INVIVO CORP
Form 10-K
September 28, 2001
1

FORM 10-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

[X] Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended JUNE 30, 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 or Organization)	(I.R.S. Employer Identification No.)
4900 HOPYARD RD. #210 PLEASANTON, CALIFORNIA	94588
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 925-468-7600

Securities registered pursuant to Section 12(b) of the Act:
NONE

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Based on the closing sales price of $10.55 on September 24, 2001, the aggregate market value of registrant's voting Common Stock held by non-affiliates of the registrant was approximately $46,665,300.

There were 4,423,249 shares of the registrant's Common Stock, $.01 par value, outstanding on September 24, 2001.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year June 30, 2001 are incorporated by reference in Part III.

PART I

ITEM 1. BUSINESS

OVERVIEW

Invivo Corporation designs, manufactures and markets monitoring systems that measure and display vital signs of patients in medical settings. The Company's systems simultaneously monitor heart function, respiration, heart rate, blood oxygen levels, invasive and non-invasive blood pressure and exhaled carbon dioxide levels.

The Company developed the first multi-parameter vital sign patient monitoring system for use during magnetic resonance imaging ("MRI"). Based on the Company's reputation in the MRI patient monitoring field and its technological expertise, it has made inroads into the general patient monitoring market with its Millennia product introduced in early fiscal 1997.

The Company has established relationships with most of the world's largest MRI equipment manufacturers. It presently maintains distribution agreements or other OEM vendor relationships with Siemens A.G. Medical Engineering Group ("Siemens Medical"), Philips Medical Systems ("Philips Medical"), Hitachi Medical Corporation, and GE Medical Systems ("GE Medical"). GE Medical, Siemens Medical and Philips Medical have approved the use of the Company's monitors for incorporation into their MRI equipment. In fiscal 2001, the Company entered into an agreement with Philips Medical to develop an integrated MRI compatible patient vital signs monitoring system for use with Philips' MRI scanner designed for cardiovascular disease diagnosis.

In addition to the patient monitoring business, the Company offers a line of safety and industrial instrumentation products. The percentage of sales contributed by the Company's patient monitoring line of products was 62%, 62% and 65% for fiscal years 1999, 2000, and 2001, respectively.

Financial information regarding operating segments for the three years ended June 30, 2001 is included in Note 14 "Segment Information," of the Notes to the Consolidated Financial Statements.

INDUSTRY

PATIENT MONITORING

MRI

MRI is a non-invasive diagnostic tool that uses magnetic fields and radio frequencies to produce images of internal organs and structures of the body. As a result, MRI scanners are used worldwide, and are located principally in hospitals and stand-alone imaging centers. The Company believes that roughly half of these MRI scanners are located in the United States.

The Company believes the MRI marketplace will continue to grow as new uses for MRI are developed. The Company believes that over 2,000 new MRI units were sold worldwide in 2000.

MRI patient monitoring technology enables physicians to track vital signs while the patient is undergoing an MRI procedure. While not every MRI use requires a patient monitor, as uses continue to expand, the Company believes patient monitoring during the MRI procedure has become increasingly important. The MRI environment presents unique challenges for patient monitoring. A monitor must not interfere with the MRI in a manner that degrades the image. In addition, the monitor signal must be protected from the MRI's magnetic field and radio frequencies in order to maintain the accurate performance of the monitor. In light of these challenges, only three companies are currently manufacturing MRI patient monitors. The Company believes it is the market leader.

The Company expects that growth in the MRI monitoring market will come from new MRI unit placements, outfitting existing MRI equipment not presently equipped with monitoring devices, and replacing existing MRI patient monitors.

GENERAL PATIENT MONITORING

General patient monitoring products measure, display and document vital signs information obtained from sensors attached to the patient. The principal customers of patient monitoring products include hospitals and outpatient surgery centers.

The Company estimates the worldwide market for patient monitoring products that measure multiple vital signs, including MRI and general patient monitoring, was approximately $2.0 billion in 2000. This market consists of three segments identified by their environments. The first segment is the portable monitoring market that includes the emergency room, bedsides, cath labs and neo-natal care units of hospitals. The second segment is the inpatient and outpatient operating room market. The final segment includes intensive and critical care units in hospitals.

The general patient monitoring market is mature and therefore highly competitive. The Company believes the two greatest factors contributing to product success are price and features.

SAFETY AND INDUSTRIAL INSTRUMENTATION

The Company's safety and industrial instrumentation product line includes gas detection and monitoring devices that are offered in portable and fixed settings. OSHA and other regulatory agencies require the use of such devices in confined spaces where toxic gases or low levels of oxygen are suspected. The Company's safety and industrial instrumentation products also includes pressure and infrared sensor instrumentation that are frequently utilized in industrial settings. The Company expects the safety and industrial instrumentation segment to experience only modest growth in the foreseeable future.

PRODUCTS

MRI PATIENT MONITORS

Through its patented technologies and proprietary shielding techniques, the Company is able to monitor a patient's vital signs without disrupting the MRI process.

OMNI-TRAK 3100. In the late 1980s, the Company pioneered the development of vital signs monitoring during magnetic resonance imaging with the introduction

of the Omni-Trak 3100. The Omni-Trak 3100 provides continuous monitoring of all key aspects of a patient's vitality, including electrocardiograph, respiration, heart rate, blood oxygen levels, invasive and non-invasive blood pressure and expired carbon dioxide levels.

OMNI-TRAK 3150. In April 1998, the Company introduced its next-generation MRI monitor. The Omni-Trak 3150 incorporates all of the features of the Omni-Trak 3100 plus it is compact, mobile and easy to use. Through state-of-the-art radio transmission, the Omni-Trak 3150 communicates with our Millennia remote display controller, allowing critical data to be viewed by physicians and technicians in both the MRI room and the control room.

MAGNITUDE. In fiscal 2001, the Company introduced its full featured, high-end MRI monitor. The Magnitude provides all of the features of the Omni-Trak 3150 along with Digital Signal Processing (DSP) of the ECG signal for enhanced ECG performance and removal of MRI gradient artifact. The Magnitude also offers automatic identification and measurement of five anesthetic agents.

GENERAL PATIENT MONITORING

Based on its reputation in the MRI patient monitoring field and its technological expertise, the Company has penetrated the general patient monitoring market.

MILLENNIA. The Millennia portable patient monitor is a compact multi-parameter vital signs monitor, which weighs approximately 15 pounds. Hospitals maximize the use of their monitors because they can easily be moved with a patient or between locations. The Millennia also features a large color display and user-friendly interface. Additional features include a module for anesthetic agent identification and analysis that allows an anesthesiologist to confirm the type and amount of anesthetic gas that is administered to a patient and the ability to measure blood oxygen levels in non-tranquil patients (such as newborns) whose frequent and unpredictable movements make the use of many traditional monitors difficult. The Company is developing a product that will measure multiple anesthetic agents simultaneously. The Company also developed a modified version of the Millennia for incorporation into GE Medical 's CT scanners for use in cardiology.

CENTURION. The Company's Centurion central station monitoring system networks Millennia patient monitors, allowing a single healthcare professional to monitor up to eight patients simultaneously. The main monitoring screen provides for rapid interpretation of vital signs information by a single health care professional.

