

INTEVAC INC  
Form S-3  
December 19, 2003

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As filed with the Securities and Exchange Commission on December 19, 2003

Registration No. 333-

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form S-3**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**Intevac, Inc.**

*(Exact name of registrant as specified in its charter)*

**California**  
*(State of incorporation)*

**94-3125814**  
*(I.R.S. Employer  
Identification No.)*

**3560 Bassett Street**  
**Santa Clara, California 95054**  
*(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)*

**Kevin Fairbairn**

**President and Chief Executive Officer**

**Intevac, Inc.**

**3560 Bassett Street**

**Santa Clara, CA 95054**

**(408) 986-9888**

*(Name, address, including zip code, and telephone number,  
including area code, of agent for service)*

*Copies to:*

**Herbert P. Fockler, Esq.**  
**Wilson Sonsini Goodrich & Rosati**  
**Professional Corporation**  
**650 Page Mill Road**  
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**(650) 493-9300**

**Scott M. Stanton, Esq.**  
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**4365 Executive Drive, Suite 110**  
**San Diego, California 92121**  
**(858) 677-1400**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

## Edgar Filing: INTEVAC INC - Form S-3

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act ), other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, no par value	4,600,000	\$14.855	\$68,333,000	\$5,528.14

- (1) Estimated solely for the purpose of computing the registration fee required by Section 6(b) of the Securities Act and computed pursuant to Rule 457(c) under the Securities Act based upon the average of the high and low prices of our common stock on December 16, 2003, as reported on the Nasdaq National Market.

**The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED DECEMBER 19, 2003**

**PROSPECTUS**

4,000,000 Shares

**Common Stock**

We are offering 2,500,000 shares of our common stock. The selling shareholder is offering an additional 1,500,000 shares. We will not receive any of the proceeds from the sale of shares by the selling shareholder. Our common stock is listed traded on The Nasdaq National Market under the symbol **IVAC** . On December 18, 2003, the last reported sale price for our common stock on The Nasdaq National Market was \$14.70 per share.

**Investing in our common stock involves risks. See Risk Factors beginning on page 5.**

	Per Share	Total
Public Offering Price	\$	\$
Underwriting Discounts	\$	\$
Proceeds, before expenses, to Intevac	\$	\$
Proceeds, before expenses, to Selling Shareholder	\$	\$

The underwriters have an option to purchase up to 600,000 additional shares of our common stock from the selling shareholder to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined if this prospectus is truthful or complete. It is illegal for any person to tell you otherwise.

**Needham & Company, Inc.**

**The date of this prospectus is**

**Thomas Weisel Partners LLC**

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Neither we nor any of the underwriters have authorized anyone to provide information different from that contained in this prospectus. When you make a decision about whether to invest in our common stock, you should not rely upon any information other than the information in this prospectus. Neither the delivery of this prospectus nor the sale of our common stock means that information contained in this prospectus is correct after the date of this prospectus.

In this prospectus Intevac, we, us and our refer to Intevac, Inc. and its subsidiaries. Unless otherwise indicated, all information in this prospectus assumes no exercise of the underwriters' over-allotment option.

Intevac, Intevac® MDP-250, Intevac® 200 Lean, LIVAR, D-STAR and EBAPS, among others, are our registered trademarks. This prospectus also includes trademarks of other persons.

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**PROSPECTUS SUMMARY**

*You should read the following summary together with the more detailed information concerning our company, the common stock being sold in this offering and our financial statements appearing in this prospectus and in the documents incorporated by reference in this prospectus. Because this is only a summary, you should read the rest of this prospectus and the documents incorporated by reference before you invest in our common stock. Read this entire prospectus carefully, especially the risks described under Risk Factors.*

**The Company**

We are the world's leading provider of disk sputtering equipment for the thin-film disk industry and a developer of leading technology for extreme low light imaging devices and systems. We operate two businesses: Equipment and Imaging.

**Equipment Business**

Our Equipment business designs, manufactures, markets and services complex capital equipment which deposits highly engineered thin-films onto thin-film disks used in hard disk drives, the primary storage medium for digital data. We believe the rapid growth of digital data, the proliferation of new security applications and the growth of new consumer applications, such as personal video recorders, video game consoles and MP3 players, along with new technology advances in the industry, provide us with a significant growth opportunity. IDC expects that the number of hard disk drives to be shipped between 2002 and 2007 will grow at a compounded annual rate of approximately 10.7%, from 219 million units to 365 million units. In addition, we believe that the majority of thin-film disk manufacturers are capacity constrained, and three of the leading manufacturers, Hitachi Global Storage Technologies, or HGST, Maxtor and Seagate, announced significant thin-film disk manufacturing capacity expansions during 2003.

