INVIVO CORP
Form 10-Q
February 14, 2002

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U.S. 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 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 0-15963

INVIVO CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	77-0115161
(State or other jurisdiction of incorporation)	(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 [X] No [ ]

The number of shares outstanding of the issuer's Common Stock, par value $.01 per share, at December 31, 2001 was 4,426,249 shares.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INVIVO CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	DECEMBER 31, 2001	JUNE 30, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,513,800	280,000
Short term investments	9,722,400	9,091,300
Trade receivables, net	13,296,500	15,656,600
Inventories	11,516,700	11,249,100
Deferred income taxes	1,084,800	1,013,300
Prepaid expenses and other current assets	480,200	465,500
Total current assets	37,614,400	37,755,800
Property and equipment, net	6,970,300	6,398,000
Goodwill	7,633,900	7,633,900
Other assets	223,400	223,400
	$ 52,442,000	52,011,100
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,712,400	2,267,200
Accrued expenses	3,521,100	3,662,900
Current portion of long-term debt and capital leases	154,700	154,700
Income taxes payable	10,900	147,000
Other current liabilities	--	143,900
Total current liabilities	5,399,100	6,375,700
Long-term debt, excluding current portion	1,576,400	1,647,100
Deferred income taxes	279,700	279,700
Total liabilities	7,255,200	8,302,500
Stockholders' equity:		
Common stock	44,200	44,200
Additional paid-in capital	26,601,600	26,581,500
Retained earnings	18,564,800	17,095,900
Accumulated other comprehensive loss	(23,800)	(13,000)
Total stockholders' equity	45,186,800	43,708,600

Commitments and contingencies	$ 52,442,000	52,011,100

See accompanying notes to consolidated financial statements.

INVIVO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS DECEMBE
	2001	2000	2001
Sales	$ 13,541,200	13,034,000	26,904,500
Cost of goods sold	6,728,800	6,702,100	13,711,400
Gross profit	6,812,400	6,331,900	13,193,100
Operating expenses:			
Selling, general and administrative	4,643,800	4,335,800	9,107,300
Research and experimental	1,026,300	719,800	1,895,600
Total operating expenses	5,670,100	5,055,600	11,002,900
Income from operations	1,142,300	1,276,300	2,190,200
Other income (expense):			
Interest income	50,400	99,100	121,600
Interest expense	(13,600)	(31,100)	(51,900)
Income before income taxes	1,179,100	1,344,300	2,259,900
Income tax expense	412,700	463,800	791,000
Net income	$ 766,400	$ 880,500	1,468,900
Basic net income per common share	$ .17	$ .20	.33

Weighted average common Shares outstanding (basic)	4,424,119	4,393,249	4,423,684
Diluted net income per common Share	$ .17	$ .20	.32
Weighted average common Shares outstanding (diluted)	4,593,068	4,473,133	4,552,362

See accompanying notes to consolidated financial statements.

INVIVO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

SIX MONTHS ENDED DECEMBER 31, 2001 AND 2000

	2001
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 1,468,900
Adjustments to reconcile net income to Cash provided by operating activities:	
Depreciation and amortization	698,800
Deferred income taxes	(71,500)
Change in operating assets and liabilities:	
Trade receivables	2,349,300
Inventories	(267,600)
Prepaid expenses and other current assets	(14,700)
Accrued expenses	(141,800)
Accounts payable	(554,800)
Income taxes payable	(136,100)
Net cash provided by operating activities	3,330,500
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of short-term investments	(631,100)
Capital expenditures	(1,271,100)
Other assets	(143,900)
Net cash (used in) provided by investing activities	(2,046,100)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net proceeds from issuance of common stock	20,100
Principal payments under long-term debt and other liabilities	(70,700)

Net cash provided by financing activities	(50,600)
Net (decrease) increase in cash and cash equivalents	1,233,800
Cash and cash equivalents at beginning of period	280,000
Cash and cash equivalents at end of period	$ 1,513,800
Supplemental disclosures of cash flow information:	
Cash paid during the period for:	
Income taxes	$ 998,600
Interest	$ 31,300

See accompanying notes to consolidated financial statements.

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 Company has adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 131, Disclosure About Segments of an Enterprise and Related Information. SFAS 131 establishes standards for the reporting by public business enterprises of information about operating segments, products and services, geographic areas, and major customers. 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.

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	CORPORAT
For the three months ended December 31, 2001			
Net sales	$ 9,844	3,697	--
Income from operations	1,393	234	(485
Depreciation and amortization	190	140	13
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 six months ended December 31, 2001			
Net sales	$18,922	7,983	--
Income from operations	2,533	557	(900
Depreciation and amortization	393	280	26
Total assets at December 31, 2000	27,713	12,864	11,865
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

A reconciliation of income from operations to income before income taxes for the three and six months ended December 31 follows:

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	
	2001	2000	2001	2000
Income from operations	$1,142,300	1,276,300	2,190,200	2,483,700
Other income (expense)	36,800	68,000	69,700	150,300
Income before taxes	$1,179,100	1,344,300	2,259,900	2,634,000

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, 2001 and expires on December 1, 2002. The Company's revolving bank line of credit is collateralized by the Company's accounts receivable, inventory, and equipment. At December 31, 2001, $1,000,000 was available under the line of credit.

