred Income Taxes	267,000	
Change in operating assets and liabilities:		
Trade receivables	129,500	(2,463,100)
Inventories	(141,400)	(993,000)
Prepaid expenses and other current assets	(230,300)	(165,900)
Accrued expenses	(840,900)	(1,014,900)
Accounts payable	(771,600)	692,900
Income taxes payable	(155,000)	303,100
	-----	-----
Net cash provided by (used in) operating activities	763,900	(624,300)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Purchase) sale of short-term investments	(530,100)	1,852,000
Capital expenditures	(761,200)	(1,281,300)
Other assets	16,600	(11,900)
	-----	-----
Net cash (used in) provided by investing activities	(1,274,700)	558,800
	-----	-----

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### CASH FLOWS FROM FINANCING ACTIVITIES:

Net proceeds from issuance of common stock	78,500	179,700
Bank borrowings, net	-	41,500
Principal payments under long-term debt and other liabilities	(77,200)	(24,900)
	-----	-----
Net cash provided by financing activities	1,300	196,300
	-----	-----
Net (decrease) increase in cash and cash equivalents	(509,500)	130,800
Cash and cash equivalents at beginning of period	969,800	207,800
	-----	-----
Cash and cash equivalents at end of period	\$ 460,300	\$ 338,600
	=====	=====

### Supplemental disclosures of cash flow information:

Cash paid during the period for:

Income taxes	\$ 793,600	1,035,700
	=====	=====
Interest	\$ 64,200	64,600
	=====	=====

See accompanying notes to consolidated financial statements.

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## INVIVO CORPORATION

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

#### 1. GENERAL

The unaudited consolidated financial statements reflect, in the opinion of management, all adjustments necessary to present fairly the financial position and results of operations as of the end of and for the periods indicated. Interim results are not necessarily indicative of results for a full year.

The financial statements and notes are presented as permitted by Form 10-Q, and do not contain certain information included in the Company's annual consolidated financial statements and notes.

#### 2. SEGMENT INFORMATION

The method for determining what information to report is based on the way that management organizes the operating segments within the Company for making operating decisions and assessing financial performance. The Company's chief operating decision-maker is considered to be the Chief Executive Officer (CEO). The CEO reviews financial information presented on a consolidated basis accompanied by information by business segment. The Company operates in two business segments: (i) patient safety monitoring, which designs, manufactures, and markets monitoring systems that measure and display vital signs of patients in medical settings; and (ii) safety and industrial instrumentation, which is

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engaged in the design, manufacture, and marketing of sensor-based instruments for safety and industrial process control applications. These segments are managed separately because of different customers and products which require different business strategies. The Company evaluates the operating performance of its segments based on net sales and income from operations.

Summarized financial information concerning the Company's business segments is shown in the following table. The "Corporate" column includes general and administrative and corporate-related expenses not allocated to reportable segments (in thousands).

	PATIENT SAFETY MONITORING -----	SAFETY AND INDUSTRIAL INSTRUMENTATION -----	CORPORATE -----
For the three months ended			
December 31, 2000			
Net sales .....	\$ 8,446	4,588	--
Income from operations .....	1,045	578	(347)
Depreciation and amortization .....	275	94	13
For the three months ended			
December 31, 1999			
Net sales .....	\$ 8,097	4,931	--
Income from operations .....	1,241	802	(269)
Depreciation and amortization .....	173	75	13
For the six months ended			
December 31, 2000			
Net sales .....	\$ 16,464	9,243	--
Income from operations .....	1,968	1,194	(678)
Depreciation and amortization .....	527	228	26
Total assets at December 31, 2000 .....	28,746	11,339	9,377

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For the six months ended			
December 31, 1999			
Net sales .....	\$ 16,051	9,840	--
Income from operations .....	2,473	1,665	(690)
Depreciation and amortization .....	336	148	22
Total assets at December 31, 1999 .....	28,110	10,542	8,767

### 3. DEBT AND BANK BORROWINGS

The Company's bank line of credit of \$1,000,000 was renewed at the same terms on December 1, 2000 and expires on December 1, 2001. The Company's revolving bank line of credit is collateralized by the Company's accounts receivable, inventory, and equipment. At December 31, 2000, \$1,000,000 was

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available under the line of credit.

