

INTEVAC INC
Form 10-Q
October 28, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 27, 2014

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)

Delaware
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

On October 28, 2014, 23,226,146 shares of the Registrant's Common Stock, \$0.001 par value, were outstanding.

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

	September 27, 2014	December 31, 2013
	(Unaudited)	
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,714	\$ 20,121
Short-term investments	32,773	48,975
Trade and other accounts receivable, net of allowances of \$0 at both September 27, 2014 and at December 31, 2013	9,399	15,037
Inventories	23,109	22,762
Prepaid expenses and other current assets	1,791	1,237
Total current assets	88,786	108,132
Long-term investments	16,253	12,318
Restricted cash	1,000	
Property, plant and equipment, net	12,438	12,945
Intangible assets, net of amortization of \$4,187 at September 27, 2014 and \$3,485 at December 31, 2013	4,200	4,902
Deferred income taxes and other long-term assets	9,972	9,979
Total assets	\$ 132,649	\$ 148,276
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 4,601	\$ 4,011
Accrued payroll and related liabilities	4,327	5,034
Other accrued liabilities	6,258	3,263
Customer advances	1,798	3,743
Deferred income taxes	939	939
Total current liabilities	17,923	16,990
Other long-term liabilities	1,821	1,715
Stockholders' equity:		
Common stock, \$0.001 par value	23	24

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Additional paid-in capital	160,282	156,359
Treasury stock, 1,304 shares at September 27, 2014 and 241 shares at December 31, 2013	(9,163)	(1,688)
Accumulated other comprehensive income	699	725
Accumulated deficit	(38,936)	(25,849)
Total stockholders' equity	112,905	129,571
Total liabilities and stockholders' equity	\$ 132,649	\$ 148,276

Note: Amounts as of December 31, 2013 are derived from the December 31, 2013 audited consolidated financial statements.

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**INTEVAC, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended		Nine Months Ended	
	September 27,	September 28,	September 27,	September 28,
	2014	2013	2014	2013
	(Unaudited)			
	(In thousands, except per share amounts)			
Net revenues:				
Systems and components	\$ 12,293	\$ 15,991	\$ 37,652	\$ 38,111
Technology development	2,464	3,124	8,836	10,970
Total net revenues	14,757	19,115	46,488	49,081
Cost of net revenues:				
Systems and components	8,067	9,725	25,344	26,206
Technology development	1,875	2,495	6,308	8,638
Total cost of net revenues	9,942	12,220	31,652	34,844
Gross profit	4,815	6,895	14,836	14,237
Operating expenses:				
Research and development	3,986	4,250	12,817	16,192
Selling, general and administrative	4,913	5,627	16,074	16,834
Total operating expenses	8,899	9,877	28,891	33,026
Loss on divestiture				(208)
Loss from operations	(4,084)	(2,982)	(14,055)	(18,997)
Interest income and other, net	113	220	306	392
Loss before income taxes	(3,971)	(2,762)	(13,749)	(18,605)
Benefit from income taxes	412	17	662	1,184
Net loss	\$ (3,559)	\$ (2,745)	\$ (13,087)	\$ (17,421)
Net loss per share:				
Basic and diluted	\$ (0.15)	\$ (0.11)	\$ (0.55)	\$ (0.73)
Weighted average common shares outstanding:				
Basic and diluted	23,657	23,931	23,814	23,793

See accompanying notes to the condensed consolidated financial statements.

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INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(Unaudited)			
	(In thousands)			
Net loss	\$(3,559)	\$ (2,745)	\$(13,087)	\$ (17,421)
Other comprehensive income (loss), before tax				
Change in unrealized net loss on available-for-sale investments	(9)	60	(15)	(29)
Foreign currency translation gains (losses)	5	3	(11)	(7)
Other comprehensive income (loss), before tax	(4)	63	(26)	(36)
Income tax (expense) benefit related to items in other comprehensive income (loss)				
Other comprehensive income (loss), net of tax	(4)	63	(26)	(36)
Comprehensive loss	\$(3,563)	\$ (2,682)	\$(13,113)	\$ (17,457)

See accompanying notes to the condensed consolidated financial statements.

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INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended	
	September 27, 2014	September 28, 2013
	(Unaudited)	
	(In thousands)	
Operating activities		
Net loss	\$ (13,087)	\$ (17,421)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	3,495	3,280
Net amortization of investment premiums and discounts	505	655
Equity-based compensation	2,219	1,836
Change in the fair value of acquisition-related contingent consideration	19	(24)
Deferred income taxes	(417)	(1,013)
Loss on divestiture		208
Gain on disposal of equipment		(153)
Changes in operating assets and liabilities	5,313	4,285
Total adjustments	11,134	9,074
Net cash and cash equivalents used in operating activities	(1,953)	(8,347)
Investing activities		
Purchases of investments	(27,378)	(32,606)
Proceeds from sales and maturities of investments	39,125	31,736
Proceeds from sale of DeltaNu assets		500
Proceeds from sale of equipment	13	153
Increase in restricted cash	(1,000)	
Purchases of leasehold improvements and equipment	(2,300)	(928)
Net cash and cash equivalents provided by (used in) investing activities	8,460	(1,145)
Financing activities		
Common stock repurchases	(7,150)	
Payment of acquisition-related contingent consideration		(40)
Net proceeds from issuance of common stock	2,246	1,905
Net cash and cash equivalents provided by (used in) financing activities	(4,904)	1,865
Effect of exchange rate changes on cash	(10)	(8)
Net increase (decrease) in cash and cash equivalents	1,593	(7,635)
Cash and cash equivalents at beginning of period	20,121	24,261
Cash and cash equivalents at end of period	\$ 21,714	\$ 16,626

Non-cash investing activity

Finished goods inventory transferred to property, plant and equipment	\$	\$	1,551
See accompanying notes to the condensed consolidated financial statements.			

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INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

In the opinion of management, the unaudited interim condensed consolidated financial statements of Intevac, Inc. and its subsidiaries (Intevac or the Company) included herein have been prepared on a basis consistent with the December 31, 2013 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Intevac's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (2013 Form 10-K). Intevac's results of operations for the nine months ended September 27, 2014 are not necessarily indicative of future operating results.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

2. Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This ASU is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The amendments in this ASU will be effective for Intevac in the fourth quarter of fiscal 2016, with early adoption permitted. We are currently evaluating the impact of the adoption of this accounting standard update on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) which provides guidance for revenue recognition. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard will be effective for Intevac in the first quarter of fiscal 2017 using one of two retrospective application methods. Early adoption is not permitted. We are currently evaluating the impact of the adoption of this accounting standard update on our consolidated financial statements.

In April 2014, the FASB issued authoritative guidance that raises the threshold for a disposal transaction to qualify as a discontinued operation and requires additional disclosures about discontinued operations and disposals of individually significant components that do not qualify as discontinued operations. The authoritative guidance becomes effective prospectively for Intevac in the first quarter of fiscal 2015. Early adoption is permitted, but only for disposals that have not been reported in financial statements previously issued.

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

Inventories are stated at the lower of average cost or market and consist of the following:

	September 27, 2014	December 31, 2013
	(In thousands)	
Raw materials	\$ 12,157	\$ 13,005
Work-in-progress	4,985	8,196
Finished goods	5,967	1,561
	\$ 23,109	\$ 22,762