

INTEVAC INC

FORM 10-Q (Quarterly Report)

Filed 05/15/00 for the Period Ending 04/01/00

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 5/15/2000 For Period Ending 4/1/2000

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 APRIL 1, 2000

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.)

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 No

APPLICABLE ONLY TO CORPORATE ISSUERS:

On April 1, 2000 approximately 11,786,220 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)

	APRIL 1, 2000	DECEMBER 31, 1999
	-----	-----
	(UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,351	\$ 3,295
Short-term investments	35,305	37,600
Accounts receivable, net of allowances of \$1,699 and \$ 1,713 at April 1, 2000 and December 31, 1999, respectively	2,991	5,744
Income taxes recoverable	5,463	5,463
Inventories	18,884	15,965
Prepaid expenses and other current assets	599	512
Deferred tax asset	4,571	4,571
	-----	-----
Total current assets	71,164	73,150
Property, plant, and equipment, net	11,521	12,375
Investment in 601 California Avenue LLC	2,431	2,431
Goodwill and other intangibles	1,844	2,105
Debt issuance costs	957	1,018
Deferred tax assets and other assets	3,232	3,303
	-----	-----
Total assets	\$ 91,149	\$ 94,382
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 1,918	\$ --
Accounts payable	1,881	1,014
Accrued payroll and related liabilities	1,718	1,533
Other accrued liabilities	6,304	9,173
Customer advances	10,977	9,851
	-----	-----
Total current liabilities	22,798	21,571
Convertible notes	41,245	41,245
Long-term notes payable	--	1,943
Shareholders' equity:		
Common stock, no par value	18,514	18,170
Retained earnings	8,592	11,453
	-----	-----
Total shareholders' equity	27,106	29,623
	-----	-----
Total liabilities and shareholders' equity	\$ 91,149	\$ 94,382
	=====	=====

See accompanying notes.

INTEVAC, INC.

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

(UNAUDITED)

	THREE MONTHS ENDED	
	APRIL 1, 2000	MARCH 27, 1999
Net revenues	\$ 5,892	\$ 11,749
Cost of net revenues	5,241	10,756
Gross profit	651	993
Operating expenses:		
Research and development	2,461	4,067
Selling, general and administrative	1,585	1,905
Restructuring expense (gain)	(615)	(17)
Total operating expenses	3,431	5,955
Operating income (loss)	(2,780)	(4,962)
Interest expense	(758)	(1,015)
Interest income and other, net	677	1,162
Income (loss) from continuing operations before income taxes	(2,861)	(4,815)
Provision for (benefit from) income taxes	--	(1,830)
Income (loss) from continuing operations	(2,861)	(2,985)
Gain from discontinued operations, net of applicable income taxes	--	--
Net income (loss)	\$ (2,861)	\$ (2,985)
Other comprehensive income:		
Unrealized foreign currency translation adjustment	--	(48)
Total adjustments	--	(48)
Total comprehensive income	\$ (2,861)	\$ (3,033)
Basic earnings per share:		
Income (loss) from continuing operations	\$ (0.24)	\$ (0.25)
Net income (loss)	\$ (0.24)	\$ (0.25)
Shares used in per share amounts	11,759	11,924
Diluted earnings per share:		
Income (loss) from continuing operations	\$ (0.24)	\$ (0.25)
Net income (loss)	\$ (0.24)	\$ (0.25)
Shares used in per share amounts	11,759	11,924

See accompanying notes.

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

(UNAUDITED)

