LYLE CORINNE H
Form 4
September 01, 2009

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL	
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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
LYLE CORINNE H

(Last) (First) (Middle)

EDWARDS LIFESCIENCES LLC, ONE EDWARDS WAY

(Street)

IRVINE, CA 92614

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
NEUROCRINE BIOSCIENCES INC [NBIX]

3. Date of Earliest Transaction (Month/Day/Year)
08/28/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative	2. Conversion	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if	4. Transaction	5. Number of Derivative	6. Date Exercisable and Expiration Date	7. Title and Amount of Underlying Securities

Security (Instr. 3)	or Exercise Price of Derivative Security		any (Month/Day/Year)	Code (Instr. 8)		Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		(Month/Day/Year)		(Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Option (right to buy)	$ 37.37	08/28/2009		D			12,000	06/25/2005	05/25/2015	Common Stock	12,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LYLE CORINNE H EDWARDS LIFESCIENCES LLC ONE EDWARDS WAY IRVINE, CA 92614	X			

Signatures

Margaret E. Valeur-Jensen, By Power of Attorney	09/01/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The option was cancelled by mutual agreement of the reporting person and Neurocrine Biosciences, Inc. The reporting person received $100 as total consideration for the cancellation.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ="bottom">$9 $18,037

Long-term investments:

Corporate bonds and medium-term notes

$3,576 $ $3 $3,573

U.S. treasury and agency securities

2,596 4 2,592

Total long-term investments	$6,172	$	$7	$6,165

Total cash, cash equivalents, and investments

$43,413 $2 $16 $43,399

December 31, 2016 Amortized
Cost Unrealized
Holding
Gains Unrealized
Holding
Losses Fair Value (in thousands)

Cash and cash equivalents:

Cash

$18,726 $ $ $18,726

Money market funds

8,317 8,317

Explanation of Responses:

Total cash and cash equivalents

$27,043 $ $ $27,043

Short-term investments:

Commercial paper

$1,992 $ $1 $1,991

Corporate bonds and medium-term notes

8,586 6 8,580

Municipal bonds

600 600

U.S. treasury and agency securities

6,432 1 6,431

Total short-term investments

$17,610 $ $8 $17,602

Long-term investments:

Corporate bonds and medium-term notes

$2,510 $ $11 $2,499

Municipal bonds

500 4 496

U.S. treasury and agency securities

597 1 598

Total long-term investments

$3,607 $1 $15 $3,593

Total cash, cash equivalents, and investments

$48,260 $1 $23 $48,238

Explanation of Responses:

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INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The contractual maturities of available-for-sale securities at September 30, 2017 are presented in the following table.

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$ 23,082	$ 23,075
Due after one through two years	6,172	6,165
	$ 29,254	$ 29,240

The following table provides the fair market value of Intevac s investments with unrealized losses that are not deemed to be other-than temporarily impaired as of September 30, 2017.

	September 30, 2017			
	In Loss Position for Less than 12 Months		In Loss Position for Greater than 12 Months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)			
Certificates of deposit	$ 1,249	$ 1	$	$
Corporate bonds and medium-term notes	5,882	7	1,200	1
Municipal bonds	504	1	497	2
U.S. treasury and agency securities	4,118	4		
	$ 11,753	$ 13	$ 1,697	$ 3

All prices for the fixed maturity securities including U.S. Treasury and agency securities, certificates of deposit, commercial paper, corporate bonds and municipal bonds are received from independent pricing services utilized by Intevac s outside investment manager. This investment manager performs a review of the pricing methodologies and inputs utilized by the independent pricing services for each asset type priced by the vendor. In addition, on at least an annual basis, the investment manager conducts due diligence visits and interviews with each pricing vendor to verify the inputs utilized for each asset class. The due diligence visits include a review of the procedures performed by each vendor to ensure that pricing evaluations are representative of the price that would be received for a security in an orderly sale. Any pricing where the input is based solely on a broker price is deemed to be a Level 3 price. Intevac uses the pricing data obtained from its outside investment manager as the primary input to make its assessments and determinations as to the ultimate valuation of the above-mentioned securities and has not made, during the periods presented, any material adjustments to such inputs.

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INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table represents the fair value hierarchy of Intevac s available-for-sale securities measured at fair value on a recurring basis as of September 30, 2017.

	Fair Value Measurements at September 30, 2017		
	Total	**Level 1**	**Level 2**
	(In thousands)		
Recurring fair value measurements:			
Available-for-sale securities			
Money market funds	$ 5,038	$ 5,038	$
U.S. treasury and agency securities	6,892	4,865	2,027
Certificates of deposit	4,498		4,498
Commercial paper	1,990		1,990
Corporate bonds and medium-term notes	9,821		9,821
Municipal bonds	1,001		1,001
Total recurring fair value measurements	$ 29,240	$ 9,903	$ 19,337

10. Derivative Instruments

The Company uses foreign currency forward contracts to mitigate variability in gains and losses generated from the re-measurement of certain monetary assets and liabilities denominated in foreign currencies and to offset certain operational exposures from the impact of changes in foreign currency exchange rates. These derivatives are carried at fair value with changes recorded in interest income and other income (expense), net in the condensed consolidated statements of operations. Changes in the fair value of these derivatives are largely offset by re-measurement of the underlying assets and liabilities. Cash flows from such derivatives are classified as operating activities. The derivatives have original maturities of approximately 30 days.

The following table summarizes the Company s outstanding derivative instruments on a gross basis as recorded in its condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016:

	Notional Amounts		Derivative Liabilities	
Derivative Instrument	**September 30, 2017**	**December 31, 2016**	**September 30, 2017**	**December 31, 2016**

			Balance Sheet Line	Fair Value	Balance Sheet Line	Fair Value
			(in thousands)			
Undesignated Hedges:						
Forward Foreign Currency Contracts	$ 1,418	$ 1,146	(a)	$ 2	(a)	$ 8
Total Hedges	$ 1,418	$ 1,146		$ 2		$ 8

(a) Other accrued liabilities

11. Equity

Stock Repurchase Program

On November 21, 2013, Intevac s Board of Directors approved a stock repurchase program authorizing up to $30.0 million in repurchases. At September 30, 2017, $1.5 million remains available for future stock repurchases under the repurchase program. Intevac did not make any stock repurchases during the three and nine months ended September 30, 2017 and October 1, 2016, respectively.

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INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Intevac records treasury stock purchases under the cost method using the first-in, first-out (FIFO) method. Upon reissuance of treasury stock, amounts in excess of the acquisition cost are credited to additional paid-in capital. If Intevac reissues treasury stock at an amount below its acquisition cost and additional paid-in capital associated with prior treasury stock transactions is insufficient to cover the difference between the acquisition cost and the reissue price, this difference is recorded against retained earnings.

Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income by component for the three and nine months ended September 30, 2017 and October 1, 2016, are as follows.