### 4. COMPREHENSIVE INCOME

The components of comprehensive income, net of tax, are as follows:

	Three Months Ended		Six Months Ended	
	Dec. 31, 2000	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 1999
Net Income	880,500	1,211,300	1,725,300	2,369,500
Change in unrealized gain (loss) on Short Term Investments	5,500	232,500	12,500	230,700
Comprehensive income	886,000	1,443,800	1,737,800	2,600,200

5. ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (as amended by SFAS No. 137), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company adopted SFAS No. 133 on July 1, 2000. As the Company does not currently have any derivative instruments for hedging activities, SFAS No. 133 does not have an impact on its current consolidated financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS

THREE AND SIX MONTH PERIODS ENDED DECEMBER 31, 2000 AND 1999

#### Sales

Sales of \$13,034,000 for the second quarter ended December 31, 2000 were essentially flat as compared to sales of \$13,027,700 for the second quarter ended December 31, 1999. Sales for the six months ended December 31, 2000 decreased 0.7% to \$25,707,300 compared with \$25,891,500 for the comparable period last year. Sales at the Company's patient safety monitoring business increased 4.3% in the second quarter as compared to year earlier sales. Continued growth in sales of the Company's MRI vital signs monitor offset a decrease in "Millennia" product sales as the general monitoring market continued to experience slowing market conditions. The sales increase at the patient safety monitoring business for the second quarter of fiscal 2001 was offset by a sales decline at the Company's safety and industrial instrumentation segment as the Company's non-contact infrared temperature products continued to experience competitive pricing pressures and difficult market conditions. The Company's pressure sensing devices and oxygen monitoring products also experienced sales declines. An increase in sales at the Company's gas detection product line partially offset the other sales declines. For the six months ended December 31, 2000, the sales increase at the patient safety monitoring business in the second quarter was not enough to offset the sales decline in the industrial instrumentation segment.

#### Gross Profit

The gross profit margin increased for the three and six month periods ended December 31, 2000 to 48.6% and 49.0% from 47.4% and 48.8%, respectively, from the previous fiscal periods. The increase was attributable to an increase in patient safety monitoring business as a percentage of total revenue, the effect of which offset the deteriorating gross margins of the non-contact infrared industrial products due to heavy price discounting and the impact of decreased sales at the other safety and industrial instrumentation product lines relative to fixed cost of sale components.

#### Operating Expenses

Selling, general and administrative expenses for the three and six month periods ended December 31, 2000 increased 15.2% or \$572,100 and 10.7% or \$832,500, respectively, from the previous fiscal periods. Selling, general and administrative expenses were 33.3% and 33.5% of sales for the three and six month periods ended December 31, 2000 compared with 28.9% and 30.0%, respectively, for the comparable periods in fiscal 2000. The increase in these expenditures in aggregate and as a percentage of sales for the three and six month periods ended December 31, 2000 was due to higher administrative and selling expenses at the Company's patient safety monitoring business. The increase in selling, general and administrative expenses at the patient safety monitoring business was in anticipation of higher sales volume for the three and six month periods than was actually achieved. The increase in selling expenses was also due to higher international selling expenses as the Company established a U.K. subsidiary in the first quarter of fiscal 2001.

Research and experimental expenses were 5.5% and 5.8% of sales for the three and six month periods ended December 31, 2000 compared to 4.9% and 5.5% for the comparable periods in fiscal 2000. The increase in the second quarter as compared to the prior year period was due to a portion of the expenditures related to equipment for the production of the Company's proprietary anesthetic agent module for the "Millennia" being capitalized in the second quarter of fiscal 2000. The Company plans to continue its efforts in developing new products and enhancing its existing ones and expects future aggregate research and experimental expenditures to be consistent with the second quarter of fiscal 2001 levels.

#### Other Income and Expense

Interest income was \$99,100 for the second quarter of fiscal 2001 as compared to \$95,900 for the prior year period. The increase was largely due to the higher interest rates earned on the Company's short-term investments. Interest expense remained stable at \$31,100 in the second quarter of fiscal 2001.

