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INNOVEX INC
Form 10-Q
May 13, 2008

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

FORM 10-Q

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

for the quarterly period ended March 29, 2008

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 0-13143

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.)

3033 Campus Drive, Suite E180, Plymouth, MN 55441
(Address of principal executive offices)

(763) 383-4000
(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. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer" and "large accelerated filer" in rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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As of April 29, 2008, 19,415,466 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)

	March 29, 2008	September 29, 2007
<hr/>		
ASSETS		
<hr/>		
Current assets:		
Cash and equivalents	\$ 8,725,721	\$ 10,453,803
Accounts receivable, net	10,747,948	13,742,477
Inventories	8,451,317	11,055,082
Other current assets	4,185,894	2,460,199
	<hr/>	
Total current assets	32,110,880	37,711,561

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Property, plant and equipment, net of accumulated depreciation of \$52,814,000 and \$49,239,000	35,635,775	38,814,960
Assets held for sale	1,992,813	2,058,308
Other assets	501,330	775,593
	-----	-----
	\$ 70,240,798	\$ 79,360,422
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:		
Current maturities of long-term debt	\$ 12,603,041	\$ 11,049,170
Line of credit	33,501,631	20,433,958
Accounts payable	9,371,884	14,865,174
Accrued compensation	871,338	1,805,567
Other accrued liabilities	2,226,898	1,729,392
	-----	-----
Total current liabilities	58,574,792	49,883,261
Long-term debt, less current maturities	14,585,674	15,548,964
Stockholders' equity (deficit):		
Common stock, \$.04 par value; 30,000,000 shares authorized, 19,407,966 shares issued and outstanding	776,319	776,319
Capital in excess of par value	61,925,681	61,709,491
Accumulated deficit	(65,621,668)	(48,557,613)
	-----	-----
Total stockholders' equity (deficit)	(2,919,668)	13,928,197
	-----	-----
	\$ 70,240,798	\$ 79,360,422
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	-----	-----
	March 29, 2008	March 31, 2007
	-----	-----
Net sales	\$ 13,274,102	\$ 21,870,810
Costs and expenses:		
Cost of sales	16,227,554	21,839,632
Selling, general and administrative	2,188,479	2,998,632
Royalty expense	19,845	156,708
Engineering	596,830	813,118
Net asset impairment	--	792,295
Restructuring charges	719,927	1,886,000
Net (gain) loss on sale of assets	(125,775)	336,449
Interest expense	768,728	694,480

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Interest income	(29,038)	(77,560)
Net other (income) expense	2,094,025	(136,812)
	-----	-----
Net loss before taxes	(9,186,473)	(7,432,132)
Income taxes	120	--
	-----	-----
Net loss	\$ (9,186,593)	\$ (7,432,132)
	=====	=====

Net loss per share:		
Basic	\$ (0.47)	\$ (0.38)
	=====	=====
Diluted	\$ (0.47)	\$ (0.38)
	=====	=====

Weighted average shares outstanding:		
Basic	19,407,966	19,382,038
	=====	=====
Diluted	19,407,966	19,382,038
	=====	=====

Six Months Ended

 March 29, 2008 March 31, 2007

Net sales	\$ 34,069,261	\$ 47,887,651
Costs and expenses:		
Cost of sales	38,040,354	47,337,123
Selling, general and administrative	4,735,674	6,156,964
Royalty expense	127,876	362,848
Engineering	1,282,156	1,812,917
Net asset impairment	--	792,295
Restructuring charges	2,970,997	3,727,319
Net (gain) loss on sale of assets	(124,976)	325,196
Interest expense	1,506,732	1,264,310
Interest income	(84,443)	(113,705)
Net other (income) expense	2,678,826	(19,528)
	-----	-----
Net loss before taxes	(17,063,935)	(13,758,088)
Income taxes	120	--
	-----	-----
Net loss	\$ (17,064,055)	\$ (13,758,088)
	=====	=====

Net loss per share:		
Basic	\$ (0.88)	\$ (0.71)
	=====	=====
Diluted	\$ (0.88)	\$ (0.71)
	=====	=====

Weighted average shares outstanding:		
Basic	19,407,966	19,381,736
	=====	=====
Diluted	19,407,966	19,381,736
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	-----	-----
	March 29, 2008	March 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (17,064,055)	\$ (13,758,088)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,873,580	4,156,677
Asset impairment charge	--	792,295
Stock compensation expense	215,647	302,961
Other non-cash items	(70,875)	325,367
Changes in operating assets and liabilities:		
Accounts receivable	2,994,529	2,152,475
Inventories	2,603,765	641,619
Other current assets	(1,725,695)	(1,259,053)
Other long term assets	270,149	330,184
Accounts payable	(5,493,290)	(4,561,225)
Accrued compensation and other accrued liabilities	(436,723)	304,562
	-----	-----
Net cash used in operating activities	(14,832,968)	(10,572,226)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(679,686)	(3,231,310)
Proceeds from sale of assets	125,775	213,745
	-----	-----
Net cash used in investing activities	(553,911)	(3,017,565)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(3,091,816)	(4,302,466)
Issuance of long-term debt	3,682,397	9,630,910
Net activity on line of credit	13,067,673	6,281,945
Proceeds from exercise of stock options and employee stock purchase plan	543	20,654
	-----	-----
Net cash provided by financing activities	13,658,797	11,631,043
	-----	-----
Decrease in cash and equivalents	(1,728,082)	(1,958,748)
Cash and equivalents at beginning of period	10,453,803	9,819,045
	-----	-----
Cash and equivalents at end of period	\$ 8,725,721	\$ 7,860,297
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	\$ 1,507,000	\$ 1,257,000
Income taxes	\$ 6,000	\$ 10,000

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 which results in a 52 or 53 week year rather than a twelve-month fiscal year. The Company's actual fiscal quarters end on the Saturday closest to the end of the calendar quarter. All quarters presented in these financial statements contain 13 weeks. 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 29, 2007.

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 - LIQUIDITY

The Company has historically financed its operations primarily through cash from operating activities, sales of equity securities, bank credit facilities and employee stock option exercises. Cash and equivalents were \$8.7 million at March 29, 2008 and \$10.5 million at September 29, 2007. Long-term debt was \$14.6 million at March 29, 2008 and \$15.5 million at September 29, 2007 excluding current maturities of \$12.6 and \$11.0, respectively. During the six months ended March 29, 2008 and March 31, 2007, the Company incurred losses from continuing operations of \$17.1 million and \$13.8 million, respectively. Operating activities used \$14.8 million and \$10.6 million during the six months ended March 29, 2008 and March 31, 2007, respectively. As of March 29, 2008, the Company had a working capital deficit of \$26.5 million.

Total unused debt availability as of March 29, 2008 was approximately \$7.1 million under the Company's long-term Thailand credit facilities and approximately \$4.6 million under its short-term packing credit and working capital facilities. Utilization of the \$7.1 million available under the long-term credit facility is based on the incurrence of capital expenditures and utilization of the packing credit facility availability is dependent on presenting qualifying customer purchase orders to the banks for draw down.

