INVIVO CORP
Form 10-Q
May 15, 2001

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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 MARCH 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 March 31, 2001 was 4,423,249 shares.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INVIVO CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	MARCH 31, 2001	JUNE 30, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,060,600	969,800
Short term investments	9,408,200	6,817,600
Trade receivables, net	13,977,200	14,656,600
Inventories	10,245,100	10,132,000
Deferred income taxes	1,110,000	1,343,000
Prepaid expenses and other current assets	915,800	407,200
Total current assets	36,716,900	34,326,200
Property and equipment, net	6,141,700	6,139,600
Intangible assets	7,474,700	8,439,700
Other assets	262,900	570,500
	$50,596,200	49,476,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,967,800	2,725,600
Accrued expenses	3,097,700	3,381,100
Current portion of long-term debt and bank borrowings	142,700	142,700
Income taxes payable	1,251,200	1,347,200
Total current liabilities	6,459,400	7,596,600
Long-term debt, excluding current portion	1,277,100	1,392,900
Deferred income taxes	123,000	118,000
Other liabilities	--	52,000
Total liabilities	7,859,500	9,159,500
Stockholders' equity:		
Common stock	44,200	43,600
Additional paid-in capital	26,440,500	26,257,300
Retained earnings	16,252,000	14,041,800
Accumulated other comprehensive loss	--	(26,200)
Total stockholders' equity	42,736,700	40,316,500

Commitments and contingencies		
	$50,596,200	49,476,000
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See accompanying notes to consolidated financial statements.

INVIVO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS E MARCH 31
	2001	2000	2001
Sales	$ 13,800,900	$ 13,232,300	39,508,100
Cost of goods sold	7,088,700	6,854,000	20,242,100
Gross profit	6,712,200	6,378,300	19,266,000
Operating expenses:			
Selling, general and administrative	5,008,700	4,274,300	13,586,200
Research and experimental	883,700	800,800	2,376,300
Total operating expenses	5,892,400	5,075,100	15,962,500
Income from operations	819,800	1,303,200	3,303,500
Other income (expense):			
Interest income	109,500	77,200	324,000
Interest expense	(27,900)	(34,600)	(92,100)
Loss on sale of G.C. Industries	(600,500)	--	(600,500)
Other, net	439,100	415,500	439,100
Income before income taxes	740,000	1,761,300	3,374,000
Income tax expense	255,100	598,700	1,163,800
Net income	$ 484,900	$ 1,162,600	2,210,200
Basic net income per common share	$ .11	$ .27	.50

Weighted average common Shares outstanding (basic)	4,410,438	4,362,999	4,394,965	
Diluted net income per common Share	$ .11	$ .26	.49	
Weighted average common Shares outstanding (diluted)	4,463,154	4,497,405	4,475,657	

See accompanying notes to consolidated financial statements.

INVIVO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

NINE MONTHS ENDED MARCH 31, 2001 AND 2000

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,210,200	$ 3,532,20
Adjustments to reconcile net income to		
Cash provided by operating activities:		
Depreciation and amortization	1,138,200	916,70
Loss on sale of G.C. Industries	600,500	-
Write-off of note receivable	203,600	
Deferred income taxes	238,000	-
Change in operating assets and liabilities:		
Trade receivables	594,100	(1,609,80
Inventories	(174,700)	(1,388,20
Prepaid expenses and other current assets	(508,600)	(332,30
Accrued expenses	(402,700)	(692,60
Accounts payable	(757,800)	9,00
Income taxes payable	(96,000)	405,70
Net cash provided by operating activities	3,044,800	840,70
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Purchase) sale of short-term investments	(2,564,400)	1,483,90
Proceeds from sale of G.C. Industries	664,000	-
Capital expenditures	(1,172,400)	(1,827,90
Other assets	50,800	(3,20
Net cash (used in) investing activities	(3,022,000)	(347,20

CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	183,800	179,70
Bank borrowings, net	--	(78,40
Principal payments under long-term debt and other liabilities	(115,800)	(37,40
Net cash provided by financing activities	68,000	63,90
Net increase in cash and cash equivalents	90,800	557,40
Cash and cash equivalents at beginning of period	969,800	207,80
Cash and cash equivalents at end of period	$ 1,060,600	$ 765,20
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 1,018,600	$ 1,478,40
Interest	$ 92,100	$ 99,20

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 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 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 that 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 March 31, 2001			
Net sales	$ 9,153	4,648	--
Income from operations	905	578	(663)
Depreciation and amortization	263	79	15
For the three months ended March 31, 2000			
Net sales	$ 8,350	4,882	--
Income from operations	972	764	(433)
Depreciation and amortization	144	113	13
For the nine months ended March 31, 2001			
Net sales	$ 25,617	13,891	--
Income from operations	2,873	1,771	(1,340)
Depreciation and amortization	790	307	41
Total assets at March 31, 2001	28,750	10,679	11,167
For the nine months ended March 31, 2000			
Net sales	$ 24,401	14,723	--
Income from operations	3,445	2,430	(1,124)
Depreciation and amortization	591	290	36
Total assets at March 31, 2000	28,898	9,747	9,467

