INTEVAC INC

FORM 10-Q
(Quarterly Report)

Filed 05/11/98 for the Period Ending 03/28/98

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 5/11/1998 For Period Ending 3/28/1998

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)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 28, 1998

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	94-3125814
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(IRS EMPLOYER IDENTIFICATION NO.)

3550 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 [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

On March 28, 1998 approximately 12,153,525 shares of the Registrant's Common Stock, no par value, were outstanding.

INTEVAC, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTEVAC, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	MARCH 28, 1998 (UNAUDITED)	DECEMBER 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 611	$ 3,338
Short-term investments	65,100	67,804
Accounts receivable, net of allowances of $1,583 and $1,505 at March 28, 1998 and December 31, 1997, respectively	12,972	9,634
Inventories	34,484	35,915
Short-term note receivable, net of allowance of $395 at March 28, 1998 and December 31, 1997	--	--
Prepaid expenses and other current assets	703	641
Deferred tax asset	6,572	6,572
Total current assets	120,442	123,904
Property, plant, and equipment, net	14,531	13,760
Investment in 601 California Avenue LLC	2,431	2,431
Goodwill and other intangibles	4,800	5,344
Debt issuance costs	1,947	2,029
Deferred tax assets and other assets	287	326
Total assets	$144,438	$147,794
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,357	$ 4,585
Accrued payroll and related liabilities	2,048	1,949
Other accrued liabilities	11,787	10,304
Customer advances	21,336	28,247
Net liabilities of discontinued operations	--	794
Total current liabilities	40,528	45,879
Convertible notes	57,500	57,500
Long-term notes payable	1,980	1,980
Shareholders' equity:		
Common stock, no par value	17,079	17,336
Retained earnings	27,351	25,099
Total shareholders' equity	44,430	42,435
Total liabilities and shareholders' equity	$144,438	$147,794

See accompanying notes.

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	THREE MONTHS ENDED	
	MARCH 28, 1998	MARCH 29, 1997
Net revenues	$34,235	$31,141
Cost of net revenues	23,574	20,997
Gross profit	10,661	10,144
Operating expenses:		
Research and development	3,562	2,560
Selling, general and administrative	3,105	2,600
Restructuring	1,164	--
Total operating expenses	7,831	5,160
Operating income	2,830	4,984
Interest expense	(1,016)	(400)
Interest income and other, net	771	755
Income from continuing operations before income taxes	2,585	5,339
Provision for income taxes	855	1,923
Income from continuing operations	1,730	3,416
Gain from discontinued operations, net of applicable income taxes	532	--
Net income	$ 2,262	$ 3,416
Basic earnings per share:		
Income from continuing operations	$ 0.14	$ 0.27
Net income	$ 0.19	$ 0.27
Shares used in per share amounts	12,190	12,505
Diluted earnings per share:		
Income from continuing operations	$ 0.14	$ 0.26
Net income	$ 0.18	$ 0.26
Shares used in per share amounts	12,511	14,128

See accompanying notes.

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

(UNAUDITED)

	THREE MONTHS ENDED	
	MARCH 28, 1998	MARCH 29, 1997
OPERATING ACTIVITIES		
Net income	$ 2,262	$ 3,416
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	1,614	1,131
Gain on sale of Chorus investment	--	(390)
Gain on sale of discontinued operations	(794)	--
Foreign currency loss	(12)	--
Loss on IMAT investment	37	--
Restructuring charge -- non-cash portion	194	--
Loss on disposal of equipment	94	16
Changes in assets and liabilities	(7,685)	5,442
Total adjustments	(6,552)	6,199
Net cash and cash equivalents provided by (used in) operating activities	(4,290)	9,615
INVESTING ACTIVITIES		
Purchase of investments	(38,471)	(60,618)
Proceeds from sale of investments	41,175	--
Proceeds from sale of Chorus investment	--	390
Purchase of leasehold improvements and equipment	(884)	(1,268)
Net cash and cash equivalents provided by (used in) investing activities	1,820	(61,496)
FINANCING ACTIVITIES		
Net borrowings under line of credit agreement	--	(2)
Notes payable repayments	--	(20)
Proceeds from issuance of common stock	551	422
Repurchase of common stock	(808)	--
Proceeds from convertible bond offering	--	55,175
Net cash and cash equivalents provided by (used in) financing activities	(257)	55,575
Net increase (decrease) in cash and cash equivalents	(2,727)	3,694
Cash and cash equivalents at beginning of period	3,338	938
Cash and cash equivalents at end of period	$ 611	$ 4,632
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION		
Cash paid for:		
Interest	$ 1,900	$ 46
Income taxes	950	300

See accompanying notes.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS ACTIVITIES AND BASIS OF PRESENTATION

Intevac, Inc. ("Intevac" or the "Company") is a leading supplier of static sputtering systems and related manufacturing equipment used to manufacture thin-film disks for computer hard disk drives. Sputtering is a complex vacuum deposition process used to deposit multiple thin-film layers on a disk. The Company's primary objective is to be the industry leader in supplying disk sputtering equipment by providing disk sputtering systems which have both the highest overall performance and the lowest cost of ownership in the industry. The Company's principal product, the MDP-250B, enables disk manufacturers to produce high performance, high capacity disks. The Company sells its static sputtering systems and related manufacturing equipment to both captive and merchant thin-film disk manufacturers. The Company sells and markets its products directly in the United States, and through exclusive distributors in Japan and Korea. The Company has established subsidiaries in Singapore and Malaysia and a branch office in Taiwan to support its customers in Southeast Asia.

The Company also realizes revenues from the sales of system components, contract research and development activities, flat panel display ("FPD") manufacturing equipment and electron beam processing equipment. Intevac's system component business consists primarily of sales of spare parts and after-sale service to purchasers of the Company's disk sputtering systems, as well as sales of components to other manufacturers of vacuum equipment. Contract research and development revenues have been derived primarily from prime contracts awarded by and subcontracts awarded under various Department of Defense ("DOD") and NASA development projects for the FPD industry and various photonics products. FPD manufacturing equipment consists of sputtering and rapid thermal processing equipment for the manufacture of FPD's. Electron beam processing equipment is used for curing inks, coatings and adhesives, in the manufacture of shrink wrap films and for in-line sterilization.

The financial information at March 28, 1998 and for the three-month periods ended March 28, 1998 and March 29, 1997 is unaudited, but includes all adjustments (consisting only of normal recurring accruals) that the Company considers necessary for a fair presentation of the financial information set forth herein, in accordance with generally accepted accounting principles 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 generally accepted accounting principles for annual financial statements. For further information, refer to the Consolidated Financial Statements and footnotes thereto included or incorporated by reference in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

The results for the three-month period ended March 28, 1998 are not considered indicative of the results to be expected for any future period or for the entire year.

