INTEVAC INC
Form 10-Q
July 29, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended June 28, 2014

OR

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

For the transition period from to

Commission file number 0-26946

INTEVAC, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**94-3125814** **(IRS Employer Identification No.)**

3560 Bassett Street

Santa Clara, California 95054

(Address of principal executive office, including Zip Code)

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

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

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

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

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨	Smaller reporting company ¨
		(Do not check if a smaller reporting company)	

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

On July 25, 2014, 23,625,343 shares of the Registrant s Common Stock, $0.001 par value, were outstanding.

Table of Contents

INTEVAC, INC.

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

INTEVAC, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 28, 2014	December 31, 2013
	(Unaudited) (In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,059	$ 20,121
Short-term investments	33,173	48,975
Trade and other accounts receivable, net of allowances of $0 at both June 28, 2014 and at December 31, 2013	9,265	15,037
Inventories	22,613	22,762
Prepaid expenses and other current assets	1,443	1,237
Total current assets	91,553	108,132
Long-term investments	17,064	12,318
Restricted cash	1,000	
Property, plant and equipment, net	13,316	12,945
Intangible assets, net of amortization of $3,953 at June 28, 2014 and $3,485 at December 31, 2013	4,434	4,902
Deferred income taxes and other long-term assets	9,873	9,979
Total assets	$ 137,240	$ 148,276
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 4,256	$ 4,011
Accrued payroll and related liabilities	4,237	5,034
Other accrued liabilities	2,836	3,263
Customer advances	2,114	3,743
Deferred income taxes	939	939
Total current liabilities	14,382	16,990
Other long-term liabilities	2,175	1,715
Stockholders equity:		
Common stock, $0.001 par value	24	24
Additional paid-in capital	158,490	156,359
Treasury stock, 437 shares at June 28, 2014 and 241 shares at December 31, 2013	(3,157)	(1,688)
Accumulated other comprehensive income	703	725
Accumulated deficit	(35,377)	(25,849)
Total stockholders equity	120,683	129,571

Total liabilities and stockholders equity	$ 137,240	$ 148,276

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

See accompanying notes to the condensed consolidated financial statements.

3

Table of Contents

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
	(Unaudited) (In thousands, except per share amounts)			
Net revenues:				
Systems and components	$ 12,038	$ 13,234	$ 25,358	$ 22,120
Technology development	2,677	3,749	6,372	7,845
Total net revenues	14,715	16,983	31,730	29,965
Cost of net revenues:				
Systems and components	7,540	10,173	17,276	16,480
Technology development	1,964	2,981	4,433	6,142
Total cost of net revenues	9,504	13,154	21,709	22,622
Gross profit	5,211	3,829	10,021	7,343
Operating expenses:				
Research and development	4,558	5,584	8,831	11,943
Selling, general and administrative	5,899	5,235	11,160	11,206
Total operating expenses	10,457	10,819	19,991	23,149
Loss on divestiture				(208)
Loss from operations	(5,246)	(6,990)	(9,970)	(16,014)
Interest income and other, net	120	92	192	172
Loss before income taxes	(5,126)	(6,898)	(9,778)	(15,842)
Benefit from income taxes	119	486	250	1,166
Net loss	$ (5,007)	$ (6,412)	$ (9,528)	$ (14,676)
Net loss per share:				
Basic and diluted	$ (0.21)	$ (0.27)	$ (0.40)	$ (0.62)
Weighted average common shares outstanding:				
Basic and diluted	23,927	23,785	23,892	23,724

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
	(Unaudited) (In thousands)			
Net loss	$ (5,007)	$ (6,412)	$ (9,528)	$ (14,676)
Other comprehensive income (loss), before tax:				
Change in unrealized net loss on available-for-sale investments	(11)	(74)	(6)	(89)
Foreign currency translation gains (losses)	15	(4)	(16)	(10)
Other comprehensive income (loss), before tax	4	(78)	(22)	(99)
Income tax benefit related to items in other comprehensive income				
Other comprehensive income (loss), net of tax	4	(78)	(22)	(99)
Comprehensive loss	$ (5,003)	$ (6,490)	$ (9,550)	$ (14,775)

See accompanying notes to the condensed consolidated financial statements.