The Company believes that with the existing Thailand credit facilities and cash generated from operations, it will have adequate funds to support projected working capital and capital expenditures through a portion of the fiscal 2008 fourth quarter. The Company requires additional capital resources for its

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business and to otherwise respond to competitive pressures in the industry. The Company is working with the banks that provide the existing credit facilities to restructure the long-term portion of the company's debt. In addition, the Company is considering alternatives for generating additional working capital and long-term financing and will continue to pursue financing opportunities to better leverage its assets. No assurance can be given that additional working capital will be obtained in an amount that is sufficient for the Company's needs, in a timely manner or on terms and conditions acceptable to the Company or its shareholders.

The Company also filed a "shelf" registration statement with the Securities and Exchange Commission on January 12, 2005 under which it may offer up to an aggregate of 3,500,000 shares of its common stock in one or more offerings from time to time. However, the Company's efforts to raise additional funds from the sale of its common stock may be hampered by the fact that the Company currently fails to meet two of the listing requirements of the Nasdaq Global Market. If the Company fails to regain compliance with the listing requirement or if at any time the Company fails to satisfy each of the other requirements for continued listing, its common stock will be delisted from the Nasdaq Global Market, which will further hamper the Company's ability to raise additional working capital.

The Company's financing needs and the financing alternatives available to it are subject to change depending on, among other things, general economic and market conditions, changes in industry buying patterns, customer demand for its AFC, stacked memory flex, FPD flex and other new products, the Company's ability to meet its loan covenant requirements, cash flow from operations and management estimates as to future revenue and expenses.

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NOTE 3 - RESTRUCTURING CHARGES

Corporate office relocation:

On October 1, 2007, the Company announced a plan to relocate its corporate offices to Thailand and discontinue manufacturing activity at its Korat, Thailand facility as the FSA product reaches its end of life by the end of the fiscal 2008 second quarter. The restructuring was triggered by the previous move of the Company's manufacturing operations to Thailand and the presence of its banking sources and most of its customers and suppliers in Asia. In addition, incremental cost reductions are required for the Company to return to profitability. Restructuring charges of \$0.6 million related to the planned corporate office and Korat restructuring were recorded in the second quarter of fiscal 2008. These charges were comprised of \$533,000 one time termination benefits and \$30,000 for moving and closing costs. Total restructuring charges related to the corporate office relocation restructuring for the six months ended March 29, 2008 were \$2.6 million. These charges were comprised of \$2.5 million for one time termination benefits and \$108,000 for moving and closing costs. Most of the remaining anticipated expenditures related to the plan of approximately \$1.0 million are expected to be incurred prior to the end of calendar 2008. The accrued restructuring charges related to the corporate office relocation are \$0.2 million at March 29, 2008.

Litchfield and Eastlake restructuring:

On January 16, 2006, the Company announced a plan to move prototyping and high volume manufacturing from its Litchfield, Minnesota facilities to its Lamphun,

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Thailand facilities. On September 25, 2006, the Company expanded the previously announced Litchfield restructuring to close the entire Litchfield facility and move the remaining development efforts to its Thailand facilities. The plan announced in September 2006 was to accelerate the end of life production for FSA flexible circuits in Litchfield and discontinue use of that facility by the end of April 2007. The plan also included acceleration of production end-of-life at the Company's Eastlake, Ohio laminate material manufacturing facility. The restructuring was triggered by the Company's need to reduce its cost structure in order to compete effectively and as a result of lower than expected revenue.

A purchase agreement has been signed to sell the Litchfield facilities for \$2.4 million. The sale is expected to close after the buyer arranges financing. Efforts are being made to sublease the Eastlake facility in fiscal 2008. Restructuring charges of \$157,000 related to the Litchfield and Eastlake restructuring were recorded in the fiscal 2008 second quarter. Total restructuring charges related to the Eastlake and Litchfield restructuring excluding asset impairments charges for the six months ended March 29, 2008 were \$396,000. These charges were comprised of \$311,000 for moving and closing costs and \$85,000 contract termination costs related to the Eastlake facility lease. Remaining expenditures of approximately \$800,000 are expected as part of the plan primarily related to completing the transfer of equipment to Thailand. The accrued restructuring charges related to Litchfield and Eastlake are \$0.5 million at March 29, 2008.

NOTE 4 - 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 1,935,467 and 1,905,839 shares of common stock were outstanding during the three month and six month periods ending March 29, 2008, but were excluded from the computation of common share equivalents because they were not dilutive. Options to purchase 1,919,328 and 1,921,393 shares of common stock were outstanding during the three and six month periods ending March 31, 2007, but were excluded from the computation of common share equivalents because they were not dilutive.

NOTE 5 - STOCK BASED COMPENSATION

The Company recorded \$104,000 and \$216,000 of related compensation expense for the three and six month periods ended March 29, 2008, respectively and \$156,000 and \$303,000 for the three and six month periods ended March 31, 2007, respectively. This expense is included in selling, general and administrative expense. There was no tax benefit from recording this non-cash expense. The compensation expense increased both basic and diluted net loss by \$0.01 for the three months ended March 29, 2008 and March 31, 2007, \$0.01 for the six months ended March 29, 2008 and \$0.02 for the six months ended March 31, 2007. As of March 29, 2008, \$744,000 of total unrecognized compensation costs related to non-vested awards is expected to be recognized over a weighted average period of approximately 1.2 years.

The Company uses the Black-Scholes option pricing model to determine the weighted average fair value of options. 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:

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	Three Months Ended		Six Months Ended	
	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
Risk-free interest rate	1.79%	4.49%	3.21%	4.52%
Expected volatility	92%	50%	79%	50%
Expected life (in years)	2.9	3.0	2.9	3.0
Dividend yield	--	--	--	--
Weighted average fair value of options granted	\$ 0.19	\$ 0.83	\$ 0.33	\$ 0.86

The Company has options outstanding under its 1987 Employee Stock Option Plan and its 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 March 29, 2008 the Company had 631,876 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 vest over three years. At March 29, 2008, the Company had 14,425 shares of common stock available for issue under the plan. Transactions under the stock option and restricted stock plans during the six months ended March 29, 2008 are summarized as follows:

	Number of Shares Under Option	Weighted Average Exercise Price
Outstanding at September 30, 2007	1,977,968	5.25
Granted	459,125	0.71
Forfeited	(95,090)	10.94
Exercised	--	--
Outstanding at December 29, 2007	2,342,003	4.13
Granted	210,000	0.34
Forfeited	(346,720)	3.82
Exercised	--	--
Outstanding at March 29, 2008	2,205,283	3.82