OTHER. Other monitors include:

- a non-invasive blood pressure monitor that uses digital signal processing for fast and consistent measurements
- an inexpensive multi-parameter vital signs monitor designed specifically for the international market
- a stand-alone unit to measure blood oxygen levels
- a monitor for blood pressure and blood oxygen levels
- a portable, hand-held blood oxygen level monitor offering a low-cost,

transportable monitoring unit

SAFETY AND INDUSTRIAL INSTRUMENTATION

The Company offers single-gas and multi-gas detection and monitoring instruments in both portable and fixed models. The user carries or wears portable units that are equipped with audible and visual alarms to warn the user that potential dangers exist. Typical applications for these units are in industrial or other settings where the user expects to move about, including underground spaces housing telephone cables and waste water sewers, mines and large factories. Fixed gas area monitors are appropriate for confined spaces where chemicals or gases are used or stored. Typical applications for these monitors are oil refineries, chemical plants and semiconductor fabrication facilities.

The Company's flagship safety product, the MicroMax, is a hand-sized, microprocessor-based, portable, multi-gas detector. The MicroMax simultaneously detects up to four gases. The MicroMax PRO, an enhanced version of the MicroMax, has additional features that include voice messaging and data logging software. The Company also offers the UniMax, a pocket-sized, microprocessor-based, portable, single-gas detector. UniMax is available with up to nine interchangeable plug-in sensors for various types of gases and allows for audible and visual alarm combinations.

The Company's oxygen monitoring products measure oxygen levels in air cylinders used by individuals in oxygen-deprived situations. The primary use for this equipment is for a self-contained breathing apparatus for fire fighters and hazardous material clean-up workers.

The Company's industrial sensor and instrumentation products consist of pressure sensors and infrared non-contact temperature measuring devices.

The infrared non-contact temperature measuring products are used in a wide variety of industrial instrumentation situations. These include the fabrication of semiconductors, the manufacturing of metals and glass, and miscellaneous automotive, plant maintenance, construction and food preparation applications. The Company's quickTemp is a hand-held, pocket-sized, infrared non-contact thermometer.

The Company sells its pressure sensing devices primarily to plastic extrusion equipment manufacturers who use these devices in their production processes. Manufacturers in the food, beverage, synthetic fiber and pharmaceutical industries also use these devices to measure the pressure of processing ingredients.

SALES AND MARKETING

Unlike many other medical device companies its size, the Company sells its patient monitoring products in the United States through a direct sales force. The domestic sales force includes 31 salespersons organized into five regions in the United States. Distributors, assisted by the Company's five international sales personnel located in Europe and in the Far East, handle sales throughout the rest of the world.

The Company sells its patient monitoring products primarily to hospitals and, to a lesser degree, to stand-alone imaging centers, outpatient surgery centers and OEM customers. The Company has OEM or worldwide distribution agreements with Siemens A.G. Medical Engineering Group, Philips Medical Systems, Hitachi Medical Corporation and GE Medical Systems for its MRI monitoring equipment. These relationships facilitate the sale of monitors with the MRI equipment manufactured by these companies.

5

The Company has also established relationships with leading hospital group purchasing organizations such as HealthTrust, Premier Inc., AmeriNet, Inc., Broadlane, Inc., HealthSouth and MedAssets/Insource.

The Company markets its safety and industrial instrumentation products mostly through distributors and its own sales personnel. The Company sells these products primarily to municipalities, utilities, telephone companies, oil refineries and OEMs.

Foreign sales represented 21%, 22% and 23% of the Company's total sales in fiscal 2001, 2000 and 1999. The Company is actively trying to expand its international presence, especially in the patient monitoring business. See Note 14 of the Notes to Consolidated Financial Statements for additional information regarding foreign sales.

The Company's backlog of unfilled purchase orders for all its products was approximately $11.3 million as of June 30, 2001, compared to approximately $10.1 million as of June 30, 2000 and approximately $7.3 million as of June 30, 1999. Within the next 12 months, the Company expects to ship all of its current backlog. Because of customer changes in delivery schedules and the possible cancellation of orders, backlog as of any particular date may not be representative of the Company's actual sales for any succeeding fiscal period. Historically, order cancellations have not been significant. The Company's businesses are not inherently seasonal, although for some of its businesses orders and shipments in the first and second fiscal quarters have been historically lower than the third and fourth quarters.

MANUFACTURING AND ASSEMBLY

Other companies manufacture components and subassemblies to the Company's specifications. The Company then assembles its products at its facilities in California and Florida. The patient monitoring and gas detection manufacturing facilities are ISO 9001 certified. The Company generally obtains the materials and supplies that it uses to produce its products from a wide variety of suppliers. The Company has not experienced any significant shortages. Although certain materials that the Company uses in the manufacture of patient monitoring and gas detection devices are available from only a few suppliers, the Company does not anticipate any significant difficulties in obtaining any of these materials in the foreseeable future.

COMPETITION

The patient monitoring markets in which the Company competes include MRI and general monitoring. The Company is aware of three current competitors in the worldwide MRI monitoring market. The general patient monitoring market is highly competitive and includes companies that are much larger than the Company with significantly greater financial resources. The Company estimates there are approximately 15 to 20 competitors in the general patient monitoring market.

In the patient monitoring business, price is an important factor in hospital purchasing patterns as a result of cost containment pressures on the health care industry. To the extent that healthcare reform measures negatively affect the financial condition of hospitals and thereby reduce their capital purchases, the Company expects price to continue to be a very important competitive factor. The Company also competes on the basis of product reliability, quality, technical features, performance and service.

The markets for the Company's non-medical products are, in general, characterized by a relatively limited number of competitors; however, these markets are highly competitive. The Company estimates there are generally five to ten competitors in each of these markets. The Company competes on price, product reliability, quality, technical features, performance and service in these markets.

GOVERNMENTAL REGULATION

The patient monitoring devices the Company manufactures and markets are subject to regulation by the FDA and, in some instances, corresponding state and foreign governmental agencies.

The Company's existing medical devices were cleared for marketing in the United States through the FDA's section 510(k) premarket notification process. The 510(k) premarket notification process is available where the new product being submitted to the FDA can be compared to a pre-existing commercially available product that performs functions the FDA considers to be substantially equivalent. If a product does not meet the eligibility requirements for the 510(k) process, then its application must be submitted, instead, under the more time consuming and costly premarket approval procedure.

The Company's manufacturing facilities and the manufacture of its products are subject to FDA regulations regarding registration of manufacturing facilities, compliance with FDA good manufacturing practices and the reporting of adverse events. The FDA's good

manufacturing practices, titled "Quality System Regulation", require preproduction design controls and implementation of a full quality assurance system along with standards for manufacturing processes and facilities and record keeping for device failure and complaint investigations. The Company is subject to periodic on-site inspection for compliance with such regulations. The FDA may also conduct investigations and evaluations of the Company's products at its own initiative or in response to customer complaints or reports of malfunctions. If the FDA believes that its regulations have been violated, it has extensive enforcement authority including the power to seize, embargo or restrain entry of products from the market and to prohibit the operation of manufacturing facilities until the noted deficiencies are corrected to their satisfaction.

The Company seeks, where appropriate, to comply with the certification and safety standards of various organizations such as Underwriters' Laboratories, the Canadian Standards Association and the various safety and test regulations of the European Community. The Company recently received approval from the Japanese Ministry of Health and Labor Welfare to market its new MRI monitor.