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Foreign currency	Unrealized holding losses on available-for-sale investments	Total	Foreign currency	Unrealized holding losses on available-for-sale investments	Total
	(In thousands)					
Beginning balance	$ 418	$ (19)	$ 399	$ 343	$ (22)	$ 321
Other comprehensive income before reclassification	39	5	44	114	8	122
Amounts reclassified from other comprehensive income						
Net current-period other comprehensive income	39	5	44	114	8	122
Ending balance	$ 457	$ (14)	$ 443	$ 457	$ (14)	$ 443

	Three Months Ended October 1, 2016			Nine Months Ended October 1, 2016		
	Foreign currency	Unrealized holding gains on available-for-sale investments	Total	Foreign currency	Unrealized holding gains on available-for-sale investments	Total

			(In thousands)			
Beginning balance	$ 474	$ 17	$ 491	$ 452	$ (40)	$ 412
Other comprehensive income (loss) before reclassification	(17)	(16)	(33)	5	41	46
Amounts reclassified from other comprehensive income						
Net current-period other comprehensive income (loss)	(17)	(16)	(33)	5	41	46
Ending balance	$ 457	$ 1	$ 458	$ 457	$ 1	$ 458

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INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Net Income (Loss) Per Share

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
	(In thousands, except per share amounts)			
Net income (loss)	$ 1,230	$ (481)	$ 4,159	$ (10,276)
Weighted-average shares basic	21,714	20,869	21,475	20,704
Effect of dilutive potential common shares	1,256		1,514	
Weighted-average shares diluted	22,970	20,869	22,989	20,704
Net income (loss) per share basic	$ 0.06	$ (0.02)	$ 0.19	$ (0.50)
Net income (loss) per share diluted	$ 0.05	$ (0.02)	$ 0.18	$ (0.50)

The following potentially dilutive securities were excluded (as common stock equivalents) from the computation of diluted net income (loss) per share for the periods presented as their effect would have been antidilutive:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
	(In thousands)			
Stock options to purchase common stock	826	2,743	834	2,743
RSUs		955		955
Employee stock purchase plan		82		82

13. Segment Reporting

Intevac s two reportable segments are: Thin-film Equipment and Photonics. Intevac s chief operating decision-maker has been identified as the President and CEO, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon Intevac s management organization structure as of September 30, 2017 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to the reportable segments disclosed.

Each reportable segment is separately managed and has separate financial results that are reviewed by Intevac s chief operating decision-maker. Each reportable segment contains closely related products that are unique to the particular segment. Segment operating profit is determined based upon internal performance measures used by the chief operating decision-maker.

Intevac derives the segment results from its internal management reporting system. The accounting policies Intevac uses to derive reportable segment results are substantially the same as those used for external reporting purposes. Management measures the performance of each reportable segment based upon several metrics, including orders, net revenues and operating income. Management uses these results to evaluate the performance of, and to assign resources to, each of the reportable segments. Intevac manages certain operating expenses separately at the corporate level. Intevac allocates certain of these corporate expenses to the segments in an amount equal to 3% of net revenues. Segment operating income excludes interest income/expense and other financial charges and income taxes according to how a particular reportable segment s management is measured. Management does not consider impairment charges, gains and losses on divestitures and sales of intellectual property, and unallocated costs in measuring the performance of the reportable segments.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The Thin-film Equipment segment designs, develops and markets vacuum process equipment solutions for high-volume manufacturing of small substrates with precise thin-film properties, such as for the hard drive, solar cell and DCP industries, as well as other adjacent thin-film markets.

The Photonics segment develops compact, cost-effective, high-sensitivity digital-optical products for the capture and display of low-light images. Intevac provides sensors, cameras and systems for government applications such as night vision.

Information for each reportable segment for the three and nine months ended September 30, 2017 and October 1, 2016 is as follows:

Net Revenues

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
	(In thousands)			
Thin-film Equipment	$ 17,177	$ 14,272	$ 61,087	$ 25,941
Photonics	9,549	8,287	26,990	25,201
Total segment net revenues	$ 26,726	$ 22,559	$ 88,077	$ 51,142

Operating Income (Loss)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
	(In thousands)			
Thin-film Equipment	$ 1,213	$ (998)	$ 4,821	$ (10,117)
Photonics	1,417	1,737	3,646	3,656
Total segment operating income (loss)	2,630	739	8,467	(6,461)
Unallocated costs	(1,362)	(1,063)	(3,768)	(3,986)
Income (loss) from operations	1,268	(324)	4,699	(10,447)

Interest income and other income (expense), net	28	60	265	184
Income (loss) before income taxes	$ 1,296	$ (264)	$ 4,964	$ (10,263)

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INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Total assets for each reportable segment as of September 30, 2017 and December 31, 2016 are as follows:

Assets

	September 30, 2017	December 31, 2016
	(In thousands)	
Thin-film Equipment	$ 52,620	$ 39,503
Photonics	16,563	16,071
Total segment assets	69,183	55,574
Cash, cash equivalents and investments	43,399	48,238
Restricted cash	1,400	1,602
Deferred income taxes	4	3
Other current assets	1,024	997
Common property, plant and equipment	1,698	1,039
Other assets	724	871
Consolidated total assets	$ 117,432	$ 108,324

14. Income Taxes

Intevac recorded income tax provisions of $66,000 and $805,000 for the three and nine months ended September 30, 2017, respectively, and $217,000 and $13,000 for the three and nine months ended October 1, 2016, respectively. The income tax provision for the nine months ended September 30, 2017 includes $506,000 for withholding taxes on royalties payable to the United States from Intevac s Singapore subsidiary and $200,000 for audit considerations in foreign jurisdictions, both recorded as discrete items. The income tax provisions for the three and nine month periods are based upon estimates of annual income (loss), annual permanent differences and statutory tax rates in the various jurisdictions in which Intevac operates. Intevac did not recognize benefits on the U.S. net operating loss for the three and nine month period ended September 30, 2017 due to having full valuation allowances on the U.S. deferred tax assets. Intevac did not recognize benefits on the U.S. net operating loss or on the Singapore net operating loss for the three and nine month period ended October 1, 2016 due to having full valuation allowances on the U.S. deferred tax assets and on the Singapore deferred tax assets. Intevac s tax rate differs from the applicable statutory rates due primarily to establishment of a valuation allowance, the utilization of deferred and current credits and the effect of permanent differences and adjustments of prior permanent differences. Intevac s future effective income tax rate depends on various factors, including the level of Intevac s projected earnings, the geographic composition of worldwide earnings, tax regulations governing each region, net operating loss carry-forwards, availability of tax credits and the effectiveness of Intevac s tax planning strategies. Management carefully monitors these factors and timely adjusts the effective income tax rate.

The Inland Revenue Authority of Singapore (IRAS) is currently conducting a review of the fiscal 2009 through 2012 tax returns of the Company s wholly-owned subsidiary, Intevac Asia Pte. Ltd. IRAS has challenged the Company s tax position with respect to certain aspects of the Company s transfer pricing. Under Singapore tax law, the Company must pay all contested taxes and the related interest to have the right to defend its position. The contested tax deposits of $724,000 at September 30, 2017 and $871,000 at December 31, 2016 are included in other long-term assets on the condensed consolidated balance sheets. The Company s management and its advisors continue to believe that the Company is more likely than not to successfully defend that the tax treatment was proper and in accordance with Singapore tax regulations. Presently, there are no other active income tax examinations in the jurisdictions where Intevac operates.

15. Contingencies

From time to time, Intevac may have certain contingent liabilities that arise in the ordinary course of its business activities. Intevac accounts for contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

This Quarterly Report on Form 10-Q contains forward-looking statements, which involve risks and uncertainties. Words such as believes, expects, anticipates and the like indicate forward-looking statements. These forward-looking statements include comments related to Intevac s shipments, projected revenue recognition, product costs, gross margin, operating expenses, interest income, income taxes, cash balances and financial results in 2017 and beyond; projected customer requirements for Intevac s new and existing products, and when, and if, Intevac s customers will place orders for these products; Intevac s ability to proliferate its Photonics technology into major military programs and to develop and introduce commercial imaging products; the timing of delivery and/or acceptance of the systems and products that comprise Intevac s backlog for revenue and the Company s ability to achieve cost savings. Intevac s actual results may differ materially from the results discussed in the forward-looking statements for a variety of reasons, including those set forth under Risk Factors and in other documents we file from time to time with the Securities and Exchange Commission, including our Annual Report on Form 10-K filed on February 15, 2017, and our periodic Form 10-Q s and Form 8-K s.