	THREE MONTHS ENDED	
	APRIL 1, 2000	MARCH 27, 1999
OPERATING ACTIVITIES		
Net loss	\$ (2,861)	\$ (2,985)
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	1,246	1,423
Gain on foreign exchange contracts	--	(641)
Foreign currency (gain) loss	--	5
Loss on IMAT investment	47	57
Restructuring charge - non-cash portion	856	--
Loss on disposal of equipment	--	14
Changes in assets and liabilities	(829)	(331)
Total adjustments	1,320	527
Net cash and cash equivalents used in operating activities	(1,541)	(2,458)
INVESTING ACTIVITIES		
Purchase of investments	(44,846)	(968)
Proceeds from sale of investments	47,141	3,000
Purchase of leasehold improvements and equipment	(956)	(373)
Net cash and cash equivalents provided by (used in) investing activities	1,339	1,659
FINANCING ACTIVITIES		
Proceeds from issuance of common stock	258	418
Net cash and cash equivalents provided by financing activities	258	418
Net increase (decrease) in cash and cash equivalents	56	(381)
Cash and cash equivalents at beginning of period	3,295	3,991
Cash and cash equivalents at end of period	\$ 3,351	\$ 3,610
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION		
Cash paid (received) for:		
Interest	\$ 1,394	\$ 1,869
Income taxes	--	--
Income tax refund	--	(432)
Other non-cash changes:		
Inventories transferred to (from) property, plant and equipment	\$ --	\$ (1,641)

See accompanying notes.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS ACTIVITIES AND BASIS OF PRESENTATION

Intevac, Inc.'s ("Intevac" or the "Company") primary business is the design, manufacture and sale of complex capital equipment that is used to manufacture products such as thin-film disks for computer disk drives and flat panel displays (the "Equipment Business"). The Company also develops highly sensitive electro-optical devices under government sponsored R&D contracts (the "Photonics Business").

The Equipment Business is a leading supplier of sputtering systems 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 Equipment Business also realizes revenues from the sales of disk lubrication equipment, contact stop-start ("CSS") test equipment and flat panel display ("FPD") manufacturing equipment. Spare parts and after-sale service are also sold to purchasers of the Company's equipment, and sales of components are made to other manufacturers of vacuum equipment.

The Photonics Business has developed technology that permits highly sensitive detection of photons in the visible and short wave infrared portions of the spectrum. This technology when combined with advanced silicon integrated circuits makes it possible to produce highly sensitive video cameras. This development work is creating new products for both military and industrial applications. Products include Intensified Digital Video Sensors, cameras incorporating those sensors and Laser Illuminated Viewing and Ranging systems for positive target identification.

The financial information at April 1, 2000 and for the three-month periods ended April 1, 2000 and March 27, 1999 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, 1999.

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 April 1, 2000 are not considered indicative of the results to be expected for any future period or for the entire year.

2. INVENTORIES

The components of inventory consist of the following:

	APRIL 1, 2000	DECEMBER 31, 1999
	-----	-----
	(IN THOUSANDS)	
Raw materials	\$ 4,220	\$ 2,307
Work-in-progress	13,021	13,658
Finished goods	1,643	--
	-----	-----
	\$ 18,884	\$ 15,965
	=====	=====

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The finished goods inventory is represented by completed units at customer sites undergoing installation and acceptance testing.

3. NET INCOME (LOSS) PER SHARE

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

	THREE MONTHS ENDED	
	APRIL 1, 2000	MARCH 27, 1999
	----- (IN THOUSANDS) -----	
Numerator:		
Loss from continuing operations	\$ (2,861)	\$ (2,985)
	=====	=====
Net loss	\$ (2,861)	\$ (2,985)
	=====	=====
Numerator for basic earnings per share - loss available to common stockholders	(2,861)	(2,985)
Effect of dilutive securities:		
6 1/2% convertible notes (1)	----- --	----- --
Numerator for diluted earnings per share - loss available to common stockholders after assumed conversions	\$ (2,861)	\$ (2,985)
	=====	=====
Denominator:		
Denominator for basic earnings per share - weighted-average shares	11,759	11,924
Effect of dilutive securities:		
Employee stock options (2)	--	--
6 1/2% convertible notes (1)	----- --	----- --
Dilutive potential common shares	----- --	----- --
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	11,759	11,924
	=====	=====

(1) Diluted EPS for the three-month periods ended April 1, 2000 and March 27, 1999 excludes "as converted" treatment of the Convertible Notes as their inclusion would be anti-dilutive.

