

INTEVAC INC

FORM 10-Q (Quarterly Report)

Filed 08/11/03 for the Period Ending 06/28/02

Address	3560 BASSETT STREET SANTA CLARA, CA, 95054
Telephone	4089869888
CIK	0001001902
Symbol	IVAC
SIC Code	3559 - Special Industry Machinery, Not Elsewhere Classified
Industry	Industrial Machinery & Equipment
Sector	Industrials
Fiscal Year	12/31

INTEVAC INC

FORM 10-Q (Quarterly Report)

Filed 8/11/2003 For Period Ending 6/28/2002

Address	356O BASSETT ST SANTA CLARA, California 95054
Telephone	408-986-9888
CIK	0001001902
Industry	Computer Storage Devices
Sector	Technology
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 28, 2003**

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 0-26946

Intevac, Inc.

(Exact name of registrant as specified in its charter)

California

*(State or other jurisdiction of
incorporation or organization)*

94-3125814

*(IRS Employer
Identification No.)*

3560 Bassett Street

Santa Clara, California 95054

(Address of principal executive office, including Zip Code)

Registrant's telephone number, including area code:

(408) 986-9888

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

On June 28, 2003 12,197,653 shares of the Registrant's Common Stock, no par value, were outstanding.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Changes in Securities

Item 3. Defaults upon Senior Securities

Item 4. Submission of Matters to a Vote of Security-Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

EXHIBIT 99.1

INTEVAC, INC.

INDEX

No.		Page
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (unaudited)	
	Condensed Consolidated Balance Sheets	2
	Condensed Consolidated Statements of Operations and Comprehensive Income	3
	Condensed Consolidated Statements of Cash Flows	4
	Notes to Condensed Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	22
Item 4.	Controls and Procedures	22
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	23
Item 2.	Changes in Securities	23
Item 3.	Defaults Upon Senior Securities	23
Item 4.	Submission of Matters to a Vote of Security-Holders	24
Item 5.	Other Information	24
Item 6.	Exhibits and Reports on Form 8-K	24
	SIGNATURES	25

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INTEVAC, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 28, 2003	December 31, 2002
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,243	\$28,457
Accounts receivable, net of allowances of \$81 and \$269 at June 28, 2003 and December 31, 2002, respectively	4,164	4,991
Income taxes recoverable	—	214
Inventories	8,812	15,871
Prepaid expenses and other current assets	654	961
	<hr/>	<hr/>
Total current assets	33,873	50,494
Property, plant and equipment, net	6,545	6,793
Investment in 601 California Avenue LLC	2,431	2,431
Debt issuance costs and other long-term assets	531	580
	<hr/>	<hr/>
Total assets	\$ 43,380	\$60,298
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Convertible notes	\$ 1,025	\$ —
Accounts payable	1,897	1,739
Accrued payroll and related liabilities	1,294	1,379
Other accrued liabilities	3,290	3,723
Customer advances	4,399	12,344
	<hr/>	<hr/>
Total current liabilities	11,905	19,185
Convertible notes	29,542	30,568
Shareholders' equity:		
Common stock, no par value	19,576	19,389
Accumulated other comprehensive income	193	189
Accumulated deficit	(17,836)	(9,033)
	<hr/>	<hr/>
Total shareholders' equity	1,933	10,545
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 43,380	\$60,298
	<hr/>	<hr/>

See accompanying notes.

INTEVAC, INC.