Overview

Intevac is a provider of vacuum deposition equipment for a wide variety of thin-film applications, and a leading provider of digital night-vision technologies and products to the defense industry. The Company leverages its core capabilities in high-volume manufacturing of small substrates to provide process manufacturing equipment solutions to the hard disk drive (HDD), display cover panel (DCP), and solar cell industries. Intevac also provides sensors, cameras and systems for government applications such as night vision. Intevac s customers include manufacturers of hard disk media, DCPs and solar cells as well as the U.S. government and its agencies, allies and contractors. Intevac reports two segments: Thin-film Equipment and Photonics.

Product development and manufacturing activities occur in North America and Asia. Intevac has field offices in Asia to support its Thin-film Equipment customers. Intevac s products are highly technical and are sold primarily through Intevac s direct sales force. Intevac also sells its products through distributors in Japan and China.

Intevac s results are driven by a number of factors including success in its equipment growth initiatives in the DCP and solar markets and by worldwide demand for HDDs. Demand for HDDs depends on the growth in digital data creation and storage, the rate of areal density improvements, the end-user demand for PCs, enterprise data storage, nearline cloud applications, video players and video game consoles that include such drives. Intevac continues to execute its strategy of equipment diversification into new markets by introducing new products, such as for a thin-film physical vapor deposition (PVD) application for protective coating for DCP manufacturing and a thin-film PVD application for PV solar cell manufacturing. Intevac believes that expansion into these markets will result in incremental equipment revenues for Intevac and decrease Intevac s dependence on the HDD industry. Intevac s equipment business is subject to cyclical industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for HDDs, cell phones, and PV cells as well as other factors such as global economic conditions and technological advances in fabrication processes.

The following table presents certain significant measurements for the three and nine months ended September 30, 2017 and October 1, 2016:

	Three months ended			Nine months ended		
	September 30, 2017	October 1, 2016	Change over prior period	September 30, 2017	October 1, 2016	Change over prior period
	(In thousands, except percentages and per share amounts)					
Net revenues	$ 26,726	$ 22,559	$ 4,167	$ 88,077	$ 51,142	$ 36,935
Gross profit	$ 11,298	$ 8,515	$ 2,783	$ 35,816	$ 18,497	$ 17,319
Gross margin percent	42.3%	37.7%	4.6 points	40.7%	36.2%	4.5 points
Income (loss) from operations	$ 1,268	$ (324)	$ 1,592	$ 4,699	$ (10,447)	$ 15,146
Net income (loss)	$ 1,230	$ (481)	$ 1,711	$ 4,159	$ (10,276)	$ 14,435
Net income (loss) per diluted share	$ 0.05	$ (0.02)	$ 0.07	$ 0.18	$ (0.50)	$ 0.68

Net revenues for the third quarter of fiscal 2017 increased compared to the same period in the prior year primarily due to higher technology upgrade and spare parts sales to HDD manufacturers and to higher Photonics product sales and higher Photonics contract research and development (R&D). Thin-film Equipment recognized revenue on two 200 Lean® HDD systems in both the third quarter of fiscal 2017 and third quarter of fiscal 2016. Thin-film Equipment also recognized revenue on one pilot ENERG*i* solar ion implant system in the third quarter of fiscal 2016. Net income for the third quarter of fiscal 2017 increased compared to the same period in the prior year due to higher revenues and higher gross profit offset in part by higher spending on research and development and higher selling, general and administrative expenses as the Company recorded higher variable compensation expenses as a result of the return to profitability.

Net revenues for the first nine months of fiscal 2017 increased compared to the same period in the prior year primarily due to higher equipment sales to HDD, PV and cell phone manufacturers, higher Photonics contract R&D and by higher Photonics product sales. Thin-film Equipment recognized revenue in the first nine months of fiscal 2017 on four 200 Lean HDD systems, one pilot INTEVAC MATRIX solar ion implant system, two ENERG*i* solar ion implant systems and four INTEVAC VERTEX coating systems for DCP. Thin-film Equipment recognized revenue in the first nine months of fiscal 2016 on two 200 Lean HDD systems, one pilot ENERG*i* solar ion implant system and one VERTEX system. The net income for the first nine months of fiscal 2017 increased compared to the same period in the prior year due to higher revenues, higher gross profit, and lower spending on research and development offset in part by higher selling, general and administrative expenses as the Company recorded higher variable compensation expenses as a result of the return to profitability and higher legal fees related to patents and contracts.

Given the momentum we have built in our business, we believe that we are currently on the path to profitability in fiscal 2017. Intevac expects higher sales of new Thin-film Equipment products for DCP and PV and higher sales of HDD equipment. For fiscal 2017, Intevac expects that Photonics business levels will be at about the same levels as 2016 as Photonics continues to deliver production shipments of the pilot night-vision systems for the Apache helicopter and night-vision camera modules for the F35 Joint Strike Fighter program. Deliveries under the current multi-year Apache arrangement are expected to be completed in the fourth quarter of 2017.

Intevac s trademarks, include the following: 200 Lean®, AccuLuber , EBAIS®, ENERG*i* , I-Port , LIVAR®, INTEVAC LSMA , INTEVAC MATRIX , MicroVista®, NightVista®, Night Port , oDLC and INTEVAC VERTEX .

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Results of Operations

Net revenues

	Three months ended			Nine months ended		
	September 30, 2017	October 1, 2016	Change over prior period	September 30, 2017	October 1, 2016	Change over prior period
	(In thousands)					
Thin-film Equipment	$ 17,177	$ 14,272	$ 2,905	$ 61,087	$ 25,941	$ 35,146
Photonics:						
Products	$ 7,360	$ 6,689	$ 671	$ 21,735	$ 21,385	$ 350
Contract R&D	2,189	1,598	591	5,255	3,816	1,439
	9,549	8,287	1,262	26,990	25,201	1,789
Total net revenues	$ 26,726	$ 22,559	$ 4,167	$ 88,077	$ 51,142	$ 36,935

Thin-film Equipment revenue for the three months ended September 30, 2017 increased over the same period in the prior year as a result of higher sales of technology upgrades and spare parts. Thin-film Equipment revenue for the three months ended September 30, 2017 included revenue recognized for two 200 Lean HDD systems. Thin-film Equipment revenue for the three months ended October 1, 2016 included two 200 Lean systems and a pilot ENERG*i* solar ion implant tool. Thin-film Equipment revenue for the nine months ended September 30, 2017 increased over the same period in the prior year as a result of higher sales of systems, technology upgrades, service and spare parts. Thin-film Equipment recognized revenue in the first nine months of fiscal 2017 on four 200 Lean HDD systems, one pilot MATRIX solar ion implant system, two ENERG*i* solar ion implant systems and four VERTEX coating systems for DCP. Thin-film Equipment recognized revenue in the first nine months of fiscal 2016 on two 200 Lean HDD systems, one pilot ENERG*i* solar ion implant system and one VERTEX system.

Photonics revenue for the three and nine month periods ended September 30, 2017 increased from the same periods in the prior year as a result of higher product sales revenues and by increased contract R&D work.

Backlog

	September 30, 2017	December 31, 2016	October 1, 2016
	(In thousands)		
Thin-film Equipment	$ 59,375	$ 46,283	$ 49,234
Photonics	13,457	22,244	23,703
Total backlog	$ 72,832	$ 68,527	$ 72,937

Thin-film Equipment backlog at September 30, 2017 included five 200 Lean HDD systems and twelve ENERG*i* solar ion implant systems. Thin-film Equipment backlog at December 31, 2016 included four 200 Lean HDD systems, four

VERTEX systems for DCP, one pilot MATRIX solar ion implant system, and two ENERG*i* solar ion implant systems. Thin-film Equipment backlog at October 1, 2016 included four 200 Lean HDD systems, one MATRIX solar PVD system, three VERTEX systems for DCP, one pilot MATRIX solar ion implant system, and two ENERG*i* solar ion implant systems.

