

INVIVO CORP  
Form 10-Q  
February 14, 2003

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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, 2002

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  
(Address of principal executive offices)

94588  
(Zip Code)

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

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  No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the issuer's Common Stock, par value \$.01 per share, at February 3, 2002 was 4,514,199 shares.

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CONSOLIDATED BALANCE SHEETS**

<b>Assets</b>	<b>(UNAUDITED) December 31, 2002</b>	<b>June 30, 2002</b>
Current assets:		
Cash and cash equivalents	\$ 877,600	1,005,700
Restricted cash	1,356,300	1,520,900
Short-term investments	26,252,300	27,344,400
Trade receivables, less allowance for doubtful accounts of \$552,300 as of December 31, 2002 and \$330,500 as of June 30, 2002	11,943,800	10,724,600
Inventories	8,103,700	6,430,400
Deferred income taxes	1,054,700	837,800
Prepaid expenses and other current assets	475,400	236,700
Total current assets	50,063,800	48,100,500
Property and equipment, net	5,667,400	5,476,000
Intangible assets	7,037,000	7,037,000
Other assets	176,200	144,200
	<u>\$62,944,400</u>	<u>60,757,700</u>
	<b>Liabilities and Stockholders Equity</b>	
Current liabilities:		
Accounts payable	\$ 2,659,400	1,778,300
Accrued expenses	5,976,000	6,045,900
Current portion of long-term debt	113,300	113,300
Income taxes payable	616,900	1,325,100
Total current liabilities	9,365,600	9,262,600
Long-term debt, excluding current portion	1,407,200	1,463,900
Deferred income taxes	550,400	550,400
Total liabilities	11,323,200	11,276,900
Commitments and contingencies		
Stockholders equity:		
Common stock, \$.01 par value; authorized shares totaling 20,000,000; issued and outstanding shares totaling 4,483,699 as of December 31, 2002 and 4,434,899 as of June 30, 2002	44,800	44,300
Additional paid-in capital	27,203,900	26,701,000
Retained earnings	24,274,000	22,720,400
Accumulated other comprehensive income	98,500	14,300
Total stockholders equity	51,621,200	49,480,800
	<u>\$62,944,400</u>	<u>60,757,700</u>



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**INVIVO CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Income**  
**(Unaudited)**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
Sales	\$ 12,325,900	10,246,400	23,376,800	19,819,100
Cost of goods sold	6,118,500	4,646,800	11,378,900	9,191,700
<b>Gross profit</b>	<b>6,207,400</b>	<b>5,599,600</b>	<b>11,997,900</b>	<b>10,627,400</b>
Operating expenses:				
Selling, general, and administrative	4,409,600	3,888,900	8,559,400	7,531,200
Research and experimental	753,400	857,500	1,553,000	1,568,400
<b>Total operating expenses</b>	<b>5,163,000</b>	<b>4,746,400</b>	<b>10,112,400</b>	<b>9,099,600</b>
<b>Income from operations</b>	<b>1,044,400</b>	<b>853,200</b>	<b>1,885,500</b>	<b>1,527,800</b>
Other income (expense):				
Interest income	221,900	50,300	373,400	121,700
Interest expense	(14,700)	(13,600)	(31,800)	(52,000)
Other, net	29,100		29,100	
<b>Income from continuing operations before income taxes</b>	<b>1,280,700</b>	<b>889,900</b>	<b>2,256,200</b>	<b>1,597,500</b>
Income tax expense	409,900	301,700	702,600	541,600
<b>Net income from continuing operations</b>	<b>\$ 870,800</b>	<b>588,200</b>	<b>1,553,600</b>	<b>1,055,900</b>
Discontinued operations:				
Income from discontinued operations net of income tax of \$111,100 and \$249,100		178,200		413,000
<b>Net income</b>	<b>\$ 870,800</b>	<b>766,400</b>	<b>1,553,600</b>	<b>1,468,900</b>
Basic net income per share data:				
Continuing operations	\$ 0.19	0.13	0.35	0.24
Discontinued operations		0.04		0.09
<b>Basic net income per common share</b>	<b>\$ 0.19</b>	<b>0.17</b>	<b>0.35</b>	<b>0.33</b>
Weighted-average common shares outstanding (basic)	4,477,554	4,424,119	4,470,733	4,423,684
Diluted net income per share data:				
Continuing operations	0.19	0.13	0.33	0.23
Discontinued operations		0.04		0.09
<b>Diluted net income per common share</b>	<b>\$ 0.19</b>	<b>0.17</b>	<b>0.33</b>	<b>0.32</b>

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Weighted-average common shares outstanding (diluted)	<u>4,675,774</u>	<u>4,593,068</u>	<u>4,686,244</u>	<u>4,552,362</u>
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See accompanying notes to consolidated financials

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**INVIVO CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**  
**For the Six Months Ended December 31,**