The manufacture and testing of the Company's safety products and medical devices requires it to handle and store small quantities of a wide variety of chemicals, some of which are highly toxic. Certain of these chemicals pose a serious threat to workers and others who may come in contact with them if improperly used or handled. Most municipalities, including those in which the Company is presently located, now require that the proposed storage and use of dangerous chemicals receive local approval. State air quality boards, or similar agencies, must also approve the venting, and certain other aspects of handling, of these types of chemicals. These municipal and state agencies may, as a condition to the granting of approvals and permits, impose certain procedural limitations on the Company's storage and handling of these chemicals and

structural requirements on the facilities where these chemicals are stored and used. They also impose record keeping and reporting requirements on the users of these chemicals.

Compliance with these requirements has not, to date, had a material effect on the Company's capital expenditures, earnings or competitive position. Nonetheless, environmental regulation at the local, state and national levels continues to evolve, and the possibility exists that more stringent limitations and requirements may become applicable to the Company.

RESEARCH AND EXPERIMENTAL

During fiscal years 2001, 2000, and 1999 the Company's research and experimental expenses were approximately $3.3 million, $3.0 million, and $3.0 million, respectively. Most of these expenditures relate to the patient safety monitoring business.

INTELLECTUAL PROPERTY

The Company's success and competitive position depends upon its continued ability to develop new proprietary technology while protecting the Company's existing intellectual property. As of June 30, 2001, the Company held nine US patents expiring at different times between 2002 and 2018 and had one US patent application pending.

There is no assurance that any of the Company's current or future patent applications will result in patents, and the Company's existing or future patents may be circumvented, declared invalid or challenged as to scope or ownership. For these and other reasons, the Company may not realize any competitive advantage from the Company's existing patents and any patents that the Company may be granted in the future. Furthermore, others may develop technologies that are similar or superior to the Company's proprietary technologies or design around any patents that the Company may hold. In addition, the Company has not secured patent protection in foreign countries and the Company cannot be certain that the steps the Company takes to prevent misappropriation of our intellectual property abroad will be effective, or that the application of foreign laws to technology developed abroad will not adversely effect the validity or enforceability of the Company's U.S. patents.

EMPLOYEES

As of June 30, 2001 the Company had 361 employees. The Company is not a party to any collective bargaining agreement and has not experienced a strike or work stoppage. The Company considers its relations with its employees to be good.

ITEM 2. PROPERTIES

The following table sets forth information with respect to the real property owned or leased by the Company which it considers material to its business.

LOCATION	GENERAL CHARACTER AND USE OF THE PROPERTY	OWNERS EXPIR

Pleasanton, California	3,200 square-foot headquarters facility
Fremont, California	8,000 square-foot building used as the Company's manufacturing and distribution facility for its gas calibration and process control products
Orlando, Florida	54,000 square-foot building used as the manufacturing, distribution and administrative facility for the Company's patient monitoring products
Cucamonga, California	35,000 square-foot building used as the manufacturing, distribution and administrative facility for the Company's oxygen monitoring products
Miramar, Florida	14,000 square-foot building used as the manufacturing, distribution and administrative facility for the Company's gas detection and monitoring products

From time to time, the Company leases smaller facilities as its needs dictate. The Company considers its facilities to be sufficient for its current operations.

ITEM 3. 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.

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 has appealed this decision and requested a decision from the full panel of the Ninth Circuit.

8

The Company intends to vigorously defend itself in these 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.

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

None.

ITEM 4(A). EXECUTIVE OFFICERS OF THE COMPANY

Our executive officers and directors as of June 30, 2001 are listed below, together with brief accounts of their business experience and certain other information.

NAME	AGE	POSITION
James B. Hawkins	45	President, Chief Executive Officer, Secr
John F. Glenn	40	Vice President, Finance and Chief Financ
F. Larry Young	42	Vice President, Operations
Stuart Baumgarten	47	President, Invivo Research, Inc.

James B. Hawkins has been President, Chief Executive Officer and a Director of Invivo and its predecessor since August 1985. He also has served as Secretary of Invivo since July 1986. He earned his undergraduate degree in Business Commerce from Santa Clara University and his MBA from San Francisco State University.

John F. Glenn was appointed Vice President, Finance and Chief Financial Officer of Invivo in November 1990. Mr. Glenn earned his undergraduate degree in Business Administration from the University of Nevada and his MBA from the University of Santa Clara.

F. Larry Young has been Vice President, Operations of Invivo since April 1990 and the Chief Operating Officer of the Lumidor Safety Products subsidiary since August 1996.

Stuart Baumgarten has been President of the Invivo Research subsidiary since November 1998. From March 1996 to November 1998, Mr. Baumgarten served as Vice President of Sales and Marketing for Invivo Research.

9

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDERS' MATTERS

MARKET INFORMATION

The Company's common stock is traded on the Nasdaq National Market under

the symbol "SAFE." The following table describes, for the quarters indicated, the high and low closing sale prices for a share of the Company's common stock as reported on the Nasdaq National Market.

	HIGH	LOW
YEAR ENDED JUNE 30, 2001		
First Quarter	11.88	8
Second Quarter	11.88	7.13
Third Quarter	10.88	7.18
Fourth Quarter	10.18	8
YEAR ENDED JUNE 30, 2000		
First Quarter	14	11.5
Second Quarter	13.25	10
Third Quarter	13	10.56
Fourth Quarter	12.50	8

As of June 30, 2001 the Company had 59 shareholders of record of our common stock, although there are a larger number of beneficial holders.

DIVIDEND POLICY

The Company intends to retain future earnings to finance the expansion of its business and does not anticipate paying any cash dividends on its common stock in the foreseeable future. If the Company were to declare dividends in the future, such dividends would be paid at the discretion of its board of directors after taking into account various factors, including, among other things, the Company's financial condition, results of operations, cash flows from operations, current and anticipated cash needs and expansion plans, the income tax laws then in effect and the requirements of Delaware law. In addition, the Company's credit facility prohibits the payment of dividends without consent from the lender.

ITEM 6. SELECTED FINANCIAL DATA

The operations data set forth below with respect to the fiscal years ended June 30, 2001, 2000 and 1999 and the balance sheet data at June 30, 2001 and 2000 are derived from, and are qualified by, reference to the Company's audited financial statements included elsewhere herein and should be read in conjunction with those financial statements and the notes thereto. The operations data set forth below with respect to the fiscal years ended June 30, 1998 and 1997 and the balance sheet data at June 30, 1999, 1998 and 1997 are derived from audited financial statements not included herein.

(IN THOUSANDS, EXCEPT PER SHARE DAT			
FISCAL YEAR ENDED JUNE 30,			
2001	2000	1999	199

CONSOLIDATED STATEMENT OF OPERATIONS DATA:				
Sales	$ 54,279	$ 52,750	$ 48,858	$ 40,
Gross profit	26,432	25,745	24,490	19,
Operating expenses				
Selling, general and administrative	18,601	16,583	15,623	13,
Research and experimental	3,305	3,028	3,007	2,
Other income (expense)	747	1,088	(153)	(
Loss on Sale of G.C. Industries	(601)	--	--	
Income tax expense	1,618	2,256	1,889	1,
Net income	$ 3,054	$ 4,967	$ 3,818	$ 2,
Basic net income per common share	$ .69	$ 1.15	$ 1.07	$
Weighted average common shares outstanding (basic)	4,403	4,329	3,552	3,
Diluted net income per common share	$ .68	$ 1.10	$ 1.00	$
Weighted average common shares outstanding (diluted)	4,476	4,497	3,831	3,

	JUNE 30,				
	2001	2000	1999	1998	1997
CONSOLIDATED BALANCE SHEET DATA:					
Working capital	$31,380	$26,730	$22,949	$ 9,364	$ 7,474
Total assets	52,011	49,476	44,641	30,195	26,612
Long-term debt	1,647	1,393	1,375	1,480	1,584
Stockholders' equity	43,709	40,325	35,167	18,168	15,815

11

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

YEAR ENDED JUNE 30, 2001 COMPARED TO YEAR ENDED JUNE 30, 2000

SALES Sales for fiscal 2001 were $54,279,100, an increase of 2.9% over sales of $52,749,900 for fiscal 2000. Sales at the Company's patient safety monitoring business increased 7.7% in fiscal 2001 as compared to fiscal 2000. Continued growth in sales of the Company's MRI vital signs monitor offset a decrease in "Millennia" product sales as the general monitoring market experienced slowing market conditions. The sales increase at the patient safety monitoring business for 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 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 in fiscal 2001 partially offset the other sales declines in the safety and industrial segment.

