

INTEVAC INC  
Form 10-Q  
August 02, 2016  
Table of Contents

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

**FORM 10-Q**

(MARK ONE)

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

**For the quarterly period ended July 2, 2016**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 0-26946**

**INTEVAC, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**94-3125814**  
**(IRS Employer**  
**Identification No.)**

**3560 Bassett Street**  
**Santa Clara, California 95054**

**(Address of principal executive office, including Zip Code)**

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

On August 2, 2016, 20,923,678 shares of the Registrant's Common Stock, \$0.001 par value, were outstanding.

**Table of Contents**

**INTEVAC, INC.**

**INDEX**

<b>No.</b>		<b>Page</b>
	<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b>Item 1.</b>	<b><u>Financial Statements (unaudited)</u></b>	
	<u>Condensed Consolidated Balance Sheets</u>	3
	<u>Condensed Consolidated Statements of Operations</u>	4
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	5
	<u>Condensed Consolidated Statements of Cash Flows</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	7
<b>Item 2.</b>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<b>Item 3.</b>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
<b>Item 4.</b>	<u>Controls and Procedures</u>	29
	<b><u>PART II. OTHER INFORMATION</u></b>	
<b>Item 1.</b>	<u>Legal Proceedings</u>	30
<b>Item 1A.</b>	<u>Risk Factors</u>	31
<b>Item 2.</b>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
<b>Item 3.</b>	<u>Defaults upon Senior Securities</u>	38
<b>Item 4.</b>	<u>Mine Safety Disclosures</u>	38
<b>Item 5.</b>	<u>Other Information</u>	38
<b>Item 6.</b>	<u>Exhibits</u>	38
	<b><u>SIGNATURES</u></b>	39

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

	<b>July 2, 2016</b>	<b>January 2, 2016</b>
	<b>(Unaudited)</b>	
	<b>(In thousands, except par value)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 18,733	\$ 13,746
Short-term investments	16,655	23,208
Trade and other accounts receivable, net of allowances of \$0 at both July 2, 2016 and at January 2, 2016	16,808	12,310
Inventories	22,487	18,760
Prepaid expenses and other current assets	1,621	1,712
Total current assets	76,304	69,736
Property, plant and equipment, net	11,727	11,921
Long-term investments	5,226	9,673
Restricted cash	1,780	1,780
Intangible assets, net of amortization of \$5,702 at July 2, 2016 and \$5,275 at January 2, 2016	2,685	3,112
Deferred income taxes and other long-term assets	945	1,459
Total assets	\$ 98,667	\$ 97,681
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,040	\$ 5,950
Accrued payroll and related liabilities	4,321	4,066
Other accrued liabilities	3,617	5,632
Customer advances	14,979	3,625
Total current liabilities	26,957	19,273
Other long-term liabilities	2,883	2,411
Stockholders' equity:		
Common stock, \$0.001 par value	21	20
Additional paid-in capital	169,059	166,514

Edgar Filing: INTEVAC INC - Form 10-Q

Treasury stock, 4,845 shares at July 2, 2016 and January 2, 2016	(28,489)	(28,489)
Accumulated other comprehensive income	491	412
Accumulated deficit	(72,255)	(62,460)
Total stockholders' equity	68,827	75,997
Total liabilities and stockholders' equity	\$ 98,667	\$ 97,681

Note: Amounts as of January 2, 2016 are derived from the January 2, 2016 audited consolidated financial statements.

See accompanying notes.