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

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Range of Exercise Prices	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.00 - \$2.41	1,204,336	8.3 years	\$ 1.32	315,195	\$ 2.02
2.70 - 4.84	504,500	6.9 years	3.70	267,239	3.81
5.28 - 7.82	121,822	3.4 years	7.14	117,822	7.13
8.89 - 9.80	188,275	5.7 years	9.56	151,800	9.56
11.49 - 11.51	90,000	0.6 years	11.50	90,000	11.50
12.59 - 13.08	96,350	2.7 years	13.03	95,350	13.03
	2,205,283		3.82	1,037,406	6.00

NOTE 6 - INVENTORIES

Inventories are comprised of the following (in thousands):

	March 29, 2008	September 29, 2007
Raw materials and purchased parts	\$ 3,677	\$ 4,549
Work-in-process and finished goods	4,774	6,506
	\$ 8,451	\$ 11,055

NOTE 7 - DERIVATIVE INSTRUMENTS - FOREIGN CURRENCY TRANSLATION

The Company enters into forward exchange contracts that are recorded at fair value with related fair value gains or losses recorded in income within the caption net other (income) expense. Generally, these contracts have maturities of six months or less. These contracts are entered into to offset the gains or losses on foreign currency denominated assets and liabilities. The Company does not enter into forward exchange contracts for trading purposes and the contracts are not designated as hedges. At March 29, 2008, the Company had open forward exchange contracts to buy Thailand baht in return for US dollars maturing on May 14, 2008; May 20, 2008; May 27, 2008; June 12, 2008, June 19, 2008 and September 5, 2008, each with an amount of 200 million baht except for the contract maturing on September 5, 2008 which has an amount of 300 million baht for a total of 1.3 billion Thailand baht.

Foreign currency translation gains or (losses) included in net other (income) expense (in thousands):

Three months ended		Six months ended	
March 29,	March 31,	March 29,	March 31,

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	2008	2007	2008	2007
Gain or (loss) from forward exchange contracts	\$ 2,093	\$ 468	\$ 2,299	\$ 2,166
Other foreign currency gain or (loss)	(4,221)	(335)	(5,030)	(2,151)
Net gain or (loss) from foreign currency transactions	\$ (2,128)	\$ 133	\$ (2,731)	\$ 15

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NOTE 8 - REVENUE RECOGNITION

The Company makes electronic components (flexible circuits) based on customer specifications. The Company's revenue recognition policy is consistently applied regardless of sales channels utilized and product destination. In recognizing revenue in any period, the Company applies the provisions of SEC Staff Accounting Bulletin 104, "Revenue Recognition." Revenue from product sales is recognized when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed and determinable and collection of the resulting receivable is reasonably assured.

For all sales, a binding purchase order is used as evidence of an arrangement. The Company also stores inventory in warehouses (JIT hubs - third party owned warehouses) that are located close to the customer's manufacturing facilities. Revenue is recognized on sales from JIT hubs upon the transfer of title and risk of loss, following the customer's acknowledgement of the receipt of the goods. The Company has an implied warranty that the products meet the customer's specification. Credits are issued for customer returns.

NOTE 9 - INCOME TAXES

The Company records income taxes in accordance with the liability method of accounting. Deferred taxes are provided for temporary differences between the financial reporting and tax bases of assets and liabilities. A valuation allowance is established when the realization of a deferred tax asset becomes less likely than not to occur. The valuation allowance is analyzed periodically by the Company and may result in income tax expense different than statutory rates. The Company's current deferred tax asset valuation allowance fully offsets its deferred tax assets. With the exception of the Alternative Minimum Tax and certain state taxes, the Company will not use cash for domestic income taxes until its net operating losses are fully realized on its tax returns.

NOTE 10- RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, or SFAS No. 141(R). SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS No. 141(R) would change the Company's accounting treatment for business combinations on a prospective basis beginning in the period it is adopted.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities--an amendment of FASB Statement No. 133"

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("FAS 161"). FAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The guidance in FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating the provisions of FASB 161 to determine the impact on the company's consolidated financial statements.

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

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and notes to those statements included in this report. This discussion may contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those described under the heading "Risks Related to Our Business" in our Annual Report on Form 10-K for the year ended September 29, 2007, as well as others not now anticipated.

We utilize a fiscal year that ends on the Saturday nearest to September 30. Each quarter presented contains 13 weeks.

Overview

We are a leading worldwide provider of flexible circuit interconnect solutions to OEMs in the electronics industry. We offer a full range of customized flexible circuit applications and services from initial design, development and prototype to fabrication, assembly and test on a global basis. We target high-volume markets where miniaturization, form and weight are driving factors and flexible circuits are an enabling technology. Applications for flexible circuits currently addressed by us include data storage devices such as hard disk drives, liquid crystal displays (LCDs) for mobile communication devices, tape drives and arrays, flat panel displays (FPDs) and printers. Our customers include Hitachi, HP, Philips/TPO, Quantum, SAE Magnetics (a subsidiary of TDK), Samsung, Seagate, Staktek, StorageTek, Western Digital and other leading electronic OEMs.

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Net Sales and Revenue Recognition

We manufacture flexible circuits and perform certain additional assembly and test functions on these flexible circuits based on customer specifications. We sell our products directly throughout the world, primarily in North America, Europe and the Pacific Rim countries. We use non-exclusive sales representatives to augment our direct sales efforts. We recognize revenue from the sale of our products upon shipment or delivery of our product to our customers, depending on the customer agreement or shipping terms. We store some inventory in third party owned warehouses that are located close to customers' manufacturing facilities. Sales from third party warehouses are recognized upon the transfer of title and risk of loss which follows the customer's acknowledgment of the receipt of the goods.

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Costs and Expenses

Cost of sales consists primarily of:

- o material costs for raw materials and semi-finished components used for assembly of our products;
- o labor costs directly related to manufacture, assembly and inspection of our products;
- o costs of general utilities, production supplies and chemicals consumed in the manufacturing processes;
- o costs related to the maintenance of our manufacturing equipment and facilities;
- o costs related to material and product handling and shipment;
- o depreciation costs related to facilities, machinery and equipment used to manufacture, assemble and inspect our products; and
- o salaries and overhead attributed to our supply chain, process engineering and manufacturing personnel.

Selling, general and administrative expenses primarily consist of:

- o salaries and related selling (commissions, travel, business development and program management), administrative, finance, human resources, regulatory, information services and executive personnel expenses;
- o other significant expenses related to external accounting, software maintenance and legal and regulatory fees; and
- o overhead attributed to our selling, general and administrative personnel.

Engineering expenses include costs associated with the design, development and testing of our products and processes. These costs consist primarily of:

- o salaries and related development personnel expenses;
- o overhead attributed to our development and test engineering personnel; and
- o prototyping costs related to the development of new products.