5

Table of Contents

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 28, 2014	Six months ended June 29, 2013
	(Unaudited) (In thousands)	
Operating activities		
Net loss	$ (9,528)	$ (14,676)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	2,336	2,093
Net amortization of investment premiums and discounts	358	431
Equity-based compensation	1,363	1,082
Change in the fair value of acquisition-related contingent consideration	97	(209)
Deferred income taxes	(316)	(1,324)
Loss on divestiture		208
Changes in operating assets and liabilities	3,066	8,242
Total adjustments	6,904	10,523
Net cash and cash equivalents used in operating activities	(2,624)	(4,153)
Investing activities		
Purchases of investments	(23,878)	(24,384)
Proceeds from sales and maturities of investments	35,076	25,727
Proceeds from sale of DeltaNu assets		500
Increase in restricted cash	(1,000)	
Purchases of leasehold improvements and equipment	(2,240)	(835)
Net cash and cash equivalents provided by investing activities	7,958	1,008
Financing activities		
Net proceeds from issuance of common stock	1,178	1,144
Common stock repurchases	(1,559)	
Net cash and cash equivalents provided by (used in) financing activities	(381)	1,144
Effect of exchange rate changes on cash and cash equivalents	(15)	(10)
Net increase (decrease) in cash and cash equivalents	4,938	(2,011)
Cash and cash equivalents at beginning of period	20,121	24,261
Cash and cash equivalents at end of period	$ 25,059	$ 22,250

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

In the opinion of management, the unaudited interim condensed consolidated financial statements of Intevac, Inc. and its subsidiaries (Intevac or the Company) included herein have been prepared on a basis consistent with the December 31, 2013 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Intevac s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (2013 Form 10-K). Intevac s results of operations for the six months ended June 28, 2014 are not necessarily indicative of future operating results.

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

2. Recent Accounting Pronouncements

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

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

Table of Contents

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Inventories

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

	June 28, 2014	December 31, 2013
	(In thousands)	
Raw materials	$ 12,517	$ 13,005
Work-in-progress	8,596	8,196
Finished goods	1,500	1,561
	$ 22,613	$ 22,762

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

4. Equity-Based Compensation

At June 28, 2014, Intevac had equity-based awards outstanding under the 2012 Equity Incentive Plan and the 2004 Equity Incentive Plan (the Plans) and the 2003 Employee Stock Purchase Plan (the ESPP). Intevac s stockholders approved all of these plans. The Plans permit the grant of incentive or non-statutory stock options, restricted stock, stock appreciation rights, restricted stock units (RSUs, also referred to as performance units) and performance shares.

The ESPP provides that eligible employees may purchase Intevac s common stock through payroll deductions at a price equal to 85% of the lower of the fair market value at the beginning of the applicable offering period or at the end of each applicable purchase interval. Offering periods are generally two years in length, and consist of a series of six-month purchase intervals. Eligible employees may join the ESPP at the beginning of any six-month purchase interval. Under the terms of the ESPP, employees can choose to have up to 15% of their base earnings withheld to purchase Intevac common stock.

Compensation Expense

The effect of recording equity-based compensation for the three and six months ended June 28, 2014 and June 29, 2013 was as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
	(In thousands)			
Equity-based compensation by type of award:				
Stock options	$ 153	$ 104	$ 394	$ 277
RSUs	376	108	668	184
Employee stock purchase plan	137	307	301	621
Total equity-based compensation	$ 666	$ 519	$ 1,363	$ 1,082

Tax benefit recognized	$	3	$	5	$	6	$	10

Table of Contents

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Equity-based compensation expense is based on awards ultimately expected to vest and such amount has been reduced for estimated forfeitures. Forfeitures were estimated based on Intevac s historical experience, which Intevac believes to be indicative of Intevac s future experience.