As the demand for storage capacity increases, advances in recording technology are increasing the amount of information that can be stored on a hard disk. The next generation storage technology, called perpendicular recording, greatly increases the amount of information that can be stored on a thin-film disk, but requires sputtering equipment that can accommodate additional process steps. As thin-film disk manufacturers purchase new disk sputtering equipment to meet increased demand, they also require disk sputtering equipment that will accommodate the additional process steps required for the transition to perpendicular recording.

Our systems represent approximately half of the worldwide installed base of thin-film disk sputtering systems and produced approximately half of all thin-film disks made in 2003. In the period from 1995 through the middle of 1998, we sold approximately \$303 million of our disk manufacturing equipment. Our customers include the world's leading thin-film disk manufacturers, such as HGST, Komag, Maxtor and Seagate. We are one of two companies that have announced a new system designed to manufacture disks capable of perpendicular recording. In 2003, we introduced the 200 Lean, a modular disk sputtering system designed for low cost of ownership. The 200 Lean provides significantly enhanced capabilities relative to the installed base of our MDP-250 systems. During 2003, we have received orders for ten of our new 200 Lean disk sputtering systems. This is the first production order from a major hard disk drive manufacturer for a new system designed to manufacture disks capable of perpendicular recording.

We believe we can also apply our expertise in complex manufacturing systems to develop additional equipment for the hard disk drive industry and other manufacturing industries.

**Imaging Business**

Our Imaging business develops and manufactures electro-optical sensors, cameras and systems used for extreme low light imaging. We develop products for military and commercial applications. To date, our

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revenues have been primarily derived from research and development contracts funded by the U.S. government. Our proprietary cameras and sensors are designed as extreme low light solutions that are cost-effective, portable, high resolution, long-range and easily integrated with other digital technologies. Our extreme low light imaging products include our LIVAR target identification system and our NightVista line of extreme low light cameras. LIVAR is designed to positively identify targets, at distances of up to 20 kilometers, that have been detected but not identified by other systems. We are developing our LIVAR products in conjunction with leading organizations such as the Air Force Research Laboratory, Lockheed Martin, the Los Alamos National Laboratory, Northrop Grumman, and the U.S. Army Night Vision Laboratory. We expect to begin volume production of LIVAR systems in 2006. Our extreme low light NightVista cameras are well suited for portable, battery operated applications. We expect to begin volume production of our NightVista security camera in 2004.

We were incorporated in October 1990 in California and completed a leveraged buyout of a number of divisions of Varian Associates in February 1991. The technologies acquired from Varian formed the foundation for our Equipment and Imaging businesses. Our principal executive offices are located at 3560 Bassett Street, Santa Clara, California 95054, and our phone number is (408) 986-9888. Our Internet home page is located at [www.intevac.com](http://www.intevac.com); however, the information in, or that can be accessed through, our home page is not part of this prospectus.



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**The Offering**

Common stock offered by Intevac	2,500,000 shares
Common stock offered by selling shareholder	1,500,000 shares
Common stock outstanding after this offering	19,449,798 shares
Use of proceeds	We intend to use the proceeds of the shares sold by us in this offering for working capital, repayment of debt, other general corporate purposes, and possibly acquisitions of businesses, products or technologies. See Use of Proceeds.
Nasdaq National Market symbol	IVAC

Unless otherwise indicated, the number of shares of common stock outstanding after this offering is based on shares outstanding as of December 11, 2003 and assumes no exercise of the underwriters' over-allotment option. This number does not include:

1,420,351 shares of common stock issuable upon exercise of outstanding stock options, with a weighted average exercise price of approximately \$5.20 per share;

118,918 shares of common stock reserved for future option grants under our stock option plan; and

358,197 shares of common stock reserved for future issuance under our employee stock purchase plan.

**Table of Contents****Summary Consolidated Financial Data****(In thousands, except per share data)**

The following table presents our summary consolidated financial data and should be read in conjunction with our audited consolidated financial statements, our unaudited consolidated financial statements, and the accompanying notes, included or incorporated by reference in this prospectus. You should also read "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

The summary consolidated statement of operations data for the years ended December 31, 2000, 2001 and 2002 has been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated statement of operations data for the years ended December 31, 1998 and 1999 have been derived from our audited financial statements not included or incorporated by reference in this prospectus. The summary consolidated balance sheet data at September 27, 2003 and the summary consolidated statement of operations data for the nine-month periods ended September 28, 2002 and September 27, 2003 have been derived from our unaudited consolidated financial data included elsewhere in this prospectus and, in the opinion of our management, contain all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of our financial position and results of operations at and for such periods. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year. The summary consolidated balance sheet data has also been presented on a pro forma basis to reflect the conversion of all \$29,542,000 outstanding of our 6 1/2% Convertible Subordinated Notes due 2009 subsequent to September 27, 2003, and on a pro forma as adjusted basis to give effect to our receipt of the estimated net proceeds from the sale of 2,500,000 shares of common stock at the assumed public offering price of \$ per share, after deducting the estimated underwriters' discounts and commissions and estimated offering expenses.

