

Edgar Filing: INNOVEX INC - Form 10-Q

INNOVEX INC
Form 10-Q
August 14, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

For the Period ended June 30, 2001.

OR

Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

Commission File Number: 0-13143

INNOVEX, INC.
(Exact name of registrant as specified in its charter)

Minnesota (State or other jurisdiction of incorporation or organization)	41-1223933 (IRS Employer Identification No.)
--	--

5540 Pioneer Creek Drive, Maple Plain, Minnesota (Address of principal executive offices)	55359-9003 (Zip Code)
--	--------------------------

Registrant's telephone number, including area code: (763) 479-5300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes - No

As of August 1, 2001, 15,002,689 shares of the registrant's common stock, \$.04 par value per share, were outstanding.

Exhibit Index, page 12

PART 1: ITEM 1 FINANCIAL INFORMATION

INNOVEX, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2001	September 30, 2000
ASSETS		

Edgar Filing: INNOVEX INC - Form 10-Q

Current assets:		
Cash and equivalents	\$ 2,172,773	\$ 1,673,486
Short-term investments	5,000	5,000
Accounts receivable, net	23,097,533	23,834,538
Inventories	16,104,679	21,570,553
Income taxes receivable	633,752	2,182,924
Other current assets	7,010,493	7,311,184
	-----	-----
Total current assets	49,024,230	56,577,685
Property, plant and equipment, net of accumulated depreciation of \$24,291,000 and \$17,955,000	87,998,428	94,519,926
Intangible and other assets, net of accumulated amortization of \$1,288,000 and \$1,326,000	3,345,979	7,089,649
Deferred income taxes	9,445,162	9,445,162
Other assets	50,863	47,470
	-----	-----
	\$149,864,662	\$167,679,892
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current maturities of long-term debt	\$ 7,357,457	\$ 7,198,411
Line of credit	12,441,163	9,700,000
Accounts payable	15,463,775	24,872,142
Accrued compensation	2,424,516	2,173,881
Other accrued liabilities	11,492,169	6,336,127
	-----	-----
Total current liabilities	49,179,080	50,280,561
Long-term debt, less current maturities	30,611,652	21,003,284
Stockholders' equity:		
Common stock, \$.04 par value; 30,000,000 shares authorized, 15,002,689 and 14,930,286 shares issued and outstanding	600,108	597,211
Capital in excess of par value	17,546,030	17,086,609
Retained earnings	51,927,792	78,712,227
	-----	-----
Total stockholders' equity	70,073,930	96,396,047
	-----	-----
	\$149,864,662	\$167,679,892
	=====	=====

See accompanying notes to condensed consolidated financial statements.

Edgar Filing: INNOVEX INC - Form 10-Q

	2001 ----	2000 ----
Net sales	\$ 36,250,675	\$ 38,433,243
Costs and expenses:		
Cost of sales	33,193,187	31,660,185
Selling, general and administrative	4,876,602	4,011,065
Engineering	1,381,214	1,883,599
Restructuring charges	--	(183,928)
Net interest (income) expense	849,846	745,726
Net other (income) expense	22,312	(234,948)
	-----	-----
Income (loss) before taxes	(4,072,486)	551,544
Provision for income taxes	(1,181,021)	159,000
	-----	-----
Net income (loss)	\$ (2,891,465)	\$ 392,544
	=====	=====
Net income (loss) per share:		
Basic	\$ (0.19)	\$ 0.03
	=====	=====
Diluted	\$ (0.19)	\$ 0.03
	=====	=====
Weighted average shares outstanding:		
Basic	15,001,300	14,837,671
	=====	=====
Diluted	15,001,300	14,941,741
	=====	=====

	Nine Months Ended June 30,	
	2001 ----	2000 ----
Net sales	\$ 109,763,830	\$ 124,546,000
Costs and expenses:		
Cost of sales	97,581,849	108,411,008
Selling, general and administrative	13,561,715	12,389,832
Engineering	4,966,378	5,455,105
Asset impairment	9,754,043	6,605,357
Restructuring charges	10,618,896	6,995,800
Net interest (income) expense	2,607,076	1,860,098
Net other (income) expense	77,088	(361,680)
	-----	-----
Income (loss) before taxes	(29,403,215)	(16,809,520)
Provision for income taxes	(2,618,780)	(4,876,164)
	-----	-----
Net income (loss)	\$ (26,784,435)	\$ (11,933,356)
	=====	=====
Net income (loss) per share:		
Basic	\$ (1.79)	\$ (0.80)
	=====	=====
Diluted	\$ (1.79)	\$ (0.80)
	=====	=====
Weighted average shares outstanding:		
Basic	14,982,145	14,826,952
	=====	=====
Diluted	14,982,145	14,826,952
	=====	=====

Edgar Filing: INNOVEX INC - Form 10-Q

See accompanying notes to condensed consolidated financial statements.