#### Provision for Income Taxes

The effective tax rate for the first quarter of fiscal 2001 was 34.5% as compared to 34.0% for the prior year period.

#### LIQUIDITY AND CAPITAL RESOURCES

Working capital at December 31, 2000 increased to \$28,689,800 from \$26,729,600 at June 30, 2000. Net cash provided by operating activities was \$763,900 for the six months ended December 31, 2000 compared with \$624,300 used by operating activities for the six months ended December 31, 1999. This



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increase was largely the result of changes in operating assets and liabilities, particularly accounts receivable and deferred income taxes.

Capital expenditures were \$761,200 for the first six months of fiscal 2001 compared to \$1,281,300 for the prior year period. Capital expenditures were primarily related to information system software enhancements and additional demonstration equipment for the direct sales force at the Company's patient safety monitoring business and leasehold improvements and manufacturing equipment at the Company's new facility for the oxygen monitoring business.

The Company believes that its cash resources and cash flow from operations are adequate to meet its anticipated cash needs for working capital and capital expenditures throughout fiscal 2001. As the Company did not foresee any near term borrowing requirements coupled with the fees associated with maintaining a bank line of credit, the Company elected to decrease its bank line of credit from \$7,500,000 to \$1,000,000 in May of 2000. The line of credit was renewed at the same terms for one year on December 1, 2000. The

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Company's revolving bank line of credit is collateralized by the Company's accounts receivable, inventory, and equipment. At December 31, 2000, \$1,000,000 was available under the line of credit.

The Company will continue to explore opportunities for the possible acquisitions of technologies or businesses, which may require the Company to seek additional financing.

### RECENT ACCOUNTING PRONOUNCEMENTS

SAB 101 In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin NO. 101 (SAB 101), Revenue Recognition in Financial Statements as amended by SAB 101A, which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the SEC. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. In June 2000, the SEC issued SAB 101B which deferred the effective date of SAB 101 until the last quarter of fiscal years beginning after December 15, 1999. The Company does not expect the adoption of SAB 101 to have a material effect on its consolidated financial position or results of operations.

### NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements regarding the Company's plans, expectations, estimates and beliefs. Actual results could differ materially from those discussed in, or implied by, these forward-looking statements. Forward-looking statements are identified by words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may" and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. The Company is not obligated to update or revise these forward-looking statements to reflect new events or circumstances. Factors that could cause actual results, events or circumstances to differ from forward-looking statements made in this report include those set forth in the following "Risk Factors" section.

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### RISK FACTORS

#### Risks Relating to the Company's Business:

##### THE COMPANY IS DEPENDENT ON A CONCENTRATED LINE OF PRODUCTS

The Company's future financial performance will be largely dependent on its patient monitor product line, which includes a limited number of products. The Company expects its Omni-Trak 3150 MRI patient monitor and its Millennia portable patient monitor to have a substantial impact on revenue growth. In the MRI monitoring market, the success of its Omni-Trak 3150 is heavily dependent on the continued acceptance of MRI technology as a diagnostic tool. In the general patient monitoring market, the Company's Millennia monitor is heavily dependent on its ability to penetrate an already competitive market.

In addition, the recent consolidation in the medical care provider market has resulted in a number of very large purchasers of medical devices. These large purchasers typically prefer to establish relationships with medical device manufacturers that have broad and diverse product lines.

The failure of the Company's products to continue to gain market acceptance or a continued consolidation of the medical care provider market could have a material adverse effect on its business and results of operations.

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##### THE COMPANY FACES INCREASED LEVELS OF COMPETITION

The Company has encountered and will continue to encounter significant competition in the sale of its products. The Company's general patient monitoring competitors include a number of large multinational corporations. Some of these competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products than the Company can. In the MRI patient monitoring market, the Company has enjoyed a significant first-to-market advantage over its competitors. However, competitors have introduced products designed to compete with its MRI vital signs monitoring products. In addition, as the market for MRI vital signs monitoring products expands it may attract competitors with greater resources.