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

	<b>Three Months</b>		<b>Six Months Ended</b>	
	<b>Ended</b>			
	<b>July 2,</b>	<b>July 4,</b>	<b>July 2,</b>	<b>July 4,</b>
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(Unaudited)</b>			
	<b>(In thousands, except per share amounts)</b>			
<b>Net revenues:</b>				
Systems and components	\$ 13,083	\$ 18,646	\$ 26,364	\$ 36,728
Technology development	1,835	1,812	2,218	3,615
<b>Total net revenues</b>	<b>14,918</b>	<b>20,458</b>	<b>28,582</b>	<b>40,343</b>
<b>Cost of net revenues:</b>				
Systems and components	7,514	11,487	16,465	23,072
Technology development	1,277	1,165	2,135	2,544
<b>Total cost of net revenues</b>	<b>8,791</b>	<b>12,652</b>	<b>18,600</b>	<b>25,616</b>
<b>Gross profit</b>	<b>6,127</b>	<b>7,806</b>	<b>9,982</b>	<b>14,727</b>
<b>Operating expenses:</b>				
Research and development	4,977	2,947	10,154	7,555
Selling, general and administrative	4,957	4,576	9,952	9,829
<b>Total operating expenses</b>	<b>9,934</b>	<b>7,523</b>	<b>20,106</b>	<b>17,384</b>
<b>Income (loss) from operations</b>	<b>(3,807)</b>	<b>283</b>	<b>(10,124)</b>	<b>(2,657)</b>
<b>Interest income and other income (expense), net</b>	<b>87</b>	<b>(13)</b>	<b>125</b>	<b>66</b>
<b>Income (loss) before income taxes</b>	<b>(3,720)</b>	<b>270</b>	<b>(9,999)</b>	<b>(2,591)</b>
<b>Provision for (benefit from) income taxes</b>	<b>(230)</b>	<b>258</b>	<b>(204)</b>	<b>290</b>
<b>Net income (loss)</b>	<b>\$ (3,490)</b>	<b>\$ 12</b>	<b>\$ (9,795)</b>	<b>\$ (2,881)</b>
<b>Net income (loss) per share:</b>				
Basic and diluted	\$ (0.17)	\$	\$ (0.48)	\$ (0.13)
<b>Weighted average common shares outstanding:</b>				
Basic	20,691	22,630	20,621	22,929
Diluted	20,691	22,912	20,621	22,929

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	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
	(Unaudited)			
	(In thousands)			
Net income (loss)	\$ (3,490)	\$ 12	\$ (9,795)	\$ (2,881)
Other comprehensive income (loss), before tax:				
Change in unrealized net gain on available-for-sale investments	13	(4)	57	25
Foreign currency translation gains (losses)	(45)	(35)	22	(35)
Other comprehensive income (loss), before tax	(32)	(39)	79	(10)
Income taxes related to items in other comprehensive income (loss)				
Other comprehensive income (loss), net of tax	(32)	(39)	79	(10)
Comprehensive loss	\$ (3,522)	\$ (27)	\$ (9,716)	\$ (2,891)

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

## INTEVAC, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	<b>Six months ended</b>	
	<b>July 2,</b>	<b>July 4,</b>
	<b>2016</b>	<b>2015</b>
	<b>(Unaudited)</b>	
	<b>(In thousands)</b>	
<b>Operating activities</b>		
Net loss	\$ (9,795)	\$ (2,881)
Adjustments to reconcile net loss to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	2,658	2,324
Net amortization of investment premiums and discounts	63	200
Equity-based compensation	1,991	1,663
Change in the fair value of acquisition-related contingent consideration	(142)	(200)
Deferred income taxes	9	(10)
Loss on disposal of equipment		91
Changes in operating assets and liabilities	911	(922)
<b>Total adjustments</b>	<b>5,490</b>	<b>3,146</b>
Net cash and cash equivalents provided by (used in) operating activities	(4,305)	265
<b>Investing activities</b>		
Purchases of investments	(7,736)	(16,097)
Proceeds from sales and maturities of investments	18,730	20,200
Proceeds from sale of equipment		11
Purchases of leasehold improvements and equipment	(2,039)	(1,534)
Net cash and cash equivalents provided by investing activities	8,955	2,580
<b>Financing activities</b>		
Net proceeds from issuance of common stock	715	910
Common stock repurchases		(8,868)
Taxes paid related to net share settlement	(401)	(117)
Net cash and cash equivalents provided by (used in) financing activities	314	(8,075)
Effect of exchange rate changes on cash and cash equivalents	23	(35)
Net increase (decrease) in cash and cash equivalents	4,987	(5,265)
Cash and cash equivalents at beginning of period	13,746	21,482
Cash and cash equivalents at end of period	\$ 18,733	\$ 16,217

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 January 2, 2016 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 January 2, 2016 ( 2015 Form 10-K ). Intevac's results of operations for the three and six months ended July 2, 2016 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 February 2016, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2016-02, *Leases (Topic 842)*, which amends the existing guidance to require lessees to recognize lease assets and lease liabilities arising from operating leases in a classified balance sheet. The requirements of this ASU are effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact that ASU 2016-02 will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718)*. This ASU makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. The requirements of this ASU are effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. We are currently assessing how the adoption of this standard will impact our consolidated financial statements.