Stock Options and ESPP

The fair value of stock options and ESPP awards is estimated at the grant date using the Black-Scholes option valuation model. The determination of fair value of stock options and ESPP awards on the date of grant using an option-pricing model is affected by Intevac s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards and actual employee stock option exercise behavior.

Option activity as of June 28, 2014 and changes during the six months ended June 28, 2014 were as follows:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2013	2,637,969	$ 8.53
Options granted	460,735	$ 7.35
Options cancelled and forfeited	(89,082)	$ 8.48
Options exercised	(83,113)	$ 4.45
Options outstanding at June 28, 2014	2,926,509	$ 8.46
Vested and expected to vest at June 28, 2014	2,687,654	$ 8.63
Options exercisable at June 28, 2014	1,565,514	$ 10.01

Intevac issued 224,000 shares under the ESPP during the six months ended June 28, 2014.

Intevac estimated the weighted-average fair value of stock options and employee stock purchase rights using the following weighted-average assumptions:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Stock Options:				
Weighted-average fair value of grants per share	$ 3.02	$ 2.11	$ 3.14	$ 2.10
Expected volatility	52.11%	58.04%	52.38%	57.95%
Risk free interest rate	1.30%	1.18%	1.36%	1.16%
Expected term of options (in years)	4.2	4.5	4.3	4.4
Dividend yield	None	None	None	None

	Six Months Ended	
	June 28, 2014	June 29, 2013
Stock Purchase Rights:		

Weighted-average fair value of grants per share	$ 2.15	$ 1.60
Expected volatility	43.40%	52.42%
Risk free interest rate	0.11%	0.26%
Expected term of purchase rights (in years)	0.74	1.85
Dividend yield	None	None

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The computation of the expected volatility assumptions used in the Black-Scholes calculations for new stock option grants and purchase rights is based on the historical volatility of Intevac s stock price, measured over a period equal to the expected term of the stock option grant or purchase right. The risk-free interest rate is based on the yield available on U.S. Treasury Strips with an equivalent remaining term. The expected term of employee stock options represents the weighted-average period that the stock options are expected to remain outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the equity-based awards and vesting schedules. The expected term of purchase rights represents the period of time remaining in the current offering period. The dividend yield assumption is based on Intevac s history of not paying dividends and the assumption of not paying dividends in the future.

RSUs

A summary of the RSU activity is as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested RSUs at December 31, 2013	237,859	$ 5.34
Granted	226,373	$ 7.29
Vested	(69,650)	$ 5.39
Cancelled and forfeited	(13,909)	$ 5.68
Non-vested RSUs at June 28, 2014	380,673	$ 6.48

RSUs are converted into shares of Intevac common stock upon vesting on a one-for-one basis. RSUs typically are scheduled to vest over four years. Vesting of RSUs is subject to the grantee s continued service with Intevac. The compensation expense related to these awards is determined using the fair market value of Intevac common stock on the date of the grant, and the compensation expense is recognized over the vesting period. In fiscal 2014, the annual bonus for participants in the Company s annual incentive plan will be settled with RSUs with one year vesting. The Company accrued for the payment of bonuses at the expected company-wide payout percentage amount at June 28, 2014, which amounts were less than the target bonus amounts for each participant. The bonus accrual is classified as a liability until the number of shares is determined on the date the awards are granted, at which time the Company classifies the awards into equity. The Company recorded equity-based compensation expense related to the annual incentive plan of $161,000 and $322,000, respectively for the three and six months ended June 28, 2014.