2. COMPREHENSIVE INCOME

As of January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this statement has no impact on the Company's net income or shareholders' equity. The Company's total comprehensive income was the same as its net income for all periods presented.

3. INVENTORIES

The components of inventory consist of the following:

	MARCH 28, 1998	DECEMBER 31, 1997
	(IN THOUSANDS)	
Raw materials	$ 8,423	$ 8,784
Work-in-progress	17,626	18,756
Finished goods	8,435	8,375
	$34,484	$35,915

A significant portion of the finished goods inventory is represented by completed units at customer sites undergoing installation and acceptance testing.

4. DISCONTINUED OPERATIONS

During the quarter, the Company recognized a gain of $532,000 (net of income taxes) resulting from the reversal of excess warranty reserves related to the sale of the Company's night vision business in 1995. Basic and diluted earnings per share on the gain from discontinued operations were $0.05 and $0.04, respectively.

5. INCOME TAXES

The effective tax rates used for the three-month periods ending March 28, 1998 and March 29, 1997 were 33% and 36% of pretax income, respectively. These rates are based on the estimated annual tax rate complying with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes".

6. NET INCOME PER SHARE

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

	THREE MONTHS ENDED	
	MARCH 28, 1998	MARCH 29, 1997
	(IN THOUSANDS)	
Numerator:		
Income from continuing operations	$1,730	$3,416
Net income	$2,262	$3,416
Numerator for basic earnings per share -- income available to common stockholders	2,262	3,416
Effect of dilutive securities:		
6 1/2% convertible notes(1)	--	198
Numerator for diluted earnings per share -- income available to common stockholders after assumed conversions	$2,262	$3,614
Denominator:		
Denominator for basic earnings per share -- weighted-average shares	12,190	12,505
Effect of dilutive securities:		
Employee stock options	321	609
6 1/2% convertible notes(1)	--	1,014
Dilutive potential common shares	321	1,623
Denominator for diluted earnings per share --adjusted weighted-average shares and assumed conversions	12,511	14,128

(1) Diluted EPS for the three months ended March 28, 1998 excludes "as converted" treatment of the Convertible Notes as their inclusion would be anti-dilutive.

7. RESEARCH AND DEVELOPMENT COST SHARING AGREEMENT

The Company entered into an agreement with a Japanese company to perform best efforts joint research and development work. The nature of the project is to develop a glass coating machine to be used in the production of flat panel displays. The Company was funded for one-half of the actual costs of the project up to a ceiling of $6,750,000. Based upon discussions with its development partner, the Company believes that it will receive additional cost sharing funding during the second half of 1998.

8. RESTRUCTURING

On March 2, 1998, as a result of weak demand for its disk sputtering systems, the Company's management adopted a plan to reduce expenses. The expense reduction plan included a reduction in force of approximately 90 employees out of the Company's staff of contract and regular personnel. The reductions took place at the Company's facilities in Santa Clara, CA; Los Gatos, CA; Rocklin, CA; and in Taiwan. Additionally, the Company is relocating its Rapid Thermal Processing Operation from Rocklin to the Company's Santa Clara headquarters and closing the Rocklin facility.

In the first quarter of 1998, the Company incurred a restructuring charge of $1,164,000 related to the expense reduction plan. The significant components of this charge include $290,000 for closure of the Rocklin facility, $462,000 for the balance of the rent due on the lease and $392,000 for employee severance costs. Closure of the facility is expected to be complete by June 30, 1998.

As of March 28, 1998, approximately $184,000 in termination benefits had been paid out to affected employees.

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

This Quarterly Report on Form 10-Q contains forward-looking statements which involve risks and uncertainties. The Company's actual results may differ materially from those discussed in the forward-looking statements. Factors that might cause such a difference, include but are not limited to, the risk factors set forth elsewhere in this Quarterly Report on Form 10-Q under "Certain Factors Which May Affect Future Operating Results" and in other documents the Company files from time to time with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K filed in March 1998, Form 10-Q's and Form 8-K's.

OVERVIEW

The Company's revenues are generated by the sale of disk sputtering systems and related disk manufacturing equipment; system components; contract research and development activities; flat panel display manufacturing equipment; and electron beam processing equipment. Disk sputtering systems and related disk manufacturing equipment generally represent the majority of the Company's revenue, and Intevac is a leading supplier of this equipment. Sputtering is a complex vacuum deposition process used to deposit multiple thin-film layers on a disk. Intevac's system component business consists primarily of sales of spare parts and after-sale service to purchasers of the Company's disk sputtering systems, as well as sales of components to other manufacturers of vacuum equipment. Contract research and development revenues have been derived primarily from prime contracts awarded by and subcontracts awarded under various DOD and NASA development projects for the FPD industry and various photonics products. Flat panel display manufacturing equipment consists of sputtering and rapid thermal processing equipment for the manufacture of FPD's. Electron beam processing equipment is used for curing inks, coatings and adhesives, in the manufacture of shrink-wrap films and for sterilization.

In the first quarter of 1997, the Company completed the sale of $57.5 million of its 6 1/2% Convertible Subordinated Notes Due 2004 (the "Convertible Notes").

In the second quarter of 1997, the Company paid $0.4 million for a 49% interest in IMAT Inc. ("IMAT"), a joint venture formed with its Japanese distributor, Matsubo, to market the Company's flat panel manufacturing equipment in the Far East.

In the fourth quarter of 1997, the Company purchased all of the assets of RPC Industries ("RPC"). RPC is a manufacturer of electron beam processing systems. This acquisition was accounted for under the purchase method. The total purchase price was approximately $1.0 million plus contingent payments equal to 25% of the future earnings of RPC. The total of these contingent payments is limited to approximately $7.7 million.

In March of 1998, as a result of weak orders for its disk sputtering systems and an expectation that revenues would decline significantly in the third quarter of 1998, the Company implemented an expense reduction plan that involved the termination of approximately 20% of the Company's work force. As part of the expense reduction plan the Company also decided to close its Rocklin, California facility and transfer its Rapid Thermal Processing Operation from Rocklin to the Company's headquarters in Santa Clara. During the first quarter of 1998, the Company incurred a restructuring charge of approximately $1.2 million related to the expense reduction plan.

The Company's backlog was $53.6 million and $65.0 million at March 28, 1998 and March 29, 1997, respectively. The Company includes in backlog the value of purchase orders for its products with scheduled delivery dates. Delivery dates may be rescheduled from time to time. The Company's backlog at the beginning of a quarter may not include all system orders needed to achieve the Company's revenue objectives for that quarter.