(2) Diluted EPS for the three-month periods ended April 1, 2000 and March 27, 1999 excludes the effect of employee stock options as their inclusion would be anti-dilutive.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

4. SEGMENT REPORTING

Segment Description

Intevac, Inc. has two reportable segments: Equipment and Photonics. The Company's Equipment business sells complex capital equipment used in the manufacturing of thin-film disks, flat panel displays, shrink-wrap films and for in-line sterilization. The Company's Photonics business is developing products utilizing electron sources that permit highly sensitive detection of photons in the visible and short-wave infrared portions of the spectrum.

Included in corporate activities are general corporate expenses, the equity in net loss of equity investee and amortization expenses related to certain intangible assets, less an allocation of corporate expenses to operating units equal to 1% of net revenues

Business Segment Net Revenues

	THREE MONTHS ENDED	
	APRIL 1, 2000	MARCH 27, 1999
	(IN THOUSANDS)	
Equipment	\$ 4,859	\$ 10,309
Photonics	1,033	1,440
Total	\$ 5,892	\$ 11,749
	=====	=====

Business Segment Profit & Loss

	THREE MONTHS ENDED	
	APRIL 1, 2000	MARCH 27, 1999
	(IN THOUSANDS)	
Equipment	\$ (1,769)	\$ (4,267)
Photonics	(884)	(101)
Corporate activities	(127)	(594)
Operating loss	\$ (2,780)	\$ (4,962)
Interest expense	(758)	(1,015)
Interest income	551	591
Other income and expense, net	126	571
Loss from continuing operations before income taxes	\$ (2,861)	\$ (4,815)
	=====	=====

5. RESTRUCTURING

During the third quarter of 1999, the Company adopted an expense reduction plan that included closing one of the buildings at its Santa Clara facility and a reduction in force of 7 employees out of the Company's staff of contract and regular personnel. The reductions took place at the Company's facilities in Santa Clara, California. The Company incurred a charge of \$2,225,000 related to the expense reduction plan. The significant components of this charge included \$873,000 for future rent due on the building (net of expected sublease income), \$160,000 for costs associated with operating the building through May 2000, \$580,000 for the write-off of leasehold improvements and \$584,000 for moving out of the building.

In the fourth quarter of 1999, \$97,000 of the restructuring reserve was reversed due to lower than expected costs on the closure of the facility. During the first quarter of 2000, the Company vacated the building and negotiated a lease

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

termination for that space with its landlord, which released the Company from the obligation to pay any rent after April 30, 2000. As a result, the Company reversed \$615,000 of the restructuring reserve during the first quarter of 2000.

During the fourth quarter of 1999, the Company adopted a plan to discontinue operations at its RPC Technologies, Inc. electron beam processing equipment subsidiary and to close the RPC facility in Hayward, California. Twenty-six employees out of the Company's staff of contract and regular personnel were terminated as a result. The Company incurred a charge of \$1,639,000 related to this plan. The significant components of this charge include \$679,000 for inventory write-downs which were charged to cost of sales, \$264,000 for fixed asset write-offs, \$200,000 for closure of the facility, \$163,000 for employee severance costs, \$161,000 for future rent due on the facility and \$152,000 for write-off of intangibles.

In the first quarter of 2000, Intevac sold certain assets of the RPC Technologies, Inc. subsidiary to Quemex Technology. Proceeds from the sale included a cash payment, assumption of the Hayward facility lease and the assumption of certain other liabilities. Excluded from the sale were two previously leased systems and three completed systems remaining in inventory. The Company has orders for the three systems and they are scheduled for shipment and customer acceptance during 2000 and will be included in future Intevac revenues. The Company was able to reverse the portions of the restructuring reserve established to provide for future rents due on the facility and for the closure of the facility. However, since Intevac retained ownership of the two leased systems, the Company established an equivalent reserve to provide for any residual value at the end of the leases.

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. Words such as "believes", "expects", "anticipates" and the like indicate forward-looking statements. 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 2000, Form 10-Q's and Form 8-K's.