Restructuring charges are those costs primarily related to manufacturing facility closures, severance and product discontinuations. On October 1, 2007, we announced a plan to relocate our corporate offices to Thailand and discontinue manufacturing activity at our Korat, Thailand location as the Flex Suspension Assembly product reached its end of life by the end of the fiscal 2008 second quarter. On January 16, 2006, we announced a plan to transfer our high volume manufacturing operations from Litchfield, Minnesota to Thailand. On September 25, 2006, we announced a plan to accelerate the end of life production for our FSA flexible circuits in Litchfield and discontinue the use of that facility by the end of March 2007. Concurrently, we also planned to accelerate the end of life production of flexible circuit laminate material at our Eastlake, Ohio facility and reduce indirect labor and general and administrative expenses at our other U.S. and Thailand locations.

Results of Operations

The following table sets forth certain operating data as a percentage of net sales for the periods indicated:

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	For the Three Months Ended		For the Six Months Ended	
	March 31, 2007	March 29, 2008	March 31, 2007	March 29, 2008
Net Sales	100%	100%	100%	100%
Cost of goods sold	99.9	122.2	98.9	111.7
Gross profit	0.1	(22.2)	1.1	(11.7)
Operating expenses:				
Selling, general and administrative and royalty expense	14.4	16.6	13.6	14.3
Engineering	3.7	4.5	3.8	3.8
Restructuring and asset impairment	12.2	5.4	9.4	8.7
Net (gain) loss on sale of assets	1.6	(0.9)	0.7	(0.4)
Total operating expenses	31.9	25.6	27.5	26.4
Income (loss) from operations	(31.8)	(47.8)	(26.4)	(38.1)
Interest and other expense, net	(2.2)	(21.4)	(2.3)	(12.0)
Income (loss) before provision (benefit) for income taxes	(34.0)	(69.2)	(28.7)	(50.1)
Provision (benefit) for income taxes	--	--	--	--
Net income (loss)	(34.0)%	(69.2)%	(28.7)%	(50.1)%

Comparison of Three Months Ended March 29, 2008 and March 31, 2007

Net Sales

Our net sales were \$13.3 million for the three months ended March 29, 2008, compared to \$21.9 million for the three months ended March 31, 2007, a decrease of 39%. This decrease primarily reflects a \$10 million decrease in flex suspension assembly (FSA) revenue and a \$1.1 million decrease in actuator flex circuit (AFC) revenue offset by a \$3.0 million increase in flat panel display (FPD) revenue. The decline in FSA revenue to \$1.4 million in the fiscal 2008 second quarter from \$11.6 million in the prior year reflects the completion of our FSA customer's transition to its next generation of disk drive products which use an alternative technology. The AFC reduction was related to first quarter production issues reducing our product allocation at a significant customer and the delay in the expected production ramp up for our new actuator flex customer. The growth in the FPD revenue resulted from the ramp up of a

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number of new FPD programs and increased volume from the FPD programs that ramped up in the first quarter. While FSA revenue reached its end of life during the fiscal 2008 second quarter, we expect increases in AFC and FPD revenue in the fiscal 2008 third quarter as compared to the fiscal 2008 second quarter as new FPD programs reach volume production and production begins to ramp up for our new AFC customer.

FSA sales to the disk drive industry generated 11% of our net sales for the three months ended March 29, 2008, compared to 53% for the three months ended March 31, 2007. Sales of AFC's to the disk drive industry were 44%, compared to 32%, FPD application net sales were 38% compared to 9%, sales from integrated circuit packaging, network system application and sales from other industry applications were 7% and 6% for the three months ended March 29, 2008 and March 31, 2007, respectively.

Gross Profit (Loss)

Our gross loss was \$3.0 million for the three months ended March 29, 2008 compared to a gross profit of \$31,000 for the three months ended March 31, 2007. Our gross margin for the three months ended March 29, 2008 decreased to (22.2%), from 0.1% for the three months ended March 31, 2007. The decrease in gross profit and gross margin as compared to the prior year reflects the decreased fixed cost absorption driven by lower revenue resulting in a higher level of excess manufacturing capacity. Spending levels were lower as a result of cost reductions related to the transfer of operations from the U.S. facilities to our Thailand facilities, but not low enough to offset the impact of the lower revenue. We expect gross margins to improve during the fiscal 2008 third quarter as an increase in revenue is expected.

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Selling, General and Administrative and Royalty Expense

Selling, general and administrative expenses including royalty expenses for the three months ended March 29, 2008 were \$2.2 million, compared to \$3.2 million in the three months ended March 31, 2007, a decrease of 30%. As a percentage of net sales, selling, general and administrative expenses were 17% for the three months ended March 29, 2008, up from 14% from the same period in the prior year. Royalty expense was lower compared with the prior year as a result of lower FSA revenue which is royalty bearing. The dollar decrease in selling, general and administrative expenses from the prior year primarily reflects lower payroll expenses related to reductions in U.S. sales and administrative positions. Selling, general and administrative expenses as a percentage of net sales increased as compared to the prior year as the decrease in revenue more than offset the decrease in expenses. Selling, general and administrative expenses for the remainder of fiscal 2008 are expected to decrease slightly from the fiscal 2008 second quarter.

Engineering

Engineering expenses for the three months ended March 29, 2008 were \$597,000, compared to \$800,000 for the three months ended March 31, 2007, a decrease of 27%. The decrease was primarily the result of reducing or transferring engineering positions to our lower salary base Thailand facility as a result of closing our U.S. facilities. As a percentage of net sales, engineering expenses were 4.5% of sales for the three months ended March 29, 2008 compared to 3.7% for the same period in the prior year. Engineering expenses as a percent of net sales increased as a result of the decreased revenue.

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Restructuring

Corporate office relocation:

On October 1, 2007, we announced a plan to relocate our corporate offices to Thailand and discontinue manufacturing activity at our Korat, Thailand facility as the FSA product reaches its end of life by the end of the fiscal 2008 second quarter. The restructuring was triggered by the previous move of our manufacturing operations to Thailand and the presence of our banking sources and most of our customers and suppliers in Asia. In addition, incremental cost reductions are required for us to return to profitability.

Actions related to the restructuring plan were substantially completed by the end of the fiscal 2008 second quarter. These actions are expected to result in annual operating expense reductions of at least \$6 million. Approximately \$5.7 million of the annualized savings are expected to have a positive impact on cash flow. These cash related savings are comprised of \$4.2 million related to compensation reductions and \$1.5 million related to other spending. The \$0.3 million remaining savings are depreciation related and have no impact on cash flow.

Asset impairment charges of \$400,000 related to the plan were recorded in the fiscal 2007 fourth quarter. The impaired assets were primarily equipment used in the FSA manufacturing process at the Korat facility. The assets were written down to their estimated net realizable value which is negligible as a result of their age and specialized nature. Total cash related restructuring charges excluding asset impairments of approximately \$3.6 million are expected related to the plan. The \$3.6 million is comprised of \$3.2 million for one-time termination benefits and \$0.4 million related to moving and closing costs associated with transferring the corporate offices to Thailand, terminating the Plymouth, Minnesota office lease and transferring equipment from Korat, Thailand to Lamphun, Thailand. Restructuring charges of \$0.6 million related to the planned corporate office and Korat restructuring were recorded in the second quarter of fiscal 2008. These charges were comprised of \$533,000 one time termination benefits and \$30,000 for moving and closing costs. Total restructuring charges related to the corporate office relocation restructuring through March 29, 2008 were \$3.0 million. These charges were comprised of \$2.5 million for one time termination benefits, \$108,000 for moving and closing costs and \$400,000 of asset impairment charges. Most of the remaining anticipated expenditures related to the plan of approximately \$1.0 million are expected to be incurred prior to the end of calendar 2008.