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Revenue by geographic region

	Three months ended			Nine months ended		
	September 30, 2017	October 1, 2016	Change over prior period	September 30, 2017	October 1, 2016	Change over prior period
	(In thousands)					
United States	$ 10,294	$ 9,066	$ 1,228	$ 29,879	$ 27,603	$ 2,276
Asia	15,807	13,311	2,496	57,062	22,801	34,261
Europe	94	182	(88)	605	738	(133)
Rest of World	531		531	531		531
Total net revenues	$ 26,726	$ 22,559	$ 4,167	$ 88,077	$ 51,142	$ 36,935

International sales include products shipped to overseas operations of U.S. companies. The increase in sales to the U.S. region in 2017 versus 2016 reflected higher Photonics contract R&D work and higher Photonics product sales. The increase in sales to the Asia region in 2017 versus 2016 reflected higher system sales. Sales to the Asia region in 2017 included four 200 Lean HDD systems, four VERTEX coating systems for DCP, one pilot MATRIX solar ion implant system and two ENERG*i* solar ion implant systems versus two 200 Lean HDD systems, one pilot ENERG*i* solar ion implant tool one and VERTEX coating system in 2016. Sales to the Europe region in 2017 and 2016 were not significant. Rest of World includes contract R&D for the Australian government as part of a program under the Department of Defense s Coalition Warfare Program, which is funded by the U.S. government and several foreign nation coalition partners.

Gross profit

	Three months ended			Nine months ended		
	September 30, 2017	October 1, 2016	Change over prior period	September 30, 2017	October 1, 2016	Change over prior period
	(In thousands, except percentages)					
Thin-film Equipment gross profit	$ 7,812	$ 4,628	$ 3,184	$ 25,686	$ 7,337	$ 18,349
% of Thin-film Equipment net revenues	45.5%	32.4%		42.0%	28.3%	
Photonics gross profit	$ 3,486	$ 3,887	$ (401)	$ 10,130	$ 11,160	$ (1,030)
% of Photonics net revenues	36.5%	46.9%		37.5%	44.3%	
Total gross profit	$ 11,298	$ 8,515	$ 2,783	$ 35,816	$ 18,497	$ 17,319
% of net revenues	42.3%	37.7%		40.7%	36.2%	

Cost of net revenues consists primarily of purchased materials and costs attributable to contract research and development, and also includes fabrication, assembly, test and installation labor and overhead, customer-specific engineering costs, warranty costs, royalties, provisions for inventory reserves and scrap.

Thin-film Equipment gross margin was 45.5% in the three months ended September 30, 2017 compared to 32.4% in the three months ended October 1, 2016 and was 42.0% in the nine months ended September 30, 2017 compared to

28.3% in the nine months ended October 1, 2016. The improvement in gross margin for the three and nine months ended September 30, 2017 was due primarily to higher revenue, increased shipments of higher-margin upgrades and higher factory utilization. Thin-film Equipment gross margin for the nine months ended September 30, 2017 reflects the release of $2.2 million on previously-recognized inventory provisions upon the sale of two ENERG*i* solar ion implant systems, offset in part by the lower margin on the pilot MATRIX solar ion implant system. Gross margin for the three and nine months ended October 1, 2016 reflected the lower margin on a pilot ENERG*i* solar implant tool sold to an R&D facility. Gross margins in the Thin-film Equipment business will vary depending on a number of factors, including product mix, product cost, system configuration and pricing, factory utilization, and provisions for excess and obsolete inventory.

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Photonics gross margin was 36.5% in the three months ended September 30, 2017 compared to 46.9% in the three months ended October 1, 2016 and was 37.5% in the nine months ended September 30, 2017 compared to 44.3% in the nine months ended October 1, 2016. The decline in gross margin for the three months ended September 30, 2017 was due to lower margins on contract R&D, higher inventory provisions and higher manufacturing engineering spending. The lower gross margin for the nine months ended September 30, 2017 was due to loss provisions recorded on firm fixed price contracts, higher inventory provisions and higher manufacturing engineering spending. Gross margins in the Photonics business will vary depending on a number of factors, including sensor yield, product mix, product cost, pricing, factory utilization, provisions for warranty and inventory reserves.

Research and development

	Three months ended			Nine months ended		
	September 30, 2017	October 1, 2016	Change over prior period	September 30, 2017	October 1, 2016	Change over prior period
	(In thousands)					
Research and development expense	$ 4,535	$ 4,067	$ 468	$ 13,635	$ 14,220	$ (585)

Research and development spending in Thin-film Equipment during the three and nine months ended September 30, 2017 increased compared to the same periods in the prior year. Thin-film Equipment spending consisted primarily of PV and DCP development. Research and development spending decreased in Photonics during the three and nine months ended September 30, 2017 as compared to the same periods in the prior year. Photonics spending during the three and nine months ended October 1, 2016 reflected incremental spending on demonstrators developed for evaluation by the U.S. Army and U.S. Navy which were self-funded by Intevac. Research and development expenses do not include costs of $2.0 million and $4.8 million for the three and nine months ended September 30, 2017 respectively, or $1.0 million and $3.2 million for the three and nine months ended October 1, 2016 respectively, which are related to customer-funded contract R&D programs at Photonics and therefore included in cost of net revenues.

Selling, general and administrative

	Three months ended			Nine months ended		
	September 30, 2017	October 1, 2016	Change over prior period	September 30, 2017	October 1, 2016	Change over prior period
	(In thousands)					
Selling, general and administrative expense	$ 5,495	$ 4,772	$ 723	$ 17,482	$ 14,724	$ 2,758

Selling, general and administrative expense consists primarily of selling, marketing, customer support, financial and management costs. Selling, general and administrative expenses for the three and nine months ended September 30, 2017 increased compared to the same periods in the prior year primarily due to higher variable compensation costs as a result of the Company s return to profitability, increased legal expenses for patent applications and increased spending for strategic consulting. Selling, general and administrative expense for the three months ended September 30, 2017 is net of a benefit of $283,000 compared to a charge of $52,000 for the three months ended October 1, 2016 associated with changes in the fair value of the contingent consideration related to a revenue earnout obligation. Selling, general and administrative expense for the nine months ended September 30, 2017 is net of a benefit of $181,000 compared to a benefit of $90,000 for the nine months ended October 1, 2016 associated with changes in the fair value of the contingent consideration related to the revenue earnout obligation.

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Interest income and other income (expense), net

	Three months ended			Nine months ended		
	September 30, 2017	October 1, 2016	Change over prior period	September 30, 2017	October 1, 2016	Change over prior period
	(In thousands)					
Interest income and other income (expense), net	$ 28	$ 60	$ (32)	$ 265	$ 184	$ 81

Interest income and other income (expense), net is comprised of interest income, foreign currency gains and losses, and other income and expense such as gains and losses on sales of fixed assets and earnout income from divestitures.

Provision for income taxes

	Three months ended			Nine months ended		
	September 30, 2017	October 1, 2016	Change over prior period	September 30, 2017	October 1, 2016	Change over prior period
	(In thousands)					
Provision for income taxes	$ 66	$ 217	$ (151)	$ 805	$ 13	$ 792

Intevac recorded income tax provisions of $66,000 and $805,000 for the three and nine months ended September 30, 2017, respectively, and $217,000 and $13,000 for the three and nine months ended October 1, 2016, respectively. The income tax provision for the nine months ended September 30, 2017 includes $506,000 for withholding taxes on royalties payable to the United States from Intevac s Singapore subsidiary and $200,000 for audit considerations in foreign jurisdictions, both recorded as discrete items. The income tax provisions for the three and nine month periods are based upon estimates of annual income (loss), annual permanent differences and statutory tax rates in the various jurisdictions in which Intevac operates. Intevac did not recognize benefits on the U.S. net operating loss for the three and nine month period ended September 30, 2017 due to having full valuation allowances on the U.S. deferred tax assets. Intevac did not recognize benefits on the U.S. net operating loss or on the Singapore net operating loss for the three and nine month period ended October 1, 2016 due to having full valuation allowances on the U.S. deferred tax assets and on the Singapore deferred tax assets. Intevac s tax rate differs from the applicable statutory rates due primarily to establishment of a valuation allowance, the utilization of deferred and current credits and the effect of permanent differences and adjustments of prior permanent differences. Intevac s future effective income tax rate depends on various factors, including the level of Intevac s projected earnings, the geographic composition of worldwide earnings, tax regulations governing each region, net operating loss carry-forwards, availability of tax credits and the effectiveness of Intevac s tax planning strategies. Management carefully monitors these factors and timely adjusts the effective income tax rate.