	Fiscal Years Ended December 31,					Nine Months Ended	
	1998	1999	2000	2001	2002	September 28, 2002	September 27, 2003
							(unaudited)
<b>Consolidated Statement of Operations Data:</b>							
Net revenues	\$ 95,975	\$ 42,962	\$ 36,049	\$ 51,484	\$ 33,784	\$ 21,792	\$ 24,218
Gross profit	24,258	2,552	1,990	9,755	7,309	4,308	5,159
Operating loss	(452)	(21,879)	(12,363)	(11,468)	(11,289)	(9,605)	(10,044)
Net income (loss)	\$ 424	\$ (9,770)	\$ (12,324)	\$ (16,936)	\$ 8,774	\$ (5,132)	\$ (11,702)
Net income (loss) per share							
Basic	\$ 0.04	\$ (0.83)	\$ (1.04)	\$ (1.42)	\$ 0.73	\$ (0.42)	\$ (0.96)
Diluted	\$ 0.03	\$ (0.83)	\$ (1.04)	\$ (1.42)	\$ 0.66	\$ (0.42)	\$ (0.96)
Number of shares used in per share calculations							
Basic	12,052	11,777	11,803	11,955	12,077	12,065	12,206
Diluted	12,354	11,777	11,803	11,955	15,262	12,065	12,206

As of September 27, 2003

	Actual	Pro Forma	Pro Forma As Adjusted
<b>Balance Sheet Data:</b>			
Cash and cash equivalents	\$ 21,148	\$ 21,148	
Working capital	19,833	19,972	
Total assets	47,366	46,866	
Long-term debt	29,542		
Total shareholders' equity (deficit)	(491)	28,690	



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**RISK FACTORS**

*You should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones facing our company. Additional risks not currently known to us or that we currently believe are immaterial may also impair our business operations. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained or incorporated by reference in this prospectus, including our consolidated financial statements and related notes, before deciding to purchase any shares of our common stock.*

**We have a recent history of significant losses and may not regain profitability. If we do not establish profitable operations in the future, then our share price is likely to decline.**

The majority of our revenues and gross profit has historically been derived from sales of disk sputtering equipment. Sales of our disk sputtering equipment have been severely depressed since the middle of 1998. Also, our Imaging business has yet to earn an annual profit. We have experienced an operating loss in each of the last five fiscal years. For the nine months ended September 27, 2003, our operating loss was \$10.0 million, and as of September 27, 2003, we had an accumulated deficit of \$20.7 million. To regain profitability, we will need to generate and sustain substantially higher revenue while maintaining reasonable cost and expense levels. We cannot assure you that we will regain profitability in the near future, or at all, and if we do regain profitability we cannot assure you that we will be able to sustain profitability on a going-forward basis. If we fail to regain profitability within the time frame expected by securities analysts or investors, then the market price of our common stock will likely decline.

**If the projected growth in demand for hard disk drives does not materialize and our customers do not replace or upgrade their installed base of disk sputtering systems, then future sales of our disk sputtering systems will suffer.**

Since the middle of 1998, there has been virtually no demand for new disk sputtering systems, as thin-film disk manufacturers have been burdened with overcapacity and have not been investing in new disk sputtering equipment. Recently, however, overcapacity has diminished, and three of our customers have announced plans for major capacity expansions. Sales of our equipment for capacity expansions are dependent on the capacity expansion plans of our customers and upon whether our customers select our equipment for their capacity expansions. We have no control over our customers' expansion plans, and we cannot assure you that they will select our equipment if they do expand their capacity. Our customers may not implement capacity expansion plans, or if we may fail to win orders for equipment for those capacity expansions, which could have a material adverse effect on our business and our operating results. In addition, some manufacturers may choose to purchase used systems from other manufacturers rather than purchasing new systems from us. Furthermore, if hard disk drives were to be replaced by an alternative technology as a primary method of digital storage, demand for our products would decrease.

Sales of our new 200 Lean disk sputtering systems are also dependent on obsolescence and replacement of the installed base of disk sputtering equipment. If technological advancements are developed that extend the useful life of the installed base of systems, then any sales of our 200 Lean will be limited to the capacity expansion needs of our customers, which would have a material adverse effect on our operating results.

