

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 September 25, 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 November 1, 2004, 20,130,418 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 September 25, 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)

	September 25, 2004 (Unaudited) Restated	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,112	\$ 19,507
Short term investments	17,558	
Trade and other accounts receivable, net of allowances of \$58 and \$22 at September 25, 2004 and December 31, 2003	12,293	14,016
Inventories	18,430	13,108
Prepaid expenses and other current assets	881	1,113
Total current assets	65,274	47,774
Property, plant and equipment, net	6,347	5,796
Long term investments	14,199	
Investment in 601 California Avenue LLC	2,431	2,431
Other long term assets	3	4
Total assets	\$ 88,254	\$ 55,975
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Convertible notes	\$	\$ 1,025
Accounts payable	2,231	3,396
Accrued payroll and related liabilities	1,725	1,610
Other accrued liabilities	3,860	2,643
Customer advances	7,992	16,432
Total current liabilities	15,808	25,106
Other long-term liabilities	303	
Shareholders' equity:		
Common stock, no par value	94,564	51,982
Accumulated other comprehensive income	227	223
Accumulated deficit	(22,648)	(21,336)

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Total shareholders equity		72,143		30,869	
Total liabilities and shareholders equity		\$	88,254	\$	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		Nine Months Ended	
	Sept.	Sept. 27,	Sept.	Sept. 27,
	25,	2003	25,	2003
	2004		2004	
	Restated		Restated	
Net revenues:				
Systems and components	\$ 32,721	\$ 5,037	\$ 52,540	\$ 18,278
Technology development	2,308	2,579	6,688	5,940
Total net revenues	35,029	7,616	59,228	24,218
Cost of net revenues:				
Systems and components	26,322	2,713	39,148	13,745
Technology development	1,972	1,813	5,293	4,372
Inventory provisions	325	210	1,078	942
Total cost of net revenues	28,619	4,736	45,519	19,059
Gross profit	6,410	2,880	13,709	5,159
Operating expenses:				
Research and development	2,831	3,173	8,972	8,916
Selling, general and administrative	2,316	2,216	6,709	6,287
Total operating expenses	5,147	5,389	15,681	15,203
Operating profit (loss)	1,263	(2,509)	(1,972)	(10,044)
Interest expense	(41)	(522)	(53)	(1,547)
Interest income and other, net	264	132	816	(111)
Income (loss) before income taxes	1,486	(2,899)	(1,209)	(11,702)
Provision for income taxes	115		103	
Net income (loss)	\$ 1,371	\$ (2,899)	(1,312)	\$ (11,702)
Other comprehensive income:				
Foreign currency translation adjustments	10	17	4	21
Total comprehensive income (loss)	\$ 1,381	\$ (2,882)	\$ (1,308)	\$ (11,681)
Basic income (loss) per share:				

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Net income (loss)	\$ 0.07	\$ (0.24)	\$ (0.07)	\$ (0.96)
Shares used in per share amounts	20,104	12,266	19,617	12,206
Diluted income (loss) per share:				
Net income (loss)	\$ 0.07	\$ (0.24)	\$ (0.07)	\$ (0.96)
Shares used in per share amounts	20,387	12,266	19,617	12,206

See accompanying notes.

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

	Nine months ended	
	Sept. 25, 2004	Sept. 27, 2003
	Restated	
Operating activities		
Net loss	\$ (1,312)	\$ (11,702)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	1,691	1,508
Inventory provisions	1,078	942
Loss on disposal of equipment	1	644
Changes in operating assets and liabilities	(13,120)	2,607
Total adjustments	(10,350)	5,701
Net cash and cash equivalents used in operating activities	(11,662)	(6,001)
Investing activities		
Purchases of investments	(37,922)	
Proceeds from sales of investments	6,000	
Purchases of leasehold improvements and equipment	(1,371)	(1,951)
Net cash and cash equivalents used in investing activities	(33,293)	(1,951)
Financing activities		
Proceeds from issuance of common stock	42,582	644
Payoff of convertible notes due 2004	(1,025)	
Net cash and cash equivalents provided by financing activities	41,557	644
Effect of exchange rate changes on cash	3	(1)
Net decrease in cash and cash equivalents	(3,395)	(7,309)
Cash and cash equivalents at beginning of period	19,507	28,457
Cash and cash equivalents at end of period	\$ 16,112	\$ 21,148
Supplemental Schedule of Cash Flow Information		
Cash paid (received) for:		
Interest	\$ 33	\$ 1,987
Income tax refund	\$	\$ (214)
Other non-cash changes:		