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Net income	\$ 1,553,600	1,468,900
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	555,200	454,100
Deferred income taxes	(216,900)	(71,500)
Changes in operating assets and liabilities:		
Trade receivables	(1,204,000)	1,777,100
Inventories	(1,645,100)	39,400
Prepaid expenses and other current assets	(238,700)	(36,800)
Accrued expenses	(69,900)	61,200
Accounts payable	881,100	(657,900)
Income taxes payable	(708,200)	(136,100)
Current liabilities of discontinued operations		(243,700)
Current assets of discontinued operations		290,000
	<u>(1,092,900)</u>	<u>2,944,700</u>
Cash flows from investing activities:		
Sale (purchase) of short-term investments, net	1,161,100	(631,100)
Restricted cash	164,600	
Capital expenditures	(774,800)	(1,042,800)
Other assets	(32,000)	
Net investing activities of discontinued operations		16,200
	<u>518,900</u>	<u>(1,657,700)</u>
Cash flows from financing activities:		
Exercise of stock options	502,600	20,100
Payments under long-term debt and capital leases	(56,700)	(70,700)
	<u>445,900</u>	<u>(50,600)</u>
Net (decrease) increase in cash and cash equivalents	(128,100)	1,236,400
Cash and cash equivalents at beginning of period	1,005,700	270,100
	<u>\$ 877,600</u>	<u>1,506,500</u>

See accompanying notes to consolidated financial statements.



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## INVIVO CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL

The consolidated balance sheet as of December 31, 2002 and the related consolidated statements of income for the three and six month periods ended December 31, 2002 and 2001, and the consolidated statements of cash flows for the three and six month periods ended December 31, 2002 and 2001 are unaudited. The 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. As a result of the sales of Sierra Precision and Lumidor Safety Corporation, previously wholly-owned subsidiaries of the Company operating in the Company's industrial instrumentation segment, the Company currently operates in one segment.

## 3. DEBT AND BANK BORROWINGS

The Company renewed its \$1,000,000 bank line of credit on January 1, 2003. The Company's revolving bank line of credit is unsecured. At December 31, 2002, \$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 MONTHS ENDED DECEMBER 31,	
	2002	2001	2002	2001
Net income	\$ 870,800	\$ 766,400	\$ 1,553,600	\$ 1,468,900
Change in unrealized gain on short-term investments	41,000		69,000	
Change in foreign currency translation	8,600	(43,400)	15,200	(10,800)
Comprehensive Income	\$ 920,400	\$ 723,000	\$ 1,637,800	\$ 1,458,100

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## 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,		SIX MONTHS ENDED DECEMBER 31,	
	2002	2001	2002	2001
<b>BASIC:</b>				
Weighted average common Shares outstanding	4,477,554	4,424,119	4,470,733	4,423,684
Net Income	\$ 870,800	\$ 766,400	\$ 1,553,600	\$ 1,468,900
Basic net income per common share	\$ 0.19	\$ 0.17	\$ 0.35	\$ 0.33
<b>DILUTED:</b>				
Weighted average common Shares outstanding (basic)	4,477,554	4,424,119	4,470,733	4,423,684
Dilutive stock options	198,220	168,949	215,511	128,678
Weighted average common Shares outstanding (diluted)	4,675,774	4,593,068	4,686,244	4,552,362
Net Income	\$ 870,800	\$ 766,400	\$ 1,533,600	\$ 1,468,900
Diluted net income per common share	\$ 0.19	\$ 0.17	\$ 0.33	\$ 0.32

## 6. DISCONTINUED OPERATIONS

*Sierra Precision*

On May 10, 2002, the Company completed its sale of substantially all of the assets and the transfer of certain liabilities of Sierra Precision, a wholly-owned subsidiary of the Company. The final sales price was approximately \$4.9 million. Excluded from the transaction were substantially all the liabilities of Sierra Precision. In addition, the Company entered into an agreement to not compete with the business of Sierra Precision for a period of three years. Sierra Precision's operating results have been segregated and reported as discontinued operations in the accompanying consolidated statements of income and cash flows, and related notes for the three and six months ended December 31, 2001. Revenue from the discontinued operations of Sierra Precision for the three and six months ended December 31, 2001 was \$1,477,300 and \$3,375,800, respectively. Income, net of income tax, from the discontinued operations of Sierra Precision for the three and six months ended December 31, 2001 was \$55,300 and \$197,100, respectively.

*Lumidor Safety Corporation*

On May 30, 2002, the Company sold substantially all of the assets and transferred certain liabilities of Lumidor Safety Corporation (Lumidor), a wholly-owned subsidiary of the Company. The final sales price was approximately \$12 million, of which \$1.35 million is being held in escrow for a period of one year to secure indemnification obligations of Lumidor. In addition, the Company entered into an agreement not to compete with the business of Lumidor for a period of five years. Lumidor's operating results have been segregated and reported as discontinued operations in the accompanying consolidated statements of income and cash flows, and related notes for the three and six months ended December 30, 2001. Revenue from the discontinued operations of Lumidor for the three and six months ended December 31, 2001 was \$1,817,500 and \$3,709,600, respectively. Income, net of income tax, from the discontinued operations of Lumidor for the three and six months ended December 31, 2001 was \$122,900 and \$215,900, respectively.



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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, 2002 AND 2001

*Sales*

Sales of \$12,325,900 for the second quarter ended December 31, 2002 increased 20.3% compared to sales of \$10,246,400 for the second quarter ended December 31, 2001. Sales for the six months ended December 31, 2002 increased 18.0% to \$2