**Our operating results fluctuate significantly from quarter to quarter, which may cause the price of our stock to decline.**

Over the last 11 quarters, our revenues per quarter have fluctuated between \$23.6 million and \$4.6 million. Over the same period our operating loss as a percentage of revenues has fluctuated between

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approximately 90% and 1% of revenues. We anticipate that our revenues and operating margins will continue to fluctuate. We expect this fluctuation to continue for a variety of reasons, including:

changes in the demand, due to seasonality and other factors, for the computer systems, storage subsystems and consumer electronics that contain the thin-film disks that our customers produce using our systems;

delays or problems in the introduction of our new products; and

announcements of new products, services or technological innovations by us or our competitors.

Additionally, because our systems are priced in the millions of dollars and we sell a relatively small number of systems, our business is inherently subject to fluctuations in revenue from quarter to quarter due to factors such as timing of orders, acceptance of new systems by our customers or cancellation of those orders. As a result, we believe that quarter-to-quarter comparisons of our revenues and operating results may not be meaningful and that these comparisons may not be an accurate indicator of our future performance. Our operating results in one or more future quarters may fail to meet the expectations of investment research analysts or investors, which could cause an immediate and significant decline in the trading price of our common shares.

### **We sell our equipment products to a small number of large customers.**

Historically, a significant portion of our revenue in any particular period has been attributable to sales to a limited number of customers. In 2002, three of our customers, in the aggregate, accounted for 74% of our revenues. In addition, our current backlog of 200 Lean systems is from a single customer. Orders from a relatively limited number of thin-film disk manufacturers have accounted for, and likely will continue to account for, a substantial portion of our revenues. The loss of, or delays in purchasing by, any one of our large customers would significantly reduce potential future revenues. Furthermore, the concentration of our customer base may lead customers to demand pricing and other terms unfavorable to us.

### **We operate in an intensely competitive marketplace, and our competitors have greater resources than we do.**

In the market for our disk sputtering systems, we have experienced competition from competitors such as Anelva Corporation, a subsidiary of NEC Corporation, Ulvac Technologies, Inc. and Unaxis Holdings, Ltd, each of which has sold substantial numbers of systems worldwide. In the market for our imaging products, we experience competition from companies such as ITT Industries, Inc. and Northrop Grumman Corporation, the primary U.S. manufacturers of Generation-III night vision devices and their derivative products. Our competitors have substantially greater financial, technical, marketing, manufacturing and other resources than we do. We cannot assure you that our competitors will not develop enhancements to, or future generations of, competitive products that will offer superior price or performance features. Likewise, we cannot assure you that new competitors will not enter our markets and develop such enhanced products. Accordingly, competition for our customers is intense, and our competitors have historically offered substantial pricing concessions and incentives to attract our customers or retain their existing customers.

### **The majority of our future revenues is dependent on new products. If these new products are not successful, then our results of operations will be adversely affected.**

Our success in developing and selling new products depends upon a variety of factors, including our ability to predict future customer requirements accurately, technological advances, total cost of ownership of our systems, our introduction of new products on schedule, our ability to manufacture our systems cost-effectively and the performance of our systems in the field. Our new product decisions and development commitments must anticipate continuously evolving industry requirements significantly in advance of sales. We have invested heavily, and continue to invest, in the development of new products. Our 200 Lean disk sputtering system is designed to address the demand for increased areal density in hard disk drives and our

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customers' concurrent need to produce more complex thin-film disks. Our future revenues depend on the industry recognizing the need for improved recording methodologies and the need for disk sputtering systems that facilitate manufacturing of advanced media with technologies such as perpendicular recording. Our future revenues also depend significantly on the market acceptance of our 200 Lean disk sputtering system, which we have only recently introduced and which competes against a product that has been on the market longer. Our new products will typically bear higher production and warranty costs in comparison to our more established product lines. Additionally, our gross margins on our new products may be lower and more difficult to predict. We continue to invest heavily to develop products for the thin-film disk manufacturing industry. In addition, our LIVAR target identification and low light level camera technologies are designed to offer significantly improved capability to military customers. We are also developing commercial products based on the technology we have developed in our Imaging business. None of our imaging products is currently being manufactured in commercial volumes or available for general sale, and we may encounter unforeseen difficulties when we commence general production of these products. Our Imaging business will require substantial further investment in sales and marketing, in product development and in additional production facilities, and in particular we need to acquire sensor fabrication facilities in order to expand our operations. We cannot assure you that we will succeed in these activities or generate significant sales of new products. Failure of any of these products to perform as intended, or failure to penetrate their markets and develop into profitable product lines, would have a material adverse effect on our business.