4. COMPREHENSIVE INCOME

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

	THREE MONTHS ENDED DECEMBER 31,		SIX M DEC
	2001	2000	2001
Net income	$ 766,400	$ 880,500	$ 1,468,900
Change in unrealized gain (loss) on short-term investments	--	5,500	--
Change in foreign currency translation	(43,400)	--	(10,800
Comprehensive Income	$ 723,000	$ 886,000	$ 1,458,100

5. NET INCOME PER COMMON SHARE

The following table presents the calculation for basic and diluted net income per common share:

	THREE MONTHS ENDED DECEMBER 31,		THREE DEC
	2001	2000	2001
BASIC:			
Weighted average common Shares outstanding	4,424,119	4,393,249	4,423,684
Net Income	$ 766,400	$ 880,500	$1,468,900
Basic net income per common share	$ 0.17	$ 0.20	$ 0.33
DILUTED:			
Weighted average common Shares outstanding (basic)	4,424,119	4,393,249	4,423,684
Dilutive stock options	168,949	79,884	128,678

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Weighted average common Shares outstanding (diluted)	4,593,068	4,473,133	4,552,362
Net Income	$ 766,400	$ 880,500	$ 1,468,900
Diluted net income per common share	$ 0.17	$ 0.20	$ 0.32

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6. GOODWILL

The Company adopted SFAS No.142, Goodwill and Other Intangible Assets effective July 1, 2001. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. Accordingly, the Company did not record any amortization during the first six months of fiscal 2002 related to goodwill. SFAS No. 142 requires a two-step process for testing impairment. First, the fair value of each reporting unit is compared to its carrying value to determine whether an indication of impairment exists. If impairment is indicated, then the fair value of the reporting unit's goodwill is determined by allocating the unit's fair value to its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The amount of impairment for goodwill and other intangible assets is measured as the excess of its carrying value over its fair value. No such impairment losses were recorded upon the initial adoption of SFAS 142.

The following table reconciles the prior period's reported net income to its respective pro forma balance adjusted to exclude the amortization of goodwill, which is no longer recorded under SFAS No. 142.

	For the Three Months Ended December 31, 2000			For the Six December	
		Earnings per Share			Ea
	Amount	Basic	Diluted	Amount	Ba
Net income	$ 880,500	0.20	0.20	$1,725,300	0
Add back goodwill amortization	71,700	0.02	0.02	138,200	0
Adjusted net income	$ 952,200	0.22	0.22	$1,863,500	0

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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, 2001 AND 2000

Sales

Sales of $13,541,200 for the second quarter ended December 31, 2001 increased 3.9% compared to sales of $13,034,000 for the second quarter ended December 31, 2000. Sales for the six months ended December 31, 2001 increased 4.7% to $26,904,500 compared with $25,707,300 for the comparable period last year. Sales at the Company's patient safety monitoring business increased 16.6% in the second quarter and 14.9% for the six months compared to year earlier sales. Continued growth in sales of the Company's MRI vital signs monitor offset a decrease in "Millennia" product sales for the three and six month periods. The continued growth in the MRI vital signs monitor can be attributed to increased acceptance and usage of MRI procedures in hospital settings as the Company continues to maintain its leadership position in this market. The decline in "Millennia" sales is primarily due to the maturity of the product and the continued slow to flat growth of the general patient monitoring market. The sales increase at the patient safety monitoring business for the second quarter and first six months of fiscal 2002 was offset by a sales decline at the Company's safety and industrial instrumentation segment as the Company's gas detection and oxygen monitoring product sales are being negatively affected by the general economic slowdown. The Company's pressure sensing devices and non-contact infrared thermometer products also experienced sales declines for the three and six months ended December 31, 2001.

Gross Profit

The gross profit margin increased for the three months ended December 31, 2001 to 50.3% from 48.6% and remained at 49.0% for the six months ended December 31, 2001 as compared to the comparable prior year periods. The increase in the quarter was attributable to the increase in patient safety monitoring business as a percentage of total revenue and further to the proportionate increase in MRI vital signs monitors by the patient safety monitoring business. The effect of these developments offset the declining gross margins of the safety and industrial instrumentation product lines which was due primarily to the impact of the decreased sales relative to fixed cost of sale components.

Operating Expenses

Selling, general and administrative expenses for the three and six month periods ended December 31, 2001 increased 7.1% or $308,000 and 5.8% or $499,700, respectively, from the previous fiscal periods. Selling, general and administrative expenses were 34.3% and 33.9% of sales for the three and six month periods ended December 31, 2001 compared with 33.3% and 33.5%, respectively, for the comparable periods in fiscal 2001. The increase in these expenditures in aggregate and as a percentage of sales for the three and six month periods ended December 31, 2001 was due to higher administrative and selling expenses at the Company's patient safety monitoring business along with higher facility leasing and depreciation expenses at the safety and industrial instrumentation product line and corporate facilities. These increases more than offset the affect of the Company's adoption of SFAS No. 142, Goodwill and Other Intangible Assets, effective July 1, 2001 as a result of which the Company stopped amortizing its goodwill.