RESULTS OF OPERATIONS

Three Months Ended March 28, 1998 and March 29, 1997

Net revenues. Net revenues consist primarily of sales of the Company's disk sputtering systems and related equipment used to manufacture thin-film disks for computer hard disk drives, and to a lesser extent, system components, electron beam processing equipment and contract research and development. Net revenues from the sales of sputtering systems and electron beam processing equipment are recognized upon customer acceptance. Sales of related equipment and system components are recognized upon product shipment, and contract research and development is recognized in accordance with contract terms, typically as costs are incurred. Net revenues increased by 10% to $34.2 million for the three months ended March 28, 1998 from $31.1 million for the three months ended March 29, 1997. The increase in net revenues was due to an increase in the net revenues from system components, electron beam processing equipment and contract research and development which was partially offset by a reduction in net revenues from disk sputtering systems.

International sales increased by 25% to $18.3 million for the three months ended March 28, 1998 from $14.7 million for the three months ended March 29, 1997. The increase in international sales was primarily due to an increase in the sales of disk sputtering systems and electron beam processing systems. International sales constituted 53% of net revenues for the three months ended March 28, 1998 and 47% of net revenues for the three months ended March 29, 1997.

Gross margin. Cost of net revenues consists primarily of purchased materials, fabrication, assembly, test, installation, warranty costs, scrap and costs attributable to contract research and development. Gross margin was 31.1% for the three months ended March 28, 1998 as compared to 32.6% for the three months ended March 29, 1997. Gross margins declined primarily as the result of the establishment of a $0.5 million cost to market reserve which was taken to reduce the inventory value of Company's first RIGEL flat panel sputtering system to a value approximately equal to the sales price less the cost of selling the system. With the RIGEL flat panel sputtering system valued in inventory at an amount approximating the sales value, the Company expects there to be approximately zero contribution to gross profit by the RIGEL system in the quarter that the system is recognized for revenue, and a significant reduction in gross margins. The Company believes that the ongoing cost of producing additional RIGEL systems will be significantly lower than the cost of the first system. The Company also believes that lower sales volumes expected in the third quarter of 1998 will cause lower absorption of factory overhead which may also negatively impact gross margins.

Research and development. Research and development expense consists primarily of prototype materials, salaries and related costs of employees engaged in ongoing research, design and development activities for disk manufacturing equipment, flat panel manufacturing equipment, electron beam processing equipment and research by the Photonics Division. Company funded research and development expense increased by 39% to $3.6 million for the three months ended March 28, 1998 from $2.6 million for the three months ended March 29, 1997, representing 10.4% and 8.2%, respectively, of net revenue. This increase was primarily the result of increased expense for the development of disk manufacturing equipment and to a lesser extent increased expense for the development of flat panel manufacturing equipment, electron beam processing equipment and company funded research and development in the Photonics Division.

Research and development expenses do not include costs of $0.4 million in the three months ended March 29, 1997, reimbursed under the terms of a research and development cost sharing agreement with the Company's Japanese flat panel manufacturing equipment development partner. Since 1993 the Company has received $6.8 million of funds under this cost sharing agreement. Based upon discussions with its development partner, the Company believes that it will receive additional cost sharing payments during the second half of 1998.

Selling, general and administrative. Selling, general and administrative expense consists primarily of selling, marketing, customer support, financial, travel, management, legal and professional services. Domestic sales are made by the Company's direct sales force, whereas international sales are made by distributors that typically provide sales, installation, warranty and ongoing customer support. The Company also has subsidiaries in Singapore and Malaysia and a branch office in Taiwan to support customers in Southeast Asia and markets its flat panel manufacturing equipment to the Far East through its Japanese joint venture, IMAT. Selling, general and administrative expense increased by 19% to $3.1 million for the three months ended March 28, 1998 from $2.6 million for the three months ended March 29, 1997 representing 9.1% and 8.3%, respectively, of net revenue. The increase in expense was primarily the result of additional selling, general and administrative expenses associated with the electron beam equipment business which was acquired during the fourth quarter of 1997. Selling, general and administrative headcount grew to 91 employees at March 28, 1998 from 85 employees at March 29, 1997.

Restructuring expense. In March 1998, the Company's management adopted a restructuring plan to relocate its Rapid Thermal Processing Operation from Rocklin, California to the Company's Santa Clara, California headquarters and to close the Rocklin facility. The restructuring plan also included an approximate 20% reduction in the worldwide staff of the Company's contract and regular employees. As a result of this plan, the Company expensed approximately $1.2 million of restructuring expense in the three months ended March 28, 1998. The restructuring expense included approximately $0.8 million related to closure of the Rocklin facility and approximately $0.4 million of severance pay for terminated employees.

Interest expense. Interest expense consists primarily of interest on the Convertible Notes, and to a lesser extent, interest on approximately $2.0 million of long term debt related to the purchase of Cathode Technology in 1996. Interest expense increased by 154% to $1.0 million for the three months ended March 28, 1998 from $0.4 million in the three months ended March 29, 1997. The primary reason for the increase in interest expense was that the Convertible Notes were only outstanding for a portion of the three month period ended March 29, 1997.

Interest and other income, net. Interest and other income, net consists primarily of interest income on the Company's investments, income related to the sale of the Company's 20% interest in the capital stock of Chorus and early payment discounts on the purchase of inventories, goods and services, partially offset by the Company's 49% share of the loss incurred by IMAT. Interest and other income, net increased by 2% to $0.8 million for the three months ended March 28, 1998 from $0.8 million for the three months ended March 29, 1997 as the result of increased interest income on funds raised from the sale of the Company's 6 1/2% Convertible Subordinated Notes due 2004 which was largely offset by decreased income related to the sale of the Company's 20% interest in the capital stock of Chorus and to a lesser extent the Company's 49% share of the loss incurred by IMAT.

Discontinued operations. The Company recorded a gain from discontinued operations of $0.5 million resulting from the reversal of excess warranty reserves related to the sale of the Company's night vision business in 1995.

Provision for income taxes. Income tax expense as a percentage of pretax income for the three months ended March 28, 1998 and March 29, 1997, was 33% and 36%, respectively. The Company's tax rate differs from the applicable statutory rates primarily due to benefits from the Company's foreign sales corporation and tax-exempt interest income partially offset by nondeductible goodwill amortization. The tax rate declined in 1998 because a larger percentage of 1998 income is expected to be derived through the Company's foreign sales corporation and from tax-exempt interest income.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities used cash of $4.3 million for the three months ended March 28, 1998. The cash used in 1998 was due primarily to a reduction in customer advances and an increase in accounts receivable, which were partially offset by increased expense accruals and accounts payable, net income and increased depreciation and amortization.