Liquidity and Capital Resources

At September 30, 2017, Intevac had $43.4 million in cash, cash equivalents, and investments compared to $48.2 million at December 31, 2016. During the first nine months of 2017, cash, cash equivalents and investments decreased by $4.8 million due primarily to cash used by operating activities, purchases of fixed assets and tax payments related to the net share settlement of restricted stock units, partially offset by cash received from the sale of

Intevac common stock to Intevac s employees through Intevac s employee benefit plans.

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Cash, cash equivalents and investments consist of the following:

	September 30, 2017	December 31, 2016
	(In thousands)	
Cash and cash equivalents	$ 19,197	$ 27,043
Short-term investments	18,037	17,602
Long-term investments	6,165	3,593
Total cash, cash equivalents and investments	$ 43,399	$ 48,238

Operating activities used cash of $1.7 million during the first nine months of 2017 and used cash of $3.1 million during the first nine months of 2016. The improvement in operating cash flows was due primarily to higher net income as a result of the return to profitability, offset in part by additional investments in working capital during the first nine months of 2017.

Accounts receivable totaled $22.3 million at September 30, 2017 compared to $17.4 million at December 31, 2016 primarily as a result of billings for third quarter revenue and customer advances. At September 30, 2017, customer advances for products that had not been shipped to customers and included in accounts receivable were $4.0 million. Net inventories totaled $32.6 million at September 30, 2017 compared to $24.9 million at December 31, 2016. The increase was due primarily to three Energ*i* systems that were undergoing installation and acceptance testing and included in finished goods at September 30, 2017 and higher levels of production inventories for planned 2017 and 2018 shipments, offset in part by recognition of previously deferred revenue on four VERTEX systems and two Energ*i* systems that were undergoing installation and acceptance testing and included in finished goods at December 31, 2016. Accounts payable totaled $7.0 million at September 30, 2017 compared to $5.3 million at December 31, 2016. The increase was due primarily to increased materials purchases to support planned shipments. Accrued payroll and related liabilities increased to $5.8 million at September 30, 2017 compared to $4.2 million at December 31, 2016 due primarily to higher accruals for 2017 bonuses and profit sharing due to the return to profitability, offset in part by the settlement of 2016 bonuses. Other accrued liabilities decreased to $7.9 million at September 30, 2017 compared to $17.0 million at December 31, 2016 due primarily to the recognition of previously deferred revenue. Customer advances increased from $5.4 million at December 31, 2016 to $12.3 million at September 30, 2017, primarily due to the receipt of new customer orders.

Investing activities used cash of $6.4 million during the first nine months of 2017. Purchases of investments net of proceeds from sales totaled $3.1 million. Capital expenditures for the nine months ended September 30, 2017 were $3.6 million.

Financing activities generated cash of $182,000 in the first nine months of 2017. The sale of Intevac common stock to Intevac s employees through Intevac s employee benefit plans generated cash of $2.3 million. Tax payments related to the net share settlement of restricted stock units were $2.0 million.

Intevac s investment portfolio consists principally of investment grade money market mutual funds, U.S. Treasury and agency securities, certificates of deposit, commercial paper, municipal bonds and corporate bonds. Intevac regularly monitors the credit risk in its investment portfolio and takes measures, which may include the sale of certain securities, to manage such risks in accordance with its investment policies.

As of September 30, 2017, approximately $10.9 million of cash and cash equivalents and $3.3 million of short-term investments were domiciled in foreign tax jurisdictions. Intevac expects a significant portion of these funds to remain offshore in the short term. If the Company chose to repatriate these funds to the United States, it would be required to accrue and pay additional taxes on any portion of the repatriation where no United States income tax had been previously provided.

Intevac believes that its existing cash, cash equivalents and investments will be sufficient to meet its cash requirements for the foreseeable future. Intevac intends to undertake approximately $2.0 million to $3.0 million in capital expenditures during the remainder of 2017.

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Off-Balance Sheet Arrangements

Off-balance sheet firm commitments relating to outstanding letters of credit amounted to approximately $1.4 million as of September 30, 2017. These letters of credit and bank guarantees are collateralized by $1.4 million of restricted cash. We do not maintain any other off-balance sheet arrangements, transactions, obligations, or other relationships that would be expected to have a material current or future effect on the consolidated financial statements.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make judgments, assumptions and estimates that affect the amounts reported. Intevac s significant accounting policies are described in Note 1 to the consolidated financial statements included in Item 8 of Intevac s Annual Report on Form 10-K filed on February 15, 2017. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

A critical accounting policy is defined as one that is both material to the presentation of Intevac s financial statements and requires management to make difficult, subjective or complex judgments that could have a material effect on Intevac s financial conditions and results of operations. Specifically, critical accounting estimates have the following attributes: 1) Intevac is required to make assumptions about matters that are highly uncertain at the time of the estimate; and 2) different estimates Intevac could reasonably have used, or changes in the estimate that are reasonably likely to occur, would have a material effect on Intevac s financial condition or results of operations.

Estimates and assumptions about future events and their effects cannot be determined with certainty. Intevac bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as Intevac s operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they become known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. Many of these uncertainties are discussed in the section below entitled Risk Factors. Based on a critical assessment of Intevac s accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that Intevac s consolidated financial statements are fairly stated in accordance with US GAAP, and provide a meaningful presentation of Intevac s financial condition and results of operation.

For further information about Intevac s other critical accounting policies, see the discussion of critical accounting policies in Intevac s 2016 Form 10-K. Beginning January 1, 2017, Intevac accounts for forfeitures on stock-based compensation as they occur, rather than estimate expected forfeitures. Except for the change in accounting policy for the timing of recognition of forfeitures, management believes that there have been no significant changes during the nine months ended September 30, 2017 to the items identified as critical accounting policies in Intevac s 2016 Form 10-K.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Interest rate risk. Intevac s exposure to market risk for changes in interest rates relates primarily to its investment portfolio. Intevac does not use derivative financial instruments in Intevac s investment portfolio. The Company has adopted an investment policy and established guidelines relating to credit quality, diversification and maturities of its investments in order to preserve principal and maintain liquidity. All investment securities in Intevac s portfolio have an investment grade credit rating. Investments typically consist of certificates of deposit, commercial paper, obligations of the U.S. government and its agencies, corporate debt securities and municipal bonds.

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The table below presents principal amounts and related weighted-average interest rates by year of expected maturity for Intevac s investment portfolio at September 30, 2017.

	2017	2018	2019	Total	Fair Value
	(In thousands, except percentages)				
Cash equivalents Variable rate amounts	$ 5,038	$	$	$ 5,038	$ 5,038
Weighted-average rate	0.93%				
Short-term investments Fixed rate amounts	$ 6,247	$ 11,797	$	$ 18,044	$ 18,037
Weighted-average rate	1.49%	1.37%			
Long-term investments Fixed rate amounts	$	$ 598	$ 5,574	$ 6,172	$ 6,165
Weighted-average rate		1.00%	1.87%		
Total investment portfolio	$ 11,285	$ 12,395	$ 5,574	$ 29,254	$ 29,240

Foreign exchange risk. From time to time, Intevac enters into foreign currency forward exchange contracts to hedge certain of its anticipated foreign currency re-measurement exposures and to offset certain operational exposures from the impact of changes in foreign currency exchange rates. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on Intevac s operating results. The derivatives have original maturities of approximately 30 days. The notional amount of Company s foreign currency derivatives was $1.4 million at September 30, 2017 and $1.1 million at December 31, 2016.