The FASB has issued several more amendments to the new revenue standard ASU 2014-09, as amended by ASU 2015-14:

March 2016 ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to customers.

April 2016 ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. ASU 2016-10 covers two specific topics: performance obligations and licensing. This ASU includes guidance on immaterial promised goods or services, shipping or handling activities, separately identifiable performance obligations, functional or symbolic intellectual property licenses, sales-based and usage-based royalties, license restrictions (time, use, geographical) and licensing renewals.

May 2016 ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow Scope Improvements and Practical Expedients*. ASU 2016-12 clarifies certain core recognition principles including collectability, sales tax presentation, noncash consideration, contract modifications and completed contracts at transition and disclosures no longer required if the full retrospective transition method is adopted.

We are currently assessing how the adoption of these new standards will impact our consolidated financial statements.

Table of Contents

## INTEVAC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (Unaudited)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. This ASU amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. The requirements of this ASU are effective for interim and annual reporting periods beginning after December 15, 2019. We are currently assessing how the adoption of this standard will impact our consolidated financial statements.

**3. Inventories**

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

	July 2, 2016	January 2, 2016
	(In thousands)	
Raw materials	\$ 10,718	\$ 11,081
Work-in-progress	9,706	4,365
Finished goods	2,063	3,314
	\$ 22,487	\$ 18,760

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

**4. Equity-Based Compensation**

At July 2, 2016, 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), performance units and performance bonus awards.

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 entry date into 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 July 2, 2016 and July 4, 2015 was as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 2, 2016</b>	<b>July 4, 2015</b>	<b>July 2, 2016</b>	<b>July 4, 2015</b>
	<b>(In thousands)</b>			
<b>Equity-based compensation by type of award:</b>				
Stock options	\$ 209	\$ 125	\$ 485	\$ 442
RSUs	480	395	1,114	735
Employee stock purchase plan	191	280	392	486
<b>Total equity-based compensation</b>	<b>\$ 880</b>	<b>\$ 800</b>	<b>\$ 1,991</b>	<b>\$ 1,663</b>

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.

Table of Contents

## INTEVAC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

*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 July 2, 2016 and changes during the six months ended July 2, 2016 were as follows:

	Shares	Weighted Average Exercise Price
Options outstanding at January 2, 2016	2,433,647	\$ 7.52
Options granted	394,750	\$ 4.79
Options cancelled and forfeited	(63,799)	\$ 12.89
Options exercised	(975)	\$ 4.58
Options outstanding at July 2, 2016	2,763,623	\$ 7.01
Vested and expected to vest at July 2, 2016	2,604,501	\$ 7.11
Options exercisable at July 2, 2016	1,739,195	\$ 7.82

Intevac issued 187,214 shares under the ESPP during the six months ended July 2, 2016.

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	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
<b>Stock Options:</b>				
Weighted-average fair value of grants per share	\$ 1.75	\$ 2.05	\$ 1.74	\$ 2.07
Expected volatility	44.14%	46.13%	44.11%	46.26%
Risk free interest rate	0.94%	1.44%	0.94%	1.43%
Expected term of options (in years)	4.3	4.0	4.3	4.0
Dividend yield	None	None	None	None

	<b>Six Months Ended</b>	
	<b>July 2, 2016</b>	<b>July 4, 2015</b>
<b>Stock Purchase Rights:</b>		
Weighted-average fair value of grants per share	\$ 1.54	\$ 2.26
Expected volatility	39.33%	44.05%
Risk free interest rate	0.76%	0.39%
Expected term of purchase rights (in years)	1.93	1.22
Dividend yield	None	None

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

Table of Contents

## INTEVAC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (Unaudited)

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 January 2, 2016	553,584	\$ 6.16
Granted	754,652	\$ 4.17
Vested	(257,007)	\$ 6.49
Cancelled and forfeited	(83,079)	\$ 4.70
Non-vested RSUs at July 2, 2016	968,150	\$ 4.64

Time-based RSUs are converted into shares of Intevac common stock upon vesting on a one-for-one basis. Time-based RSUs typically are scheduled to vest over four years. Vesting of time-based 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.