-3-

INNOVEX, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

	Nine Months Ended June 30, 2001 ----	2000 ----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (26,784,435)	\$ (11,933,356)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,950,692	8,647,705
Restructuring and asset impairment charges	20,372,939	13,601,157
Other non-cash items	760,730	149,295
Changes in operating assets and liabilities net of business acquisitions and restructurings:		
Accounts receivable	737,005	6,093,317
Inventories	3,830,445	(2,980,455)
Other current assets	203,011	(2,795,559)
Accounts payable	(9,408,367)	(1,227,391)
Other liabilities	(3,576,791)	2,053,855
Income taxes payable	1,549,172	(4,465,581)
	-----	-----
Net cash provided by (used in) operating activities	(2,365,599)	7,142,987
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(10,200,172)	(21,378,846)
Business acquisition	--	(3,750,000)
Proceeds from sale of assets	94,163	595,310
Maturities of held-to-maturity securities	--	19,305,000
	-----	-----
Net cash provided by (used in) investing activities	(10,106,009)	(5,228,536)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(5,812,828)	(398,048)
Issuance of long-term debt	27,421,405	785,767
Net activity on line of credit	(9,100,000)	(663,931)
Proceeds from exercise of stock options and employee stock purchase plan	462,318	101,437
Dividends paid	--	(592,948)
	-----	-----
Net cash provided by (used in) financing activities	12,970,895	(767,723)
Increase (decrease) in cash and equivalents	499,287	1,146,728
Cash and equivalents at beginning of year	1,673,486	6,231,430
	-----	-----
Cash and equivalents at end of period	\$ 2,172,773 =====	\$ 7,378,158 =====

Edgar Filing: INNOVEX INC - Form 10-Q

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for interest was \$2,544,000 and \$2,258,000 in fiscal 2001 and 2000, respectively.

Income tax payments were \$-0- and \$236,000 in fiscal 2001 and 2000, respectively.

See accompanying notes to condensed consolidated financial statements.

-4-

INNOVEX INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - FINANCIAL INFORMATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions on Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The unaudited condensed consolidated financial statements include the accounts of Innovex, Inc. and its subsidiaries (the "Company") after elimination of all significant intercompany transactions and accounts. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of operating results have been made. Operating results for interim periods are not necessarily indicative of results that may be expected for the year as a whole. The Company utilizes a fiscal year that ends on the Saturday nearest to September 30. For clarity of presentation, the Company has described all periods as if they end at the end of the calendar quarter. For further information, refer to the consolidated financial statements and footnotes included in the registrant's annual report on Form 10-K for the year ended September 30, 2000.

Preparation of the Company's condensed consolidated financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and related revenues and expenses. Actual results could differ from these estimates.

NOTE 2 - RESTRUCTURING CHARGES

2001 MANUFACTURING OPERATIONS RESTRUCTURING-

The fiscal 2001 second quarter includes asset impairment and restructuring charges of \$9,754,000 and \$10,124,000 related to the restructuring of the Company's manufacturing operations. The restructuring is primarily related to moving manufacturing operations from the Company's Chandler, Arizona facility to the Company's Minnesota locations. The charges were recorded pursuant to a plan announced in January 2001. The charge included approximately \$6,380,000 related to asset impairment of property and equipment and \$3,374,000 for the impairment of the remaining unamortized balance of the goodwill recorded at the time of the Company's September 1999 acquisition of ADFlex Solutions, Inc. The charge also includes \$1,636,000 of inventory written off related to discontinued product lines and accrued liabilities of \$2,156,000 for employee severance and benefits and \$6,332,000 for facility abandonment costs. The restructuring is expected to be substantially complete by the end of the fiscal year with the exception of the costs accrued to maintain the leased Chandler facility through the June 2003 lease termination.

