INNOVEX INC
Form 10-Q
February 09, 2006

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

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the quarterly period ended December 31, 2005

or

o **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 0-13143

Innovex, Inc.
(Exact name of registrant as specified in its charter)

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

5540 Pioneer Creek Drive, Maple Plain, MN 55359
(Address of principal executive offices)

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

(Former name, former address and former fiscal year if changed since last report)

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. x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (Check One):
Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

As of January 27, 2006, 19,233,353 shares of the Company s common stock, $.04 par value per share, were outstanding.

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PART 1
FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS
INNOVEX, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited)

	December 31, 2005	September 30, 2005
ASSETS		
Current assets:		
Cash and equivalents	$ 9,268,502	$ 12,914,110
Accounts receivable, net	24,225,193	32,585,507
Inventories	17,394,946	17,743,839
Other current assets	1,633,081	1,313,627
Total current assets	52,521,722	64,557,083
Property, plant and equipment, net of accumulated depreciation of $51,256,000 and $61,271,000	55,631,216	66,506,830
Goodwill	3,000,971	3,000,971
Other assets	3,669,531	3,761,145
	$ 114,823,440	$ 137,826,029
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 6,888,322	$ 6,021,603
Line of credit		13,881,178
Accounts payable	23,917,503	22,979,155
Accrued compensation	2,354,694	2,782,528
Other accrued liabilities	2,965,617	2,967,491
Total current liabilities	36,126,136	48,631,955
Long-term debt, less current maturities	26,888,073	27,817,542
Stockholders equity:		
Common stock, $.04 par value; 30,000,000 shares authorized, 19,230,993 and 19,221,353 shares issued and outstanding	769,240	768,854
Capital in excess of par value	60,249,869	60,048,522
Retained earnings (Accumulated deficit)	(9,209,878)	559,156
Total stockholders equity	51,809,231	61,376,532
	$ 114,823,440	$ 137,826,029

See accompanying notes to condensed consolidated financial statements.

INNOVEX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended December 31,	
	2005	**2004**
Net sales	$ 50,507,842	$ 40,041,490
Costs and expenses:		
Cost of sales	44,348,332	36,141,828
Selling, general and administrative	3,647,292	3,492,805
Royalty expense to equity investee	410,464	378,044
Engineering	1,389,026	1,709,125
Net asset impairment	9,196,204	
Restructuring charges	732,371	343,116
Net interest (income) expense	448,809	209,889
Net other (income) expense	104,377	(582,836)
Income (loss) before taxes	(9,769,033)	(1,650,481)
Income taxes		(642,808)
Net income (loss)	$ (9,769,033)	$ (1,007,673)
Net income (loss) per share:		
Basic	$ (0.51)	$ (0.05)
Diluted	$ (0.51)	$ (0.05)
Weighted average shares outstanding:		
Basic	19,226,638	19,127,621
Diluted	19,226,638	19,127,621

See accompanying notes to condensed consolidated financial statements.

INNOVEX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended December 31,	
	2005	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (9,769,033)	$ (1,007,673)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,965,759	2,720,732
Asset impairment charges	9,196,204	
Other non-cash items	170,900	(175,842)
Changes in operating assets and liabilities:		
Accounts receivable	8,360,314	1,899,690
Inventories	348,893	(5,001,220)
Other current assets	(228,570)	(1,435,368)
Accounts payable	938,348	4,068,019
Accrued compensation and other accrued liabilities	(429,708)	3,060,529
Net cash provided by (used in) operating activities	11,553,107	4,128,867
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,290,437)	(9,091,979)
Other	12,560	
Net cash provided by (used in) investing activities	(1,277,877)	(9,091,979)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(658,518)	(1,472,339)
Issuance of long-term debt	595,768	4,286,249
Net activity on line of credit	(13,881,178)	4,729,105
Proceeds from exercise of stock options	23,090	80,182
Net cash provided by (used in) financing activities	(13,920,838)	7,623,197
Increase (decrease) in cash and equivalents	(3,645,608)	2,660,085
Cash and equivalents at beginning of period	12,914,110	14,422,060
Cash and equivalents at end of period	$ 9,268,502	$ 17,082,145

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:
Cash paid for interest was $548,000 and $226,000 in the three months ended December 31, 2005 and 2004.