Additionally, competition may increase if new companies enter the Company's markets or if existing competitors expand their product lines or intensify efforts within existing product lines. The introduction of competitive products may result in a decrease in the Company's market share and in a decrease in the prices at which the Company is able to sell its products. The Company's market share could also be adversely affected by increasing concentration in the medical care provider market. Any decrease in the Company's market share or decrease in the prices at which the Company is able to sell its products could have a material adverse effect on its business and results of operations.

##### THE COMPANY'S FINANCIAL RESULTS MAY FLUCTUATE

The Company's financial results may fluctuate significantly from period to period because of a variety of factors, many of which is beyond its control. These factors include:

- increased competition

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- changes in the Company's pricing policies and those of its competitors
- changes in the Company's operating expenses or capital expenditures
- timing and market acceptance of new and upgraded product introductions by the Company and its competitors
- seasonal fluctuations in the demand for the Company's products
- introduction of alternative technologies by the Company and its competitors
- effect of potential acquisitions
- other general economic factors

Fluctuations caused by these and other factors could have a material adverse effect on the Company's business and results of operations.

### THE COMPANY IS SUBJECT TO A SIGNIFICANT RISK OF NEW LAWS RELATED TO HEALTH CARE

Changes in the law or new interpretations of existing laws may have a significant effect on the Company's costs of doing business and the amount of reimbursement the Company receives from both government and third-party payors. In addition, economic forces, regulatory influences and political initiatives are subjecting the health care industry to fundamental changes. Health care reform proposals have been formulated by the current administration and by members of Congress. Federal, state and local government representatives are likely to continue to review and assess alternative health care delivery systems and payment methods. The Company expects ongoing public debate on these issues. Any of these efforts or reforms could have a material adverse affect on the Company's business and results of operations.

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### THE COMPANY'S BUSINESS IS SUBJECT TO TECHNOLOGICAL CHANGE AND INTRODUCTION OF NEW PRODUCTS

Technological change, evolving industry standards and new product introductions and enhancements characterize the markets for the Company's products. Many of the Company's products and products under development are technologically innovative, and therefore require significant planning, design, development and testing. These activities require the Company to make significant capital commitments and investments. In addition, industry standards may change on short notice and new products and technologies may render existing products and technologies uncompetitive. Additionally, the products that the Company is currently developing, and those that the Company develops in the future, may not be technologically feasible or accepted by the marketplace or they may not be completed in an acceptable time frame. Any increased capital investments or loss in sales due to technological change could have a material adverse effect on the Company's business and results of operations.

### THE COMPANY CURRENTLY IS INVOLVED IN A LEGAL PROCEEDING

The Company's medical device subsidiary, Invivo Research, was one of two third-party defendants named in a lawsuit in June of 1994 by Southern Nevada Surgical Center and Surgex Southern Nevada, Inc. in Nevada State District Court. The underlying action in this matter stemmed from an incident involving a surgical patient undergoing a procedure at the Southern Nevada Surgical Center.

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The patient suffered a serious permanent brain injury. A lawsuit was filed on behalf of the patient against the surgical center and the anesthesiologist who monitored the patient. The defendants in that action made a substantial settlement to the patient. Southern Nevada Surgical Center ("SNSC") and Surgex were seeking indemnity and contribution of approximately \$14 million from the manufacturer of the anesthetic gas machine and Invivo Research, which manufactured the vital signs monitor used in this procedure. SNSC and Surgex alleged that both the anesthetic gas machine and the vital signs monitor were defective. The Company believes that the vital signs monitor operated properly and was properly designed for its intended function.

On August 18, 1999, the Nevada District Court granted the Company's Motion to Dismiss for Failure to Prosecute. The Order granted dismissal of the SNSC and Surgex contribution claims, without prejudice, based upon Nevada law that provides that an action must be brought to trial within five years of the date of the filing of the original action. The dismissal is being appealed.

In April of 1997, the plaintiff's insurer, CNA, filed an action with identical causes in the same Nevada State Court. This second action was removed by the Company to U.S. District Court. The action by CNA was dismissed by the District Court on January 19, 2000. The dismissal is being appealed.