**Demand for capital equipment is cyclical, which subjects our business to long periods of depressed revenues interspersed with periods of unusually high revenues.**

Our Equipment business sells equipment to capital intensive industries, which sell commodity products such as disk drives. When demand for these commodity products exceeds capacity, demand for new capital equipment such as ours tends to be amplified. Conversely, when supply of these commodity products exceeds demand, the demand for new capital equipment such as ours tends to be depressed. The hard disk drive industry has historically been subject to multi-year cycles because of the long lead times and high costs involved in adding capacity.

The cyclical nature of the capital equipment industry means that in some years we will have unusually high sales of new systems, and that in other years our sales of new systems will be severely depressed. The timing, length and volatility of these cycles are difficult to predict. These changes have affected the timing and amounts of our customers' capital equipment purchases and investments in new technology. For example, sales of systems for thin-film disk production have been severely depressed since the middle of 1998. In addition, our thin-film disk manufacturing customers are generally more sensitive to the cyclical nature of the hard disk drive industry, because many of their customers have internal thin-film disk manufacturing operations and will cut back their purchases of disks from outside suppliers first in an industry downturn. If we fail to anticipate or respond quickly to the industry business cycle, it could have a material adverse effect on our business.

**Our sales cycle is long and unpredictable, which requires us to incur high sales and marketing expenses with no assurance that a sale will result.**

The sales cycle for our equipment systems can be a year or longer, involving individuals from many different areas of our company and numerous product presentations and demonstrations for our prospective customers. Our sales process for these systems also includes the production of samples and customization of products for our prospective customers. Additionally, our Imaging business is subject to long sales cycles as a result of government procurement cycles. As a result, we may not recognize revenue from efforts to sell particular products for extended periods of time, during which we may expend substantial funds and management time and effort with no assurance that a sale will result.

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**Our products are complex, constantly evolving and often must be customized to individual customer requirements.**

The systems we manufacture and sell in our Equipment business have a large number of components and are highly complex, which require us to make substantial investments in research and development. If we were to fail to develop, manufacture and market new systems or to enhance existing systems, that failure would have an adverse effect on our business. We may experience delays and technical and manufacturing difficulties in future introduction or volume production of new systems or enhancements. In addition, some of the systems that we manufacture must be customized to meet individual customer site or operating requirements. In some cases, we market and commit to deliver new systems, modules and components with advanced features and capabilities that we are still in the process of designing. We have limited manufacturing capacity and engineering resources and may be unable to complete the development, manufacture and shipment of these products, or to meet the required technical specifications for these products, in a timely manner. Failure to deliver these products on time, or failure to deliver products that perform to all contractually committed specifications, could have adverse effects on our business, including rescheduling of backlog, failure to achieve customer acceptance as anticipated, unanticipated rework and warranty costs, penalties for non-performance, cancellation of orders, or return of products for credit. In addition, we may incur substantial unanticipated costs early in a product's life cycle, such as increased engineering, manufacturing, installation and support costs, that we may be unable to pass on to the customer. Sometimes we work closely with our customers to develop new features and products. In connection with these transactions, we sometimes offer a period of exclusivity to these customers. Any of these factors could have a material adverse effect on our business.

**Our Imaging business depends heavily on government contracts, which are subject to immediate termination and funded in increments. The termination of or failure to fund one or more of these contracts could have a negative impact on our operations.**

We sell our products directly to the U.S. government, as well as to prime contractors for various U.S. government programs. Generally, government contracts are subject to oversight audits by government representatives and contain provisions permitting termination, in whole or in part, without prior notice at the government's convenience upon the payment of compensation only for work done and commitments made at the time of termination. We cannot assure you that one or more of the government contracts under which we or our customers operate will not be terminated under these circumstances. Also, we cannot assure you that we or our customers would be able to procure new government contracts to offset the revenues lost as a result of any termination of existing contracts, nor can we assure you that we or our customers will continue to remain in good standing as federal contractors. The loss of one or more government contracts by us or our customers could have a material adverse effects on our operating results.

Furthermore, the funding of multi-year government programs is subject to congressional appropriations, and there is no guarantee that Congress will make further appropriations. The loss of funding for a government program would result in a loss of anticipated future revenues attributable to that program. That could increase our overall costs of doing business and have a material adverse effects on our operating results.