Cash paid for income taxes was $8,000 and $-0- in the three months ended December 31, 2005 and 2004.

See accompanying notes to condensed consolidated financial statements.

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. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. For further information, refer to the consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the year ended September 30, 2005.

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
Litchfield restructuring:
On January 16, 2006, the Company announced a plan to move its Litchfield, Minnesota prototyping and high volume manufacturing to its Lamphun, Thailand facilities over the next twelve months. The Company will divest its low volume etched metal product line also located at its Litchfield facilities. The Company will retain one facility in Litchfield to serve as its product development center. High volume flexible circuit products currently being manufactured in Litchfield will continue to be manufactured there until they reach the end of their product life cycle which is expected to be within the next nine to twelve months. The impairment and restructuring was triggered by the Company s need to reduce its cost structure in order to offer competitive pricing to attract new revenue streams required to reach and maintain long-term profitable operations.

The Company expects an annual operating expense reduction of approximately $8 million related to the restructuring plan to be realized over the next twelve months. Approximately $6.4 million of the projected savings are expected to have a positive impact on cash flow upon realization. These cash related savings are comprised of $5.6 million related to compensation reductions and $800,000 related to other spending. The $1.6 million remaining savings are expected to be depreciation related and have no impact on cash flow.

Asset impairment charges of $8.1 million were recorded in the first quarter of fiscal 2006. The assets that were impaired include the Litchfield facilities and related equipment. The fair value of these assets was determined using appraised values. Litchfield facilities and assets that will not be retained for use in the product development center or transferred to Lamphun, Thailand will be listed for sale or disposed. Capital expenditures of less than $1 million are expected related to the plan. These expenditures would primarily increase selected capacity and capabilities at the Lamphun, Thailand facilities.

Total cash related restructuring charges excluding asset impairments of approximately $4.9 million are expected. The $4.9 is comprised of $2.5 million for one-time termination benefits and $2.4 million related to moving and closing costs associated with transferring portions of the Litchfield operation to Thailand and the disposition of the Litchfield facilities not being retained.

Maple Plain restructuring:
During fiscal 2004, the Company recorded asset impairment and restructuring charges of $13.1 million and $1.7 million related to the planned closure of the Maple Plain facility and the plan to discontinue support of the FSA attachment process. In fiscal 2005 additional restructuring charges of $2.8 million were recorded related to the plan. During the first quarter of fiscal 2006, additional asset impairment charges of $1.1 million related to the disposition of the Maple Plain assets and restructuring charges of $732,000 were recorded under the restructuring plan. The manufacturing operation has been transferred from the Maple Plain facility to the Lamphun, Thailand facility with final clean-up activities at the Maple Plain facility expected to be completed by April 2006. The Maple Plain facility has been listed for sale since June 2004.

In order to reduce its cost structure, the Company closed its Maple Plain facility and consolidated its operations with its Lamphun, Thailand facility. In addition, the Company plans to discontinue supporting the FSA attachment process in order to utilize its resources in other growth areas where the Company believes it has an advantage. Excluding asset impairment charges, restructuring charges are expected to be approximately $5.9 million of which $5.2 million has been recognized to date. The $5.9 million is expected to be comprised of $1.9 million for one-time termination benefits, $0.4 million for contract termination costs and $3.6 million for other moving and closing costs associated with closing the Maple Plain location. Restructuring charges of $732,000 were recorded in the first quarter of fiscal 2006. The charges for the first quarter of fiscal 2006 were comprised of $2,000 for termination benefits and $730,000 related to moving and closing costs. Charges of $5.2 million related to this restructuring have been recorded through December 31, 2005. The remaining expected charges of $700,000 are expected to be incurred from January through April 2006.