2000 MANUFACTURING OPERATIONS RESTRUCTURING-

The fiscal 2000 first quarter includes a \$13,785,000 restructuring charge related to restructuring the Company's manufacturing operations. The

Edgar Filing: INNOVEX INC - Form 10-Q

restructuring is primarily related to moving operations from the Company's Agua Prieta, Mexico facility to its new facility in Lamphun, Thailand. The charge was recorded pursuant to a plan announced in November 1999. The charge included approximately \$6,605,000 related to asset impairment of property and equipment, \$356,000 for the write off of inventory and supplies, \$176,000 for increasing the accounts receivable reserve, and accrued liabilities of \$2,101,000 for facility abandonment costs and \$4,547,000 in employee severance and benefits. A change in estimate was recorded in the quarter ending September 2000 increasing the facility abandonment accrual by \$1,435,000 and decreasing the accrued employee severance by \$1,485,000. The estimate changes were due to higher costs than expected to discontinue the operation of the Mexican facility and higher turnover than expected prior to the payment of severance. The restructuring was substantially complete as of September 2000 with the exception of completing the disposition of the Mexican facility. During the quarter ending March 31, 2001, the Company had a \$495,000 increase in the estimate of the facility abandonment charges relating to the length of time required to complete the disposition of the facility located in Agua Prieta, Mexico.

The remaining restructuring accrual as of June 30, 2001 totaled \$6,781,000. Selected information regarding the restructuring follows (in thousands):

-5-

	Manufacturing Operations Restructuring - 2001		Manufacturing Operations Restructuring - 2000		Tot
	Facility Abandonment Charges	Employee Termination Benefits	Facility Abandonment Charges	Employee Termination Benefits	
Accrual at March 31, 2001	\$ 5,893	\$ 2,024	\$ 821	\$ 136	\$ 8,
Payments	(1,172)	(643)	(267)	(11)	(2,
Accrual remaining at June 30, 2001	\$ 4,721	\$ 1,381	\$ 554	\$ 125	\$ 6,

NOTE 3 - NET INCOME (LOSS) PER SHARE

The Company's basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of outstanding common shares. The Company's diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of outstanding common shares and common share equivalents relating to stock options when dilutive. Options to purchase 1,485,557 and 1,112,538 shares of common stock with a weighted average exercise price of \$11.64 and \$13.15 were outstanding during the three and nine month periods ending June 30, 2001, but were excluded from the computation of common share equivalents because they were not dilutive. Options to purchase 809,350 and 770,823 shares of common stock with a weighted average exercise price of \$13.96 and \$14.45 were outstanding during the three month and nine month periods ending June 30, 2000, but were excluded from the computation of common share equivalents because they were not dilutive.

NOTE 4 - INVENTORIES

Inventories are comprised of the following (in thousands):

Edgar Filing: INNOVEX INC - Form 10-Q

	June 30, 2001	September 30, 2000
Raw materials and purchased parts	\$ 7,009	\$ 11,804
Work-in-process and finished goods	9,095	9,767
	\$ 16,104	\$ 21,571

NOTE 5 - DERIVATIVE INSTRUMENTS AND HEDGING

The Company adopted SFAS No. 133 ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, and No. 138, ACCOUNTING FOR CERTAIN DERIVATIVE INSTRUMENTS AND CERTAIN HEDGING ACTIVITIES, on November 1, 2000. These Standards require entities to recognize derivatives in their financial statements as either assets or liabilities measured at fair value. The accounting for changes in the fair value of a derivative is recognized in earnings unless certain criteria are met. These Standards also require formal documentation, designation and effectiveness assessment of transactions receiving hedge accounting. The Company formally documents all relations between hedging instruments and the hedged items, as well as its risk-management objectives and strategy for undertaking various hedge transactions. The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

The Company enters into forward exchange contracts, to hedge foreign currency denominated assets or liabilities, that are recorded at fair value with related fair value hedge gains or losses recorded in earnings within the caption other income / expense. Generally, the Company purchases these contracts near the beginning of each quarter while the expiration is near the end of each quarter. The Company does not enter into forward exchange contracts for trading purposes. As of June 30, 2001, the Company had open forward contracts to buy Thai Baht, maturing in September 30, 2001, with notional amounts totaling 425,000,000 Thailand Baht.

-6-

NOTE 6 - RECENT ACCOUNTING PRONOUNCEMENTS

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, BUSINESS COMBINATIONS, and SFAS 142, GOODWILL AND INTANGIBLE ASSETS. SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS 142. Major provisions of these Statements and their effective dates for the Company are as follows:

* All business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001.

* Intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability.

* Goodwill, as well as intangible assets with indefinite lives, acquired after

Edgar Filing: INNOVEX INC - Form 10-Q

June 30, 2001, will not be amortized. Effective October 1, 2003, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization.

* Effective October 1, 2003, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator.

The Company is currently analyzing the effects of these Statements to its financial statements.

PART I: ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE COMPANY

In the fiscal 1999 fourth quarter, Innovex, Inc. and its subsidiaries (the "Company") acquired ADFlex Solutions, Inc. ("ADFlex") for approximately \$37 million. At that time, the Company also obtained credit facilities totaling in principal amount \$40 million, which were utilized to refinance ADFlex's outstanding debt, pay down current liabilities and pay related transaction costs. Prior to the acquisition, ADFlex was a leading supplier of flexible circuit based solutions to the computer, computer peripheral, communications and consumer electronics industries. Applications for these flex-based interconnects include cellular phones, hard disk drives, other storage systems, high-end consumer products, notebook computers, pagers and personal communication systems. ADFlex's diverse customer and industry base has reduced Innovex's reliance on the disk drive industry.

Prior to the ADFlex acquisition, the Company had one primary operating group, Innovex Precision Components. The Company has combined the ADFlex operation into its existing operations as both operations design and manufacture flexible circuits.

Prior to fiscal 1999, the Company operated through three divisions, Precision Products (Precision), Litchfield Precision Components (LPC) and Iconovex. Each division had its own administrative, engineering, manufacturing and marketing organizations. During the quarter ending September 30, 1998, the Company combined the operations of its two core operating divisions, Precision and LPC into one operating division, Innovex Precision Components. The combination merged the rapidly growing LPC flexible circuit fabrication and chemical etching operations with Precision's high volume fine wire manufacturing expertise. The combination also allowed Innovex to leverage Precision's disk drive industry market and trade knowledge to disk drive industry flexible circuit applications as the industry transitioned from wire interconnects.

Prior to the divisional combination, the largest division, Precision, developed, engineered and manufactured specialty precision electromagnetic products for original equipment manufacturers ("OEM's"). Lead wire assemblies for the thin film disk drive market were the division's primary product. Lead wire assemblies are fine twisted magnet wires that connect the back end electronics of a disk drive with the inductive or magneto resistive thin film heads that read and write information on the disk. Since the divisional combination, the lead wire assembly revenue declined as anticipated.

LPC, prior to the fiscal 1998 divisional combination, designed and manufactured highly complex flexible circuitry and chemically machined components for computer, computer peripheral, medical and other applications. The

Edgar Filing: INNOVEX INC - Form 10-Q

Company purchased Litchfield Precision Components, Inc. on May 16, 1996. This acquisition reduced the Company's reliance on the disk drive industry while providing an entry into the large and rapidly growing flexible circuit market. Innovex's flexible circuit operation is one of a limited number of operations in the world able to produce flexible circuits with line and spacing tolerances of less than 2 mils for the high-end portion of the flexible circuit market.

Innovex, Inc. was incorporated under the laws of the State of Minnesota in 1972. Its principal executive offices are located at 5540 Pioneer Creek Drive, Maple Plain, Minnesota 55359-9003 and its telephone number is (763) 479-5300. Products are developed and manufactured through the Company's wholly owned subsidiaries, Innovex Precision Components, Inc., Innovex Southwest, Inc., Innovex (Thailand) Ltd. and Innovex Ltd. Innovex Precision Components, Inc. and Innovex Ltd. are Minnesota corporations. Innovex Southwest, Inc. is a Delaware corporation and Innovex (Thailand) Ltd. is a Thailand corporation.

RESULTS OF OPERATIONS

NET SALES

The Company's net sales from operations totaled \$36,251,000 for the quarter, down 6% from \$38,433,000 reported in the same quarter in fiscal 2000. Sales of \$109,764,000 for the nine months ended June 30, 2001 decreased 12% from the prior year period. The decrease in net sales for the third quarter and nine months ended June 30, 2001 was due to lower revenue generated by standard flexible circuit product lines associated with the ADFlex Solutions acquisition in late 1999. Revenue generated by the acquired ADFlex Solutions operation declined throughout fiscal 2000 as a result of quality, cost and customer service issues existing at the time of purchase. In addition, revenue from the acquired consumer and telecommunication product lines was significantly impacted by the current economic downturn during the second and third quarters of fiscal 2001. The quality, cost and customer service issues have been addressed and revenue from the acquired product lines has stabilized. Revenue from the core high-end flexible circuits continues to increase. Revenue is expected to show modest sequential increases for the remainder of the year.