In addition, sales to the U.S. government and its prime contractors may be affected by changes in procurement policies, budget considerations and political developments in the United States or abroad. The influence of any of these factors, which are beyond our control, could also negatively impact our financial condition. We also may experience problems associated with advanced designs required by the government which may result in unforeseen technological difficulties and cost overruns. Failure to overcome these technological difficulties and the occurrence of cost overruns would have a material adverse effect on our business.

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**Our sales of disk sputtering systems are dependent on substantial capital investment by our customers, far in excess of the cost of our products.**

Our customers must make extremely large capital expenditures in order to purchase our systems and other related equipment and facilities. These costs are far in excess of the cost of our systems alone. The magnitude of such capital expenditures requires that our customers have access to large amounts of capital and that they be willing to invest that capital over long periods of time to be able to purchase our equipment. The thin-film disk manufacturing industry has not made significant additions to its production capacity until recently. Some of our potential customers may not be willing or able to make the magnitude of capital investment required, especially during a downturn in either the overall economy or the hard disk drive industry.

**Our stock price is volatile, and you may not be able to resell your shares at or above the offering price.**

The market price and trading volume of our common stock has been subject to significant volatility, and this trend may continue. In particular, our historical trading volume has been low, and the market price of our common stock has increased dramatically in recent months. Over the past 12 months, the closing price of our common stock, as traded on The Nasdaq National Market, has fluctuated from a low of \$3.52 to a high of \$17.35 per share. Our stock price is currently trading at or near its seven-year high. The value of our common stock may decline regardless of our operating performance or prospects. Factors affecting our market price include:

our perceived prospects;

variations in our operating results and whether we achieve our key business targets;

the limited number of shares of our common stock available for purchase or sale in the public markets;

sales or purchases of large blocks of our stock;

changes in, or our failure to meet, our earnings estimates;

changes in securities analysts' buy or sell recommendations;

differences between our reported results and those expected by investors and securities analysts;

announcements of new contracts, products or technological innovations by us or our competitors;

market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors;

our high fixed operating expenses, including research and development expenses;

developments in the financial markets; and

general economic, political or stock market conditions in the United States and other major regions in which we do business.

Recent events have caused stock prices for many companies, including ours, to fluctuate in ways unrelated or disproportionate to their operating performance. The general economic, political and stock market conditions that may affect the market price of our common stock are beyond our control. The market price of our common stock at any particular time may not remain the market price in the future. In the past, securities class action litigation has been instituted against companies following periods of volatility in the market price of their securities. Any such litigation, if instituted against us, could result in substantial costs and a diversion of management's attention and resources.



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**Our dependence on suppliers for certain parts, some of them sole-sourced, makes us vulnerable to manufacturing interruptions and delays, which could affect our ability to meet customer demand.**

We are a manufacturing business. Purchased parts constitute the largest component of our product cost. Our ability to manufacture depends on the timely delivery of parts, components, and subassemblies from suppliers. We obtain some of the key components and sub-assemblies used in our products from a single supplier or a limited group of suppliers. If any of our suppliers fail to deliver quality parts on a timely basis, we may experience delays in manufacturing, which could result in delayed product deliveries or increased costs to expedite deliveries or develop alternative suppliers. Development of alternative suppliers could require redesign of our products. Any or all of these factors could have a material adverse effect on our business and operating results.

**Our business depends on the integrity of our intellectual property rights.**

The success of our business depends upon integrity of our intellectual property rights and we cannot assure you that:

any of our pending or future patent applications will be allowed or that any of the allowed applications will be issued as patents;

any of our patents will not be invalidated, deemed unenforceable, circumvented or challenged;

the rights granted under our patents will provide competitive advantages to us;

any of our pending or future patent applications will issue with claims of the scope that we sought, if at all;

other parties will not develop similar products, duplicate our products or design around our patents; or

our patent rights, intellectual property laws or our agreements will adequately protect our intellectual property or competitive position.

Failure to protect our intellectual property rights adequately could have a material adverse effect on our business.

We provide products that are expected to have long useful lives and that are critical to our customers' operations. From time to time, as part of business agreements, we place portions of our intellectual property into escrow to provide assurance to our customers that our technology will be available to them in the event that we are unable to support them at some point in the future.

From time to time, we have received claims that we are infringing third parties' intellectual property rights. We cannot assure you that third parties will not in the future claim that we have infringed current or future patents, trademarks or other proprietary rights relating to our products. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us. Any of the foregoing could have a material adverse effect on our business.

**Our business is based in Northern California, where operating costs are high and competition for employees is intense.**

Our U.S. operations are located in Santa Clara, California, where the cost of doing business is extremely high. Failure to manage these costs well could have a material adverse effect on our operating results. Additionally, our operating results depend, in part, upon our ability to retain and attract qualified management, engineering, marketing, manufacturing, customer support, sales and administrative personnel. The cost of living in Northern California is also extremely high, which increases the cost and difficulty of recruiting new employees. Furthermore, we compete with various similar industries, such as the

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semiconductor industry, for the same pool of skilled employees. Failure to attract and retain qualified personnel could have a material adverse effect on our business.

