

INTEVAC INC
Form 10-Q/A
May 10, 2005

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**SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q/A

(Amendment No. 1)

(MARK ONE)

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

For the quarterly period ended June 26, 2004

OR

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

For the transition period from to

Commission file number 0-26946

INTEVAC, INC.

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

94-3125814
(IRS Employer Identification No.)

3560 Bassett Street
Santa Clara, California 95054
(Address of principal executive office, including Zip Code)

Registrant's telephone number, including area code: (408) 986-9888

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

On June 26, 2004, 20,038,814 shares of the Registrant's Common Stock, no par value, were outstanding.

INTEVAC, INC.

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EXPLANATORY NOTE

This Amendment No. 1 to Intevac, Inc.'s (the "Company") Quarterly Report on Form 10-Q for the quarter ended June 26, 2004 is being filed to reflect the restatement of the Company's condensed consolidated financial statements for that period. The restatement relates to revenue on various technology development contracts that was not recognized per contract terms or per accounting principles generally accepted in the United States of America. Also included in this restatement are two timing inaccuracies in reported cost of sales and a revision to the amount of other comprehensive income reported. See Note 2 to the Company's unaudited condensed consolidated financial statements for additional discussion. This Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q, or modify or update the disclosures therein in any way other than as required to reflect the amendment set forth in Note 2.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****INTEVAC, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**
(In thousands)

	June 26, 2004 (Unaudited) Restated	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,880	\$ 19,507
Short term investments	15,632	
Trade and other accounts receivable, net of allowances of \$24 and \$22 at June 26, 2004 and December 31, 2003	15,317	14,016
Inventories	39,000	13,108
Prepaid expenses and other current assets	737	1,113
Total current assets	92,566	47,774
Property, plant and equipment, net	5,848	5,796
Long term investments	12,187	
Investment in 601 California Avenue LLC	2,431	2,431
Other long term assets	3	4
Total assets	\$ 113,035	\$ 55,975
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Convertible notes	\$	\$ 1,025
Accounts payable	7,222	3,396
Accrued payroll and related liabilities	1,687	1,610
Other accrued liabilities	3,104	2,643
Customer advances	30,635	16,432
Total current liabilities	42,648	25,106
Shareholders' equity:		
Common stock, no par value	94,189	51,982
Accumulated other comprehensive income	217	223
Accumulated deficit	(24,019)	(21,336)

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Total shareholders' equity	70,387	30,869
Total liabilities and shareholders' equity	\$ 113,035	\$ 55,975

See accompanying notes.

Table of Contents**INTEVAC, INC.**

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

	Three Months Ended		Six Months Ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
	Restated		Restated	
Net revenues:				
Systems and components	\$ 15,626	\$ 2,677	\$ 19,819	\$ 13,241
Technology development	2,138	1,910	4,380	3,361
Total net revenues	17,764	4,587	24,199	16,602
Cost of net revenues:				
Systems and components	10,183	1,711	12,826	11,032
Technology development	1,654	1,435	3,321	2,559
Inventory provisions	247	322	753	732
Total cost of net revenues	12,084	3,468	16,900	14,323
Gross profit	5,680	1,119	7,299	2,279
Operating expenses:				
Research and development	3,083	3,114	6,141	5,743
Selling, general and administrative	2,223	2,146	4,393	4,071
Total operating expenses	5,306	5,260	10,534	9,814
Operating profit (loss)	374	(4,141)	(3,235)	(7,535)
Interest expense		(508)	(12)	(1,025)
Interest income and other, net	303	(148)	552	(243)
Income (loss) before income taxes	677	(4,797)	(2,695)	(8,803)
Benefit from income taxes			(12)	
Net income (loss)	\$ 677	\$ (4,797)	(2,683)	\$ (8,803)
Other comprehensive income:				
Foreign currency translation adjustments	(7)	10	(6)	4
Total comprehensive income (loss)	\$ 670	\$ (4,787)	\$ (2,689)	\$ (8,799)
Basic income (loss) per share:				

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Net income (loss)	\$ 0.03	\$ (0.39)	\$ (0.14)	\$ (0.72)
Shares used in per share amounts	20,010	12,187	19,373	12,176
Diluted income (loss) per share:				
Net income (loss)	\$ 0.03	\$ (0.39)	\$ (0.14)	\$ (0.72)
Shares used in per share amounts	20,678	12,187	19,373	12,176

See accompanying notes.