Revenue from the disk drive industry generated 70% of the Company's revenue for the quarter. In addition, 11% of the revenue was generated by flexible circuits for network system applications, 10% from consumer applications and 9% from applications for other industries. The acquisition of ADFlex has reduced the Company's dependence on the disk drive industry significantly from its historical levels of 85-90% of revenue. Although revenue growth for the next quarter will be limited as a result of the current economic conditions, the last half of calendar 2001 should benefit from continued growth in demand for high technology flexible circuit products including the Company's Flex Suspension Assembly (FSA).

GROSS MARGINS

The Company's gross profit as a percent of sales for the quarter decreased to 8% from the 18% reported for the fiscal 2000 third quarter. The gross profit as a percent of sales for the first nine months decreased to 11%, from the 13% reported for the same period last year. The decrease for the quarter and nine month period was primarily due to duplicate costs related to the transfer of manufacturing operations from Chandler Arizona to the Company's Minnesota facilities and the reduced fixed cost leverage resulting from lower revenue level of the standard flexible circuits.

The Company anticipates that gross margins in the last half of calendar 2001 will improve as a result of the cost reductions and improved efficiencies related to closing the Chandler manufacturing facility and other cost reduction initiatives.

OPERATING EXPENSES

Edgar Filing: INNOVEX INC - Form 10-Q

Operating expenses, which includes engineering and selling, general and administrative expenses, were 17.3% of sales for the current quarter, as compared to 15.3% in the prior year's third quarter. Operating expenses for the first nine months of fiscal 2001 were 16.9%, up from 14.3% from the prior year first nine months. The increase in operating expenses as a percent of sales for the current year is primarily due to decreased revenue generated by the standard flexible circuit product lines. Total operating expenditures increased slightly for the same periods last year

-8-

primarily due to hiring and relocation costs related to the Chandler to Minnesota move and increased research and development spending related to the development of a materials manufacturing process. Operating expenses for the fiscal 2001 fourth quarter are expected to decrease slightly from the third quarter levels as the Chandler to Minnesota move is completed.

RESTRUCTURING CHARGES

Asset impairment and restructuring charges of \$20,373,000 were recorded during the second quarter of fiscal 2001 related to the restructuring of the Company's manufacturing operations. The restructuring is primarily related to closing the Company's manufacturing facility in Chandler, Arizona. The majority of this charge included the accrual of employee severance and facility abandonment costs, the asset impairment of property, equipment and goodwill and the write-off of inventory related to discontinued product lines. The restructuring is expected to significantly reduce operating costs by the end of the fiscal year as a result of consolidating facilities and the higher level of efficiency of the Minnesota operations.

Asset impairment and restructuring charges of \$13,785,000 were recorded during the first quarter of fiscal 2000 related to the restructuring of the Company's manufacturing operations. During the third quarter ending June 30, 2000, the Company recorded a change in estimate of \$183,000 that reduced the initial charge of \$13,785,000. The restructuring was primarily related to moving operations from the Company's Agua Prieta, Mexico facility to its facility in Lamphun, Thailand. The majority of this charge included employee severance, asset impairment of property and equipment and facility abandonment costs.

OPERATING PROFIT (LOSS)

The consolidated operating loss of \$(3,200,000) in the current quarter compares to the operating profit of \$1,062,000 for the prior year third quarter. Consolidated operating loss for the first nine months was \$(26,719,000) versus \$(15,311,000) for the same period last year. The decrease for the quarter was primarily driven by the lower gross margin resulting from the lower revenue level and duplicate costs related to the Chandler to Minnesota move. The nine-month decrease is primarily due to the restructuring charge recorded during the current year second quarter.

NET INCOME (LOSS)

Consolidated net loss for the fiscal 2001 third quarter was \$(2,891,000) as compared to net income of \$393,000 for the prior year. Basic and diluted net loss per share were (\$0.19) as compared to net income per share of \$0.03 for the prior year third quarter. Consolidated net loss for the first nine months of fiscal 2001 was \$(26,784,000) as compared to \$(11,933,000) for the prior year. Basic and diluted net loss per share were (\$1.79) as compared to (\$0.80) for the same period last year.