Item 4. ***Controls and Procedures***

Evaluation of disclosure controls and procedures

Intevac maintains a set of disclosure controls and procedures that are designed to ensure that information relating to Intevac required to be disclosed in periodic filings under the 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 filing of this Form 10-Q for the quarter ended September 30, 2017, 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 (the CEO and CFO), of the effectiveness of Intevac s disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation, Intevac s Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2017.

Attached as exhibits to this Quarterly Report are certifications of the CEO and the CFO, which are required in accordance with Rule 13a-14 of the Exchange Act. This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Definition of disclosure controls

Disclosure Controls are controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure Controls are also designed to ensure that such information is accumulated and communicated to our management, including the

CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our Disclosure Controls include components of our internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the U.S. To the extent that components of our internal control over financial reporting are included within our Disclosure Controls, they are included in the scope of our quarterly controls evaluation.

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Limitations on the effectiveness of controls

Intevac s management, including the CEO and CFO, does not expect that Intevac s Disclosure Controls or Intevac s internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Intevac have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in internal controls over financial reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, Intevac s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

From time to time, Intevac is involved in claims and legal proceedings that arise in the ordinary course of business. Intevac expects that the number and significance of these matters will increase as Intevac s business expands. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources, or require us to enter into royalty or licensing agreements which, if required, may not be available on terms favorable to us or at all. Intevac is not presently a party to any lawsuit or proceeding that, in Intevac s opinion, is likely to seriously harm Intevac s business.

Item 1A. *Risk Factors*

The following factors could materially affect Intevac s business, financial condition or results of operations and should be carefully considered in evaluating the Company and its business, in addition to other information presented elsewhere in this report.

The industries we serve are cyclical, volatile and unpredictable.

A significant portion of our revenue is derived from the sale of equipment used to manufacture commodity technology products such as disk drives, PV solar cells and cell phones. This subjects us to business cycles, the timing, length and volatility of which can be difficult to predict. When demand for commodity technology products exceeds production capacity, then demand for new capital equipment such as ours tends to be amplified. Conversely, when supply of commodity technology products exceeds demand, then demand for new capital equipment such as ours tends to be depressed. For example, sales of systems for magnetic disk production were depressed from late 2007 through 2009. The number of new systems delivered increased in 2010 as customers increased their production capacity in response to increased demand for data storage, but decreased in 2011 through 2015 as the hard disk drive industry did not add the same level of capacity that it did in 2010. We cannot predict with any certainty when these cycles will begin or end. Our sales of systems for magnetic disk production increased modestly in 2016 as a customer upgraded the technology level of its manufacturing capacity. 2017 sales of systems for magnetic disk production to date have been higher than 2016 levels, and we anticipate the trend will continue for the remainder of 2017.

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Our equipment represents only a portion of the capital expenditure that our customers incur when they upgrade or add production capacity. Accordingly, our customers generally commit to making large capital expenditures far in excess of the cost of our systems alone when they decide to purchase our systems. The magnitude of these capital expenditures requires our customers to have access to large amounts of capital. Our customers generally reduce their level of capital investment during downturns in the overall economy or during a downturn in their industries.

In recent years the photovoltaic (solar) market has undergone a downturn, which is likely to impact our sales of PV equipment. The solar industry from time to time experiences periods of structural imbalance between supply and demand. And such periods put intense pressure on our customers pricing. The solar industry is currently in such a period. Competition in solar markets globally and across the solar value chain is intense, and could remain that way for an extended period of time. During any such period, solar module manufacturers may reduce their sales prices in response to competition, even below their manufacturing costs, in order to generate sales and may do so for a sustained period of time. As a result, our customers may be unable to sell their solar modules or systems at attractive prices or for a profit during a period of excess supply of solar modules, which would adversely affect their results of operations and their ability to make capital investments such as purchasing our products.

We must effectively manage our resources and production capacity to meet rapidly changing demand. Our business experiences rapid growth and contraction, which stresses our infrastructure, internal systems and managerial resources. During periods of increasing demand for our products, we must have sufficient manufacturing capacity and inventory to meet customer demand; attract, retain and motivate a sufficient number of qualified individuals; and effectively manage our supply chain. During periods of decreasing demand for our products, we must be able to align our cost structure with prevailing market conditions; motivate and retain key employees and effectively manage our supply chain.

Sales of our equipment are primarily dependent on our customers upgrade and capacity expansion plans and whether our customers select our equipment.

We have no control over our customers upgrade and capacity expansion plans, and we cannot be sure they will select, or continue to select, our equipment when they upgrade or expand their capacity. The sales cycle for our equipment systems can be a year or longer, involving individuals from many different areas of Intevac and numerous product presentations and demonstrations for our prospective customers. Our sales process also commonly includes production of samples and customization of our products. We do not typically enter into long-term contracts with our customers, and until an order is actually submitted by a customer there is no binding commitment to purchase our systems.

Sales of new manufacturing systems are also dependent on obsolescence and replacement of the installed base of our customers existing equipment with newer, more capable equipment. If upgrades are developed that extend the useful life of the installed base of systems, then we tend to sell more upgrade products and fewer new systems, which can significantly reduce total revenue. For example, some of our 200 Lean customers continue to use legacy systems for the production of perpendicular media, which delayed the replacement of such systems with new 200 Lean systems.

Our 200 Lean customers also experience competition from companies that produce alternative storage technologies like flash memory, which offer smaller size, lower power consumption and more rugged designs. These storage technologies are being used increasingly in enterprise applications and smaller form factors such as tablets, smart-phones, ultra-books, and notebook PCs instead of hard disk drives. Tablet computing devices and smart-phones have never contained, nor are they likely in the future to contain, a disk drive. Products using alternative technologies, such as flash memory, optical storage and other storage technologies are becoming increasingly common and could become a significant source of competition to particular applications of the products of our 200 Lean customers, which could adversely affect our results of operations. If alternative technologies, such as flash memory, replace hard disk drives as a significant method of digital storage, then demand for our hard disk manufacturing products would decrease.

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The Photonics business is also subject to long sales cycles because many of its products, such as our military imaging products, often must be designed into the customers end products, which are often complex state-of-the-art products. These development cycles are typically multi-year, and our sales are contingent on our customers successfully integrating our product into their product, completing development of their product and then obtaining production orders for their product from the U.S. government or its allies.

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 experience competition primarily from Canon Anelva, which has sold a substantial number of systems worldwide. In the PV equipment market, Intevac faces competition from large established competitors including Applied Materials, Centrotherm Photovoltaics, Amtech, Jusung and Von Ardenne. In the market for our military imaging products we experience competition from companies such as Harris Corporation and L-3 Communications. Some of our competitors have substantially greater financial, technical, marketing, manufacturing and other resources than we do, especially in the DCP and PV equipment markets. Our competitors may develop enhancements to, or future generations of, competitive products that offer superior price or performance features, and new competitors may enter our markets and develop such enhanced products. Moreover, 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.

Our growth depends on development of technically advanced new products and processes.

We have invested heavily, and continue to invest, in the development of new products, such as our 200 Lean and other PVD systems, our coating systems for DCP, our solar systems for PV applications, our digital night-vision products and our near-eye display products. Our success in developing and selling new products depends upon a variety of factors, including our ability to: predict future customer requirements; make technological advances; achieve a low total cost of ownership for our products; introduce new products on schedule; manufacture products cost-effectively including transitioning production to volume manufacturing; commercialize and attain customer acceptance of our products; and achieve acceptable and reliable performance of our new products in the field. Our new product decisions and development commitments must anticipate continuously evolving industry requirements significantly in advance of sales. In addition, we are attempting to expand into new or related markets, including the PV and cell phone cover glass markets. Our expansion into the PV market is dependent upon the success of our customers development plans. To date we have not recognized material revenue from such products. Failure to correctly assess the size of the markets, to successfully develop cost effective products to address the markets or to establish effective sales and support of the new products would have a material adverse effect on future revenues and profits. In addition, if we invest in products for which the market does not develop as anticipated, we may incur significant charges related to such investments.