RESULTS OF OPERATIONS

Three Months Ended April 1, 2000 and March 27, 1999

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, system components, electron beam processing equipment, flat panel display manufacturing equipment and related equipment and components ("Equipment") and contract research and development related to the development of highly sensitive electro-optical devices under government sponsored R&D contracts and sales of derivative products ("Photonics"). Net revenues from system sales are recognized upon customer acceptance. Net revenues from sales of related equipment and system components are recognized upon product shipment. Contract research and development revenue is recognized in accordance with contract terms, typically as costs are incurred. Net revenues decreased by 50% to \$5.9 million for the three months ended April 1, 2000 from \$11.7 million for the three months ended March 27, 1999. Net revenues from Equipment sales declined to \$4.9 million for the three months ended April 1, 2000 from \$10.3 million for the three months ended March 27, 1999. The decrease in Equipment sales was primarily the result of a decrease in international sales of disk manufacturing equipment. Net revenues from Photonics sales decreased to \$1.0 million for the three months ended April 1, 2000 from \$1.4 million for the three months ended March 27, 1999. The decrease in Photonics sales was primarily the result of a research and development contract that was on hold until late in the three-month period ended April 1, 2000. The Company expects that both Equipment and Photonics revenues will increase in the second quarter of 2000 relative to the first quarter of 2000.

International sales decreased by 73% to \$2.0 million for the three months ended April 1, 2000 from \$7.5 million for the three months ended March 27, 1999. The decrease in international sales was primarily due to a decrease in net revenues from disk manufacturing equipment. International sales constituted 34% of net revenues for the three months ended April 1, 2000 and 64% of net revenues for the three months ended March 27, 1999.

Backlog. The Company's backlog of orders for its products was \$29.1 million at April 1, 2000 and \$26.1 million at March 27, 1999. The Company includes in backlog the value of purchase orders for its products that have scheduled delivery dates.

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 11.0% for the three months ended April 1, 2000 as compared to 8.5% for the three months ended March 27, 1999. The increase in gross margins was the result of increased Equipment gross margins which were partially offset by lower Photonics gross margins. Equipment gross margins were depressed in the first quarter of 1999 as the result of under-absorption of manufacturing overhead due to low manufacturing volume, establishment of a \$0.4 million cost to market reserve on a used MDP-250B disk sputtering system and establishment of a \$0.4 million cost to market reserve related to higher than expected costs to install and integrate the Company's first production rapid thermal processing system into its customer's production environment. Equipment gross margins also increased in the three-month period ended April 1, 2000 as the result of reduced manufacturing expenses. Photonics gross margins declined during the three months ended April 1, 2000 as a result of the establishment of approximately \$0.2 million of inventory reserves and lower revenues resulting from a research and development contract being on hold for the majority of the period.

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 and research by the Photonics Division. Company funded research and development expense decreased to \$2.5 million for the three months ended April 1, 2000 from \$4.1 million for the three months ended March 27, 1999, representing 41.8% and 34.6%, respectively, of net revenue. This decrease was the result of reduced spending for development of disk manufacturing equipment and flat panel manufacturing equipment, partially offset by increased spending for development of Photonics products.

Research and development expenses do not include costs of \$0.8 million and \$1.2 million, respectively, for the three-month periods ended April 1, 2000 and March 27, 1999 related to contract research and development performed by the Company's Photonics business. These expenses are included in cost of goods sold.

Research and development expenses also do not include costs of \$0.2 million and \$0.1 million, respectively, in the three-month periods ended April 1, 2000 and March 27, 1999, 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 \$9.5 million of funds under this cost sharing agreement.

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 a subsidiary in Singapore to support customers in Southeast Asia. The Company markets its flat panel manufacturing equipment to the Far East through its Japanese joint venture, IMAT. Selling, general and administrative expense decreased to \$1.6 million for the three months ended April 1, 2000 from \$1.9 million for the three months ended March 27, 1999, representing 26.9% and 16.2%, respectively, of net revenue. The primary reason for the decrease was a lower level of selling, general and administrative expense in the Equipment Business implemented as a result of reduced revenues and the discontinuation of the Company's electron beam equipment product line. This lower level of expense was driven by a decline in selling, general and administrative headcount to 29 employees at April 1, 2000 from 45 employees at March 27, 1999 and lower facilities overhead resulting from the consolidation of the Company's northern California operations into less space.