GROSS PROFIT The gross profit margin decreased slightly in fiscal 2001 to 48.7% from 48.8% in fiscal 2000. An increase in the gross profit margin at the patient safety monitoring business helped offset the deteriorating gross margins of the non-contact infrared industrial products due to price discounting and other safety and industrial instrumentation product lines due to decreased sales.

OPERATING EXPENSES Selling, general and administrative expenses for fiscal 2001 increased 12.2% or $2,018,200 compared to fiscal 2000. Selling, general and administrative expenses were 34.3% of sales for fiscal 2001 compared with 31.4% for fiscal 2000. The increase in these expenditures in aggregate and as a percentage of sales for fiscal 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 note receivable was deemed 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 fiscal 2001 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 $3,305,000 or 6.1% of sales for fiscal 2001 compared to $3,027,700 or 5.7% for fiscal 2000. The increase in these expenses in aggregate and as a percentage of sales in fiscal 2001 was due to increased expenditures on behalf of the patient safety monitoring business 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 fiscal 2001 levels.

OTHER INCOME AND EXPENSE Other income, net for fiscal 2001 of $861,400 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 also included interest income which was $435,200 for fiscal 2001 as compared to $388,800 for fiscal 2000. The increase in interest income was due to higher balances on the Company's short-term investments. Interest expense decreased to $114,700 for fiscal 2001 compared with $137,000 for fiscal 2000.

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.

PROVISION FOR INCOME TAXES The effective tax rate for fiscal 2001 was 34.6% as compared to 31.20% for fiscal 2000. The increase in the effective rate was primarily due to a loss on the sale of G.C. Industries not deductible for tax purposes. The effective rate differs from the statutory rate due principally to the benefit of a foreign sales corporation and other credits.

YEAR ENDED JUNE 30, 2000 COMPARED TO YEAR ENDED JUNE 30, 1999

SALES Sales for fiscal 2000 were $52,749,900, an increase of 8.0% over sales of $48,858,000 for fiscal 1999. This sales increase was primarily due to sales

growth at the Company's patient safety monitoring business along with growth at the oxygen monitoring and gas detection businesses in the safety and industrial instrumentation segment. These increases offset a decrease in sales of the Company's non-contact infrared temperature products as these products experienced strong competitive pricing pressures. The "Millennia" portable vital signs monitor and MRI vital signs monitor were the primary contributors to the sales increase at the patient safety monitoring business.

GROSS PROFIT The gross profit margin decreased in fiscal 2000 to 48.8% from 50.1% in fiscal 1999. The decrease was attributable to several factors which included heavy price discounting at the non-contact infrared industrial business due to difficult market conditions; higher manufacturing costs at the patient safety monitoring business which included the expansion of the service organization; and lower margins in the OEM patient safety monitoring business due to lower contracted prices on increased volume. The increase in sales at the oxygen monitoring business also contributed to the gross margin decrease as that business has inherently lower gross margins than the Company's other businesses.

OPERATING EXPENSES Selling, general and administrative expenses for fiscal 2000 increased 6.1% or $960,000 compared to fiscal 1999. Selling, general and administrative expenses were 31.4% of sales for fiscal 2000 compared with 32.0% for fiscal 1999. The increase in these expenditures in aggregate for fiscal 2000 was primarily due to higher administrative expenses at the Company's patient safety monitoring along with higher selling expenses on the higher sales volume at the patient safety monitoring business.

Research and experimental expenses were 5.7% of sales for fiscal 2000 compared to 6.2% for fiscal 1999. The decrease was attributable to a decline in the amount of research and experimental expenses on behalf of the patient safety monitoring business as $271,400 of labor expenditures related to equipment for the production of the Company's proprietary anesthetic agent module for the "Millennia" was capitalized in the second and third quarters of fiscal 2000. The Company does not foresee similar items to be capitalized in fiscal 2001.

OTHER INCOME AND EXPENSE Other income of $1,225,600 for fiscal 2000 included a $834,000 gain on the sale of short-term investments. Interest income increased to $388,800 in fiscal 2000 as compared to $148,800 for fiscal 1999. Interest expense decreased to $137,000 for fiscal 2000 compared with $255,500 for fiscal 1999. These changes were the result of the investment of, and the payoff of the outstanding balances on the Company's revolving bank line of credit and term loan with, the proceeds from the Company's secondary stock offering in March 1999.

PROVISION FOR INCOME TAXES The effective tax rate for fiscal 2000 decreased to 31.2% as compared to 34% for fiscal 1999. The decrease was primarily due to the adjustment of prior year's taxes. The effective rate also differs from the statutory rate due principally to the benefit of a foreign sales corporation and other credits.

INFLATION

The Company does not believe that inflation had a significant impact on its results of operations during any of the last three fiscal years.

LIQUIDITY AND CAPITAL RESOURCES

Working capital at June 30, 2001 increased to $31,380,100 from $26,729,600 at June 30, 2000. Net cash provided by operating activities was $2,307,100 for fiscal 2001 compared with $1,712,600 provided by operating activities for fiscal 2000. This increase was largely the result of changes in operating assets and liabilities, particularly accounts receivable and inventories.

Capital expenditures were $1,459,700 for fiscal 2001 compared to $2,101,300 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 2002. The Company's $1,000,000 revolving bank line of credit is

collateralized by the Company's accounts receivable, inventory, and equipment. At June 30, 2001, $1,000,000 was available under the line of credit.

In September 2001, The Company's Board of Directors authorized the use of up to $2 million of the Company's cash for repurchases of the Company's common stock. These purchases, if commenced, could be suspended and then further commenced or restarted at any time.

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 July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet in order to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately, Statement 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 Statement 142. Statement 142 will also require that intangible assets with estimable useful lives be amortized over their respective estimated useful lives up to their estimated residual values, and reviewed for impairment in accordance with FAS Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. In connection with the adoption of FAS 142, the Company will be required to perform a transitional goodwill impairment assessment. Statement 142 must be adopted in fiscal years beginning after December 15, 2001. Early adoption is permitted before the issuance of the Company's first quarter's financial statements. The Company has not yet determined the impact these standards will have on its results of operations and financial position.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 has appealed this decision and requested a decision from the full panel of the Ninth Circuit.

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 7(A). 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements:

Independent Auditors' Report .....

Consolidated Balance Sheets - June 30, 2001 and 2000 .....

Consolidated Statements of Income for the Years Ended June 30, 2001, 2000, and 1999 .....

Consolidated Statements of Stockholders' Equity and Comprehensive Income for the Years Ended June 30, 2001, 2000, and 1999 .....