Inventories transferred to property, plant and equipment	\$	706	\$
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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 provider and 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 September 25, 2004 and for the three- and nine-month periods ended September 25, 2004 and September 27, 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. The condensed balance sheet at December 31, 2003 has been derived from our audited financial statements at that date. 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.

The results for the three- and nine-month periods ended September 25, 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:

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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.

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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 September 25, 2004 and our condensed consolidated statement of operations for the three- and six-month periods ended September 25, 2004 (in thousands, except per share data):

	Condensed Consolidated Balance Sheet		
	As		
September 25, 2004	Previously Reported	Adjustments	As Restated
Trade and other accounts receivable	\$ 12,415	\$ (122)	\$ 12,293
Total current assets	65,396	(122)	65,274
Total assets	88,376	(122)	88,254
Accumulated other comprehensive income	219	8	227
Accumulated deficit	(22,518)	(130)	(22,648)
Total shareholder s equity	72,265	(122)	72,143

	Condensed Consolidated Statement of Operations		
	As		
Three months ended September 25, 2004	Previously Reported	Adjustments	As Restated
Net revenues	\$ 34,871	\$ 158	\$ 35,029
Cost of net revenues	28,496	123	28,619
Gross profit	6,375	35	6,410
Interest income and other, net	271	(7)	264
Net income (loss)	1,343	28	1,371
Net income (loss) per share basic	0.07		0.07
Net income (loss) per share diluted	0.07		0.07

	Condensed Consolidated Statement of Operations		
	As		
Nine months ended September 25, 2004	Previously Reported	Adjustments	As Restated
Net revenues	\$ 59,350	\$ (122)	\$ 59,228
Gross Profit	13,831	(122)	13,709
Interest income and other, net	824	(8)	816
Net income (loss)	(1,182)	(130)	(1,312)
Net income (loss) per share basic	(0.06)	(0.01)	(0.07)
Net income (loss) per share diluted	(0.06)	(0.01)	(0.07)

3. Concentrations

Historically, a significant portion of our revenues in any particular period has been attributable to sales to a limited number of customers. Our largest customers tend to change from period to period.

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

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

4. Inventories

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

	September 25, 2004	December 31, 2003
	(In thousands)	
Raw materials	\$ 5,790	\$ 3,306
Work-in-progress	3,794	4,371
Finished goods	8,846	5,431
	\$ 18,430	\$ 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 \$10.7 million and \$10.2 million at September 25, 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. Raw materials with no forecast requirements in that period are considered excess and inventory provisions are established to write those items down to zero net book value. Work-in-progress and finished goods inventories with no forecast requirements in that period are typically written down to the lower of cost or market. 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 nine months ended September 25, 2004, \$1.1 million was added to inventory reserves based on the quarterly analysis and \$449,000 of inventory was disposed of and charged to the reserve. A system in inventory with a value of \$706,000, net of a \$250,000 reserve, was transferred to fixed assets and capitalized. During the nine months ended September 27, 2003, \$942,000 was added to inventory reserves based on the quarterly analysis and \$74,000 of inventory was disposed of and charged to the reserve.

5. Employee Stock Plans

At September 25, 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.