Any judgment against the Company that exceeds the amount that its insurer is required to pay could have a material adverse effect on its business and results of operations.

### THE COMPANY FACES PRODUCT LIABILITY AND PRODUCT RECALL RISKS

With respect to all of its products, and particularly its medical devices, the Company faces the risk of potentially large product liability claims. The malfunction or misuse of its products could potentially result in serious harm to a patient. In addition, the Company may be required to indemnify its distributors and customers for similar claims made against them.

Claims could be made against the Company even if its products did not contribute to the injury that was sustained. Frequently, the Company's products are used with products developed by other manufacturers. Even if its products are not the cause of the injury, the Company may not be able to prove that some other product malfunction or human error caused a claimant's injury.

The Company has had product liability claims made against it in the past and may have further claims made against it in the future. While the Company is insured for certain product liability claims, not all claims will be covered and the level of its insurance may not be sufficient to protect us from the full amount of a successful claim. In addition, the Company may not be able to obtain adequate amounts of insurance at an acceptable cost. Claims made against the Company that are not insured, or that exceed the amount of the Company's coverage, could have a material adverse effect on its business and results of operations.

Similarly, the Company's products are subject to the potential of being recalled by government agencies for actual or potential deficiencies or problems. Any such recall would likely be expensive and would have a material adverse effect on the Company's business and results of operations.

### THE COMPANY FACES INCREASED RISKS OF INTERNATIONAL OPERATIONS

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International sales have accounted for over 20% of the Company's sales for each of the past three years and may increase over time. International sales are subject to a number of risks, including the following:

- fluctuations in exchange rates may affect the demand for products and services the Company provides in foreign markets
- adverse changes in local economic conditions, such as those recently occurring in Asian and South American countries, could depress the demand for the Company's products
- agreements may be difficult to enforce and receivables difficult to collect through a foreign country's legal system
- foreign customers may have longer payment cycles
- foreign countries may impose additional withholding taxes or otherwise tax the Company's foreign income, impose tariffs, or adopt other restrictions on foreign trade
- U.S. export licenses may be difficult to obtain
- the protection of intellectual property in foreign countries may be more difficult to enforce

Any of these factors could have a material adverse impact on the Company's business and results of operations.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure is that of currency risk. During the six months ended December 31, 2000, 20% of the Company's total sales came from non-United States domiciled customers. The Company requires payment in United States (U.S.) currency. If these customers currency devalues against the U.S. dollar, the customers could potentially encounter difficulty in making the U.S. dollar denominated payments.

## PART II - OTHER INFORMATION

### ITEM 1: LEGAL PROCEEDINGS:

Not Applicable.

### ITEM 2: CHANGES IN SECURITIES:

Not Applicable.

### ITEM 3: DEFAULTS UPON SENIOR SECURITIES:

Not Applicable.

### ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS:

At the Annual Meeting of Stockholders of the Company held on December 7, 2000 the Stockholders:

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1. Elected all of the nominees for Director for the ensuing year as follows:

NAME ----	FOR ---	AGAINST -----	ABSTAIN -----
Ernest Goggio	3,351,183	0	3,100
James Hawkins	3,351,183	0	3,100
George Sarlo	3,351,183	0	3,100
Laureen DeBuono	3,351,183	0	3,100

2. Ratified the selection of KPMG LLP as independent auditors for the Company. The number of shares voted in favor of the ratification was 3,350,283.

ITEM 5: OTHER INFORMATION:

Not Applicable.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(a)

Exhibit No. -----	Description of Exhibit -----
Exhibit 10.17	Fourth Amendment to Credit Agreement between Wells Fargo Bank and Invivo Corporation dated December 1, 2000
Exhibit 11.1	Statement of Computation of Net Income Per Share

(b) Reports on Form 8-K:

None.

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SIGNATURES

In accordance with requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INVIVO CORPORATION

Date: February 14, 2000

By: /s/ JOHN F. GLENN

-----  
Vice President-Finance  
and Chief Financial Officer

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(Principal Financial and  
Accounting Officer)