The restructuring plan calls for the elimination of 594 positions in the U.S. and Thailand consisting of 466 direct labor positions, 97 indirect labor production support positions and 31 administrative positions. As of March 29, 2008, 590 of these positions have been eliminated.

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Litchfield and Eastlake restructuring:

On January 16, 2006, we announced a plan to move prototyping and high volume manufacturing from our Litchfield, Minnesota facilities to our Lamphun, Thailand facilities. On September 25, 2006, we expanded the previously announced Litchfield restructuring to close the entire Litchfield facility and move the

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remaining development efforts to our Thailand facilities. The plan announced in September 2006 was to accelerate the end of life production for FSA flexible circuits in Litchfield and discontinue use of that facility by the end of April 2007. The plan also included acceleration of production end-of-life at our Eastlake, Ohio laminate material manufacturing facility. In June 2006, as part of the plan, we divested our low-volume etched metal product line also located at our Litchfield facilities. The restructuring was triggered by our need to reduce our cost structure in order to compete effectively and as a result of our lower than expected level of revenue.

While several action items related to the expanded restructuring plan remain open, all of the expected savings were realized as of September 29, 2007. Asset impairment charges related to the expanded restructuring plan of \$8.1 million and \$2.0 million were recorded in the first and fourth quarters, respectively, of fiscal 2006 for a total of \$10.1 million. The assets that were impaired include the Litchfield facilities and related equipment. The fair value of these assets was determined using appraised values. The fair value of the Litchfield facility impairment was determined from an independent appraisal performed by Ruhland Commercial Consultants, Ltd. The fair value of the equipment located at the facilities was determined from appraisals performed by Asset Reliance International, LLC. Assets that were not transferred to Lamphun, Thailand were sold or disposed. A \$900,000 loss on the sale of assets was recorded during the fiscal 2007 third quarter as the remaining assets were sold.

Manufacturing operations were completed in the Eastlake facility in February 2007 and decommission of the facility was substantially completed by the end of March 2008. Manufacturing operations in the Litchfield facilities were completed during April 2007 and decommission of the facilities was completed by the end of the fiscal 2007 third quarter. A purchase agreement has been signed to sell the Litchfield facilities for \$2.4 million. The sale is expected to close after the buyer arranges financing. Efforts are being made to sublease the Eastlake facility in fiscal 2008.

Total cash related restructuring charges excluding asset impairments of approximately \$8.8 million are expected for the Litchfield and Eastlake restructuring. The \$8.8 million is comprised of \$3.3 million for one-time termination benefits and \$5.5 million related to moving and closing costs associated with transferring portions of the Litchfield operation to Thailand and the disposition of the Eastlake and Litchfield facilities not being retained. Restructuring charges of \$157,000 related to the Litchfield and Eastlake restructuring were recorded in the fiscal 2008 second quarter. Total restructuring charges related to the Eastlake and Litchfield restructuring excluding asset impairments charges through March 29, 2008 were \$8.0 million. These charges were comprised of \$3.3 million for one time termination benefits, \$3.8 million for moving and closing costs and \$0.9 million contract termination costs related to the Eastlake facility lease. Remaining expenditures of approximately \$800,000 are expected as part of the plan primarily related to completing the transfer of equipment to Thailand.

Net (Gain) Loss on the Sale of Assets

Net gain on the sale of assets was \$125,000 for the three months ended March 29, 2008 compared to a net loss on the sale of assets of \$336,000 for the three months ended March 31, 2007.

Net Interest and Other Expense

Net interest expense was \$0.7 million for the three months ended March 29, 2008 and \$0.6 million for the three months ended March 31, 2007. The increase

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was driven by higher level of debt outstanding in fiscal 2008. Net other expense was \$2.1 million in the three months ended March 29, 2008 as compared to net other income of \$137,000 in the three months ended March 31, 2007. The change was a result of higher foreign currency valuation losses being recorded in fiscal 2008 as compared to fiscal 2007. The foreign currency loss for the quarter was driven by the large drop in the value of the US dollar during the quarter as compared to other currencies and in particular, the Thai baht. Our Thailand debt is denominated in Thai baht, and as a result, we have a significant short position in Thai baht. We made the decision in fiscal 2007 to reduce the level of forward contracts we place to purchase Thai baht to offset this short position because of the short term cash risks associated with placing these contracts. As a result, the weaker dollar drove the foreign currency loss as the value of our baht denominated debt increased.

Income Taxes

Only minimal net income tax expense or benefit was recorded for the three months ended March 29, 2008 and March 31, 2007 as the deferred tax valuation allowance was increased to offset the tax benefit generated during the quarter. The deferred tax assets continue to be fully reserved.

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Comparison of Six Months Ended March 29, 2008 and March 31, 2007

Net Sales

Our net sales were \$34.0 million for the six months ended March 29, 2008, compared to \$47.9 million for the six months ended March 31, 2007, a decrease of 29%. This decrease primarily reflects a \$17 million decrease in flex suspension assembly (FSA) revenue and a \$3.7 million decrease in actuator flex circuit (AFC) revenue offset by a \$8.0 million increase in flat panel display (FPD) revenue. The decline in FSA revenue reflects the completion of our FSA customer's transition to its next generation of disk drive products which use an alternative technology. The AFC reduction was related to first quarter production issues reducing our product allocation at a significant customer and the delay in the expected production ramp up for our new actuator flex customer. The growth in the FPD revenue resulted from the ramp up of a number of new FPD programs and increased volume from the FPD programs that ramped up in the first quarter.

FSA sales to the disk drive industry generated 25% of our net sales for the six months ended March 29, 2008, compared to 54% for the six months ended March 31, 2007. Sales of AFC's to the disk drive industry were 38%, compared to 34%, FPD application net sales were 32% compared to 6%, sales from integrated circuit packaging, network system application and sales from other industry applications were 5% and 6% for the six months ended March 29, 2008 and March 31, 2007, respectively.

Gross Profit (Loss)

Our gross loss was \$4.0 million for the six months ended March 29, 2008 compared to a gross profit of \$550,000 for the six months ended March 31, 2007. Our gross margin for the six months ended March 29, 2008 decreased to (11.7%), from 1.1% for the six months ended March 31, 2007. The decrease in gross profit

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and gross margin as compared to the prior year reflects the decreased fixed cost absorption driven by lower revenue resulting in a higher level of excess manufacturing capacity and short-term incremental costs incurred while addressing operating issues related to new product ramp ups and the introduction of a new material set. Spending levels were lower as a result of cost reductions related to the transfer of operations from the U.S. facilities to our Thailand facilities, but not low enough to offset the impact of the lower revenue.