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 March 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 Mar. 31, 2001	Three Months Ended Mar. 31, 2000	Nine Months Ended Mar. 31, 2001	Nine Months Ended Mar. 31, 2000
Net Income	484,900	1,162,600	2,210,200	3,532,200
Change in unrealized gain (loss) on Short Term Investments	--	(77,800)	26,200	152,900
Comprehensive income	484,900	1,084,800	2,236,400	3,685,100

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

RESULTS OF OPERATIONS

THREE AND NINE MONTH PERIODS ENDED MARCH 31, 2001 AND 2000

Sales

Sales of $13,800,900 for the third quarter ended March 31, 2001 increased 4.3% as compared to sales of $13,232,300 for the third quarter ended March 31, 2000. Sales for the nine months ended March 31, 2001 increased 1.0% to $39,508,100 compared with $39,123,800 for the comparable period last year. Sales at the Company's patient safety monitoring business increased 9.6% in the third 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 third 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 for the three and nine month periods ended March 31, 2001 partially offset the other sales declines in the safety and industrial segment. For the nine months ended March 31, 2001, the sales increase at the patient safety monitoring business slightly offset the sales decline in the industrial instrumentation segment.

Gross Profit

The gross profit margin increased slightly for the three and nine month periods ended March 31, 2001 to 48.6% and 48.8% from 48.2% and 48.6%, 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 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 nine month periods ended March 31, 2001 increased 17.2% or $734,400 and 12.8% or $1,536,900, respectively, from the previous fiscal periods. Selling, general and administrative expenses were 36.3% and 34.4% of sales for the three and nine month periods ended March 31, 2001 compared with 32.3% and 30.8%, 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 nine month periods ended March 31, 2001 was primarily due to higher administrative and selling expenses at the Company's patient safety monitoring business along with the write-off of the remaining balance on a note receivable of $203,600, net of a deferred gain of $52,000, from the sale of a product line in fiscal 1996. The Company believes that the note receivable is not collectable based on the recent non-performance of the buyer and the effect of the current economic downturn on the product line's market. 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 nine month periods than was actually achieved. The increase in selling expenses was also due to higher sales commission expenses and higher international selling expenses as the Company established a U.K. subsidiary in the first quarter of fiscal 2001.

Research and experimental expenses were 6.4% and 6.0% of sales for the three and nine month periods ended March 31, 2001 compared to 6.1% and 5.7% for the comparable periods in fiscal 2000. The increase in the third 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 and third quarters 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 $109,500 for the third quarter of fiscal 2001 as compared to $77,200 for the prior year period. The increase was largely due to the higher balances on the Company's short-term investments. Interest expense remained stable at $27,900 in the third quarter of fiscal 2001.

On March 2, 2001, the Company sold G.C. Industries, a gas permeation device business, for $664,000 in cash. The asset sale resulted in a loss of $600,500. G.C. Industries was a part of the safety and industrial segment and represented approximately 1% of the Company's annual sales.

Other income, net for the third quarter of fiscal 2001 of $439,100 included a gain of $450,000 on the settlement of a patent infringement lawsuit brought by the Company against a competitor in the MRI monitoring market. Other income, net for the three months ended March 30, 2000 included a $415,500 gain on the sale of short-term investments.

Provision for Income Taxes

The effective tax rate for the nine months ended March 31, 2001 was 34.5% as compared to 34.0% for the prior year period.

LIQUIDITY AND CAPITAL RESOURCES

Working capital at March 31, 2001 increased to $30,257,500 from $26,729,600 at June 30, 2000. Net cash provided by operating activities was $2,789,200 for the nine months ended March 31, 2001 compared with $840,700 used by operating activities for the nine months ended March 31, 2000. This increase was largely the result of changes in operating assets and liabilities, particularly accounts receivable and deferred income taxes.

Capital expenditures were $1,172,400 for the first nine months of fiscal 2001 compared to $1,827,900 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 Company's revolving bank line of credit is collateralized by the Company's accounts receivable, inventory, and equipment. At March 31, 2001, $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 adopted SAB 101 for the quarter ended March 31, 2001. The adoption of SAB 101 did not have a material effect on the Company's 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.

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 may prefer to establish relationships with medical device manufacturers who are larger than the Company and 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. 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.

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. 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

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 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 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:

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:

Not Applicable

ITEM 5: OTHER INFORMATION:

Not Applicable.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(a)

Exhibit No.	Description of Exhibit
Exhibit 10.20	First Amendment to Lease between Principal Life Insurance Company and Invivo Corporation dated February 26, 2001
Exhibit 10.21	Lease between Arcadia Management Services and Invivo Corporation dated November 29, 2000
Exhibit 11.1	Statement of Computation of Net Income Per Share

(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: May 15, 2001

By: /s/ JOHN F. GLENN

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