Restructuring and other expense. Restructuring expense was (\$0.6) million and (\$17,000) in the three-month periods ended April 1, 2000 and March 27, 1999, respectively. During the three months ended April 1, 2000 the Company vacated approximately 47,000 square feet of its Santa Clara Headquarters and negotiated an early lease termination for the space. As a result the Company reversed approximately \$0.6 million of previously accrued restructuring expense relating to future rents on the vacated space.

In March 1999 the Company completed a reduction in force of approximately 10% of its worldwide staff and incurred employee severance costs of approximately \$115,000. In March 1999 the Company also negotiated an early termination to its lease commitment in Rocklin which resulted in a \$132,000 reduction to previously expensed closure costs. This \$132,000 credit to restructuring costs was partially offset by the \$115,000 of restructuring costs related to the Company's March 1999 reduction in force.

Interest expense. Interest expense consists primarily of interest on the Company's convertible notes, and, to a lesser extent, interest on approximately \$2.0 million of short-term debt related to the purchase of Cathode Technology in 1996. Interest expense was \$0.8 million and \$1.0 million, respectively, in the three-month periods ended April 1, 2000 and March 27, 1999. Interest expense declined due to a reduction in the balance outstanding of the Company's Convertible Notes due 2004.

Interest income and other, net. Interest income and other, net consists primarily of interest income on the Company's investments, foreign currency hedging gains and losses, early payment discounts on the purchase of inventories, goods and services and the Company's 49% share of the loss incurred by IMAT. Interest income and other, net decreased to \$0.7 million for the three months ended April 1, 2000 from \$1.2 million for the three months ended March 27, 1999 primarily as the result of lower gains on foreign currency hedging and to a lesser extent the result of lower interest income.

Provision for (benefit from) income taxes. The Company's estimated effective tax rates for the three-month periods ended April 1, 2000 and March 27, 1999 were 0% and a benefit rate of 38%, respectively. The Company did not accrue a tax benefit during the three-month period ended April 1, 2000 due to the inability to realize additional tax refunds from loss carry-backs.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities used cash of \$1.5 million for the three months ended April 1, 2000. The cash used was due primarily to increased inventory, the net loss incurred by the Company and a reduction in accrued liabilities, which were partially offset by lower accounts receivable, increased customer advances, increased accounts payable, depreciation and amortization.

The Company's investing activities provided cash of \$1.3 million for the three months ended April 1, 2000 as a result of the net sale of investments, which was partially offset by the purchase of fixed assets.

The Company's financing activities provided cash of \$0.3 million for the three months ended April 1, 2000 as the result of the sale of the Company's stock to its employees through the Company's employee benefit plans.

CERTAIN FACTORS WHICH MAY AFFECT FUTURE OPERATING RESULTS

The disk drive industry is cyclical and subject to prolonged down-cycles.

Intevac derives a significant proportion of its revenues from sales of equipment to manufacturers of computer disk drives and disk drive components. The disk drive industry is cyclical and has experienced long periods of over-supply and intensely competitive pricing. Since 1997, many of the manufacturers of hard disk drives and their component suppliers have reported substantial losses. These down-cycles reduce the demand for the disk manufacturing equipment we sell. As a result Intevac has experienced significant reductions in its quarterly revenues, and has incurred quarterly losses, since the third quarter of 1998. Intevac is not able to accurately predict when the industry conditions that have depressed our sales will become more favorable.

Rapid increases in areal density are reducing the number of thin-film disks required per disk drive.

Over the past few years the amount of data that can be stored on a single thin-film computer disk has been growing at approximately 100% per year. Although the number of disk drives produced has continued to significantly increase each year, the increase in areal density has resulted in a reduction in the number of disks required per disk drive. The result has been that the number of thin-film disks used worldwide has not grown significantly since 1997. Without an increase in the number of disks required, Intevac's disk equipment sales are largely limited to upgrades of existing capacity, rather than capacity expansion. While the rapidly falling cost of storage per gigabyte is leading to new applications for disk drives beyond the traditional computer market, it is not clear to what extent the demand from these new applications will be offset by further declines in the average number of disks required per disk drive.

Intevac's business is subject to rapid technical change.