Consolidated Statements of Cash Flows for the Years Ended June 30, 2001, 2000, and 1999 .....

Notes to Consolidated Financial Statements .....

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Invivo Corporation:

We have audited the accompanying consolidated balance sheets of Invivo Corporation and subsidiaries (the Company) as of June 30, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended June 30, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Invivo Corporation and subsidiaries as of June 30, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

August 3, 2001

INVIVO CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2001 and 2000

	2001
ASSETS	
Current assets:	
Cash and cash equivalents	$ 280,000
Short-term investments	9,091,300
Trade receivables, less allowance for doubtful accounts of $507,100 as of June 30, 2001 and $533,900 as of June 30, 2000	15,656,600
Inventories	11,249,100
Deferred income taxes	1,013,300
Prepaid expenses and other current assets	465,500
Total current assets	37,755,800
Property and equipment, net	6,398,000
Intangible assets	7,633,900
Other assets	223,400
	$ 52,011,100
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 2,267,200
Accrued expenses	3,662,900
Current portion of long-term debt and capital leases	154,700
Income taxes payable	147,000
Other current liabilities	143,900
Total current liabilities	6,375,700
Long-term debt and capital leases, excluding current portion	1,647,100
Deferred income taxes	279,700
Other	--
Total liabilities	8,302,500
Stockholders' equity:	
Common stock, $.01 par value; authorized shares totaling 20,000,000; issued and outstanding shares totaling 4,423,249 as of June 30, 2001 and 4,362,999 as of June 30, 2000	44,200
Additional paid-in capital	26,581,500
Retained earnings	17,095,900
Accumulated other comprehensive loss	(13,000)
Total stockholders' equity	43,708,600
Commitments and contingencies	
	$ 52,011,100

See accompanying notes to consolidated financial statements.

20

INVIVO CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

Years ended June 30, 2001, 2000 and 1999

	2001	2000
Sales	$ 54,279,100	52,749,900
Cost of goods sold	27,847,000	27,005,100
Gross profit	26,432,100	25,744,800
Operating expenses:		
Selling, general, and administrative	18,601,000	16,582,800
Research and experimental	3,305,000	3,027,700
Total operating expenses	21,906,000	19,610,500
Income from operations	4,526,100	6,134,300
Other income (expense):		
Interest expense	(114,700)	(137,000)
Other, net	861,400	1,225,200
Loss on sale of G.C. Industries	(600,500)	--
Income before income taxes	4,672,300	7,222,500
Income tax expense	1,618,200	2,255,600
Net income	$ 3,054,100	4,966,900
Basic net income per common share	$ .69	1.15
Weighted-average common shares outstanding (basic)	4,402,760	4,328,897
Diluted net income per common share	$ .68	1.10
Weighted-average common shares and common share equivalents outstanding (diluted)	4,476,014	4,497,490

See accompanying notes to consolidated financial statements.

20

21

INVIVO CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity and Comprehensive Income

Years ended June 30, 2001, 2000 and 1999

	COMMON STOCK		ADDITIONAL PAID-IN	RETAINE
	SHARES	AMOUNT	CAPITAL	EARNING
Balances as of June 30, 1998	3,269,418	$ 32,700	12,878,600	5,257,
Issuance of common stock:				
Stock offering, net of offering costs totaling $1,376,723	900,000	9,000	11,898,300	
Acquisition of Invivo Research Inc.	82,256	800	1,047,000	
Exercise of stock options	28,900	300	161,800	
Tax benefit from exercise of options	--	--	90,900	
Net income	--	--	--	3,817,
Unrealized loss on short-term investments	--	--	--	
Balances as of June 30, 1999	4,280,574	42,800	26,076,600	9,074,
Exercise of stock options	82,425	800	178,900	
Tax benefit from exercise of options	--	--	1,800	
Net income	--	--	--	4,966,
Unrealized gain on short-term investments	--	--	--	
Balances as of June 30, 2000	4,362,999	43,600	26,257,300	14,041,
Exercise of stock options	60,250	600	183,200	
Tax benefit from exercise of options	--	--	141,000	
Net income	--	--	--	3,054,
Unrealized gain on short-term investments	--	--	--	
Foreign currency translation adjustment	--	--	--	
Balances as of June 30, 2001	4,423,249	$ 44,200	26,581,500	17,095,

See accompanying notes to consolidated financial statements.

INVIVO CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2001, 2000 and 1999

	2001	2000
Cash flows from operating activities:		
Net income	$ 3,054,100	4,966
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,465,400	1,248
Loss on sale of property and equipment	--	
Loss on sale of G.C. Industries	600,500	
Write-off of note receivable	203,600	
Deferred income taxes	491,400	(135
Tax benefit from exercise of stock options	141,000	1
Changes in operating assets and liabilities:		
Trade receivables	(1,098,300)	(2,482
Inventories	(934,100)	(1,954
Prepaid expenses and other current assets	(58,300)	170
Accrued expenses	88,400	(193
Accounts payable	(458,400)	(189
Income taxes payable	(1,200,200)	280
Other current liabilities	12,000	
Net cash provided by operating activities	2,307,100	1,712
Cash flows from investing activities:		
(Purchase) sale of short-term investments, net	(2,247,500)	1,403
Capital expenditures	(1,459,700)	(2,101
Asset acquisition	(482,000)	
Sale of G.C. Industries	664,000	
Intangible assets	--	
Other assets	90,300	(300
Net cash used in investing activities	(3,434,900)	(998
Cash flows from financing activities:		
Issuances of common stock, net of offering costs	183,800	179
Bank borrowings (repayments), net	1,541,000	
Payments under long-term debt and capital leases	(1,286,800)	(131
Net cash provided by financing activities	438,000	48
Net (decrease) increase in cash and cash equivalents	(689,800)	762
Cash and cash equivalents at beginning of year	969,800	207

Cash and cash equivalents at end of year	$ 280,000	969

See accompanying notes to consolidated financial statements.

INVIVO CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2001 and 2000

(1) SIGNIFICANT ACCOUNTING POLICIES

(a) BUSINESS AND SEGMENT INFORMATION

Invivo Corporation and subsidiaries (the Company) are engaged in two business segments: patient safety monitoring and safety and industrial instrumentation. The patient safety monitoring segment designs, manufactures, and markets monitoring systems that measure and display vital signs of patients in medical settings. The safety and industrial instrumentation segment designs, manufactures, and markets sensor-based instruments for safety and industrial process control applications.

(b) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) CASH EQUIVALENTS

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

(d) SHORT-TERM INVESTMENTS

The Company classifies all of its short-term investments as available-for-sale securities. Such short-term investments consist primarily of federal agency securities and money market funds, with unrealized gains and losses on the securities reflected as other comprehensive income in stockholders' equity. Realized gains and losses on short-term investments are included in earnings and are derived using the specific identification method for determining the cost of securities. It is the Company's intent to maintain a liquid portfolio to take advantage of investment opportunities; therefore, all securities are considered to be available-for-sale and are classified as current assets.

The Company derives the fair value of its short-term investments based on quoted market prices.

(e) INVENTORIES

Inventories are stated at the lower of cost or market on a first-in, first-out basis.

(f) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	30 years
Equipment	3 to 5 years
Furniture and fixtures	3 to 5 years
Leasehold improvements	Shorter of life of lease or 5 years
Automotive	5 years

24

(g) INCOME TAXES

The Company utilizes the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits which are not expected to be realized.