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME**
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
Net revenues:				
Systems and components	\$ 2,677	\$ 6,600	\$13,241	\$11,846
Technology development	1,910	1,785	3,361	3,209
Total net revenues	4,587	8,385	16,602	15,055
Cost of net revenues:				
Systems and components	1,711	4,375	11,032	8,628
Technology development	1,435	1,425	2,559	2,757
Inventory provisions	322	582	732	704
Total cost of net revenues	3,468	6,382	14,323	12,089
Gross profit	1,119	2,003	2,279	2,966
Operating expenses:				
Research and development	3,114	2,977	5,743	6,106
Selling, general and administrative	2,146	1,836	4,071	3,546
Total operating expenses	5,260	4,813	9,814	9,652
Operating loss	(4,141)	(2,810)	(7,535)	(6,686)
Interest expense	(508)	(661)	(1,025)	(1,328)
Interest income and other, net	(148)	168	(243)	355
Loss before income taxes	(4,797)	(3,303)	(8,803)	(7,659)
Benefit from income taxes	—	(4,155)	—	(6,369)
Net income (loss)	\$ (4,797)	\$ 852	\$ (8,803)	\$ (1,290)
Other comprehensive income (loss):				
Foreign currency translation adjustment	10	9	4	20
Total comprehensive income (loss)	\$ (4,787)	\$ 861	\$ (8,799)	\$ (1,270)
Basic earnings per share:				
Net income (loss)	\$ (0.39)	\$ 0.07	\$ (0.72)	\$ (0.11)
Shares used in per share amounts	12,187	12,060	12,176	12,051
Diluted earnings per share:				
Net income (loss)	\$ (0.39)	\$ 0.07	\$ (0.72)	\$ (0.11)
Shares used in per share amounts	12,187	12,262	12,176	12,051

See accompanying notes.

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended	
	June 28, 2003	June 29, 2002
Operating activities		
Net loss	\$ (8,803)	\$ (1,290)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	950	1,867
Inventory provisions	732	704
Foreign currency (gain)/loss	—	1
Loss on disposal of equipment	642	—
Changes in operating assets and liabilities	(234)	(2,333)
Total adjustments	2,090	239
Net cash and cash equivalents used in operating activities	(6,713)	(1,051)
Investing activities		
Purchase of leasehold improvements and equipment	(1,680)	(625)
Net cash and cash equivalents used in investing activities	(1,680)	(625)
Financing activities		
Proceeds from issuance of common stock	186	144
Net cash and cash equivalents provided by financing activities	186	144
Effect of exchange rate changes on cash	(7)	20
Net decrease in cash and cash equivalents	(8,214)	(1,512)
Cash and cash equivalents at beginning of period	28,457	18,157
Cash and cash equivalents at end of period	\$20,243	\$16,645
Supplemental Schedule of Cash Flow Information		
Cash paid (received) for:		
Interest	\$ 993	\$ 1,220
Income tax refund	(214)	—

See accompanying notes.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business Activities and Basis of Presentation

Intevac, Inc.'s businesses are the design, manufacture and sale of complex capital equipment used to manufacture products such as thin-film disks and flat panel displays (the "Equipment Products Division"), the development of highly sensitive electro-optical devices and systems for the US military and its allies (the "Photonics Technology Division") and the design, manufacture and sale of commercial products based on technology developed by the Photonics Technology Division (the "Commercial Imaging Division").

Systems sold by the Equipment Products Division are used to deposit highly engineered thin-films of material on a substrate. These systems generally utilize proprietary manufacturing techniques and processes, operate under high levels of vacuum, are designed for high-volume continuous operation and use precision robotics, computerized controls and complex software programs to fully automate and control the production process. Products manufactured with these systems include disks for computer hard disk drives and flat panel displays for use in consumer electronics products.

The Photonics Technology Division ("PTD") is developing electro-optical sensors and cameras that permit highly sensitive detection of photons in the visible and near infrared portions of the spectrum. This development work is aimed at creating new products for both military and industrial applications. Products include Laser Illuminated Viewing and Ranging ("LIVAR®") systems for positive target identification at long range and low-cost extreme low light level cameras for use in military applications.

The Commercial Imaging Division was formed in July 2002 with the charter of developing products based on PTD technology for sale to commercial markets.

The financial information at June 28, 2003 and for the three- and six-month periods ended June 28, 2003 and June 29, 2002 is unaudited, but includes all adjustments (consisting only of normal recurring accruals) that Intevac considers necessary for a fair presentation of the financial information set forth herein, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, it does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. For further information, refer to the Consolidated Financial Statements and footnotes thereto included in Intevac's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

On January 1, 2003, Intevac changed its revenue recognition policy for system orders received after December 31, 2002.