Rapid technological change in our served markets requires us to rapidly develop new technically advanced products. Our future success depends in part on our ability to develop and offer new products with improved capabilities and to continue to enhance our existing products. If new products have reliability or quality problems, our performance may be impacted by reduced orders, higher manufacturing costs, delays in acceptance and payment for new products and additional service and warranty expenses.

We are exposed to risks associated with a highly concentrated customer base.

Historically, a significant portion of our revenue in any particular period has been attributable to sales of our disk sputtering systems to a limited number of customers. This concentration of customers, when combined with changes in the customers specific capacity plans and market share shifts, can lead to extreme variability in our revenue and financial results from period to period.

The concentration of our customer base may enable our customers to demand pricing and other terms unfavorable to Intevac, and makes us more vulnerable to changes in demand by a given customer. Orders from a relatively limited number of manufacturers have accounted for, and will likely continue to account for, a substantial portion of our revenues. The loss of one of these large customers, or delays in purchasing by them, could have a material and adverse effect on our revenues.

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Our operating results fluctuate significantly from quarter to quarter, which can lead to volatility in the price of our common stock.

Our quarterly revenues and common stock price have fluctuated significantly. We anticipate that our revenues, operating margins and common stock price will continue to fluctuate for a variety of reasons, including: (1) changes in the demand, due to seasonality, cyclicality and other factors in the markets for computer systems, storage subsystems and consumer electronics containing disks as well as cell phones and PV solar cells our customers produce with our systems; (2) delays or problems in the introduction and acceptance of our new products, or delivery of existing products; (3) timing of orders, acceptance of new systems by our customers or cancellation of those orders; (4) new products, services or technological innovations by our competitors or us; (5) changes in our manufacturing costs and operating expense; (6) changes in general economic, political, stock market and industry conditions; and (7) any failure of our operating results to meet the expectations of investment research analysts or investors.

Any of these, or other factors, could lead to volatility and/or a rapid change in the trading price of our common shares. 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 Intevac, could result in substantial costs and diversion of management time and attention.

We may not be able to obtain export licenses from the U.S. government permitting delivery of our products to international customers.

Many of our products, especially Photonics products, require export licenses from U.S. government agencies under the Export Administration Act, the Trading with the Enemy Act of 1917, the Arms Export Act of 1976 or the International Traffic in Arms Regulations. These regulations limit the potential market for some of our products. We can give no assurance that we will be successful in obtaining all the licenses necessary to export our products. Heightened government scrutiny of export licenses for defense related products has resulted in lengthened review periods for our license applications. Exports to countries that are not considered by the U.S. government to be allies are likely to be prohibited, and even sales to U.S. allies may be limited. Failure to comply with export control laws, including identification and reporting of all exports and re-exports of controlled technology or exports made without correct license approval or improper license use could result in severe penalties and revocation of licenses. Failure to obtain export licenses, delays in obtaining licenses, or revocation of previously issued licenses would prevent us from selling the affected products outside the United States and could negatively impact our results of operations.

The Photonics business is dependent on U.S. government contracts, which are subject to fixed pricing, immediate termination and a number of procurement rules and regulations.

We sell our Photonics products and services directly to the U.S. government, as well as to prime contractors for various U.S. government programs. The U.S government is considering significant changes in the level of existing, follow-on or replacement programs. We cannot predict the impact of potential changes in priorities due to military transformations and/or the nature of future war-related activities. A shift of government priorities to programs in which we do not participate and/or reductions in funding for or the termination of programs in which we do participate, unless offset by other programs and opportunities, could have a material adverse effect on our financial position, results of operations, or cash flows.

Funding of multi-year government programs is subject to congressional appropriations, and there is no guarantee that the U.S. government will make further appropriations, particularly given the U.S. government s recent focus on spending in other areas and spending reductions. Sales to the U.S. government and its prime contractors may also be affected by changes in procurement policies, budget considerations and political developments in the United States or abroad. For example, if the U.S. government is less focused on defense spending or there is a decrease in hostilities, demand for our products could decrease. The loss of funding for a government program would result in a loss of future revenues attributable to that program. The influence of any of these factors, which are beyond our control, could negatively impact our results of operations.

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A significant portion of our U.S. government revenue is derived from fixed-price development and production contracts. Under fixed-price contracts, unexpected increases in the cost to develop or manufacture a product, whether due to inaccurate estimates in the bidding process, unanticipated increases in material costs, reduced production volumes, inefficiencies or other factors, are borne by us. We have experienced cost overruns in the past that have resulted in losses on certain contracts, and may experience additional cost overruns in the future. We are required to recognize the total estimated impact of cost overruns in the period in which they are first identified. Such cost overruns could have a material adverse effect on our results of operations.

Generally, government contracts 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 ensure 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 ensure 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 ensure that we, or our customers, will continue to remain in good standing as federal contractors.

As a U.S. government contractor we must comply with specific government rules and regulations and are subject to routine audits and investigations by U.S. government agencies. If we fail to comply with these rules and regulations, the results could include: (1) reductions in the value of our contracts; (2) reductions in amounts previously billed and recognized as revenue; (3) contract modifications or termination; (4) the assessment of penalties and fines; and (5) suspension or debarment from government contracting or subcontracting for a period of time or permanently.

Changes to our effective tax rate affect our results of operations.

As a global company, we are subject to taxation in the United States, Singapore and various other countries. Significant judgment is required to determine and estimate worldwide tax liabilities. Our future effective tax rate could be affected by: (1) changes in tax laws; (2) the allocation of earnings to countries with differing tax rates; (3) changes in worldwide projected annual earnings in current and future years: (4) accounting pronouncements; or (5) changes in the valuation of our deferred tax assets and liabilities. Although we believe our tax estimates are reasonable, there can be no assurance that any final determination will not be different from the treatment reflected in our historical income tax provisions and accruals, which could result in additional payments by Intevac.

Our success depends on international sales and the management of global operations.

In previous years, the majority of our revenues have come from regions outside the United States. Most of our international sales are to customers in Asia, which includes products shipped to overseas operations of U.S. companies. We currently have manufacturing facilities in California and Singapore and international customer support offices in Singapore, China, and Malaysia. We expect that international sales will continue to account for a significant portion of our total revenue in future years. Certain of our suppliers are also located outside the United States.

Managing our global operations presents challenges including, but not limited to, those arising from: (1) global trade issues; (2) variations in protection of intellectual property and other legal rights in different countries; (3) concerns of U.S. governmental agencies regarding possible national commercial and/or security issues posed by growing manufacturing business in Asia; (4) fluctuation of interest rates, raw material costs, labor and operating costs, and exchange rates; (5) variations in the ability to develop relationships with suppliers and other local businesses; (6) changes in the laws and regulations of the United States, including export restrictions, and other countries, as well as their interpretation and application; (7) the need to provide technical and spares support in different locations; (8) political and economic instability; (9) cultural differences; (10) varying government incentives to promote development; (11) shipping costs and delays; (12) adverse conditions in credit markets; (13) variations in tariffs, quotas, tax codes and other market barriers; and (14) barriers to movement of cash.

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We must regularly assess the size, capability and location of our global infrastructure and make appropriate changes to address these issues.

Difficulties in integrating past or future acquisitions could adversely affect our business.