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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		Nine Months Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
	(in thousands)			
	Restated		Restated	
Net income (loss), as reported	\$ 1,371	\$ (2,899)	\$ (1,312)	\$ (11,702)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(47)	(139)	(657)	(406)
Pro forma net income (loss)	\$ 1,324	\$ (3,038)	\$ (1,969)	\$ (12,108)
Basic and diluted loss per share:				
As reported	\$ 0.07	\$ (0.24)	\$ (0.07)	\$ (0.96)
Pro forma	\$ 0.06	\$ (0.25)	\$ (0.10)	\$ (0.99)

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.

On the condensed consolidated balance sheet, the short-term portion of the warranty provision is included in Other Accrued Liabilities, while the long-term portion is included in Other Long-Term Liabilities.

The following table displays the activity in the warranty provision account, for the three- and nine-month periods ending September 25, 2004 and September 27, 2003:

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
	(in thousands)			
	Restated		Restated	
Beginning balance	\$ 654	\$ 664	\$ 534	\$ 845
Expenditures incurred under warranties	(277)	(239)	(386)	(846)
Accruals for product warranties issued during the reporting period	1,321	50	1,815	241

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Adjustments to previously existing warranty accruals	(120)		(385)	235
Ending balance	\$ 1,578	\$ 475	\$ 1,578	\$ 475

The following table displays the balance sheet classification of the warranty provision account at September 25, 2004 and at December 31, 2003:

	September 25, 2004	December 31, 2003
	(In thousands)	
Other accrued liabilities	\$ 1,275	\$ 534
Other long-term liabilities	303	
Total warranty provision	\$ 1,578	\$ 534

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

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 consist 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. 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 September 25, 2004.

	September 25, 2004	December 31, 2003
	(in thousands)	
Amortized Principal Amount:		
Debt securities issued by US government agencies	\$ 25,071	\$
Corporate debt securities	6,686	
Total investments in debt securities	\$ 31,757	\$
Short-term investments	\$ 17,558	\$
Long-term investments	14,199	
Total investments in debt securities	\$ 31,757	\$

Table of Contents**INTEVAC, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Net Income (Loss) Per Share**

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

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
	(in thousands)			
	Restated		Restated	
Numerator:				
Numerator for basic income (loss) per share		income		
(loss) available to common stockholders	\$ 1,371	\$ (2,899)	\$ (1,312)	\$ (11,702)
Effect of dilutive securities:				
6 1/2% convertible notes (1)				
Numerator for diluted income (loss) per share		income		
(loss) available to common stockholders after assumed conversions	\$ 1,371	\$ (2,899)	\$ (1,312)	\$ (11,702)
Denominator:				
Denominator for basic income (loss) per share				
weighted-average shares	20,104	12,266	19,617	12,206
Effect of dilutive securities:				
Employee stock options (2)	283			
6 1/2% convertible notes (1)				
Dilutive potential common shares	283			
Denominator for diluted income (loss) per share		adjusted		
weighted-average shares and assumed conversions	20,387	12,266	19,617	12,206

(1) Diluted EPS for the three- and nine-month periods ended September 25, 2004 and September 27, 2003 exclude as converted treatment of the convertible notes, as their inclusion would be anti-dilutive. The number of as converted shares excluded for the nine-month period ended September 25, 2004 was 11,424 and the number of as converted shares excluded for the three- and nine-month periods ended September 27, 2003 was 4,269,983. \$29.4 million of the notes were converted in the fourth quarter of 2003 and the \$1.0 million balance of the notes was repaid in March 2004.

(2) Potentially dilutive securities, consisting of shares issuable upon exercise of employee stock options, are excluded from the calculation of diluted EPS as their effect would be anti-dilutive. The weighted average

number of employee stock options excluded for the three-month periods ended September 25, 2004 and September 27, 2003 was 822,980 and 1,785,904, respectively, and the number of employee stock options excluded for the nine-month periods ended September 25, 2004 and September 27, 2003 was 1,558,484 and 1,790,007, respectively.

10. Segment Reporting

Segment Description

We have two reportable operating segments: 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 thin-film disks which are used in hard disk drives. Our Imaging business

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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.