The Company's investing activities provided cash of $1.8 million for the three months ended March 28, 1998 due primarily to the net sale of investments which was partially offset by the purchase of fixed assets.

The Company's financing activities used cash of $0.3 million for the three months ended March 28, 1998, primarily due to the repurchase of 95,000 shares of the Company's stock for $0.8 million, which was partially offset by the sale of the Company's stock to its employees through the Company's employee benefit plans.

YEAR 2000

The Company is currently evaluating the software and computer systems it uses in order to ensure compliance with Year 2000 issues. This evaluation, and any corrective actions required, is estimated to be completed no later than December 31, 1998. The Company does not expect to encounter significant problems or that material expenditures will be required to comply with Year 2000 issues. These expectations are based primarily on the fact that the Company purchases all business software from third party vendors.

Specific actions to be taken include: reviewing all software used and assessing the vendor's plans to comply with Year 2000; testing of all hardware to ensure its ability to recognize dates after 1999; and contacting significant suppliers to determine their ability to comply with Year 2000.

The expectations of the findings of this project and the date on which the Company believes it will be completed are based on management's best estimates. However, there can be no guarantee that these expectations will be achieved and actual results could differ materially.

CERTAIN FACTORS WHICH MAY AFFECT FUTURE OPERATING RESULTS

Fluctuations of Results of Operations

The Company's operating results have historically been subject to significant quarterly and annual fluctuations. The Company believes that its operating results will continue to fluctuate on a quarterly and annual basis due to a variety of factors. These factors include the cyclicality of the thin-film disk manufacturing and disk drive industries, patterns of capital spending by customers, the timing of significant orders, order cancellation or reschedule, market acceptance of the Company's products, unanticipated delays in design, engineering or production or in customer acceptance of product shipments, changes in pricing by the Company or its competitors, the timing of product announcements or introductions by the Company or its competitors, the mix of systems sold, the relative proportions of sputtering systems, system components and subassemblies, and contract research and development net revenues, the availability and cost of components and subassemblies, changes in product development costs, expenses associated with acquisitions and exchange rate fluctuations.

The Company derives the majority of its net revenues from the sale of a relatively small number of sputtering systems. Over the last nine quarters, the number of systems accepted by customers in any particular quarter has varied from four to thirteen and, as a result, the Company's net revenues and operating results for a particular period could be materially adversely affected if an anticipated order for even one system is not received in time to permit shipment and customer acceptance during that accounting period. Over the last nine quarters the Company's gross margin and operating income (loss) as a percentage of net revenues has fluctuated from approximately 30% to 40% of net revenues and from (9)% to 18% of net revenues, respectively. The Company anticipates that its unit shipments, revenues, gross and operating margins will continue to fluctuate. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

The Company's backlog at the beginning of a quarter may not include all system orders needed to achieve the Company's revenue objectives for that quarter. In addition, orders in backlog are subject to cancellation, and although the Company generally requires a deposit on orders for its systems, such deposits may not be sufficient to cover the expenses incurred by the Company for the manufacture of the canceled systems or fixed operating expenses associated with such systems. The Company may from time to time manufacture a system in anticipation of an order that may not be placed during the period or at all. In any given quarter in which such a system is manufactured, the Company may not receive funds to cover its manufacturing costs. Orders may be subject to delay, deferral or rescheduling by a customer. From the date the Company receives an order, it often takes more than six months before the net revenues from such order are recognized and even longer before final payment is received. The relatively long manufacturing cycles of many of the Company's products has caused and could cause shipments of such products to be delayed from one quarter to the next, which could materially adversely affect the Company's business, financial condition and results of operations for a particular quarter. Announcements by the Company or its competitors of new products and technologies could cause customers to defer purchases of the Company's existing systems, which would have a material adverse effect on the Company's business, financial condition and results of operations.

Installing and integrating new sputtering systems into the thin-film disk manufacturing process requires a substantial investment by a customer. Sales of the Company's systems depend, in significant part, upon the decision of a prospective customer to replace obsolete equipment or to increase manufacturing capacity by upgrading or expanding existing manufacturing facilities or constructing new manufacturing facilities, all of which typically involve a significant capital commitment. Therefore, customers often require a significant number of product presentations and demonstrations, as well as substantial interaction with the Company's senior management, before making a purchasing decision. Accordingly, the Company's systems typically have a lengthy sales cycle, during which the Company may expend substantial funds and management time and effort with no assurance that a sale will result. Furthermore, the Company's expense levels are based, in part, on its expectations as to future net revenues. If revenue levels are below expectations, operating results are likely to be adversely affected. Net income, if any, may be disproportionately affected by a reduction in net revenues because a proportionately smaller amount of the Company's expenses varies with its net revenues. The impact of these and other factors on the Company's sales and operating results in any future period cannot be forecasted with certainty.

Due to all of the foregoing factors, the Company expects its quarterly operating results to fluctuate significantly and may in certain quarters be below the expectations of securities analysts and investors. In such event it is likely the price of the Company's Common Stock would be materially adversely affected.

Cyclicality of the Media Industry

The cyclicality of the disk drive industry, among other factors, may cause prospective customers to postpone decisions regarding major capital expenditures, including purchases of the Company's systems. The Company's business depends upon capital expenditures by manufacturers of thin-film disks, including manufacturers that are opening new fabrication facilities or entering the market, expanding or upgrading existing facilities, or replacing obsolete equipment, which in turn depend upon the current and anticipated market demand for hard disk drives. In recent years, the disk drive industry has experienced significant growth, which, in turn, has caused significant growth in the capital equipment industry supplying manufacturers of thin-film disks. However, the disk drive industry is cyclical and historically has experienced periods of oversupply, resulting in significantly reduced demand for thin-film disks and for the capital equipment used to manufacture such disks, including the systems manufactured and marketed by the Company.

A number of manufacturers of hard disk drives and hard disk drive component suppliers have recently reported both substantial reductions in revenues and substantial financial losses. Many of these manufacturers attributed their problems to an excess supply of hard drives, or, in the case of component suppliers, an excess supply of components for hard drives (including thin-film disks) and the rapid change of technology which caused a number of products to become obsolete. This industry-wide over-capacity has led to a period of reduced demand for thin-film disk production and for the capital equipment used in such production. In March of 1998, as a result of weak orders for its disk sputtering systems, the Company determined that sales in the third quarter of 1998 would likely be significantly reduced from current levels and implemented an expense reduction plan that involved the termination of approximately 20% of the Company's work force.