Intevac's ability to remain competitive requires substantial investments in research and development. The failure to develop, manufacture and market new systems, or to enhance existing systems, would have an adverse effect on

Intevac's business. In the past, Intevac has experienced delays from time to time in the introduction of, and technical difficulties with, some of its systems and enhancements. Intevac's success in developing and selling equipment 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. Intevac's new product decisions and development commitments must anticipate continuously evolving industry requirements significantly in advance of sales. Any failure to accurately predict customer requirements and to develop new generations of products to meet those requirements would have an adverse effect on Intevac's business.

Competition is intense and our competitors are large and well financed.

Intevac experiences intense competition in the Equipment Business. For example, Intevac's disk sputtering products experience competition worldwide from two principal competitors, Balzers A.G. ("Balzers") 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 Balzers and Anelva have substantially greater financial, technical, marketing, manufacturing and other resources than Intevac. There can be no assurance that Intevac's competitors will not develop enhancements to, or future generations of, competitive products that will offer superior price or performance features or that new competitors will not enter Intevac's markets and develop such enhanced products.

Given the lengthy sales cycle and the significant investment required to integrate equipment into the manufacturing process, Intevac believes that once a manufacturer has selected a particular supplier's equipment for a specific application, that manufacturer generally relies upon that supplier's equipment and frequently will continue to purchase any additional equipment for that application from the same supplier. Accordingly, competition for customers in the equipment industry is intense, and suppliers of equipment may offer substantial pricing concessions and incentives to attract new customers or retain existing customers.

The sales of our equipment products are dependent on substantial capital investment by our customers.

The majority of our Equipment revenues have historically come from the sale of equipment used to manufacture thin-film disks and to a lesser extent from the sale of equipment used to manufacture flat panel displays. The systems Intevac sells typically cost between \$1 and \$3 million each. Flat Panel sputtering systems tend to sell for substantially more than \$3 million each. The purchase of Intevac's systems, along with the purchase of other related equipment and facilities, requires extremely large capital expenditures by our customers. These costs are far in excess of the cost of the Intevac systems. The magnitude of such capital expenditures requires that our customers have access to large amounts of capital and that they are willing to invest that capital over long periods of time in order to be able to purchase our equipment. Because of the prolonged industry downturn, some of our customers may not be willing, or able, to make the magnitude of capital investment required to purchase our products.

A large portion of our sales are to international customers.

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. Intevac earns a significant portion of its revenue from international sales, and there can be no assurance that any of these factors will not have an adverse effect on Intevac's business.

Intevac generally quotes and sells its products in US dollars. However, for some Japanese customers, Intevac quotes and sells its products in Japanese Yen. Intevac, from time to time, enters into foreign currency contracts in an effort to reduce the overall risk of currency fluctuations to Intevac's business. However, there can be no assurance that

the offer and sale of products in foreign denominated currencies, and the related foreign currency hedging activities will not adversely affect Intevac's business.

Intevac's two principal competitors for disk sputtering equipment are based in foreign countries and have cost structures based on foreign currencies. Accordingly, currency fluctuations could cause Intevac's products to be more, or less, competitive than its competitors' products. Currency fluctuations will decrease, or increase, Intevac's cost structure relative to those of its competitors, which could impact Intevac's gross margins.

Our operating results fluctuate significantly.

Over the last nine quarters Intevac's operating income or loss as a percentage of net revenues has fluctuated from approximately (79%) to 8% of net revenues. Over the same period sales per quarter have fluctuated between \$35.8 million and \$5.9 million. Intevac anticipates that its sales and operating margins will continue to fluctuate. As a result, period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

Intevac's stock price is volatile.

Intevac's stock price has experienced both significant increases and decreases in valuation over short periods of time. Factors such as announcements of developments related to Intevac's business, fluctuations in Intevac's operating results, failure to meet securities analysts' expectations, general conditions in the disk drive and thin-film media manufacturing industries and the worldwide economy, announcements of technological innovations, new systems or product enhancements by Intevac or its competitors, fluctuations in the level of cooperative development funding, acquisitions, changes in governmental regulations, developments in patents or other intellectual property rights and changes in Intevac's relationships with customers and suppliers could cause the price of Intevac's Common Stock to continue to fluctuate substantially. In addition, in recent years the stock market in general, and the market for small capitalization and high technology stocks in particular, has experienced extreme price fluctuations which have often been unrelated to the operating performance of affected companies. Any of these factors could adversely affect the market price of Intevac's Common Stock.