Research and experimental expenses for the three and six month periods ended December 31, 2001 increased 42.6% or $306,500 and 27.0% or $403,100,

respectively, form the previous fiscal periods. Research and experimental expenses were 7.6% and 7.1% of sales for the three and six month periods ended December 31, 2001 compared to 5.5% and 5.8% for the comparable periods in fiscal 2001. The increase for the three and six month periods ended December 31, 2001 was due to increased expenditures on behalf of the medical device business on its next generation vital signs monitors which offset a decline in research and experimental expenditures at the safety and industrial instrumentation product lines. The Company plans to continue its efforts in developing new products and enhancing its existing ones and expects future research and experimental expenditures as a percentage of sales to be in the range of the first half fiscal 2002 levels

Other Income and Expense

Interest income was $50,400 for the second quarter of fiscal 2002 as compared to $99,100 for the prior year period. For the first six months of fiscal 2002 interest income was $121,600 as compared to $214,500 for the prior year period. The decrease was largely due to the lower interest rates earned on the Company's short-term investments

Provision for Income Taxes

The effective tax rate for the three and six months ended December 31, 2001 was 35.0% as compared to 34.5% for the prior year periods.

LIQUIDITY AND CAPITAL RESOURCES

Working capital at December 31, 2001 increased to $32,215,300 from $31,380,100 at June 30, 2001. Net cash provided by operating activities was $3,330,500 for the six months ended December 31, 2001 compared with $763,900 provided by operating activities for the six months ended December 31, 2000. This increase in net cash provided by operating activities was the result of a decrease in accounts receivable particularly at the patient safety monitoring business as the Company improved its collection efforts and days outstanding on its receivables.

Capital expenditures were $1,271,100 for the first six months of fiscal 2002 compared to $761,200 for the prior year period. Capital expenditures were primarily related to the expansion of the Company's medical device facility and investments in manufacturing equipment and sales demonstration equipment for the medical device business along with leasehold improvements at the Company's new facility for the pressure sensing and non-contact infrared thermometer product lines.

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 2002. The Company's revolving bank line of credit is collateralized by the Company's accounts receivable, inventory, and equipment. The line of credit was renewed at the same terms for one year on December 1, 2001. At December 31, 2001, $1,000,000 was available under the line of credit. 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 2002.

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

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with retirement of long-lived assets that result from the acquisition, construction, development or normal use of the asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Invivo is currently evaluating the impact of SFAS No. 143 on its financial statements and related disclosures.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, it retains many of the fundamental provisions of that Statement. Invivo will adopt the provisions of SFAS No. 144 commencing January 1, 2002. The effects of adopting SFAS No. 144 are currently being determined.

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.

RISK FACTORS

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 MRI patient monitors and its Millennia portable patient monitor to have a substantial impact on revenue growth. In the MRI monitoring market, the success of its MRI monitors 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 further 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.

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
- 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. 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.

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. 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 as the District Court found CNA did not have standing as the real party of interest. CNA appealed the decision to the Ninth

Circuit Court of Appeals. A three-member panel of the Ninth Circuit reversed the dismissal and remanded the case back to Federal District Court on July 30, 2001. The Company appealed this decision and requested a decision from the full panel of the Ninth Circuit. The Ninth Circuit, without issuing an opinion, unanimously voted to deny the Petition for Rehearing in this matter. The action will now be remanded to the U.S. District Court for further proceedings.

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 it 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

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 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 sales are primarily denominated in U.S. dollars and as a result, the Company has relatively little exposure to foreign currency exchange risk with respect to its sales. The Company does not currently hedge against exchange foreign currency rate

fluctuations. The effect of an immediate 10% change in exchange rates would not have a material impact on the Company's future operating results or cash flows.

PART II - OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS:

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. 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.

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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.

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, 2001 the Stockholders:

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

NAME	FOR	AGAINST	ABSTAIN
Ernest Goggio	3,652,687	0	12,150
James Hawkins	3,624,337	0	40,500
George Sarlo	3,652,687	0	12,150
Laureen DeBuono	3,652,587	0	12,150

2. Amended the 1994 Stock Option plan to increase by 220,000 the number of shares covered by the Plan. The votes for amending the Plan were as follows:

FOR	AGAINST	ABSTAIN
3,322,640	253,697	88,500

3. Ratified the selection of KPMG LLP as independent auditors for the Company. The votes for ratifying the selection of KPMG LLP were as follows:

FOR	AGAINST	ABSTAIN
3,631,887	200	32,750

ITEM 5: OTHER INFORMATION:

Not Applicable.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(a)

Exhibit No.	Description of Exhibit
Exhibit 10.20	Sixth Amendment to Credit Agreement between

Wells Fargo Bank and Invivo Corporation
dated December 1, 2001

(b) Reports on Form 8-K:

None.

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, 2001

By: /s/ JOHN F. GLENN

Vice President-Finance
and Chief Financial Officer
(Principal Financial and
Accounting Officer)