Cyclical downturns in the hard disk drive industry are likely to materially adversely affect the Company's business, financial condition and results of operations.

Intense Competition

The Company's disk sputtering business experiences intense competition worldwide from two principal competitors, Balzars A.G. ("Balzars") and Anelva Corporation ("Anelva"), each of which is a large manufacturer of complex vacuum equipment and thin-film disk manufacturing systems and has sold a substantial number of thin-film disk sputtering machines worldwide. Both Balzars and Anelva are manufacturers of static sputtering systems, and each has substantially greater financial, technical, marketing, manufacturing and other resources than the Company. The Company also experiences competition from two other manufacturers of static sputtering systems as well as from the manufacturers of thin-film disks that have developed the capability to manufacture their own sputtering systems. There can be no assurance that the Company's competitors will not develop enhancements to, or future generations of, competitive products that offer superior price or performance features or that new competitors will not enter the Company's markets and develop such enhanced products. Furthermore, the failure of manufacturers of thin-film disks currently using in-line machines and manufacturers using internally developed sputtering systems to switch to static sputtering systems in the future could adversely affect the Company's ability to increase its sputtering system market share.

In addition, the Company's two principal competitors are based in foreign countries and have cost structures and system prices based on foreign currencies. Accordingly, currency fluctuations could cause the Company's dollar-priced products to be less competitive than its competitors' products priced in other currencies. Currency fluctuations could also increase the Company's cost structure relative to those of its competitors, which could make it more difficult for the Company to maintain its competitiveness.

Given the lengthy sales cycle and the significant investment required to integrate a disk sputtering system into the manufacturing process, the Company believes that once a thin-film disk manufacturer has selected a particular supplier's disk sputtering equipment, the manufacturer generally relies upon that equipment for the specific production line application and frequently will continue to purchase its other disk sputtering equipment from the same supplier. The Company expects to experience difficulty in selling to a particular customer for a significant period of time if that customer selects a competitor's disk sputtering equipment. Accordingly, competition for customers in the disk sputtering equipment industry is particularly intense, and suppliers of disk sputtering equipment may offer pricing concessions and incentives to attract customers, which could adversely affect the Company's business, financial condition, gross margins and results of operations. Because of these competitive factors, there can be no assurance that the Company will be able to compete successfully in the future.

Customer Concentration

Historically, a significant portion of the Company's revenues in any particular period have been attributable to sales to a limited number of customers. For example, Matsubo, HMT Technology and Trace Storage Technology accounted for 37%, 17% and 15%, respectively of the Company's total net revenues in 1997, and Matsubo, Seagate and HMT Technology accounted for 32%, 32% and 13%, respectively, of the Company's total net revenues in 1996. Seagate, HMT Technology, and Matsubo accounted for 40%, 20% and 17%, respectively, of the Company's total net revenues in 1995. The Company's largest customers change from period to period as large thin-film disk fabrication facilities are completed and new projects are initiated. The Company expects that sales of its products to relatively few customers will continue to account for a high percentage of its net revenues in the foreseeable future. For example, 68% of the Company's backlog at December 31, 1997 was represented by two customers for disk sputtering systems, with each representing 10% or more of the Company's backlog at December 31, 1997. None of the Company's customers has entered into a long-term agreement requiring it to purchase the Company's products. As purchases related to a particular new or expanded fabrication facility are completed, sales to that customer may decrease sharply or cease altogether. If completed contracts are not replaced on a timely basis by new orders from the same or other customers, the Company's net revenues could be adversely affected. The loss of a significant customer, any reduction in orders from any significant customer or the cancellation of a significant order from a customer, including reductions or cancellations due to customer departures from recent buying patterns, financial difficulties of a customer or market, economic or competitive conditions in the disk drive industry, could materially adversely affect the Company's business, financial condition and results of operations.

Limited Number of Opportunities

The Company's business depends upon capital expenditures by manufacturers of thin-film disks, of which there are a limited number worldwide. According to a April 1997 report by TrendFocus, an independent market research firm, as of the end of 1996 there were 231 installed disk sputtering lines (sputtering systems and related equipment such as plating, polishing, texturing, lubrication and test equipment as well as related handling equipment) worldwide and only 15 companies in the world with five or more installed disk sputtering lines. Therefore, winning or losing an order from any particular customer could significantly affect the Company's operating results. In addition, the Company's opportunities to sell its systems are further limited by the fact that some of the manufacturers of thin-film disks have adopted an in-line approach as opposed to the Company's static approach to thin-film disk manufacturing. These manufacturers have invested significant amounts of capital in their in-line systems, and there may be significant resistance to change to a static approach in the future. The construction of new thin-film disk fabrication facilities involves extremely large capital expenditures, resulting in few thin-film disk fabrication facilities being constructed worldwide at any particular time. A substantial investment is also required by disk manufacturers to install and integrate additional thin-film disk manufacturing equipment in connection with upgrading or expanding their existing fabrication facilities. These costs are far in excess of the cost of purchasing the Company's system. The magnitude of such capital expenditures has caused certain thin-film disk manufacturers to forego purchasing significant additional thin-film disk manufacturing equipment. Consequently, only a limited number of opportunities for the Company to sell its systems may exist at any given time.

Rapid Technological Change; New Products

The disk drive industry in general, and the thin-film disk manufacturing industry in particular, is characterized by rapid technological change and evolving industry standards. The Company maintains an active development program to make sputter system improvements, to add additional capabilities that will improve disk performance, increase machine throughput, permit optimum utilization of alternative substrates, lower cost of ownership and respond to future market requirements. The Company's ability to remain competitive has required and will continue to require substantial investments in research and development to advance its technologies. The failure to develop, manufacture and market new systems, or to enhance existing systems, would have a material adverse effect on the Company's business, financial condition and results of operations. In the past, the Company has experienced delays from time to time in the introduction of, and certain technical difficulties with, certain of its systems and enhancements. In addition, the Company's competitors can be expected to continue to develop and introduce new and enhanced products, any of which could cause a decline in market demand for the Company's systems or a reduction in the Company's margins as a result of intensified price competition.

Changes in the manufacturing processes for thin-film disks could also have a material adverse effect on the Company's business, financial condition and results of operations. The Company anticipates continued changes in the requirements of the disk drive industry and thin-film disk manufacturing technologies. There can be no assurance that the Company will be able to develop, manufacture and sell systems that respond adequately to such changes. In addition, the data storage industry is subject to constantly evolving technological standards. There can be no assurance that future technological innovations will not reduce demand for thin-film disks. The Company's business, financial condition and results of operations could be materially adversely affected by any trend toward technology that would replace thin-film disks as a storage medium.