Performance-based RSUs (performance-based awards) granted in fiscal 2013 to certain executive officers are also subject to the achievement of specified performance goals. These performance-based awards become eligible to vest only if performance goals are achieved and then actually will vest only if the grantee remains employed by Intevac through each applicable vesting date. The fair value of these performance-based awards is estimated on the date of grant and assumes that the specified performance goals will be achieved. If the goals are achieved, these awards vest over a specified remaining service period, provided that the grantee remains employed by Intevac through each scheduled vesting date. If the performance goals are not met, no compensation expense is recognized and any previously recognized compensation expense is reversed. The expected cost of each award is reflected over the service period and is reduced for estimated forfeitures. For performance-based awards granted during fiscal 2013, the performance goals require the achievement of targeted revenues and adjusted annual operating profit levels measured at the end of two and three-year periods.

Table of Contents

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Purchased Intangible Assets

Details of finite-lived intangible assets by segment as of June 28, 2014, are as follows.

	June 28, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)	
Equipment	$ 7,172	$ (3,220)	$ 3,952
Photonics	1,215	(733)	482
	$ 8,387	$ (3,953)	$ 4,434

Total amortization expense of finite-lived intangibles for the three and six months ended June 28, 2014 was $234,000 and $468,000.

As of June 28, 2014, future amortization expense is expected to be as follows.

(In thousands)	
2014	$ 468
2015	853
2016	853
2017	756
2018	615
Thereafter	889
	$ 4,434

6. Acquisition-Related Contingent Consideration

In connection with the acquisition of Solar Implant Technologies, Inc. (SIT), Intevac agreed to pay to the selling shareholders in cash a revenue earnout on Intevac s net revenue from commercial sales of certain products over a specified period up to an aggregate of $9.0 million. Intevac estimated the fair value of this contingent consideration on June 28, 2014 based on probability-based forecasted revenues reflecting Intevac s own assumptions concerning future revenue from such products. As of June 28, 2014, payments made associated with the revenue earnout obligation have not been significant.

The fair value measurement of contingent consideration is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Any change in fair value of the contingent consideration subsequent to the acquisition date is recognized in operating income within the statement of operations. The following table represents a reconciliation of the change in the fair value measurement of the contingent consideration liability for the three and six month periods ended June 28, 2014 and June 29, 2013:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
	(In thousands)			
Opening balance	$ 1,435	$ 5,262	$ 1,384	$ 5,151
Changes in fair value	46	(320)	97	(209)
Closing balance	$ 1,481	$ 4,942	$ 1,481	$ 4,942

Table of Contents

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table displays the balance sheet classification of the contingent consideration liability account at June 28, 2014 and at December 31, 2013:

	June 28, 2014	December 31, 2013
	(In thousands)	
Other accrued liabilities	$ 140	$ 164
Other long-term liabilities	1,341	1,220
Total acquisition-related contingent consideration	$ 1,481	$ 1,384

The following table represents the quantitative range of the significant unobservable inputs used in the calculation of fair value of the continent consideration liability as of June 28, 2014. Significant increases or decreases in any of these inputs in isolation would result in a significantly lower (higher) fair value measurement.

Quantitative Information about Level 3 Fair Value Measurements at June 28, 2014

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
	(In thousands, except for percentages)			
Revenue Earnout	$ 1,481	Discounted cash flow	Weighted average cost of capital	17.2%
			Probability weighting of achieving revenue forecasts	20.0% - 55.0% (33.0%)

7. Divestiture

Sale of DeltaNu

On March 29, 2013, the Company sold certain assets, including existing tangible and intangible assets, which comprised its Raman spectroscopy instruments product line, also known as DeltaNu, for consideration not to exceed $1.5 million. Under the terms of the agreement, the acquirer also assumed certain liabilities related to the purchased assets. Payment terms included $500,000 which was paid on the closing date, with the remaining balance to be paid in the form of an earnout of 5% of the acquirer s Raman spectroscopy instrument sales for 5 years following the closing date which will be due and payable on or before each anniversary of the closing date or a minimum earnout payment of $100,000 annually, whichever is higher. The maximum earnout payments during the payment period shall not exceed $1.0 million.