Included in corporate activities are general corporate expenses, less an allocation of corporate expenses to operating units equal to 3% of net revenues. Assets of corporate activities include unallocated cash and short-term investments, deferred income tax assets (which are fully reserved) and other assets.

Business Segment Net Revenues

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
	(in thousands)			
	Restated		Restated	
Equipment	\$ 32,636	\$ 4,963	\$ 52,192	\$ 17,776
Imaging	2,393	2,653	7,036	6,442
Total	\$ 35,029	\$ 7,616	\$ 59,228	\$ 24,218

Business Segment Profit & Loss

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
	(in thousands)			
	Restated		Restated	
Equipment	\$ 1,803	(969)	\$ 1,123	\$ (4,126)
Imaging	(905)	(912)	(2,736)	(3,933)
Corporate activities	365	(628)	(359)	(1,985)
Operating income (loss)	1,263	(2,509)	(1,972)	(10,044)
Interest expense	(41)	(522)	(53)	(1,547)
Interest income	173	39	405	204
Other income and expense, net	91	93	411	(315)
Income (loss) before income taxes	\$ 1,486	\$ (2,899)	\$ (1,209)	\$ (11,702)

Business Segment Assets

	Sept. 25, 2004	December 31, 2003
	(in thousands)	
	Restated	
Equipment	\$ 29,792	\$ 25,462
Imaging	7,247	7,702
Corporate activities	51,215	22,811
Total	\$ 88,254	\$ 55,975

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	Three Months Ended		Nine Months Ended Sept.	
	Sept. 25, 2004	Sept. 27, 2003	25, 2004	Sept. 27, 2003
	(in thousands)			
	Restated		Restated	
United States	\$ 6,086	\$ 3,238	\$ 19,912	\$ 7,846
Far East	28,678	4,378	38,771	16,366
Europe	265		545	
Rest of World				6
Total	\$ 35,029	\$ 7,616	\$ 59,228	\$ 24,218

11. Income Taxes

We did not accrue a tax provision for the three-month period ended September 25, 2004 as the profits for this period were offset by net operating loss carry-forwards. We did not accrue a tax benefit for either the nine-month period ended September 25, 2004 or the three- and nine-month periods ended September 27, 2003, due to the inability to realize additional refunds from loss carry-backs. We recorded \$115,000 of income tax expense during the three-month period ended September 25, 2004 related to a claim we received from the California Franchise Tax Board for a portion of income tax credits we claimed in prior years. During the nine-month period ended September 25, 2004, we also recorded a credit to income tax expense related to a revised estimate of 2003 taxes owed by our Singapore subsidiary. Our \$17.1 million deferred tax asset is fully offset by a \$17.1 million valuation allowance, resulting in a net deferred tax asset of zero at September 25, 2004.

12. Capital Transactions

During the nine-month period ending September 25, 2004, we completed a public offering of 4,750,000 shares of our common stock, of which 2,969,000 were newly issued and outstanding shares sold by us for net proceeds of \$41.6 million. A selling shareholder sold 1,781,000 shares in the offering. We also sold stock to our employees under Intevac's Stock Option and Employee Stock Purchase Plans. A total of 207,834 shares were issued under these plans during the nine-month period ending September 25, 2004, for which Intevac received \$1.0 million.

13. Financial Presentation

Certain prior year amounts in the Condensed Consolidated Financial Statements have been reclassified to conform to 2004 presentation.

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Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. We maintain a set of disclosure controls and procedures that are designed to ensure that information relating to Intevac, Inc. required to be disclosed in periodic filings under Securities Exchange Act of 1934, or Exchange Act, is recorded, processed, summarized and reported in a timely manner under the Exchange Act. In connection with the original filing of Form 10-Q for the quarter ended September 25, 2004, as required under Rule 13a-15(b) of the Exchange Act, an evaluation was carried out under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 25, 2004 to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

Subsequent to the period covered by this report, in connection with our preparation of the consolidated financial statements for the fiscal year ended December 31, 2004, management of the Company determined that the previously issued financial statements contained in the Company's Quarterly Reports on Form 10-Q for the quarter ended March 27, 2004, June 26, 2004 and September 25, 2004 should be restated to correct errors in those financial statements. This restatement is further discussed in Note 2, Restatement of Financial Statements to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q/A.