The Company's success in developing and selling enhanced disk sputtering systems and other new products depends upon a variety of factors, including accurate prediction of future customer requirements, technology advances, cost of ownership, introduction of new products on schedule, cost-effective manufacturing and product performance in the field. The Company's new product decisions and development commitments must anticipate the requirements for the continuously evolving disk drive industry approximately two or more years in advance of sales. Any failure to accurately predict customer requirements and to develop new generations of products to meet those requirements would have a sustained material adverse effect on the Company's business, financial condition and results of operations. New product transitions could adversely affect sales of existing systems, and product introductions could contribute to quarterly fluctuations in operating results as orders for new products commence and orders for existing products decline. There can be no assurance that the Company will be successful in selecting, developing, manufacturing and marketing new products or enhancements of existing products.

Flat Panel Display Manufacturing Equipment Risks

In 1997, the Company spent approximately $4.9 million on various programs to fund the development of equipment for use in the FPD industry, of which approximately 54% was paid for by the Company's development partners. In exchange for certain development funding, the Company has granted to one of its development partners the exclusive rights to manufacture and market the Company's FPD sputtering systems in Japan. As of March 28, 1998 all of the approximately $6.75 million advanced by the Company's development partner had been applied to qualifying costs. The Company has limited experience in the development, manufacture, sale and marketing of FPD manufacturing equipment, having sold only three rapid thermal processing ("RTP") systems to date and continuing development of its FPD sputtering system. Although during the first quarter of 1998 the Company delivered a second larger version of its FPD sputtering machine, there can be no assurance that the market for FPD manufacturing equipment targeted by the Company will develop as quickly or to the degree the Company currently anticipates, or that the Company's proposed FPD manufacturing equipment will achieve market acceptance. There can be no assurance the Company will receive additional customer sponsored research and development funding in the future. The failure to receive additional customer sponsored research and development funds could result in the Company internally funding the development of such FPD manufacturing equipment, and the costs of such research and development may have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company in any event will continue to fund research and development in the FPD area.

Risks Associated With International Sales and Operations

Foreign sales accounted for 64%, 41% and 20% of revenues in 1997, 1996 and 1995, respectively. Substantially all of the Company's foreign sales are to companies in the Far East. The Company anticipates that sales to customers in the Far East will continue to be a significant portion of its revenues in the foreseeable future. In order to effectively service customers located in Southeast Asia, the Company has established sales and service operations in Singapore, Taiwan and Malaysia and a joint venture in Japan. Sales and operating activities outside of the United States are subject to certain inherent risks, including fluctuations in the value of the United States dollar relative to foreign currencies, tariffs, quotas, taxes and other market barriers, political and economic instability, restrictions on the export or import of technology, potentially limited intellectual property protection, difficulties in staffing and managing international operations and potentially adverse tax consequences. The Company's products have been sold in to companies headquartered in the United States, Japan, Taiwan and Korea and have been installed in factories in the United States, Japan, Singapore, Malaysia, Korea and Taiwan. All of the Far Eastern countries with which the Company does business have banking systems and foreign currency exposures that have experienced serious troubles recently and therefore subject the Company's customers to substantial business risks. There can be no assurance that any of these factors will not have a material adverse effect on the Company's business, financial condition or results of operations. In particular, although the Company's international sales have been denominated in United States dollars, such sales and expenses may not be denominated in dollars in the future, and currency exchange fluctuations in countries where the Company does business could materially adversely affect the Company's business, financial condition and results of operations.

Dependence on Key Employees

The Company's operating results will depend significantly upon the continued contributions of its officers and key management, engineering, marketing, customer support and sales personnel, many of whom would be difficult to replace. The Company does not have an employment agreement with any of its employees or maintain key person life insurance with respect to any employee. The loss of any key employee could have a material adverse effect on the Company's business, financial condition and results of operations. Employees of the Company are currently required to enter into a confidentiality agreement as a condition of their employment. However, these agreements do not expressly prohibit the employees from competing with the Company after leaving its employ.

Ability to Attract Qualified Personnel

The Company's operating results depend in significant part upon its ability to retain and attract qualified management, engineering, marketing, customer support and sales personnel. Competition for such personnel is intense and there can be no assurance that the Company will be successful in attracting and retaining such personnel. The failure to attract and retain such personnel could make it difficult to undertake or could significantly delay the Company's research and development efforts and the expansion of its manufacturing capabilities or other activities, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Leverage

In connection with the sale of the Convertible Notes, the Company incurred a substantial increase in the Company's ratio of long-term debt to total capitalization (shareholders' equity plus long-term debt). The ratio at March 28, 1998 and December 31, 1997 was approximately 57.2% and 58.4%, respectively. As a result of this indebtedness, the Company incurred substantial principal and interest obligations. The degree to which the Company is leveraged could have a material adverse effect on the Company's ability to obtain additional financing for working capital, acquisitions or other purposes and could make it more vulnerable to industry downturns and competitive pressures. The Company's ability to meet its debt service obligations will be dependent on the Company's future performance, which will be subject to financial, business and other factors affecting the operations of the Company, many of which are beyond its control.

Manufacturing Risks

The Company's systems have a large number of components and are highly complex. The Company may experience delays and technical and manufacturing difficulties in future introductions or volume production of new systems or enhancements. In addition, some of the systems built by the Company must be customized to meet individual customer site or operating requirements. The Company has limited manufacturing capacity and may be unable to complete the development or meet the technical specifications of its new systems or enhancements or to manufacture and ship these systems or enhancements in a timely manner. Such an occurrence would materially adversely affect the Company's business, financial condition and results of operations as well as its relationships with customers. In addition, the Company may incur substantial unanticipated costs early in a product's life cycle, such as increased cost of materials due to expediting charges, other purchasing inefficiencies and greater than expected installation and support costs which cannot be passed on to the customer. Any of such events could materially adversely affect the Company's business, financial condition and results of operations.

In certain instances, the Company is dependent upon a sole supplier or a limited number of suppliers, or has qualified only a single or limited number of suppliers, for certain complex components or sub-assemblies utilized in its products. The Company has implemented a key supplier program in which it appoints certain key vendors as sole suppliers for certain parts with the goal of improving response time and reducing costs. In addition, the Company makes extensive use of suppliers serving the semiconductor equipment business and such suppliers may choose to give priority to their semiconductor equipment customers that are much larger than the Company. Any prolonged inability to obtain adequate deliveries could require the Company to pay more for inventory, parts and other supplies, seek alternative sources of supply, delay its ability to ship its products and damage relationships with current and prospective customers. Any such delay or damage could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company conducts substantially all of its manufacturing activities at its leased facilities in Santa Clara and Los Gatos, California. The Company's Santa Clara and Los Gatos facilities are located in a seismically active area. A major catastrophe (such as an earthquake or other natural disaster) could result in a prolonged interruption of the Company's business.