Table of Contents**INTEVAC, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Six months ended	
	June 26, 2004	June 28, 2003
	Restated	
Operating activities		
Net loss	\$ (2,683)	\$ (8,803)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	1,131	950
Inventory provisions	753	732
Loss on disposal of equipment	1	642
Changes in operating assets and liabilities	(8,993)	(234)
Total adjustments	(7,108)	2,090
Net cash and cash equivalents used in operating activities	(9,791)	(6,713)
Investing activities		
Purchases of investments	(27,895)	
Purchases of leasehold improvements and equipment	(1,108)	(1,680)
Net cash and cash equivalents used in investing activities	(29,003)	(1,680)
Financing activities		
Proceeds from issuance of common stock	42,207	186
Payoff of convertible notes due 2004	(1,025)	
Net cash and cash equivalents provided by financing activities	41,182	186
Effect of exchange rate changes on cash	(15)	(7)
Net increase (decrease) in cash and cash equivalents	2,373	(8,214)
Cash and cash equivalents at beginning of period	19,507	28,457
Cash and cash equivalents at end of period	\$ 21,880	\$ 20,243
Supplemental Schedule of Cash Flow Information		
Cash paid (received) for:		
Interest	\$ 33	\$ 993
Income tax refund	\$	\$ (214)

See accompanying notes.

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INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business Activities and Basis of Presentation

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

Our Equipment business designs, manufactures, markets and services complex capital equipment used in the sputtering, or deposition, of highly engineered thin films of material onto disks which are used in hard disk drives. Hard disk drives are the primary storage medium for digital data and function by magnetically storing data on thin-film disks. These thin-film disks are created in a sophisticated manufacturing process involving many steps, including plating, annealing, polishing, texturing, sputtering and lubrication.

Our Imaging business develops and manufactures electro-optical sensors, cameras, and systems that permit highly sensitive detection of photons in the visible and near infrared portions of the spectrum, allowing imaging in extreme low light situations. These efforts are aimed at creating new products for both military and commercial applications.

The financial information at June 26, 2004 and for the three- and six-month periods ended June 26, 2004 and June 28, 2003 is unaudited, but includes all adjustments (consisting only of normal recurring accruals) that we consider necessary for a fair presentation of the financial information set forth herein, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, it does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. For further information, refer to the Consolidated Financial Statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. Our critical accounting policies are summarized in Item 2 of this Form 10-Q.

We evaluate the collectibility of trade receivables on an ongoing basis and provide reserves against potential losses when appropriate.

The results for the three- and six-month periods ended June 26, 2004 are not considered indicative of the results to be expected for any future period or for the entire year.

2. Restatement of Financial Statements

In connection with our preparation of the consolidated financial statements for the fiscal year ended December 31, 2004, we determined that the previously issued financial statements contained in the Quarterly Reports on Form 10-Q for the quarters ended March 27, 2004, June 26, 2004 and September 25, 2004 should be restated to correct errors in those financial statements. The decision to restate these financial statements was made based on the following information:

We determined during the course of our year-end audit that projected, rather than approved, billing rates were used to calculate revenue for cost-plus-fixed-fee technology development contracts. An adjustment was made at year-end to reflect the correct revenue recognition, but the previously reported quarterly revenue numbers were misstated.

Table of Contents**INTEVAC, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A series of proposed adjustments, which were not material by themselves, became material when combined with the restatement of revenue described above.

A revision to the amount of other comprehensive income reported was made to move certain amounts unrelated to foreign currency adjustments to other income.

The following is a summary of the effect of these changes on our condensed consolidated balance sheet as of June 26, 2004 and our condensed consolidated statement of operations for the three- and six-month periods ended June 26, 2004 (in thousands, except per share data):

Condensed Consolidated Balance Sheet			
	As Previously Reported	Adjustments	As Restated
June 26, 2004			
Trade and other accounts receivable	\$ 15,597	\$ (280)	\$ 15,317
Inventories	38,907	93	39,000
Total current assets	92,753	(187)	92,566
Total assets	113,222	(187)	113,035
Other accrued liabilities	3,134	(30)	3,104
Total current liabilities	42,678	(30)	42,648
Accumulated other comprehensive income	216	1	217
Accumulated deficit	(23,681)	(158)	(24,019)
Total shareholder's equity	70,544	(157)	70,387

Condensed Consolidated Statement of Operations			
	As Previously Reported	Adjustments	As Restated
Three months ended June 26, 2004			
Net revenues	\$ 17,980	\$ (216)	\$ 17,764
Cost of net revenues	12,189	(105)	12,084
Gross profit	5,791	(111)	5,680
Interest income and other, net	307	(4)	303
Net income (loss)	792	(115)	677
Net income (loss) per share - basic	0.04	(0.01)	0.03
Net income (loss) per share - diluted	0.04	(0.01)	0.03

Condensed Consolidated Statement of Operations			
	As Previously Reported	Adjustments	As Restated
Six months ended June 26, 2004			
Net revenues	\$ 24,479	\$ (280)	\$ 24,199
Cost of net revenues	17,023	(123)	16,900
Gross profit	7,456	(157)	7,299
Interest income and other, net	553	(1)	552
Net income (loss)	(2,525)	(158)	(2,683)

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Net income (loss) per share - basic	(0.13)	(0.01)	(0.14)
Net income (loss) per share - diluted	(0.13)	(0.01)	(0.14)

Table of Contents**INTEVAC, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Concentrations**

Our largest customers tend to change from period to period. Historically, a significant portion of our revenues in any particular period have been attributable to sales to a limited number of customers. Our order backlog at June 26, 2004 included orders for nine 200 Lean systems from one customer.