Selling, General and Administrative and Royalty Expense

Selling, general and administrative expenses including royalty expenses for the six months ended March 29, 2008 were \$4.9 million, compared to \$6.5 million in the six months ended March 31, 2007, a decrease of 25%. As a percentage of net sales, selling, general and administrative expenses were 14% for the six months ended March 29, 2008 and March 31, 2007. Royalty expense was lower compared with the prior year as a result of lower FSA revenue which is royalty bearing. The dollar decrease in selling, general and administrative expenses from the prior year primarily reflects lower payroll expenses related to reductions in U.S. sales and administrative positions. Selling, general and administrative expenses as a percentage of net sales was similar as compared to the prior year as the decrease in revenue more than offset the decrease in expenses.

Engineering

Engineering expenses for the six months ended March 29, 2008 were \$1.3 million, compared to \$1.8 million for the six months ended March 31, 2007, a decrease of 29%. The decrease was primarily the result of reducing or transferring engineering positions to our lower salary base Thailand facility as a result of closing our U.S. facilities. As a percentage of net sales, engineering expenses were 3.8% of sales for the six months ended March 29, 2008 unchanged from the same period in the prior year.

Restructuring

Corporate office relocation:

As discussed above, on October 1, 2007, we announced a plan to relocate our corporate offices to Thailand and discontinue manufacturing activity at our Korat, Thailand facility as the FSA product reaches its end of life by the end of the fiscal 2008 second quarter. Restructuring charges of \$2.6 million were recorded during the first six months of fiscal 2008 related to the corporate office restructuring. These charges were comprised of \$2.5 million of one time employee termination benefits and \$108,000 for moving and closing costs. No charges were recorded related to this restructuring in the first six months of fiscal 2007.

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Litchfield and Eastlake restructuring:

As discussed above, on January 16, 2006, we announced a plan to move prototyping and high volume manufacturing from our Litchfield, Minnesota

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facilities to our Lamphun, Thailand facilities. On September 25, 2006, we expanded the previously announced Litchfield restructuring to close the entire Litchfield facility and our Eastlake, Ohio facility. Restructuring charges of \$396,000 were recorded during the first six months of fiscal 2008 related to the Litchfield restructuring. These charges were comprised of \$311,000 for moving and closing costs and \$85,000 contract termination costs related to the Eastlake facility lease. Restructuring charges of \$3.7 million were recorded during the first six months of fiscal 2007 related to the Litchfield restructuring. These charges were comprised of \$2.1 million for one time termination benefits, \$0.8 million for moving and closing costs and \$756,000 contract termination costs related to the Eastlake facility lease.

Net (Gain) Loss on the Sale of Assets

Net gain on the sale of assets was \$125,000 for the six months ended March 29, 2008 compared to a net loss on the sale of assets of \$325,000 for the six months ended March 31, 2007.

Net Interest and Other Expense

Net interest expense was \$1.4 million for the six months ended March 29, 2008 and \$1.2 million for the six months ended March 31, 2007. The increase was driven by higher level of debt outstanding in fiscal 2008. Net other expense was \$2.7 million in the six months ended March 29, 2008 as compared to net other income of \$20,000 in the six months ended March 31, 2007. The change was a result of higher foreign currency valuation losses being recorded in fiscal 2008 as compared to fiscal 2007. The foreign currency loss for the quarter was driven by the large drop in the value of the US dollar during the quarter as compared to other currencies and in particular, the Thai baht. Our Thailand debt is denominated in Thai baht, and as a result, we have a significant short position in Thai baht. We made the decision in fiscal 2007 to reduce the level of forward contracts we place to purchase Thai baht to offset this short position because of the short term cash risks associated with placing these contracts. As a result, the weaker dollar in fiscal 2008 drove the foreign currency loss as the value of our baht denominated debt increased.

Income Taxes

Only minimal net income tax expense or benefit was recorded for the six months ended March 29, 2008 and March 31, 2007 as the deferred tax valuation allowance was increased to offset the tax benefit generated during the quarter. The deferred tax assets continue to be fully reserved.

Critical Accounting Policies

Our significant accounting policies are described in Note A to the Consolidated Financial Statements and the Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report for the year ended September 29, 2007. The accounting policies used in preparing our interim 2008 Consolidated Financial Statements are the same as those described in our Annual Report.

Liquidity and Capital Resources

We have historically financed our operations primarily through cash from operating activities, sales of equity securities, bank credit facilities and employee stock option exercises. Cash and equivalents were \$8.7 million at March 29, 2008 and \$10.5 million at September 29, 2007. As of March 29, 2008, the Company had a working capital deficit of \$26.5 million.

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For the six months ended March 29, 2008, net cash used in operating activities of \$14.8 million primarily resulted from the net loss for the period net of non-cash charges and a \$5.5 million decrease in accounts payable, partially offset by a \$3.0 million decrease in accounts receivable and a \$2.6 million decrease in inventory. The accounts payable, accounts receivable and inventory decreases were driven by the reduced level of revenue.

Net cash used in investing activities was \$0.6 million in the first six months of fiscal 2008, compared to net cash used in investing activities of \$3.0 million in the first six months of fiscal 2007. In fiscal 2008, net cash used in investing activities was attributed to capital spending related to process improvements at our Thailand facility. Fiscal 2007 net cash used in investing activities was also attributed to capital spending for process improvements at our Thailand facility.

Net cash provided by financing activities was \$13.7 million in the first six months of fiscal 2008, compared to net cash provided by financing activities of \$11.6 million in the first six months of fiscal 2007. Fiscal 2008 net cash provided by financing activities was the result of the \$13.1 million borrowed under our short-term Thailand packing credit facilities, a \$1.5 million draw down under our new long term Thailand credit facilities and a \$2.2 million increase in the U.S. dollar foreign exchange valuation of the Thailand baht denominated debt partially offset by the normally scheduled debt payments on our existing Thailand debt facilities and US based debt. For the first six months of fiscal 2007, net cash provided by financing activities was primarily related to the \$6.3 million borrowed under our short-term Thailand packing credit facilities and a \$7.8 million draw down under our new long term Thailand credit facilities partially offset by the normally scheduled debt payments on our existing Thailand debt facilities and US based debt.