Competition is intense for employees in northern California.

Intevac's operating results depend in significant part upon its ability to retain and attract qualified management, engineering, marketing, manufacturing, customer support, sales and administrative personnel. Competition in northern California for such personnel is intense and there can be no assurance that Intevac will be successful in attracting and retaining such personnel. The failure to attract and retain such personnel could have an adverse effect on Intevac's business.

Intevac routinely evaluates acquisition candidates and other diversification strategies.

Intevac has completed multiple acquisitions as part of its efforts to grow and diversify its business. For example, Intevac's business was initially acquired from Varian Associates in 1991. Additionally, Intevac acquired its current gravity lubrication, CSS test equipment and rapid thermal processing product lines in three separate acquisitions. Intevac also acquired its RPC electron beam processing business in late 1997, and closed this business in early 2000. Intevac intends to continue to evaluate new acquisition candidates and diversification strategies. 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, and the potential loss of the acquired company's key employees. Additionally, unanticipated expenses may be incurred relating to the integration of technologies, research and development, and administrative functions. Any future acquisitions may result in potentially dilutive issuance of equity securities, acquisition related write-offs and the assumption of debt and contingent liabilities. Any of the above factors could adversely affect Intevac's business.

Thin-film disks could be replaced by a new technology.

Intevac believes that thin-film disks will continue to be the dominant medium for data storage for the foreseeable future. However, it is possible that competing technologies may at some time reduce the demand for thin-film disks, which would adversely affect Intevac's disk equipment business.

Our products are complex, constantly evolving, and often manufactured to individual customer requirements.

Intevac's Equipment products have a large number of components and are highly complex. Intevac 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 Intevac must be customized to meet individual customer site or operating requirements. Intevac 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. In addition, Intevac 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. In certain instances, Intevac 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. Any of these factors could adversely affect Intevac's business.

Intevac's business is dependent on its intellectual property.

There can be no assurance that:

- any of Intevac's patent applications will be allowed or that any of the allowed applications will be issued as patents, or
- any patent owned by Intevac will not be invalidated, deemed unenforceable, circumvented or challenged, or
- the rights granted under our patents will provide competitive advantages to Intevac, or
- any of Intevac's pending or future patent applications will be issued with claims of the scope sought by Intevac, if at all, or
- others will not develop similar products, duplicate Intevac's products or design around the patents owned by Intevac, or
- foreign patent rights, intellectual property laws or Intevac's agreements will protect Intevac's intellectual property rights.

Failure to protect Intevac's intellectual property rights could have an adverse effect upon Intevac's business.

From time to time Intevac has received claims that it is infringing third parties' intellectual property rights. There can be no assurance that third parties will not in the future claim infringement by Intevac with respect to current or future patents, trademarks, or other proprietary rights relating to Intevac's disk sputtering systems, flat panel 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 Intevac to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to Intevac, or at all. Any of the foregoing could have an adverse effect upon Intevac's business.

\$41 Million of convertible notes are outstanding and will mature in 2004.

In connection with the sale of \$57.5 million of its 6% Convertible Subordinated Notes Due 2004 (the "Convertible Notes") in February 1997, Intevac incurred a substantial increase in the ratio of long-term debt to total capitalization (shareholders' equity plus long-term debt). During 1999 Intevac repurchased \$16.3 million of the Convertible Notes. The \$41.2 million of the Convertible Notes that remain outstanding commit Intevac to substantial principal and interest obligations. The degree to which Intevac is leveraged could have an adverse effect on Intevac'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. Intevac's ability to meet its debt service obligations will be dependent on Intevac's future performance, which will be subject to financial, business and other factors affecting the operations of Intevac, many of which are beyond its control.

A majority of the Common Stock outstanding is controlled by the directors and executive officers of Intevac.