Market condition-based RSUs vest upon the achievement of certain market conditions (our stock performance) during a set performance period (typically five years) subject to the grantee's continued service with Intevac through the date the applicable market condition is achieved. The fair value is based on the values calculated under the Monte Carlo simulation model on the grant date. Compensation cost is not adjusted in future periods for subsequent changes in the expected outcome of market related conditions. The compensation expense is recognized over the derived service period. We granted 125,000 of such awards to certain executive officers in the six months ended July 2, 2016. These awards have a derived service period of 2.8 years.

Intevac estimated the weighted-average fair value of market condition-based RSUs using the following weighted-average assumptions:



	<b>Six Months Ended</b>	
	<b>July 2, 2016</b>	
Weighted-average fair value of grants per share	\$	2.46
Expected volatility		47.65%
Risk free interest rate		1.35%
Expected term (in years)		4.79
Dividend yield		None

In fiscal 2016 and fiscal 2015, the annual bonus for certain 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

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

company-wide payout percentage amount at July 2, 2016 and July 4, 2015, 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. In February 2016, the annual 2015 bonus for certain participants was settled with RSUs with one year vesting. 34 participants were granted stock awards to receive 266,000 shares of common stock with a weighted average grant date fair value of \$4.40 per share. In February 2015, the 2014 annual bonus for certain participants was settled with RSUs with one year vesting. 29 participants were granted stock awards to receive 133,000 shares of common stock with a weighted average grant date fair value of \$6.85 per share. The Company recorded equity-based compensation expense related to the annual incentive plan of \$129,000 and \$243,000, respectively, for the three and six months ended July 2, 2016 and \$123,000 and \$72,000, respectively, for the three and six months ended July 4, 2015.

Performance-based RSUs were granted in fiscal 2013 to certain executive officers and were also subject to the achievement of specified performance goals. These performance-based RSUs became eligible to vest only if performance goals were achieved and then actually will vest only if the grantee remained employed by Intevac through each applicable vesting date. The fair value of these performance-based RSUs was estimated on the date of grant and assumed that the specified performance goals would be achieved. If the goals were achieved, these awards would vest over a specified remaining service period, provided that the grantee remained employed by Intevac through each scheduled vesting date. If the performance goals were not met, no compensation expense was recognized and any previously recognized compensation expense was reversed. The expected cost of each award was reflected over the service period and was reduced for estimated forfeitures. For performance-based awards granted during fiscal 2013, the performance goals required the achievement of targeted revenues and adjusted annual operating profit levels measured at the end of two and three-year periods. In early 2016, the Compensation Committee assessed performance against the goals following the completion of the 3-year performance period for Tranche 2 and determined that 4,920 shares of the awards had been earned and therefore were eligible for time-based vesting. In early 2015, the Compensation Committee assessed performance against the goals following the completion of the 2-year performance period for Tranche 1 and determined that 5,532 shares of the awards became earned and therefore eligible for time-based vesting.

**5. Purchased Intangible Assets**

Details of finite-lived intangible assets by segment as of July 2, 2016, are as follows.

	<b>July 2, 2016</b>	
<b>Gross Carrying Amount</b>	<b>Accumulated Amortization (In thousands)</b>	<b>Net Carrying Amount</b>

Edgar Filing: INTEVAC INC - Form 10-Q

Thin-film Equipment	\$ 7,172	\$ (4,757)	\$ 2,415
Photonics	1,215	(945)	270
	\$ 8,387	\$ (5,702)	\$ 2,685

Total amortization expense of finite-lived intangibles for the three and six months ended July 2, 2016 was \$213,000 and \$427,000.

Table of Contents

## INTEVAC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (Unaudited)

As of July 2, 2016, future amortization expense is expected to be as follows.

(In thousands)	
2016	\$ 427
2017	754
2018	615
2019	615
2020	274
	\$ 2,685

**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 July 2, 2016 based on probability-based forecasted revenues reflecting Intevac's own assumptions concerning future revenue from such products. As of July 2, 2016, 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 condensed consolidated 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 months ended July 2, 2016 and July 4, 2015:

	Three Months Ended		Six Months Ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
(In thousands)				
Opening balance	\$ 906	\$ 1,108	\$ 890	\$ 1,134
Changes in fair value	(158)	(174)	(142)	(200)
Closing balance	\$ 748	\$ 934	\$ 748	\$ 934

The following table displays the balance sheet classification of the contingent consideration liability account at July 2, 2016 and at January 2, 2016:

	<b>July 2, 2016</b>	<b>January 2, 2016</b>
	<b>(In thousands)</b>	
Other accrued liabilities	\$ 106	\$ 179
Other long-term liabilities	642	711
<b>Total acquisition-related contingent consideration</b>	<b>\$ 748</b>	<b>\$ 890</b>

Table of Contents

## INTEVAC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (Unaudited)

The following table represents the quantitative range of the significant unobservable inputs used in the calculation of fair value of the contingent consideration liability as of July 2, 2016. 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 July 2, 2016

Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
(In thousands, except for percentages)			
Revenue \$ 748	Discounted cash flow		13.5%
Earnout		Weighted average cost of capital	
		Probability weighting of achieving revenue forecasts	10.0% - 80.0% (30.3%)

**7. Warranty**

Intevac provides for the estimated cost of warranty when revenue is recognized. Intevac's warranty is per contract terms and for its disk manufacturing, photovoltaic ( PV ) manufacturing and display cover panel ( DCP ) manufacturing systems the warranty typically ranges between 12 and 24 months from customer acceptance. 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 July 2, 2016 and July 4, 2015:

Three Months Ended		Six Months Ended	
July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015

	<b>(In thousands)</b>			
Opening balance	\$ 776	\$ 1,352	\$ 982	\$ 1,186
Expenditures incurred under warranties	(106)	(91)	(303)	(222)
Accruals for product warranties issued during the reporting period	61	203	174	600
Adjustments to previously existing warranty accruals	(139)	(186)	(261)	(286)
Closing balance	\$ 592	\$ 1,278	\$ 592	\$ 1,278

The following table displays the balance sheet classification of the warranty provision account at July 2, 2016 and at January 2, 2016:

	<b>July 2, 2016</b>	<b>January 2, 2016</b>
	<b>(In thousands)</b>	
Other accrued liabilities	\$ 543	\$ 835
Other long-term liabilities	49	147
Total warranty provision	\$ 592	\$ 982

**Table of Contents****INTEVAC, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****8. 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.

***Letters of Credit***

As of July 2, 2016, we had letters of credit and bank guarantees outstanding totaling \$1.8 million, including the standby letter of credit outstanding under the Santa Clara, California facility lease and a banker's guarantee which guarantees customer advances under a customer contract. These letters of credit and bank guarantees are collateralized by \$1.8 million of restricted cash.

**9. Cash, Cash Equivalents and Investments**

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

Amortized Cost	July 2, 2016		Fair Value
	Unrealized Holding Gains	Unrealized Holding Losses	
	(In thousands)		



Edgar Filing: INTEVAC INC - Form 10-Q

Cash and cash equivalents:				
Cash	\$ 9,442	\$	\$	\$ 9,442
Money market funds	9,291			9,291
Total cash and cash equivalents	\$ 18,733	\$	\$	\$ 18,733
Short-term investments:				
Commercial paper	\$ 1,091	\$	\$ 1	\$ 1,090
Corporate bonds and medium-term notes	6,651	3	1	6,653
Municipal bonds	3,135	1		3,136
U.S. treasury and agency securities	5,773	4	1	5,776
Total short-term investments	\$ 16,650	\$ 8	\$ 3	\$ 16,655
Long-term investments:				
Corporate bonds and medium-term notes	\$ 5,214	\$ 12	\$	\$ 5,226
Total long-term investments	\$ 5,214	\$ 12	\$	\$ 5,226
Total cash, cash equivalents, and investments	\$ 40,597	\$ 20	\$ 3	\$ 40,614

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

	Amortized Cost	January 2, 2016 Unrealized Holding Gains    Unrealized Holding Losses		Fair Value
		(In thousands)		
Cash and cash equivalents:				
Cash	\$ 6,208	\$	\$	\$ 6,208
Money market funds	7,538			7,538
Total cash and cash equivalents	\$ 13,746	\$	\$	\$ 13,746
Short-term investments:				
Corporate bonds and medium-term notes	\$ 9,978	\$	\$ 7	\$ 9,971
Municipal bonds	4,238			4,238
U.S. treasury and agency securities	8,999			8,999
Total short-term investments	\$ 23,215	\$	\$ 7	\$ 23,208
Long-term investments:				
Corporate bonds and medium-term notes	\$ 6,212	\$	\$ 23	&nbs