LIQUIDITY AND CAPITAL RESOURCES

Cash and short-term investments increased to \$2.2 million at June 30, 2001 from

Edgar Filing: INNOVEX INC - Form 10-Q

\$1.7 million at September 30, 2000.

Accounts receivable at June 30, 2001 decreased by \$0.7 million from September 30, 2000 due to a lower level of revenue. Inventories at June 30, 2001 decreased by \$3.8 million from September 30, 2000 due to the lower level of sales activity and the write off of inventory related to discontinued product lines resulting from the manufacturing restructuring.

Accounts payable at June 30, 2001 decreased by \$9.4 million primarily due the reduced level of capital expenditures during the quarter and the lower level of purchasing required to support sales activity.

Working capital totaled \$(0.1) million and \$6.3 million at June 30, 2001 and September 30, 2000.

Since September 30, 2000, the Company has invested \$10.2 million in capital expenditures primarily for FSA attachment equipment and to complete the move of Chandler operations to Minnesota. Capital expenditures of approximately \$1 million are expected during the remainder of fiscal 2001. These expenditures will increase the Company's FSA production capacities and complete the move of the Chandler operation to Minnesota.

-9-

On April 23, 2001 the Company entered into a 1.2 billion Thailand baht credit facility agreement with Bank of Ayudhya Public Company Limited and The Industrial Finance Corporation of Thailand. The facility is comprised of a 590 million baht long-term facility, a 530 million baht packing credit facility, a 70 million baht short term working capital facility and a 10 million baht overdraft facility. The new Thailand based facility is secured by certain receivables, inventory and assets held by the Company in Thailand. The Company has not utilized the Thailand based receivables from its largest customer as security for the existing credit facilities. Therefore, the Company will continue to pursue additional financing opportunities in Thailand to be secured by these receivables. Management believes that the new Thailand credit facility, the existing US credit facility, potential new Thailand based borrowings, cash, investments and cash generated from operations will provide an adequate source of funds to support projected working capital needs and capital expenditures. The Company is in compliance with the debt covenants of its U.S. credit facility as amended by the Fourth Amendment to Credit Agreement attached to this document as an exhibit. The Company has reduced its cost structure during the past year as evidenced by the restructuring of its manufacturing operation including the closing of its Chandler manufacturing facility. The Company will continue to pursue other means of cost reduction to improve its long-term cash flow.

FORWARD LOOKING STATEMENTS

Statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations, elsewhere in the Company's Form 10-Q and in future filings by the Company with the SEC, except for the historical information contained herein and therein, are "forward-looking statements" that involve risks and uncertainties. These risks and uncertainties include the timely availability and acceptance of new products including the FSA and semiconductor packaging substrates, the impact of competitive products and pricing, the development and implementation of a materials manufacturing process, the transfer of Chandler AZ operations to Minnesota, interruptions in the operations of the Company's single source suppliers, changes in manufacturing efficiencies and other risks detailed from time to time in the Company's reports filed with the Securities and Exchange Commission. In addition, a significant portion of the Company's revenue is generated from the

Edgar Filing: INNOVEX INC - Form 10-Q

disk drive, consumer electronics and network system industries and the global economic downturn has and a continued economic downturn will continue to have an adverse impact on the Company's operations. The Company disclaims any obligation subsequently to revise any forward-looking statements to reflect subsequent events or circumstances or the occurrence of unanticipated events.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Company's market risk during the three-month period ended June 30, 2001.

PART II - OTHER INFORMATION

Responses to Items 1 through 5 are omitted since these items are either inapplicable or the response thereto would be negative.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

- a) Exhibits
 - 10(a) Fourth Amendment to Credit Agreement.
- b) Reports on Form 8-K
 - None.

-10-

SIGNATURES

Pursuant to the requirements 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.

INNOVEX, INC.
Registrant

Date: August 14, 2001

By \s\ William P. Murnane
William P. Murnane
President and Chief Executive Officer

By \s\ Thomas Paulson
Thomas Paulson
Chief Financial Officer

-11-

INDEX TO EXHIBITS

Exhibits	Page
10(a) Fourth Amendment to Credit Agreement	13-15

-12-