As the earnout is collected over an extended period of time and in management s judgment the degree of collectibility is uncertain, Intevac did not recognize the minimum earnout payments upon closing, but instead will record income in the period when the minimum earnout payments can be reasonably estimated for that period and payment is assured. The first earnout payment in the amount of $75,000 was received in the second quarter of fiscal 2014 and was reported in interest and other income, net on the condensed consolidated statement of operations.

The following table summarizes the components of the loss (in thousands):

Cash proceeds	$ 500
Assets sold:	
Accounts receivable	147
Inventories	320
Other current assets	27
Property, plant and equipment	159
Trade name	90
Total assets sold	743
Liabilities divested:	
Accounts payable	59
Other accrued expenses	6
Total liabilities divested	65
Transaction and other costs	30
Loss on sale	$ (208)

Table of Contents

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Warranty

Intevac provides for the estimated cost of warranty when revenue is recognized. Intevac s warranty is per contract terms, and for systems sold directly the warranty typically ranges between 12 and 24 months from customer acceptance. For systems sold through a distributor, Intevac offers a 3 month warranty. The remainder of any warranty period is the responsibility of the distributor. During this warranty period any defective non-consumable parts are replaced and installed at no charge to the customer. The warranty period on consumable parts is limited to their reasonable usable lives. Intevac uses estimated repair or replacement costs along with its historical warranty experience to determine its warranty obligation. Intevac generally provides a twelve month warranty on its Photonics products. The provision for the estimated future costs of warranty is based upon historical cost and product performance experience. Intevac exercises judgment in determining the underlying estimates.

On the condensed consolidated balance sheets, the short-term portion of the warranty provision is included in other accrued liabilities, while the long-term portion is included in other long-term liabilities. The expense associated with product warranties issued or adjusted is included in cost of net revenues on the condensed consolidated statements of operations.

The following table displays the activity in the warranty provision account for the three and six months ended June 28, 2014 and June 29, 2013:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
	(In thousands)			
Opening balance	$ 1,331	$ 2,225	$ 1,647	$ 2,349
Expenditures incurred under warranties	(217)	(210)	(523)	(464)
Accruals for product warranties issued during the reporting period	219	329	504	538
Adjustments to previously existing warranty accruals	(177)	(257)	(472)	(336)
Closing balance	$ 1,156	$ 2,087	$ 1,156	$ 2,087

The following table displays the balance sheet classification of the warranty provision account at June 28, 2014 and at December 31, 2013:

	June 28, 2014	December 31, 2013
	(In thousands)	
Other accrued liabilities	$ 989	$ 1,546
Other long-term liabilities	167	101
Total warranty provision	$ 1,156	$ 1,647

Table of Contents

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

9. Guarantees

Officer and Director Indemnifications

As permitted or required under Delaware law and to the maximum extent allowable under that law, Intevac has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at Intevac s request in such capacity. These indemnification obligations are valid as long as the director or officer acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The maximum potential amount of future payments Intevac could be required to make under these indemnification obligations is unlimited; however, Intevac has a director and officer insurance policy that mitigates Intevac s exposure and enables Intevac to recover a portion of any future amounts paid. As a result of Intevac s insurance policy coverage, Intevac believes the estimated fair value of these indemnification obligations is not material.

Other Indemnifications

As is customary in Intevac s industry, many of Intevac s contracts provide remedies to certain third parties such as defense, settlement, or payment of judgments for intellectual property claims related to the use of its products. Such indemnification obligations may not be subject to maximum loss clauses. Historically, payments made related to these indemnifications have been immaterial.