Acquisitions

The Company's business strategy includes acquiring related businesses, products or technologies. The Company completed one acquisition during 1997 and three acquisitions during 1996 and expects that it may pursue additional acquisitions in the future. Any future acquisition may result in potentially dilutive issuance of equity securities, the write-off of in-process research and development and the assumption of debt and contingent liabilities, any of which could materially adversely affect the Company's business, financial condition and results of operations. Additionally, as a result of the Company's ongoing repurchase of its stock in the open market, the Company may not be able to use the "pooling of interests" method of accounting in some acquisitions, and the Company may therefore be required to amortize any intangible assets acquired in connection with any acquisition.

The Company incurred a charge to operations of $0.3 million in the fourth quarter of 1997 and $5.8 million in the second quarter of 1996 and to reflect the purchase of in-process research and development related to the acquisitions completed in those quarters. In addition, the Company is amortizing intangible assets of approximately $9.0 million relating to the four acquisitions. The amortization period for such costs is over the useful lives, which range from two years to seven years. Additionally, unanticipated expenses may be incurred relating to the integration of technologies, research and development and administrative functions. Any acquisition will involve numerous risks, including difficulties in the assimilation of the acquired company's employees, operations and products, uncertainties associated with operating in new markets and working with new customers, the potential loss of the acquired company's key employees.

Patents and Other Intellectual Property

The Company currently has 24 patents issued in the United States and 2 patents issued in Japan, and has pending patent applications in the United States and foreign countries. Of the 24 U.S. patents, 7 relate to sputtering, 10 relate to RTP, 1 relates to lubrication systems and 6 relate to photonics. The 2 Japanese patents relate to sputtering. In addition, the Company has the right to utilize certain patents under licensing arrangements with Litton Industries, Varian Associates, Stanford University, Lawrence Livermore Laboratories and Alum Rock Technology.

There can be no assurance that any of the Company's patent applications will be allowed or that any of the allowed applications will be issued as patents. There can be no assurance that any patent owned by the Company will not be invalidated, deemed unenforceable, circumvented or challenged, that the rights granted thereunder will provide competitive advantages to the Company or that any of the Company's pending or future patent applications will be issued with claims of the scope sought by the Company, if at all. Furthermore, there can be no assurance that others will not develop similar products, duplicate the Company's products or design around the patents owned by the Company. In addition, there can be no assurance that foreign patent rights, intellectual property laws or the Company's agreements will protect the Company's intellectual property rights. Failure to protect the Company's intellectual property rights could have a material adverse effect upon the Company's business, financial condition and results of operations.

There has been substantial litigation in the technology industry regarding intellectual property rights. The Company has from time to time received claims that it is infringing third parties' intellectual property rights. In August 1993, Rockwell International Corporation ("Rockwell") sued the Federal government alleging infringement of certain patent rights with respect to the contracts the Federal government has had with a number of companies, including Intevac. The Federal government has notified Intevac that it may be liable in connection with contracts for certain products from the Company's discontinued night vision business. Although the Company believes it will have no material liability under these contracts, there can be no assurance that the resolution of the claims by Rockwell with the Federal government will not have a material adverse effect on the Company's business, operating results and financial condition. In the first quarter of

1997, Rockwell's patent in suit was held invalid. Rockwell has appealed that decision. These issues are now pending before the appellate court.

There can be no assurance that other third parties will not in the future claim infringement by the Company with respect to current or future patents, trademarks, or other proprietary rights relating to the Company's disk sputtering systems, flat panel display manufacturing equipment or other products. Any present or future claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company, or at all. Any of the foregoing could have a material adverse effect upon the Company's business, operating results and financial condition.

In addition, the Company believes that one of its competitors may be infringing the Company's patent rights in connection with products currently being offered by this competitor. Although the Company has not undertaken formal legal proceedings, the Company has informed this competitor that the Company believes its patent rights are being infringed and that the Company may undertake litigation to protect its patent rights if necessary. If undertaken, such litigation could be costly, time-consuming and result in legal claims being made against the Company. This could have a material adverse effect on the Company's business, operating results and financial condition, and, in addition, there can be no assurance that the Company would ultimately prevail in any such litigation.

Environmental Regulations

The Company is subject to a variety of governmental regulations relating to the use, storage, discharge, handling, emission, generation, manufacture, treatment and disposal of toxic or other hazardous substances, chemicals, materials or waste. Any failure to comply with current or future regulations could result in substantial civil penalties or criminal fines being imposed on the Company, or its officers, directors or employees, suspension of production, alteration of its manufacturing process or cessation of operations. Such regulations could require the Company to acquire expensive remediation or abatement equipment or to incur substantial expenses to comply with environmental regulations. Any failure by the Company to properly manage the use, disposal or storage of, or adequately restrict the release of, hazardous or toxic substances could subject the Company to significant liabilities.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material legal proceedings to which the Company is a party or to which any of its property is subject.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are filed herewith:

EXHIBIT NUMBER	DESCRIPTION
27.1	Financial Data Schedule
27.2	Financial Data Schedule -- Qtr 1 1996 Restated
27.3	Financial Data Schedule -- Qtr 3 1996 Restated
27.4	Financial Data Schedule -- Qtr 1 1997 Restated
27.5	Financial Data Schedule -- Qtr 2 1997 Restated
27.6	Financial Data Schedule -- Qtr 3 1997 Restated
27.7	Financial Data Schedule -- 1996 Restated

(b) Reports on Form 8-K:

None.

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.

INTEVAC, INC.