Intevac evaluates the collectibility of trade receivables on an ongoing basis and provides reserves against potential losses when collectibility is not reasonably assured.

The results for the three- and six-month periods ended June 28, 2003 are not considered indicative of the results to be expected for any future period or for the entire year.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. Inventories

The components of inventory consist of the following:

	June 28, 2003	December 31, 2002
	(unaudited)	
	(in thousands)	
Raw materials	\$2,436	\$ 3,329
Work-in-progress	3,189	2,628
Finished goods	3,187	9,914
	<u>\$8,812</u>	<u>\$15,871</u>

Finished goods inventory consists solely of completed units at customer sites undergoing installation and acceptance testing.

Inventory reserves included in the above numbers were \$10.5 million and \$9.6 million at June 28, 2003 and December 31, 2002, respectively. Each quarter, we analyze our inventory (raw materials, WIP and finished goods) against the forecast demand for the next 12 months. Parts with no forecast requirements are considered excess and inventory provisions are established to write those parts down to zero net book value. During this process, some inventory is identified as having no future use or value to us and is disposed of against the reserves. During the six months ended June 28, 2003, \$0.7 million was added to inventory reserves based on the quarterly analysis and \$4,000 of inventory was disposed of and charged to the reserve.

3. Employee Stock Plans

At June 28, 2003, Intevac had two stock-based employee compensation plans. We account for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Intevac does not have any plans to adopt the fair value requirements of SFAS 123 for recognition purposes.

The following table illustrates the effects on net income (loss) and earnings (loss) per share if Intevac had applied the fair value-recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation.

	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
	(in thousands)			
Net income (loss), as reported	\$(4,797)	\$ 852	\$(8,803)	\$(1,290)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(155)	(198)	(267)	50
Pro forma net income (loss)	<u>\$(4,952)</u>	<u>\$ 654</u>	<u>\$(9,070)</u>	<u>\$(1,240)</u>
Basic and diluted earnings per share				
As reported	\$ (0.39)	\$0.07	\$ (0.72)	\$ (0.11)
Pro forma	\$ (0.41)	\$0.05	\$ (0.74)	\$ (0.10)

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Warranty

Intevac's typical warranty is 12 months from customer acceptance. In some cases extended warranty periods beyond 12 months are marketed to our customers. The warranty period on used systems is generally shorter than 12 months. The warranty period on consumable parts is limited to their reasonable usable life. A provision for the estimated warranty cost is recorded when revenue is recognized.

The following table displays the activity in the warranty provision account, which is included in other accrued liabilities on the Company's balance sheet, for the three and six-month periods ending June 28, 2003 and June 29, 2002:

	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
	(in thousands)			
Beginning balance	\$644	\$ 805	\$ 845	\$ 906
Expenditures incurred under warranties	(46)	(127)	(607)	(385)
Accruals for product warranties issued during the reporting period	32	121	191	205
Adjustments to previously existing warranty accruals	34	(226)	235	(153)
Ending balance	\$664	\$ 573	\$ 664	\$ 573

5. Net Income (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
	(in thousands)			
Numerator:				
Numerator for basic earnings per share — income (loss) available to common stockholders	\$ (4,797)	\$ 852	\$ (8,803)	\$ (1,290)
Effect of dilutive securities:				
6 1/2% convertible notes(1)	—	—	—	—
Numerator for diluted earnings per share — income (loss) available to common stockholders after assumed conversions	\$ (4,797)	\$ 852	\$ (8,803)	\$ (1,290)
Denominator:				
Denominator for basic earnings per share — weighted-average shares	12,187	12,060	12,176	12,051
Effect of dilutive securities:				
Employee stock options(2)	—	202	—	—
6 1/2% convertible notes(1)	—	—	—	—
Dilutive potential common shares	—	202	—	—
Denominator for diluted earnings per share — adjusted weighted-average shares and assumed conversions	12,187	12,262	12,176	12,051