In December 2006, we entered into a new credit facility with Bank of Ayudhya Public Company Limited (BAY) and TMB Bank Public Company Limited (TMB) which expanded our existing credit facilities with these banks. The new Third Credit Facilities Agreement provides for an additional 600 million baht facility to be used for procurement of equipment within 24 months from the December 19, 2006 effective date. We drew down approximately \$9.5 million under this new credit facility in fiscal 2007 and \$1.1 million in the fiscal 2008 first quarter. In June 2004, we entered into the Second Credit Facilities Agreement with BAY and TMB which expanded the existing credit facility with these banks. The Second Credit Facilities Agreement is now comprised of a 660 million baht long-term facility, a 400 million baht long-term facility, packing credit facilities totaling 1,100 million baht, short-term working capital facilities totaling 90 million baht and a 10 million baht overdraft facility. The Thailand facilities are secured by certain receivables, inventory and assets held by us in Thailand. As of March 29, 2008, we had approximately \$26.5 million outstanding under our long-term Thailand credit facilities and a \$33.5 million outstanding balance under our short-term Thailand credit facilities. Total unused availability as of March 29, 2008 was approximately \$7.1 million under our long-term Thailand credit facilities and approximately \$4.6 million under our short-term packing credit and working capital facilities. Utilization of the \$7.1 million available under the long-term credit facility is based on the incurrence of capital expenditures and utilization of the packing credit facility availability is dependent on presenting qualifying customer purchase orders to the banks for draw down. As of March 29, 2008, we were in compliance with covenants under our

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Thailand credit facilities.

In January 2005, we entered into a financing agreement with US Federal Credit Union under which we borrowed \$4.0 million. An additional \$3.1million was borrowed under that agreement on April 15, 2005. In addition to normally scheduled payments, a principal payment of \$1.5 million was made on June 27, 2006 related to sale of the business, facility and assets of our etched metal components business. An additional principal payment of \$4 million was made on May 18, 2007 related to the sale of the Maple Plain facility. As of March 29, 2008, \$0.6 million was outstanding under our US Federal credit facility. The note is due February 1, 2010 with principal amounts under the arrangement bearing interest at a rate of 7% per annum. Payments under the underlying note are calculated using a 25 year amortization with the remaining principal amount due at maturity. The note is secured by our Litchfield facilities and any proceeds from the sale of those facilities will be used to pay down the outstanding note balance.

We believe that with the existing Thailand credit facilities and cash generated from operations, we will have adequate funds to support projected working capital and capital expenditures through a portion of the fiscal 2008 fourth quarter. We require additional capital resources for our business and to otherwise respond to competitive pressures in the industry. We are working with the banks providing our existing credit facilities to restructure the existing credit facilities. We are considering alternatives for generating additional working capital and long-term financing and will continue to pursue financing opportunities to better leverage our assets. No assurance can be given that additional working capital will be obtained in an amount that is sufficient for our needs, in a timely manner or on terms and conditional acceptable to the Company or its shareholders.

We also filed a "shelf" registration statement with the Securities and Exchange Commission on January 12, 2005 under which we may offer up to an aggregate of 3,500,000 shares of our common stock in one or more offerings from time to time. However, our efforts to raise additional funds from the sale of common stock may be hampered by the fact that we currently fail to meet two of the listing requirements of the Nasdaq Capital Market. If we fail to regain compliance with the listing requirement or if at any time we fail to satisfy each of the other requirements for continued listing, our common stock will be delisted from the Nasdaq Capital Market, which will further hamper our ability to raise additional working capital.

Our financing needs and the financing alternatives available to us are subject to change depending on, among other things, general economic and market conditions, changes in industry buying patterns, customer demand for our AFC, stacked memory flex, FPD flex and other new products, our ability to meet our loan covenant requirements, cash flow from operations and our estimates as to future revenue and expenses.

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Contractual Obligations

The table below discloses a summary of the Company's specified contractual

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obligations at December 29, 2007 (in thousands):

	Under 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years	Total
Long-term Debt					
Obligations (1)	\$ 12,638	\$ 12,206	\$ 2,386	--	\$ 27,229
Operating Leases	348	701	341	--	1,390
Total	\$ 12,986	\$ 12,907	\$ 2,727	--	\$ 28,619

(1) Includes interest at a fixed rate of 7% on a portion of the debt and excludes interest on all debt with variable interest rates.

Recent Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities--an amendment of FASB Statement No. 133" ("FAS 161"). FAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The guidance in FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating the provisions of FASB 161 to determine the impact on the company's consolidated financial statements.

Forward Looking Statements

Statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations, elsewhere in this report 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 increased utilization by our largest customer of alternative interconnect technologies that compete with our FSA product, AFC and FPD revenue may not increase enough to offset decreases in our FSA revenue, any interruption in the operations of the Company's single source suppliers or any failure of any of the Company's single source suppliers to timely deliver an adequate supply of components, the timely availability and acceptance of new products, the impact of competitive products and pricing, changes in our customers' market share, impact of restructuring charges, changes in manufacturing efficiencies, ability to secure additional financing, continued cash availability under our credit facilities and other risks detailed from time to time in our reports filed with the Securities and Exchange Commission, including those risks described under Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended September 29, 2007. In addition, a significant portion of the our revenue is generated from the disk drive, flat panel display, stacked memory substrate, consumer electronics and data storage industries and the global economic softness has had and may have in the future, an adverse impact on our operations. We disclaim 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 DISCLOSURE ABOUT MARKET RISK

The following discusses our exposure to market risk related to changes in interest rates and foreign currency exchange rates. These exposures may change over time as business practices evolve and could have a material adverse impact

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on our business, financial condition and results of operations.

Our earnings and cash flows are subject to fluctuations resulting from changes in foreign currency exchange rates. While we transact business primarily in U.S. dollars, a portion of our sales and expenses are denominated in foreign currencies. Changes in the relation of foreign currencies to the U.S. dollar will affect our cost of sales and operating margins and could result in exchange gains or losses. To reduce the impact of certain foreign currency fluctuations, we enter into short-term forward foreign currency exchange contracts in the regular course of business to manage our risk exposure, not as speculative instruments. Typically, these contracts have maturities of 6 months or less. The forward exchange contracts generally require us to exchange Thailand baht for U.S. dollars or U.S. dollars for Thailand baht at maturity, at rates agreed to at inception of the contracts. These contracts are not designated as hedges, therefore, the gains and losses on foreign currency transactions are included in income.

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We periodically review the outlook for expected currency exchange rate movements as well as the policy on desired future foreign currency cash flow positions (long, short or balanced) for those currencies in which we have significant activity. Expected future cash flow positions and strategies are continuously monitored. At March 29, 2008, the Company had open forward exchange contracts to buy Thailand baht in return for US dollars maturing on May 14, 2008; May 20, 2008; May 27, 2008; June 12, 2008, June 19, 2008 and September 5, 2008, each with an amount of 200 million baht except for the contract maturing on September 5, 2008 which has an amount of 300 million baht for a total of 1.3 billion Thailand baht. No assurance can be given that our strategies will prevent future currency fluctuations from adversely affecting our business, financial condition and results of operations.