(h) INTANGIBLE ASSETS

Intangible assets include patents and the cost in excess of amounts otherwise assigned to net assets of businesses acquired (goodwill). Patents are amortized on a straight-line basis over their approximate useful lives, not to exceed 17 years. Goodwill is amortized on a straight-line basis over 40 years. The Company assesses the recoverability of goodwill by projecting results of operations over the remaining useful lives of the businesses acquired. Accumulated amortization as of June 30, 2001 and 2000 was approximately $1,240,000 and $1,319,800, respectively. Amortization expense was approximately $254,400, $260,700 and $191,700 for 2001, 2000 and 1999, respectively.

(i) REVENUE RECOGNITION

The Company recognizes revenue and all related costs upon shipment of products to its customers. The Company does not as a matter of contract provide its customers the right of return. However, under certain circumstances the Company has allowed the return of product. Based on experience and other information

available to the Company, the Company believes the amount of future returns can be reasonably estimated. An allowance for sales returns is reflected as a current liability with sales revenue in the income statement reduced to reflect estimated sales returns.

(j) NET INCOME PER SHARE

Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common and dilutive common shares outstanding during the period. Dilutive potential common shares consist of employee stock options.

(k) WARRANTIES

Product warranties providing for the repair or replacement of defective products are included in the sale price of the Company's products. The typical warranty period is one year. Warranty obligations are accrued as a current liability for the estimated amount of warranty expense expected in future accounting periods based on experience and other information available to the Company.

(l) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets and certain identifiable intangibles held and used by the Company are reviewed for impairment whenever events or changes indicate that the carrying amount of an asset may not be recoverable. The Company has identified no long-lived assets or identifiable intangibles which are considered impaired.

(n) FAIR VALUE OF FINANCIAL INSTRUMENTS

Carrying amounts of certain of the Company's financial instruments including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair values because of their short maturities.

(o) RESEARCH AND EXPERIMENTAL COSTS

Research and experimental costs related to the design, development and testing of new monitors, applications and technologies are charged to expense as incurred.

(p) ACCOUNTING FOR STOCK OPTIONS

25

The Company accounts for its stock option plans in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense would be recorded only if the current market price of the underlying stock exceeded the exercise price on the date of grant. The Company has adopted the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," which allows entities to continue to apply provisions of APB Opinion No. 25 and provide pro forma net income and pro forma net income per share disclosures for employee stock option grants made in 1996 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied.

(q) RECLASSIFICATIONS

Certain reclassifications have been made in the prior years' financial statements to conform to classifications used in the current year. These reclassifications had no effect on reported earnings.

(r) NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet in order to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement 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 Statement 142. Statement 142 will also require that intangible assets with estimable useful lives be amortized over their respective estimated useful lives up to their estimated residual values, and reviewed for impairment in accordance with FAS Statement No. 121. Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. In connection with the adoption of FAS 142, the Company will be required to perform a transitional goodwill impairment assessment. Statement 142 must be adopted in fiscal years beginning after December 15, 2001. Early adoption is permitted before the issuance of the Company's first quarter's financial statements. The Company has not yet determined the impact these standards will have on its results of operations and financial position.

(2) SHORT-TERM INVESTMENTS

Short-term investments consist of the following:

	COST	UNREALIZED HOLDING (LOSSES) GAINS	FAIR VALUE

As of June 30, 2001:			
Money market funds	$ 9,091,300	--	9,091,300
As of June 30, 2000:			
Federal agency securities	$ 4,000,000	(26,200)	3,973,800
Money market funds	2,843,800	--	2,843,800
	$ 6,843,800	(26,200)	6,817,600

(3) INVENTORIES

A summary of inventories as of June 30 follows:

	2001	2000
Raw materials	$ 5,847,600	5,051,700
Work in process	4,210,600	3,814,300
Finished goods	1,190,900	1,266,000
	$11,249,100	10,132,000

(4) PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30 follows:

	2001	2000
Land and building	$ 2,648,500	2,325,400
Equipment	8,106,600	7,706,400
Furniture and fixtures	1,939,100	1,027,600
Vehicles	110,400	130,400
Leased improvements	331,200	143,300
	13,135,800	11,333,100
Less accumulated depreciation and amortization	(6,737,800)	(5,193,500)
	$ 6,398,000	6,139,600

Included in property and equipment as of June 30, 2001 is $208,200 of equipment under capital lease. Accumulated amortization related to this equipment was $89,500 as of June 30, 2001.

(5) BORROWINGS

A summary of debt and bank borrowings as of June 30 follows:

	2001
Term loan payable in monthly installments of approximately $9,400, including interest at LIBOR plus 2% (5.95% at June 30, 2001); secured by land and building	$ 1,679,600
Less current portion	(113,300)
	$ 1,566,300

The aggregate maturities of long-term debt as of June 30, 2001 are as follows:

Year ending June 30:	
2002	$ 113,300
2003	113,300
2004	113,300
2005	113,300
2006	113,300
Thereafter	1,113,100
	$1,679,600

During fiscal year 2001, the Company refinanced its term loan and increased the amount to $1,700,000. The additional funds were used for expansion of its building.

During fiscal year 2001, the Company renewed its bank line of credit from December 1, 2000 to December 1, 2001. The revolving line of credit requires the Company to maintain a minimum tangible net worth, a maximum ratio of total liabilities to tangible net worth, a minimum working capital balance, and quarterly and annual profitability, and prohibits the Company from paying dividends. As of June 30, 2001, $1,000,000 was available under the line of credit.

(6) ACCRUED EXPENSES

A summary of accrued expenses as of June 30 follows:

	2001	2000
Accrued compensation and benefits	$2,084,100	1,981,800
Other	1,578,800	1,399,300
	$3,662,900	3,381,100

(7) LEASE COMMITMENTS

The Company leases certain facilities and equipment under capital and operating leases. The facilities' leases require the Company to pay certain executory costs such as taxes, insurance, and maintenance. Rent expense related to operating leases was approximately $498,000, $566,200 and $440,000 for the years ended June 30, 2001, 2000 and 1999, respectively.

A summary of future minimum lease payments required under noncancelable leases with terms in excess of one year, net of sublease rental income, as of June 30, 2001 follows:

	CAPITAL LEASES	OPERAT LEA
Fiscal year ending June 30:		
2002	$ 49,800	635,
2003	49,800	646,
2004	37,500	654,
2005	--	664,
2006	--	535,
Thereafter	--	262,
	137,100	$3,400,
Less amount representing interest	(14,900)	
Present value of future minimum lease payments	122,200	
Less current portion	(41,400)	
Capital lease obligations, excluding current portion	$ 80,800	

(8) OTHER INCOME AND EXPENSE

A summary of other, net as of June 30 follows:

	2001	2000	1999
Interest Income	$435,200	388,800	148,800
Gain on Sale of Securities	--	834,000	--

Settlement of lawsuit	450,000	--	--
Other	(23,800)	2,400	(46,100)
	$861,400	1,225,200	102,700

28

(9) INCOME TAXES

A summary of the components of income tax expense (benefit) for the years ended June 30 is as follows:

	CURRENT	DEFERRED	TOTAL
2001:			
Federal	$ 1,008,400	464,600	1,473,000
State	118,400	26,800	145,200
	$ 1,126,800	491,400	1,618,200
2000:			
Federal	$ 2,109,900	(202,900)	1,907,000
State	281,600	67,000	348,600
	$ 2,391,500	(135,900)	2,255,600
1999:			
Federal	$ 1,718,200	(82,700)	1,635,500
State	278,000	(24,300)	253,700
	$ 1,996,200	(107,000)	1,889,200

The effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of June 30 are as follows:

	2001	2
Deferred tax assets:		
Reserves and other accruals	$ 1,013,300	1,
Capital loss carryover	--	
Gross deferred tax assets	1,013,300	1,
Valuation allowance	--	(
Total deferred tax assets, less valuation allowance	1,013,300	1,

Deferred tax liabilities:		
Tax depreciation in excess of book depreciation	(276,300)	
State taxes	(3,400)	
Total deferred tax liabilities	(279,700)	(
Net deferred tax asset	$ 733,600	1,

The valuation allowance decreased by $199,400 for the year ended June 30, 2001 due to the utilization and expiration of capital loss carryforwards.