Date: May 11, 1998	*By: /s/ NORMAN H. POND* *Norman H. Pond* *Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)*
Date: May 11, 1998	*By: /s/ CHARLES B. EDDY III* *Charles B. Eddy III* *Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)*

EXHIBIT INDEX

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27.4	Financial Data Schedule -- Qtr 1 1997 Restated
27.5	Financial Data Schedule -- Qtr 2 1997 Restated
27.6	Financial Data Schedule -- Qtr 3 1997 Restated
27.7	Financial Data Schedule -- 1996 Restated

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AT MARCH 28, 1998 (UNAUDITED) AND THE CONDENSED CONSOLDIATED STATEMENT OF INCOME (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 28, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	MAR 28 1998
CASH	611
SECURITIES	65,100
RECEIVABLES	14,555
ALLOWANCES	1,583
INVENTORY	34,484
CURRENT ASSETS	120,442
PP&E	21,802
DEPRECIATION	7,271
TOTAL ASSETS	144,438
CURRENT LIABILITIES	40,528
BONDS	59,480
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	17,079
OTHER SE	27,531
TOTAL LIABILITY AND EQUITY	144,438
SALES	34,235
TOTAL REVENUES	34,235
CGS	23,574
TOTAL COSTS	23,574
OTHER EXPENSES	7,747
LOSS PROVISION	84
INTEREST EXPENSE	1,016
INCOME PRETAX	2,585
INCOME TAX	855
INCOME CONTINUING	1,730
DISCONTINUED	532
EXTRAORDINARY	0
CHANGES	0
NET INCOME	2,262
EPS PRIMARY	0.19
EPS DILUTED	0.18

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET OF MARCH 30, 1996 (UNAUDITED) AND THE CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	MAR 30 1996
CASH	14,119
SECURITIES	2,571
RECEIVABLES	10,313
ALLOWANCES	560
INVENTORY	18,308
CURRENT ASSETS	48,507
PP&E	6,648
DEPRECIATION	2,011
TOTAL ASSETS	58,604
CURRENT LIABILITIES	28,656
BONDS	730
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	15,305
OTHER SE	13,913
TOTAL LIABILITY AND EQUITY	58,604
SALES	15,126
TOTAL REVENUES	15,126
CGS	9,203
TOTAL COSTS	9,203
OTHER EXPENSES	3,155
LOSS PROVISION	111
INTEREST EXPENSE	26
INCOME PRETAX	2,918
INCOME TAX	1,021
INCOME CONTINUING	1,897
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,897
EPS PRIMARY	0.16
EPS DILUTED	0.15

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET OF SEPTEMBER 28, 1996 (UNAUDITED) AND THE CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 28, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	SEP 28 1996
CASH	1,523
SECURITIES	0
RECEIVABLES	8,770
ALLOWANCES	813
INVENTORY	32,041
CURRENT ASSETS	45,948
PP&E	8,465
DEPRECIATION	2,701
TOTAL ASSETS	62,068
CURRENT LIABILITIES	31,352
BONDS	730
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	15,664
OTHER SE	13,487
TOTAL LIABILITY AND EQUITY	62,068
SALES	59,964
TOTAL REVENUES	59,964
CGS	37,474
TOTAL COSTS	37,474
OTHER EXPENSES	17,250
LOSS PROVISION	456
INTEREST EXPENSE	90
INCOME PRETAX	5,761
INCOME TAX	4,290
INCOME CONTINUING	1,471
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,471
EPS PRIMARY	0.12
EPS DILUTED	0.11

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET OF MARCH 29, 1997 (UNAUDITED) AND THE CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 29, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	MAR 29 1997
CASH	4,632
SECURITIES	60,618
RECEIVABLES	13,743
ALLOWANCES	1,256
INVENTORY	28,617
CURRENT ASSETS	109,424
PP&E	14,389
DEPRECIATION	4,428
TOTAL ASSETS	132,958
CURRENT LIABILITIES	36,748
BONDS	58,230
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	17,169
OTHER SE	20,405
TOTAL LIABILITY AND EQUITY	132,958
SALES	31,141
TOTAL REVENUES	31,141
CGS	20,997
TOTAL COSTS	20,997
OTHER EXPENSES	4,923
LOSS PROVISION	237
INTEREST EXPENSE	400
INCOME PRETAX	5,339
INCOME TAX	1,923
INCOME CONTINUING	3,416
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	3,416
EPS PRIMARY	0.27
EPS DILUTED	0.26

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET OF JUNE 28, 1997 (UNAUDITED) AND THE CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED) FOR THE 6 MONTHS ENDED JUNE 28, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	JUN 28 1997
CASH	456
SECURITIES	69,013
RECEIVABLES	16,697
ALLOWANCES	1,303
INVENTORY	26,207
CURRENT ASSETS	114,002
PP&E	16,706
DEPRECIATION	4,977
TOTAL ASSETS	139,131
CURRENT LIABILITIES	38,116
BONDS	59,455
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	17,172
OTHER SE	23,982
TOTAL LIABILITY AND EQUITY	139,131
SALES	64,904
TOTAL REVENUES	64,904
CGS	44,619
TOTAL COSTS	44,619
OTHER EXPENSES	9,559
LOSS PROVISION	324
INTEREST EXPENSE	1,448
INCOME PRETAX	10,927
INCOME TAX	3,934
INCOME CONTINUING	6,993
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	6,993
EPS PRIMARY	0.56
EPS DILUTED	0.52

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET OF SEPTEMBER 27, 1997 (UNAUDITED) AND THE CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED) FOR THE 9 MONTHS ENDED SEPTEMBER 27, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	SEP 27 1997
CASH	1,813
SECURITIES	63,669
RECEIVABLES	15,785
ALLOWANCES	1,384
INVENTORY	34,185
CURRENT ASSETS	120,093
PP&E	18,627
DEPRECIATION	5,632
TOTAL ASSETS	143,711
CURRENT LIABILITIES	40,289
BONDS	59,455
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	17,648
OTHER SE	25,913
TOTAL LIABILITY AND EQUITY	143,711
SALES	95,254
TOTAL REVENUES	95,254
CGS	65,805
TOTAL COSTS	65,805
OTHER EXPENSES	15,606
LOSS PROVISION	409
INTEREST EXPENSE	2,494
INCOME PRETAX	13,729
INCOME TAX	4,805
INCOME CONTINUING	8,924
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	8,924
EPS PRIMARY	0.71
EPS DILUTED	0.67

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM (A) THE CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1996 AND THE CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH (B) FINANCIAL STATEMENTS.

RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	DEC 31 1996
CASH	938
SECURITIES	0
RECEIVABLES	18,594
ALLOWANCES	1,024
INVENTORY	25,666
CURRENT ASSETS	49,078
PP&E	13,141
DEPRECIATION	3,868
TOTAL ASSETS	68,085
CURRENT LIABILITIES	33,231
BONDS	730
PREFERRED MANDATORY	16,747
PREFERRED	0
COMMON	0
OTHER SE	16,989
TOTAL LIABILITY AND EQUITY	68,085
SALES	88,232
TOTAL REVENUES	88,232
CGS	55,652
TOTAL COSTS	55,652
OTHER EXPENSES	22,061
LOSS PROVISION	590
INTEREST EXPENSE	175
INCOME PRETAX	11,323
INCOME TAX	6,350
INCOME CONTINUING	4,973
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	4,973
EPS PRIMARY	0.40
EPS DILUTED	0.39