4. Inventories

Inventories are priced using standard costs, which approximate first-in, first-out. The components of inventory consist of the following:

	June 26, 2004	December 31, 2003
	(In thousands)	
	Restated	
Raw materials	\$ 8,044	\$ 3,306
Work-in-progress	2,670	4,371
Finished goods	28,286	5,431
	\$ 39,000	\$ 13,108

Finished goods inventory consists primarily of completed systems at customer sites that are undergoing installation and acceptance testing.

Inventory reserves included in the above numbers were \$10.8 million and \$10.2 million at June 26, 2004 and December 31, 2003, respectively. Each quarter, we analyze our inventory (raw materials, work-in-progress and finished goods) against the forecast demand for the next 12 months. Parts with no forecast requirements in that period are considered excess and inventory provisions are established to write those parts down to zero net book value. During this process, some inventory is identified as having no future use or value to us and is disposed of against the reserves. During the six months ended June 26, 2004, \$753,000 was added to inventory reserves based on the quarterly analysis and \$261,000 of inventory was disposed of and charged to the reserve. During the six months ended June 28, 2003, \$732,000 was added to inventory reserves based on the quarterly analysis and \$4,000 of inventory was disposed of and charged to the reserve.

5. Employee Stock Plans

At June 26, 2004, we had two stock-based employee compensation plans. We account for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. We do not plan to adopt the fair value requirements of SFAS 123 for reporting purposes, unless it is mandated by GAAP.

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

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INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended		Six Months Ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
	(in thousands)			
	Restated		Restated	
Net income (loss), as reported	\$ 677	\$ (4,797)	\$ (2,683)	\$ (8,803)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(341)	(155)	(609)	(267)
Pro forma net income (loss)	\$ 336	\$ (4,952)	\$ (3,292)	\$ (9,070)
Basic and diluted loss per share:				
As reported	\$ 0.03	\$ (0.39)	\$ (0.14)	\$ (0.72)
Pro forma	\$ 0.02	\$ (0.41)	\$ (0.17)	\$ (0.74)

6. Warranty

Our typical warranty is 12 months from customer acceptance. In some cases we market extended warranty periods beyond 12 months to our customers. The warranty period on used systems is generally shorter than 12 months. During this warranty period any necessary non-consumable parts are supplied and installed. The warranty period on consumable parts is limited to their reasonable usable life. A provision for the estimated warranty cost is recorded at the time revenue is recognized.

The following table displays the activity in the warranty provision account, which is included in other accrued liabilities on our balance sheet, for the three and six-month periods ending June 26, 2004 and June 28, 2003:

	Three Months Ended		Six Months Ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
	(in thousands)			
	Restated		Restated	
Beginning balance	\$ 386	\$ 644	\$ 534	\$ 845
Expenditures incurred under warranties	(53)	(46)	(109)	(607)
Accruals for product warranties issued during the reporting period	456	32	493	191
Adjustments to previously existing warranty accruals	(135)	34	(264)	235
Ending balance	\$ 654	\$ 664	\$ 654	\$ 664

7. Guarantees

We have entered into agreements with customers and suppliers that include limited intellectual property indemnification obligations that are customary in the industry. These guarantees generally require us to compensate the other party for certain damages and costs incurred as a result of third party intellectual property claims arising from these transactions. The nature of the intellectual property indemnification obligations prevents us from making a reasonable estimate of the maximum potential amount we could be required to pay our customers and suppliers. Historically, we have not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

Table of Contents**INTEVAC, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Cash, Cash Equivalents and Investments in Debt Securities**

Our investment portfolio consists of cash, cash equivalents and investments in debt securities. We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments in debt securities consists principally of highly rated debt instruments with maturities generally between one and 25 months.

In accordance with Statement of Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities, and based on our intentions regarding these instruments, we have classified our investments in debt securities as held-to-maturity and account for these investments at amortized cost. Interest income is recorded using an effective interest rate, with the associated premium or discount amortized to interest income. Realized gains and losses are included in earnings. The table below presents the amortized principal amount, major security type and maturities for our investments in debt securities. The amortized principal amount approximates fair value at June 26, 2004.

	June 26, 2004	December 31, 2003
	(in thousands)	
Amortized Principal Amount:		
Debt securities issued by US government agencies	\$ 22,096	\$
Corporate debt securities	5,723	
Total investments in debt securities	\$ 27,819	\$
Short-term investments	\$ 15,632	\$
Long-term investments	12,187	
Total investments in debt securities	\$ 27,819	\$

9. Net Income (Loss) Per Share

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

	Three Months Ended		Six Months Ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
	(in thousands)			
	Restated		Restated	
Numerator:				

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Numerator for basic income (loss) per share - loss available to common stockholders	\$ 677	\$ (4,797)	\$ (2,683)	\$ (8,803)
Effect of dilutive securities:				
6 1/2% convertible notes (1)				