**Business interruptions, such as earthquakes or other natural or man-made disasters, could disrupt our operations and adversely affect our business.**

Our U.S. facilities are located in an area of California that has experienced power outages and earthquakes and is considered seismically active. Our operations are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure, unauthorized intrusion and other catastrophic events beyond our control. Our contingency plans for addressing these kinds of events may not be sufficient to prevent system failures and other interruptions in our operations that have a material adverse effect on our business. Additionally, our suppliers suffering similar business interruptions could have an adverse effect on our manufacturing ability. If any natural or man-made disasters do occur, our operations could be disrupted for prolonged periods, which could have a material adverse effect on our business.

**Changes in demand caused by fluctuations in interest and currency exchange rates may reduce our international sales.**

Sales and operating activities outside of the United States are subject to inherent risks, including fluctuations in the value of the U.S. 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. We earn a significant portion of our revenue from international sales, and there can be no assurance that any of these factors will not have an adverse effect on our ability to sell our products or operate outside the United States.

We currently quote and sell the majority of our products in U.S. dollars. From time to time, we may enter into foreign currency contracts in an effort to reduce the overall risk of currency fluctuations to our business. However, there can be no assurance that the offer and sale of products denominated in foreign currencies, and the related foreign currency hedging activities, will not adversely affect our business.

Our principal competitor for disk sputtering equipment is based in Japan and has a cost structure based on the Japanese yen. Accordingly, currency fluctuations could cause the price of our products to be more or less competitive than our principal competitor's products. Currency fluctuations will decrease or increase our cost structure relative to those of our competitors, which could lessen the demand for our products and affect our competitive position.

**We routinely evaluate acquisition candidates and other diversification strategies.**

We have completed a number of acquisitions as part of our efforts to expand and diversify our business. For example, our business was initially acquired from Varian Associates in 1991. We acquired our gravity lubrication and rapid thermal processing product lines in two acquisitions. We sold the rapid thermal processing product line in November 2002. We also acquired our RPC electron beam processing business in late 1997, and subsequently closed this business. We intend to continue to evaluate new acquisition candidates, divestiture and diversification strategies. Any acquisition involves 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, difficulties and consequences may be incurred relating to the integration of technologies, research and development, and administrative and other functions. Any future acquisitions may also result in potentially dilutive issuance of equity securities, acquisition- or divestiture-related write-offs or the assumption of debt and contingent liabilities. Any of the above factors could have a material adverse effect on our business.

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**We use hazardous materials and are subject to risks of non-compliance with environmental and safety regulations.**

We are subject to a variety of governmental regulations relating to the use, storage, discharge, handling, emission, generation, manufacture, treatment and disposal of toxic or otherwise hazardous substances, chemicals, materials or waste. If we fail to comply with current or future regulations, such failure could result in suspension of our operations, alteration of our manufacturing process, or substantial civil penalties or criminal fines against us or our officers, directors or employees. Additionally, these regulations could require us to acquire expensive remediation or abatement equipment or to incur substantial expenses to comply with them. Failure to properly manage the use, disposal or storage of, or adequately restrict the release of, hazardous or toxic substances could subject us to significant liabilities.

**Investors in this offering will experience immediate and substantial dilution.**

The offering price per share is substantially higher than the book value per share of our common stock. Investors purchasing common stock in this offering will, therefore, incur immediate dilution of \$ \_\_\_\_\_ in net tangible book value per share, based on an assumed offering price of \$ \_\_\_\_\_ per share. Investors will incur additional dilution upon the exercise of outstanding stock options.

**Our directors and executive officers control a significant portion of our outstanding common stock.**

Based on the shares outstanding on December 11, 2003, our current directors, executive officers and their affiliates, in the aggregate, beneficially owned 41.4% of our outstanding shares of common stock (28.6% after this offering). These shareholders, acting together, are able to exert significant control on matters requiring approval by our shareholders, including the election of directors and approval of significant corporate transactions.

**Future sales of shares of our common stock by our officers and directors and their affiliates could cause our stock price to decline.**

Substantially all of our common stock may be sold without restriction in the public markets, subject only in the case of shares held by our directors, executive officers and their affiliates to volume and manner of sale restrictions, other than Foster City LLC, the selling shareholder participating in this offering, and as otherwise described in the following sentence. We have an agreement with Foster City LLC and Redemco, LLC, both entities for which H. Joseph Smead, one of our directors, serves as the managing member, that gives Foster City LLC and Redemco, LLC the right to require us, after the end of the 180-day period following the date of this prospectus, to file a registration statement on Form S-3, registering the resale of all shares of our common stock held by Foster City LLC not sold in this offering and all 3,255,969 shares held by Redemco.