As part of the June 2004 restructuring, engineering support of future FSA attachment development was discontinued. The Company is continuing to maintain engineering support of FSA attachment programs which are in production. As the FSA programs reach their end of life, the Company will lower the level of engineering and production personnel supporting them.

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 1,597,248 shares of common stock were outstanding during the three month period ending December 31, 2005, but were excluded from the computation of common share equivalents because they were not dilutive. Options to purchase 1,090,155 shares of common stock were outstanding during the three month period ending December 31, 2004, but were excluded from the computation of common share equivalents because they were not dilutive.

NOTE 4 STOCK BASED COMPENSATION

Commencing on October 1, 2005, the Company adopted Statement of Financial Accounting Standard No. 123R, Share Cased Payment (SFAS 123R), which requires all share-based payments, including grants of stock options, to be recognized in the income statement as an operating expense, based on their fair values over the requisite service period. The Company recorded $179,000 of related compensation expense, included in general and administrative expense, for the three-months ended December 31, 2005. There was no tax benefit from recording this non-cash expense. The compensation expense reduced both basic and diluted earnings by $0.01. As of December 31, 2005, $2,004,000 of total unrecognized compensation costs related to non-vested awards is expected to be recognized over a weighted average period of approximately 1.7 years.

Prior to adopting SFAS 123R, the Company accounted for stock-based compensation under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. The Company has applied the modified prospective method in adopting SFAS 123R. Accordingly, periods prior to adoption have not been restated. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to the prior period.

(in thousands except for per share amounts)	**Three months ended December 31, 2004**
Net income (loss) as reported	$ (1,008)
Less total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax effects	(157)
Net income (loss)- pro forma	$ (1,165)
Basic and diluted net income (loss) per common share - as reported	$ (0.05)
Basic and diluted net income (loss) per common share pro forma	$ (0.06)

The Company uses the Black-Scholes option pricing model to determine the weighted average fair value of options. The weighted average fair value of options granted during the three months ended December 31, 2005 and 2004 were $1.14 and $1.56, respectively. The fair value of options at date of grant and the assumptions utilized to determine such values are indicated in the following table. No adjustment was made to the Black Scholes calculation to reflect that the options are not freely traded:

	Three Months Ended December 31,	
	2005	2004
Risk-free interest rate	4.25%	3.00%
Expected volatility	49%	49%
Expected life (in years)	3.0	2.9
Dividend yield		

The Company has options outstanding under the 1987 Employee Stock Option Plan and the 1994 Stock Option Plan. The Company s stock option plans provide for incentive and non-qualified stock options to be granted to directors, officers and other key employees or consultants. The stock options granted generally have a ten-year life, vest over a period of six months to five years, and have an exercise price equal to the fair market value of the stock on the date of grant. New shares are issued under existing registration statements upon exercise. At December 31, 2005, the Company had 335,865 shares of common stock available for issuance under the plans.

The Company also has a restricted stock plan that provides for grants of common stock to key employees of the Company other than the Chief Executive Officer and the four highest paid executives of the Company other than the Chief Executive Officer. The common stock grants generally vest over five years. At December 31, 2005, the Company had 117,300 shares of common stock available for issue under the plan.

Transactions under the stock option and restricted stock plans during the three months ended December 30, 2005 are summarized as follows:

	Number of Shares Under Option	Weighted Average Exercise Price
Outstanding at October 1, 2005	2,097,158	6.99
Granted	494,850	3.06
Forfeited	(52,200)	6.07
Exercised	(9,640)	1.03
Outstanding at December 31, 2005	2,530,168	6.26

The following table summarizes information concerning currently outstanding and exercisable stock options:

Options Outstanding	Options Exercisable