As a result, we are implementing a change in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) to remediate internal control deficiencies that led to the restatements noted above. Management has concluded that these internal control deficiencies constitute material weaknesses in our internal control over financial reporting. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Management identified the following material weaknesses in its assessment of the effectiveness of the Company's internal control over financial reporting. As of December 31, 2004, we concluded that we did not maintain effective controls over (1) aspects of the Imaging Business, (2) approval of inventory cycle count adjustments, and (3) documentation related to our quarterly review and approval of excess and obsolete inventory reserves. The Company's evaluation was as follows:

Imaging Business - 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. In addition, journal entries for revenue recognition and the related documentation were not subjected to adequate review and approval.

We also determined during the course of our year-end audit that firm fixed-price technology development contracts were not being accounted for in accordance with U.S. GAAP for firm fixed-price contracts. This would have resulted in an overstatement of revenue and operating profit had it not been discovered prior to the public release of our 2004 earnings. During the first quarter of 2005, we retrained our accounting staff in proper application of revenue recognition policies and implemented policies regarding analyzing contracts for proper revenue recognition accounting.

We determined during the course of our year-end audit that a receivable greater than one year old had not been reserved as a bad debt. During the fourth quarter of 2004, we implemented a bad debt policy that required receivables aged more than one year to be fully reserved. Our review did not include unbilled receivables and we did not establish the appropriate bad debt reserve. This would have resulted in an understatement of bad debt expense and an

overstatement of operating profit had it not been discovered prior to the public release of our earnings. We have changed our process for evaluating accounts receivable to ensure that all balances are reviewed for collectibility on a regular basis.

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Approval of Inventory Cycle Count Adjustments We routinely cycle count our stockroom inventories and make corrections to our inventory balances as a result of those cycle counts. We determined late in 2004 that the cycle count adjustments were being made, but without written approval by management as required by our internal control policies. Management authorization of cycle count adjustments is necessary to reduce the potential of an employee using a cycle count adjustment to conceal a theft of inventory. The requirement for the appropriate management approval of all cycle count adjustments was re-emphasized in December of 2004.

Documentation of Excess and Obsolete Inventory Reserve Calculation Review and Approval We determine, on a quarterly basis, the level of reserves required related to excess and obsolete inventory. Excess and obsolete inventory reserves are an estimate which requires significant judgment on the part of management. Our Chief Financial Officer reviews and approves these estimates on a quarterly basis. Given the significant nature of the estimate, we determined during the course of our internal controls evaluations that improved documentation of those reviews was needed. We will document the quarterly management reviews of excess and obsolete calculations beginning with the reviews performed in the first quarter of 2005.

Because of these material weaknesses, management has concluded that the Company did not maintain effective internal control over financial reporting at December 31, 2004, as well as at September 25, 2004, based on the criteria set forth in the COSO *Internal Control-Integrated Framework*.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report which is included in our Annual Report on Form 10-K for the year ended December 31, 2004.

Changes in internal controls. There was no change in our internal controls over financial reporting which was identified in connection with the evaluation required by Rule 13(a)-15(d) of the Exchange Act that occurred during our third quarter ended September 25, 2004 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 6. Exhibits

The following exhibits are filed herewith:

Number	Exhibit Description
31.1	Certification of President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to U.S.C. 1350 adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.

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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 10, 2005

By: /s/ KEVIN FAIRBAIRN

Kevin Fairbairn
President, Chief Executive Officer and
Director
(Principal Executive Officer)

Date: May 10, 2005

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)

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