The present directors and their affiliates and executive officers, in the aggregate, beneficially own a majority of Intevac's outstanding shares of Common Stock. As a result, these shareholders, acting together, are able to effectively control all matters requiring approval by the shareholders of Intevac, including the election of a majority of the directors and approval of significant corporate transactions.

Intevac uses hazardous materials.

Intevac 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 Intevac or its officers, directors or employees, suspension of production, alteration of its manufacturing process or cessation of operations. Such regulations could require Intevac to acquire expensive remediation or abatement equipment or to incur substantial expenses to comply with environmental regulations. Any failure by Intevac to properly manage the use, disposal or storage of, or adequately restrict the release of, hazardous or toxic substances could subject Intevac to significant liabilities

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to Part III, Item 7, Quantitative and Qualitative Disclosures About Market Risk, in the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On June 12, 1996 two Australian Army Black Hawk Helicopters collided in midair during nighttime maneuvers. Eighteen Australian servicemen perished and twelve were injured. The Company was named as a defendant in a lawsuit related to this crash. The lawsuit was filed in Stamford, Connecticut Superior Court on June 10, 1999 by Mark Durkin, the administrator of the estates of the deceased crewmembers, the injured crewmembers and the spouses of the deceased and/or injured crewmembers. Included in the suit's allegations are assertions that the crash was caused by defective night vision goggles. The suit names three US manufacturers of military night vision goggles, of which Intevac was one. The suit also names the manufacturer of the pilot's helmets, two manufacturers of night vision system test equipment and the manufacturer of the helicopter. The suit claims damages for 13 personnel killed in the crash, 5 personnel injured in the crash and spouses of those killed or injured.

It is known that the Australian Army established a Board of Inquiry to investigate the accident and that the Board of Inquiry concluded that the accident was not caused by defective night vision goggles. Preliminary investigations lead the Company to believe that it has meritorious defenses against the Durkin suit. However, there can be no assurance that the resolution of the suit will not have a material adverse effect on the Company's business, operating results and financial condition.

On January 5, 2000, the Company's RPC Technologies, Inc. subsidiary was named as a defendant in a lawsuit filed in United States District Court in Texas. The lawsuit was filed by Reita Miller, Executrix of the estate of Thomas O. Miller, and family members of Mrs. Miller. The suit names RPC Technologies, Inc. and RPC Industries, Inc. as defendants. Included in the suits allegations are assertions that Thomas O. Miller protracted leukemia and died as the result of working in and around Broad Beam accelerators manufactured by RPC Industries, Inc and installed at Mr. Miller's employer, Tetra Pak. Preliminary investigations lead the Company to believe that it has meritorious defenses against the Miller suit. However, there can be no assurance that the resolution of the suit will not have a material adverse effect on the Company's business.

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

(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 15, 2000

By: /s/ NORMAN H. POND

*Norman H. Pond
Chairman of the Board, President and Chief
Executive Officer (Principal Executive Officer)*

Date: May 15, 2000

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

EXHIBIT NUMBER -----	DESCRIPTION -----
27.1	Financial Data Schedule

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AT APRIL 1, 2000 (UNAUDITED) AND THE CONDENSED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE MONTHS ENDED APRIL 1, 2000, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 2000
PERIOD START	JAN 01 2000
PERIOD END	APR 01 2000
CASH	3,351
SECURITIES	35,305
RECEIVABLES	4,690
ALLOWANCES	1,699
INVENTORY	18,884
CURRENT ASSETS	71,164
PP&E	23,882
DEPRECIATION	12,361
TOTAL ASSETS	91,149
CURRENT LIABILITIES	22,798
BONDS	41,245
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	18,514
OTHER SE	8,592
TOTAL LIABILITY AND EQUITY	91,149
SALES	5,892
TOTAL REVENUES	5,892
CGS	5,241
TOTAL COSTS	5,241
OTHER EXPENSES	3,428
LOSS PROVISION	3
INTEREST EXPENSE	758
INCOME PRETAX	(2,861)
INCOME TAX	0
INCOME CONTINUING	(2,861)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(2,861)
EPS BASIC	(0.24)
EPS DILUTED	(0.24)

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