Sales of a substantial number of shares of common stock in the public market after the offering described in this prospectus or the perception that these sales could occur could materially and adversely affect our stock price and make it more difficult for us to sell equity securities in the future at a time and price we deem appropriate. Upon completion of this offering, we will have outstanding 19,449,798 shares of common stock, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options after December 11, 2003.

Our officers and directors and their direct affiliates have agreed that they will not, without the prior written consent of Needham & Company, Inc., sell or otherwise dispose of any shares of our common stock or options to acquire shares of our common stock or securities exchangeable for or convertible into shares of our common stock owned by them during the 90-day period, or 180-day period in the case of the selling shareholder, following the date of this prospectus, subject to certain exceptions. Once these contractual restrictions lapse, they will be able to sell shares of our common stock subject to certain restrictions under the Securities Act. See Principal and Selling Shareholders. If a significant number of shares of our common stock are sold in a short period of time, the market price of our common stock could decline.

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**Anti-takeover provisions in our charter documents and under California law could prevent or delay a change in control, which could negatively impact the value of our common stock by discouraging a favorable merger or acquisition of us.**

Our articles of incorporation authorize our board of directors to issue up to 10,000,000 shares of preferred stock and to determine the powers, preferences, privileges, rights, including voting rights, qualifications, limitations and restrictions of those shares, without any further vote or action by the shareholders. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that we may issue in the future. The issuance of preferred stock could have the effect of delaying, deterring or preventing a change in control and could adversely affect the voting power of your shares. In addition, provisions of California law could make it more difficult for a third party to acquire a majority of our outstanding voting stock by discouraging a hostile bid, or delaying or deterring a merger, acquisition or tender offer in which our shareholders could receive a premium for their shares or a proxy contest for control of our company or other changes in our management.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements under the sections entitled Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere in this prospectus, and in the documents incorporated by reference in this prospectus, constitute forward-looking statements. In some cases, you can identify forward-looking statements by terms such as may, will, should, expect, plan, intend, forecast, anticipate, believe, estimate, predict, potential, continue or the negative of these terms or similar terminology. The forward-looking statements contained in this prospectus involve known and unknown risks, uncertainties and situations that may cause our or our industry's actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on any of our forward-looking statements.

**Table of Contents****USE OF PROCEEDS**

We estimate that the net proceeds to us from the sale of 2,500,000 shares of common stock offered by us will be approximately \$        million, assuming a public offering price of \$        per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any of the proceeds from the sale of 1,500,000 shares by the selling shareholder.

We intend to use \$1.0 million of the net proceeds of this offering to repay our outstanding 6 1/2% Convertible Subordinated Notes due 2004 on or before their maturity in March 2004 and the remainder of the net proceeds primarily for general corporate purposes, including working capital and capital expenditures, and possible acquisitions or investments in complementary businesses or products or to obtain the right to use complementary technologies. However, we currently have no agreements or commitments with respect to any material acquisitions or investments. We cannot specify with certainty the particular uses for the net proceeds from this offering. Accordingly, our management team will have broad discretion in applying the net proceeds. Pending such uses, we intend to invest the net proceeds of this offering in short-term, interest-bearing, investment grade obligations or government securities.

**DIVIDEND POLICY**

We currently anticipate that we will retain our earnings, if any, for use in the operation of our business and do not expect to pay cash dividends on our capital stock in the foreseeable future.

**PRICE RANGE OF COMMON STOCK**

Our common stock is listed on The Nasdaq National Market under the symbol IVAC. The table below sets forth the high and the low closing sales prices per share as reported on The Nasdaq National Market for the periods indicated.

	<u>High</u>	<u>Low</u>
<b>Year Ended December 31, 2001:</b>		
First Quarter	\$5.89	\$3.50
Second Quarter	5.95	4.40
Third Quarter	4.98	1.95
Fourth Quarter	4.24	2.38
<b>Year Ended December 31, 2002:</b>		
First Quarter	\$4.39	\$2.38
Second Quarter	5.11	2.50
Third Quarter	4.25	2.06
Fourth Quarter	4.00	3.49
<b>Year Ended December 31, 2003:</b>		
First Quarter	\$5.07	\$3.52
Second Quarter	6.87	3.75
Third Quarter	9.95	6.72