10. Cash, Cash Equivalents and Investments

Cash and cash equivalents, short-term investments and long-term investments consist of:

	June 28, 2014			
	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
	(In thousands)			
Cash and cash equivalents:				
Cash	$ 7,467	$	$	$ 7,467
Money market funds	17,592			17,592
Total cash and cash equivalents	$ 25,059	$	$	$ 25,059
Short-term investments:				
Certificate of deposit	$ 1,000	$	$	$ 1,000
Commercial paper	499			499
Corporate bonds and medium-term notes	22,977	18	1	22,994
Municipal bonds	4,669	5		4,674
U.S. treasury and agency securities	4,003	3		4,006
Total short-term investments	$ 33,148	$ 26	$ 1	$ 33,173
Long-term investments:				
Corporate bonds and medium-term notes	$ 5,272	$	$ 3	$ 5,269
Municipal bonds	1,797	3	1	1,799
U.S. treasury and agency securities	9,992	6	2	9,996

Total long-term investments	$ 17,061	$	9	$	6	$ 17,064
Total cash, cash equivalents, and investments	$ 75,268	$	35	$	7	$ 75,296

Table of Contents

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	December 31, 2013			
	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
	(In thousands)			
Cash and cash equivalents:				
Cash	$ 5,819	$	$	$ 5,819
Money market funds	14,302			14,302
Total cash and cash equivalents	$ 20,121	$	$	$ 20,121
Short-term investments:				
Commercial paper	$ 1,998	$ 1	$	$ 1,999
Corporate bonds and medium-term notes	27,181	13	3	27,191
Municipal bonds	6,108	4		6,112
U.S. treasury and agency securities	13,506	7		13,513
Variable rate demand notes (VRDNs)	160			160
Total short-term investments	$ 48,953	$ 25	$ 3	$ 48,975
Long-term investments:				
Corporate bonds and medium-term notes	$ 8,811	$ 12	$	$ 8,823
Municipal bonds	3,495	2	2	3,495
Total long-term investments	$ 12,306	$ 14	$ 2	$ 12,318
Total cash, cash equivalents, and investments	$ 81,380	$ 39	$ 5	$ 81,414

The contractual maturities of available-for-sale securities at June 28, 2014 are presented in the following table.

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$ 48,735	$ 48,761
Due after one through two years	19,066	19,068
	$ 67,801	$ 67,829

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 June 28, 2014.

	June 28, 2014	
	In Loss Position for Less than 12 Months	In Loss Position for Greater than 12 Months
	Fair Value	Fair Value

		Gross Unrealized Losses		Gross Unrealized Losses
		(In thousands)		
Corporate bonds and medium-term notes	$ 8,829	$ 4	$	$
Municipal bonds	2,771	1		
U.S. treasury and agency securities	1,998	2		
	$ 13,598	$ 7	$	$

All prices for the fixed maturity securities including U.S. Treasury and agency securities, certificates of deposit, commercial paper, corporate bonds, VRDNs and municipal bonds are received from independent pricing services

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 to sell a security in an orderly transaction. 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.

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 June 28, 2014.

	Fair Value Measurements at June 28, 2014		
	Total	Level 1	Level 2
		(In thousands)	
Recurring fair value measurements:			
Available-for-sale securities			
Money market funds	$ 17,592	$ 17,592	$
U.S. treasury and agency securities	14,002	8,997	5,005
Certificate of deposit	1,000		1,000
Commercial paper	499		499
Corporate bonds and medium-term notes	28,263		28,263
Municipal bonds	6,473		6,473
Total recurring fair value measurements	$ 67,829	$ 26,589	$ 41,240

11. 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. These hedges do not qualify for special hedge accounting treatment. These derivatives are carried at fair value with changes recorded in interest income and other, 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 maturities of approximately one month. The notional amount of Company s foreign currency derivatives was $474,000 at June 28, 2014 and $894,000 at December 31, 2013.

12. 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 June 28, 2014, $26.8 million remains available for future stock repurchases under the repurchase program.

Table of Contents

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table summarizes Intevac s stock repurchases:

	Three Months Ended	Six Months Ended
	June 28, 2014	
	(In thousands, except per share amounts)	
Shares of common stock repurchased	58	195
Cost of stock repurchased	$ 419	$ 1,469
Average price paid per share	$ 7.21	$ 7.49

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 six months ended June 28, 2014 and June 29, 2013, are as follows.