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax asset, or that the amounts will be recovered from previously paid taxes.

29

The following summarizes the differences between the income tax expense and the amount computed by applying the 34% federal statutory corporate rate to income before income taxes as follows:

	2001	2000	
Federal income tax at statutory rate	$ 1,588,600	2,455,700	
State income taxes	95,800	230,100	
Utilization of research, experimental, and other credits	(136,300)	(103,200)	
Benefit of foreign sales corporation	(132,400)	(201,100)	
Non-deductible goodwill	342,300	88,100	
Meals and entertainment	65,900	70,500	
Decrease in valuation allowance on capital loss carryforward	(173,300)	--	
Other	(32,400)	(50,900)	
Adjustment of prior year's taxes	--	(233,600)	
	$ 1,618,200	2,255,600	

(10) STOCK OPTION PLAN

The Company has established stock option plans to provide for the granting of stock options to employees (including officers and directors) at prices not less than the fair market value of the Company's common stock at the date of grant. Options vest ratably over four years and expire in ten years. The Company has reserved 314,400 and 800,000 shares of its common stock for issuance under the 1986 and 1994 plans, respectively. During 2001, the Company granted 55,600 options to purchase shares of common stock.

Pro forma information regarding net income and net income per share is required by SFAS No. 123, and has been determined as if the Company had accounted for the plans under the fair-value method. The fair value of options issued under the plans was determined at the date of grant using a Black-Scholes option pricing model with the following assumptions: no dividend yield; volatility factor of the expected market price of the Company's stock of 68%; a forfeiture rate of 5%; a weighted-average expected life of options of five years; and a risk-free interest rate of 5.31%, 6.20% and 5.00% for 2001, 2000 and 1999, respectively. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net income and net income per common share would approximate the following:

		2001	2000
Net income	As reported	$ 3,054,100	4,966,900
	Pro forma	2,098,168	4,140,257
Basic net income per share	As reported	.69	1.15
	Pro forma	.48	.96
Diluted net income per share	As reported	.68	1.10
	Pro forma	.47	.92

Pro forma net income reflects only options granted from 1996 through 2001. Therefore, the full impact of calculating compensation cost for the Company's plan under SFAS No. 123 is not reflected in the option's vesting period and compensation costs for options granted prior to July 1, 1995 are not considered.

30

A summary of stock option activity for the years ended June 30, 2001 and 2000 follows:

	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE GRANT DATE FAIR VALUE	OPTIONS EXERCISABLE AT YEAR END	WEIGHT AVERAG EXERCISE OF OPTI EXERCISAB YEAR E
June 30, 1998	615,975	$ 7.77		328,401	$ 5.
Granted	183,000	12.15	7.58		
Exercised	(28,900)	5.60			
Canceled	(6,250)	8.90			
June 30, 1999	763,825	$ 8.89		426,575	$ 6.

Granted	186,850	10.03	6.32		
Exercised	(82,425)	2.18			
Canceled	(19,575)	11.25			
June 30, 2000	848,675	6.94		466,575	8.
Granted	55,600	8.81	5.37		
Exercised	(60,250)	3.05			
Canceled	(32,350)	11.25			
June 30, 2001	811,675	10.11		574,150	9.

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AS OF JUNE 30, 2001	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AS OF JUNE 30, 2001
$ 2.00 - 5.130	39,200	1.54	$ 4.62	39,200
7.00 - 9.875	323,575	7.44	8.87	182,300
10.00 - 16.130	448,900	6.41	11.49	352,650
	811,675			574,150

(11) SALARY DEFERRAL PLAN

The Company's executive officers, together with all other eligible employees, may participate in the Company's 401(k) Salary Deferral Plan (the Plan). Employees become eligible upon completion of six months of service. Each eligible employee receives a retirement benefit based upon accumulated contributions to the Plan by the employee and the Company plus any earnings on such contributions. The Company contributes an amount equal to 35% of the first 4% of compensation which the employee contributes. The Plan currently provides that participants vest 25% each year over a four-year period. Company contributions to the Plan for the plan years ended December 31, 2000 and 1999 were $120,400 and $84,800, respectively.

(12) 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.

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 has appealed this decision and requested a decision from the full panel of the Ninth Circuit.

The Company intends to vigorously defend itself in these 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.

(13) MAJOR CUSTOMERS AND CREDIT RISK

In fiscal 2001, 2000 and 1999, no individual customer accounted for greater than 10% of the Company's revenues or trade accounts receivable.

The Company has a customer base that is diverse geographically and by industry. Customer credit evaluations are performed on an ongoing basis, and collateral is generally not required for trade accounts receivable. Management does not believe the Company has any significant concentration of credit risk as of June 30, 2001.

(14) NET INCOME PER COMMON SHARE

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

	FOR THE FISCAL YEAR ENDED JUNE 30,		
	2001	2000	19
BASIC:			
Weighted average common Shares outstanding	4,402,760	4,328,897	3,552

Net Income	3,054,100	4,966,900	3,817
Basic net income per common share	.69	1.15	
DILUTED:			
Weighted average common Shares outstanding (basic)	4,402,760	4,328,897	3,552
Dilutive stock options	73,254	168,593	279
Weighted average common Shares outstanding (diluted)	4,476,014	4,497,490	3,831
Net Income	3,054,100	4,966,900	3,817
Diluted net income per common share	$ .68	$ 1.10	$

31

(15) SEGMENT INFORMATION

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 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(1)	TOTA
For the year ended June 30, 2001:				
Net sales	$35,503	18,776	--	54,27
Income from operations	3,970	2,370	(1,814)	4,52
Depreciation and amortization	952	464	49	1,46
Total assets	29,026	12,733	10,252	52,01

	PATIENT SAFETY MONITORING	SAFETY AND INDUSTRIAL INSTRUMENTATION	CORPORATE(1)	TOTA
For the year ended June 30, 2000:				
Net sales	$32,966	19,784	--	52,75
Income from operations	4,512	3,208	(1,586)	6,13
Depreciation and amortization	943	259	48	1,25
Total assets	29,135	10,803	9,538	49,47

	PATIENT SAFETY MONITORING	SAFETY AND INDUSTRIAL INSTRUMENTATION	CORPORATE(1)	TOTA
For the year ended June 30, 1999:				
Net sales	$30,173	18,685	--	48,85
Income from operations	4,001	3,266	(1,407)	5,86
Depreciation and amortization	548	322	19	88
Total assets	24,836	9,282	10,523	44,64

(1) Includes costs not identifiable to a particular segment, such as general and administrative expenses.