We have completed a number of acquisitions and dispositions during our operating history. For example, in 2007, we acquired certain assets of DeltaNu, LLC and certain assets of Creative Display Systems, LLC, in 2008 we acquired certain assets of OC Oerlikon Balzers Ltd., in 2010 we acquired the outstanding shares of SIT, in 2012 we completed the sale of certain semiconductor mainframe technology assets and in 2013 we completed the sale of the assets of DeltaNu. We have spent and may continue to spend significant resources identifying and pursuing future acquisition opportunities. Acquisitions involve numerous risks including: (1) difficulties in integrating the operations, technologies and products of the acquired companies or achieving the desires outcomes; (2) the diversion of our management s attention from other business concerns; and (3) the potential loss of key employees of the acquired companies. Failure to achieve the anticipated benefits of the prior and any future acquisitions or to successfully integrate the operations of the companies we acquire could have a material and adverse effect on our business, financial condition and results of operations. Any future acquisitions could also result in potentially dilutive issuance of equity securities, acquisition or divestiture-related write-offs or the assumption of debt and contingent liabilities. In addition, we have made and will continue to consider making strategic divestitures. With any divestiture, there are risks that future operating results could be unfavorably impacted if targeted objectives, such as cost savings, are not achieved or if other business disruptions occur as a result of the divestiture or activities related to the divestiture.

We may be subject to additional impairment charges due to potential declines in the fair value of our assets.

As a result of our acquisitions, we have significant intangible assets and had significant goodwill on our balance sheet. We test these assets for impairment on a periodic basis as required, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The events or changes that could require us to test our intangible assets for impairment include: a significant reduction in our stock price, and as a result market capitalization, changes in our estimated future cash flows, as well as changes in rates of growth in our industry or in any of our reporting units. In the fourth quarter of 2012, as a result of a decline in our market capitalization and a reduction in our revenue expectations we recorded a goodwill impairment charge in the amount of $18.4 million. We will continue to evaluate the carrying value of our intangible assets and if we determine in the future that there is a potential further impairment, we may be required to record additional charges to earnings which could materially adversely affect our financial results and could also materially adversely affect our business.

Our success is dependent on recruiting and retaining a highly talented work force.

Our employees are vital to our success, and our key management, engineering and other employees are difficult to replace. We do not maintain key person life insurance on any of our employees. The expansion of high technology companies worldwide has increased demand and competition for qualified personnel, and has made companies increasingly protective of prior employees. It may be difficult for us to locate employees who are not subject to non-competition agreements and other restrictions.

The majority of our U.S. operations are located in California where the cost of living and of recruiting employees is high. Our operating results depend, in large part, upon our ability to retain and attract qualified management, engineering, marketing, manufacturing, customer support, sales and administrative personnel. Furthermore, we compete with industries such as the hard disk drive, semiconductor, and solar industries for skilled employees. Failure to retain existing key personnel, or to attract, assimilate or retain additional highly qualified employees to meet our needs in the future, could have a material and adverse effect on our business, financial condition and results of operations.

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We are dependent on certain suppliers for parts used in our products.

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 subassemblies 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, increased costs to expedite deliveries or develop alternative suppliers, or require redesign of our products to accommodate alternative suppliers. Some of our suppliers are thinly capitalized and may be vulnerable to failure.

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

The success of our business depends upon the integrity of our intellectual property rights, and we cannot ensure that: (1) any of our pending or future patent applications will be allowed or that any of the allowed applications will be issued as patents or will issue with claims of the scope we sought; (2) any of our patents will not be invalidated, deemed unenforceable, circumvented or challenged; (3) the rights granted under our patents will provide competitive advantages to us; (4) other parties will not develop similar products, duplicate our products or design around our patents; or (5) our patent rights, intellectual property laws or our agreements will adequately protect our intellectual property or competitive position.

From time to time, we have received claims that we are infringing third parties intellectual property rights or seeking to invalidate our rights. We cannot ensure 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.

We could be involved in litigation.

From time to time we may be involved in litigation of various types, including litigation alleging infringement of intellectual property rights and other claims. Litigation is expensive, subjects us to the risk of significant damages and requires significant management time and attention and could have a material and adverse effect on our business, financial condition and results of operations.

We are subject to risks of non-compliance with environmental and other governmental 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, remediation costs 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 and to incur substantial expenses to comply with them.

We are also subject to a variety of other governmental regulations and may incur significant costs associated with the compliance with these regulations. For example rules adopted by the SEC to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act impose diligence and disclosure requirements regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries in the products we manufacture. Compliance with these regulations is likely to result in additional costs and expenses or may affect the sourcing and availability of the components used in the products we manufacture.

Business interruptions could adversely affect our operations.

Our operations are vulnerable to interruption by fire, earthquake, floods or other natural disaster, quarantines or other disruptions associated with infectious diseases, national catastrophe, terrorist activities, war, disruptions in our computing and communications infrastructure due to power loss, telecommunications failure, human error, physical

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or electronic security breaches and computer viruses, and other events beyond our control. We do not have a detailed disaster recovery plan. Despite our implementation of network security measures, our tools and servers may be vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems and tools located at customer sites. Political instability could cause us to incur increased costs in transportation, make such transportation unreliable, increase our insurance costs or cause international currency markets to fluctuate. All these unforeseen disruptions and instabilities could have the same effects on our suppliers and their ability to timely deliver their products. In addition, we do not carry sufficient business interruption insurance to compensate us for all losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business and results of operations. For example, we self-insure earthquake risks because we believe this is the prudent financial decision based on the high cost of the limited coverage available in the earthquake insurance market. An earthquake could significantly disrupt our operations, most of which are conducted in California. It could also significantly delay our research and engineering effort on new products, most of which is also conducted in California. We take steps to minimize the damage that would be caused by business interruptions, but there is no certainty that our efforts will prove successful.

We could be negatively affected as a result of a proxy contest and the actions of activist stockholders.

A proxy contest with respect to election of our directors, or other activist stockholder activities, could adversely affect our business because: (i) responding to a proxy contest and other actions by activist stockholders can be costly and time-consuming, disruptive to our operations and divert the attention of management and our employees;
(ii) perceived uncertainties as to our future direction caused by activist activities may result in the loss of potential business opportunities, and may make it more difficult to attract and retain qualified personnel and business partners; and (iii) if individuals are elected to our Board of Directors with a specific agenda, it may adversely affect our ability to effectively and timely implement our strategic plans.

We are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, our management must perform evaluations of our internal control over financial reporting. Beginning in 2004, our Form 10-K has included a report by management of their assessment of the adequacy of such internal control. Additionally, our independent registered public accounting firm must publicly attest to the effectiveness of our internal control over financial reporting.

We have completed the evaluation of our internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act. Although our assessment, testing, and evaluation resulted in our conclusion that as of December 31, 2016, our internal controls over financial reporting were effective, we cannot predict the outcome of our testing in future periods. Ongoing compliance with this requirement is complex, costly and time-consuming. If Intevac fails to maintain effective internal control over financial reporting; our management does not timely assess the adequacy of such internal control; or our independent registered public accounting firm does not deliver an unqualified opinion as to the effectiveness of our internal control over financial reporting, then we could be subject to restatement of previously reported financial results, regulatory sanctions and a decline in the public s perception of Intevac, which could have a material and adverse effect on our business, financial condition and results of operations.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

On November 21, 2013, Intevac s Board of Directors approved a stock repurchase program authorizing up to $30.0 million in repurchases. At September 30, 2017, $1.5 million remains available for future stock repurchases under the repurchase program. Intevac did not make any common stock repurchases during the three months ended September 30, 2017.

Item 3. ***Defaults upon Senior Securities***

None.

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Item 4. ***Mine Safety Disclosures***

Not applicable.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

The following exhibits are filed herewith:

Exhibit Number	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 Executive Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications Pursuant to U.S.C. 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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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: October 31, 2017	By: /s/ WENDELL BLONIGAN Wendell Blonigan President, Chief Executive Officer and Director (Principal Executive Officer)
Date: October 31, 2017	By: /s/ JAMES MONIZ James Moniz Executive Vice President, Finance and Administration, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

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