We are exposed to interest rate risk as a large portion of our interest-bearing debt is subject to interest rates which fluctuate with changes in market interest rates or are periodically reset based on market interest rates. A large change in market interest rates could have an adverse impact on our business, financial condition and results of operations.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer, Terry M. Dauenhauer, and Chief Financial Officer, Randy L. Acres, have evaluated the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon this review, they have concluded that these controls and procedures are effective.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in internal control over financial reporting that occurred during the fiscal period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company hired Mr. Acres as its Chief Financial Officer during the quarter and this position will be located at the Company's Thailand facility. The Company does not believe this constitutes a change in internal control over financial reporting as described above.

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PART II - OTHER INFORMATION

Responses to Items 1A through 3 and 5 are omitted since these items are either inapplicable or the response thereto would be negative.

ITEM 1. LEGAL PROCEEDINGS

We are party to certain lawsuits in the ordinary course of business. We do not believe that these proceedings, individually or in the aggregate, will have a material adverse effect on our business, financial condition or results of operations.

ITEM 1A: RISK FACTORS

An investment in our common stock involves a high degree of risk. The risks and uncertainties described below and in our Annual Report on Form 10K for the year ended September 29, 2007 are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we may currently deem immaterial, may become important factors that harm our business, financial condition or results of operations. If any of the following risks or those risks described in our Annual Report on Form 10K for the year ended September 29, 2007 actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

We currently fail to meet two of Nasdaq's listing requirements and if our common stock is delisted it may then become illiquid.

Our common stock was listed on The Nasdaq Global Market. On November 21, 2007, we received a Staff Deficiency Letter from The Nasdaq Stock Market that stated that for the last 30 consecutive business days the bid price of our common stock has closed below the minimum \$1.00 per share required for continued inclusion on the Nasdaq Global Market. Therefore, we are not in compliance with the requirements for continued listing of the Nasdaq Global Market. If, at anytime before May 19, 2008, the bid price of our common stock closes at \$1.00 per share or more for a minimum of 10 consecutive business days, the staff of The Nasdaq Stock Market will provide us written notification that we have achieved compliance with this requirement for continued listing.

In addition, on February 11, 2008 we received a Staff Deficiency letter from The Nasdaq Stock Market that stated that our stockholders' equity at December 29, 2007 was less than the \$10 million minimum in stockholders' equity required for continued listing on The Nasdaq Global Market. In response to the deficiency letter, we transferred our listing to the Nasdaq Capital Market on March 27, 2008. Based on our financial performance reported in the current Form 10Q, our current stockholders' equity will fall below the \$2.5 million minimum stockholders' equity required for continued listing on the Nasdaq Capital Market and we expect to receive a Staff Deficiency Letter from the Nasdaq Stock Market upon the filing of this Form 10Q. The \$1.00 minimum per share bid price requirement also applies to The Nasdaq Capital Market.

If we fail to regain compliance with the minimum bid price requirement, the stockholders' equity requirement or if at any time we fail to satisfy each of the other requirements for continued listing, our common stock will be delisted from The Nasdaq Capital Market. If delisted from The Nasdaq Capital Market, our common stock will likely be quoted in the over-the-counter market in the

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so-called "pink sheets" or quoted in the OTC Bulletin Board. In addition, our common stock would be subject to the rules promulgated under the Securities Exchange Act of 1934 relating to "penny stocks." These rules require brokers who sell securities that are subject to the rules, and who sell to persons other than established customers and institutional accredited investors, to complete required documentation, make suitability inquiries of investors and provide investors with information concerning the risks of trading in the security. Consequently, we believe an investor would find it more difficult to buy or sell our common stock in the open market if it were quoted on the over-the-counter market or the OTC Bulletin Board. There can be no assurance that our common stock may be sold without a significant negative impact on the price per share which may make it more difficult for us to meet the minimum bid price requirement or that any market will continue to exist for our common stock.

We face risks from fluctuations in the value of foreign currency versus the U.S. dollar and the cost of currency exchange.

While we transact business predominantly in U.S. dollars, a large portion of our debt, sales and expenses are denominated in foreign currencies. Our Thailand debt is denominated in Thai baht, and as a result, we have a significant short position in Thai baht. Changes in the relation of foreign currencies to the U.S. dollar will affect our cost of sales and operating margins and could result in exchange losses. To reduce the impact of certain foreign currency fluctuations, we enter into short-term forward foreign currency exchange contracts in the regular course of business. The forward exchange contracts usually have a six month term and generally require us to exchange U.S. dollars for Thailand baht at maturity, at rates agreed to at inception of the contracts. These contracts are not designed as hedges; therefore, the gains and losses on foreign currency transactions are included in net income as incurred.

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When these contracts mature, the contract value will be determined based on the difference between the contract price and the current US dollar/Thai baht exchange rate as of the settlement date. We will receive a cash settlement for the contract value if the value of the dollar weakens and we will be required to pay a cash settlement if the dollar strengthens. As a result of the cash risk inherent in these contracts, we made the decision in fiscal 2007 to reduce the level of forward contracts we place to purchase Thai baht to offset this short position. As disclosed in Note 7 to the financial statements, our fiscal 2008 second quarter results highlight the impact that this decision has on our financial performance as we incurred a net \$2.1 million foreign currency loss during the quarter while the value of the forward contracts we held during the quarter increased by \$2.1 million. The net loss was driven by the increase in the value of our baht denominated debt as a result of the weaker dollar.

No assurance can be given that our strategies will prevent future currency fluctuations from having a material adverse effect on our business, financial condition and results of operations.

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

- a) The Annual Meeting of the shareholders of Innovex, Inc. was held on January 15, 2008. There were 19,407,966 shares of common stock entitled to vote at the meeting and a total of 16,169,302 shares were represented at the meeting.

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b) Five directors were elected at the meeting to serve until the next Annual Meeting of shareholders or until their respective successors are elected and qualified. Shares were voted as follows:

	For	Withheld
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D. Allen Andersen	15,020,444	1,148,858
Philip D. Ankeny	15,018,751	1,150,551
Robert C. Buhrmaster	15,012,568	1,156,734
Terry M. Dauenhauer	15,000,109	1,169,193
William P. Murnane	14,994,566	1,174,736

c) Other matters voted on at the meeting:

Proposal #2. A proposal was made to approve the selection of the Company's independent registered public accountants for the current fiscal year. Shares were voted as follows:

For	Against	Abstain
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15,578,867	544,032	46,403

Accordingly, each nominee was elected as a director and the appointment of Grant Thornton LLP was approved.

ITEM 6. EXHIBITS

The following exhibits are included herein:

- 31.1 Certification of Chief Executive Officer pursuant Rules 13a-14 and 15d-14 of the Exchange Act.
- 31.2 Certification of Principal Financial Officer pursuant Rules 13a-14 and 15d-14 of the Exchange Act.
- 32 Certificate pursuant to 18 U.S.C. Section 1350.

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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.

Date: May 13, 2008

By/s/ Terry M. Dauenhauer

Terry M. Dauenhauer
President and Chief Executive Officer

By/s/ Randy Acres

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Randy Acres
Senior Vice President and Chief
Financial Officer