A reconciliation of income from operations to income before income taxes for the year ended June 30 follows:

	2001	2000	1999
Income from operations	$4,526	6,134	5,860
Other income (expense)	146	1,089	(153)
Income before income taxes	4,672	7,223	5,707

32

The Company markets its products in the United States and in foreign countries through its sales personnel and distributors. Export sales account for a portion of the Company's net revenue and are approximately summarized by geographic area as follows (in thousands):

	YEAR ENDED JUNE 30,		
	2001	2000	1999
United States	$42,700	41,400	37,700
Export:			
Europe	6,500	5,800	5,800
Pacific Rim	3,500	4,600	2,900
Other International	1,600	1,000	2,500
Total net sales	$54,300	52,800	48,900

(16) SUPPLEMENTAL CASH FLOW INFORMATION

Noncash investing and financing activities and supplemental cash flow information are summarized as follows:

	YEAR ENDED JUNE 30,		
	2001	2000	1999
Equipment acquired under capital lease	$ --	--	208,200
Common stock issued in connection with the acquisition of Invivo Research Inc.	--	--	1,047,800
Cash paid:			
Income taxes	2,186,000	2,109,000	2,272,000
Interest	114,700	137,000	255,500

33

SELECTED QUARTERLY FINANCIAL DATA (NOT COVERED BY REPORT OF INDEPENDENT ACCOUNTANTS):

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	1ST QTR	2ND QTR	3RD QTR	4TH QTR
FISCAL YEAR 2001				
Sales	$12,673	13,034	13,801	14,771
Gross Profit	6,252	6,332	6,712	7,166
Net Income	845	881	485	844
Net Income per common share (basic)	0.19	0.20	0.11	0.19
Net Income per common share (diluted)	0.19	0.20	0.11	0.19
FISCAL YEAR 2000				
Sales	$12,864	13,028	13,232	13,626
Gross Profit	6,458	6,177	6,378	6,732
Net Income	1,158	1,211	1,163	1,435
Net Income per common share (basic)	0.27	0.28	0.27	0.33

Net Income per common share (diluted) ..	0.26	0.27	0.26	0.32

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10.

The information required is incorporated by reference from the Company's definitive proxy statement for the Company's 2001 Annual Meeting of Stockholders.

ITEM 11.

The information required is incorporated by reference from the Company's definitive proxy statement for the Company's 2001 Annual Meeting of Stockholders.

ITEM 12.

The information required is incorporated by reference from the Company's definitive proxy statement for the Company's 2001 Annual Meeting of Stockholders.

ITEM 13.

The information required is incorporated by reference from the Company's definitive proxy statement for the Company's 2001 Annual Meeting of Stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

EXHIBIT INDEX

NUMBER	DESCRIPTION OF DOCUMENT	PAGE
3.01	Restated Certificate of Incorporation of the Registrant(1)	
3.02	Restated By-Laws of the Registrant(2)	
4.01	Form of Common Stock Certificate(2)	
10.01	Sensor Control Corporation 1986 Incentive Stock Option Plan and 1986 Non-statutory Stock Option Plan, as amended(3)	
10.02	Indemnity Agreement(2)	

10.03	SafetyTek 1994 Stock Option Plan(4) .....
10.04	Credit Agreement between Wells Fargo Bank and Invivo Corp. dated October 6, 1998(5) .....
10.05	First Amendment to Credit Agreement between Invivo Corp. and Wells Fargo Bank dated November 1, 1998(5) .....
10.06	Stock Option Agreement with Walden Management Corporation Pension Fund for the Benefit of George S. Sarlo (1) .....
10.07	Second Amendment to Credit Agreement between Invivo Corp. and Wells Fargo Bank dated December 1, 1999 (6) .....
10.08	Third Amendment to Credit Agreement between Invivo Corp. and Wells Fargo Bank dated May 15, 2000 (7) .....
10.09	First Amendment to Lease between Miramar Flexspace Ltd. and Invivo Corporation dated June 12, 2000 (7) .....
10.10	Lease between Sierra Precision and Capellino/Galleano dated June 7, 2000 (7) .....
10.11	First Amendment to Lease between Sierra Precision and Capellino/Galleano dated July 12, 2000 (7) .....
10.12	Fourth Amendment to Credit Agreement between Invivo Corp. and Wells Fargo Bank dated December 1, 2000 (8) .....
10.13	First Amendment to Lease between Principal Life insurance Company and Invivo Corporation dated February 26, 2001 (9) .....
10.14	Lease between Arcadia Management Services and Invivo Corporation dated November 29, 2000 (9) .....
10.15	Note and Mortgage Modification Agreement and Notice of Future Advance between Suntrust Bank and Invivo Research Inc. dated May 30, 2001** .....
21.01	Subsidiaries of Registrant** .....
23.01	Consent of KPMG LLP** .....

** Filed herewith

(1) Incorporated by reference to corresponding Exhibit included with Registrant's Registration Statement on Form S-2 filed on March 9, 1999. (File No. 333-72071)

(2) Incorporated by reference to corresponding Exhibit included with Registrant's Form 10-K filed September 28, 1990. (File No. 0-15963)

(3) Incorporated by reference to corresponding Exhibit included with Registrant's Form 8-K filed January 28, 1991. (File No. 0-15963)

(4) Incorporated by reference to corresponding Exhibit included with Registrant's Form S-8 filed January 27, 1995. (File No. 33-88798)

(5) Incorporated by reference to corresponding Exhibit included with Registrant's Form 10-Q filed November 12, 1998. (File No. 0-15963)

(6) Incorporated by reference to corresponding Exhibit included with Registrant's Form 10-Q filed February 14, 2000. (File No. 0-15963)

(7) Incorporated by reference to corresponding Exhibit included with Registrant's Form 10-K filed September 26, 2000. (File No. 0-15963)

(8) Incorporated by reference to corresponding Exhibit included with Registrant's Form 10-Q filed February 14, 2001. (File No. 0-15963)

(9) Incorporated by reference to corresponding Exhibit included with Registrant's Form 10-Q filed April 15, 2001. (File No. 0-15963)

(B) FINANCIAL STATEMENT SCHEDULES

Invivo Corporation and Subsidiaries

Schedule II

Valuation and Qualifying Accounts
Years ended June 30, 2001, 2000 and 1999

	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS(1)	BALANCE AT END OF YEAR
Allowance for doubtful accounts				
Fiscal 2001	533,900	232,000	258,800	507,100
Fiscal 2000	280,600	502,400	249,100	533,900
Fiscal 1999	288,300	23,400	31,100	280,600
Warranty Reserve				
Fiscal 2001	396,200	448,100	428,900	415,400
Fiscal 2000	308,200	330,800	242,800	396,200
Fiscal 1999	227,000	282,600	201,400	308,200

(1) Deductions as a result of write-offs

(C) REPORTS ON FORM 8-K

The Company was not required to file any reports on Form 8-K for the quarter ended June 30, 2001.

37

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Invivo Corporation

/S/ JOHN F. GLENN
John F. Glenn
Vice President-Finance\
Chief Financial Officer

September 28, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/S/ ERNEST C. GOGGIO Ernest C. Goggio	Chairman of the Board	September 28, 2001
/S/ JAMES B. HAWKINS James B. Hawkins	President, Chief Executive Officer, Director (principal executive officer)	September 28, 2001
/S/ JOHN F. GLENN John F. Glenn	Chief Financial Officer (principal financial and accounting officer)	September 28, 2001
/S/ LAUREEN DEBUONO Laureen DeBuono	Director	September 28, 2001
/S/ GEORGE S. SARLO George S. Sarlo	Director	September 28, 2001

37