INTEVAC INC
Form 10-Q
August 07, 2008

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(MARK ONE)

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

For the quarterly period ended June 28, 2008

OR

o **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	**94-3125814**
(State or other jurisdiction of incorporation or organization)	**(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.
þ Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

On August 1, 2008, 21,791,135 shares of the Registrant s Common Stock, $0.001 par value, were outstanding.

INTEVAC, INC.
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

INTEVAC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 28, 2008	December 31, 2007
	(Unaudited)	
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,960	$ 27,673
Short-term investments	11,948	110,985
Trade and other accounts receivable, net of allowances of $88 at June 28, 2008 and $57 at December 31, 2007	29,111	14,142
Inventories	25,730	22,133
Prepaid expenses and other current assets	3,189	4,162
Deferred income taxes	4,981	3,609
Total current assets	100,919	182,704
Property, plant and equipment, net	15,404	15,402
Long-term investments	78,195	2,009
Goodwill	7,905	7,905
Other intangible assets, net of amortization of $362 at June 28, 2008 and $218 at December 31, 2007	1,638	1,782
Deferred income taxes and other long term assets	6,750	5,611
Total assets	$ 210,811	$ 215,413
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Note payable	$ 1,952	$ 1,992
Accounts payable	6,155	7,678
Accrued payroll and related liabilities	4,971	8,610
Other accrued liabilities	4,912	5,454
Customer advances	3,858	4,340
Total current liabilities	21,848	28,074
Other long-term liabilities	271	278
Long-term note payable		1,898
Stockholders equity:		
Common stock, $0.001 par value	22	22
Additional paid in capital	124,153	120,056
Accumulated other comprehensive income (loss)	(623)	571
Retained earnings	65,140	64,514

Total stockholders equity	188,692	185,163
Total liabilities and stockholders equity	$ 210,811	$ 215,413

Note: Amounts as of December 31, 2007 are derived from the December 31, 2007 audited consolidated financial statements.

See accompanying notes to the condensed consolidated financial statements.

2

Table of Contents

INTEVAC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
	(Unaudited) (In thousands, except per share amounts)			
Net revenues:				
Systems and components	$ 28,126	$ 69,603	$ 57,140	$ 143,196
Technology development	4,006	2,502	8,167	5,283
Total net revenues	32,132	72,105	65,307	148,479
Cost of net revenues:				
Systems and components	16,597	39,895	31,987	81,980
Technology development	2,402	1,383	4,876	2,890
Total cost of net revenues	18,999	41,278	36,863	84,870
Gross profit	13,133	30,827	28,444	63,609
Operating expenses:				
Research and development	8,418	9,648	17,806	21,840
Selling, general and administrative	7,413	7,839	14,477	15,352
Total operating expenses	15,831	17,487	32,283	37,192
Operating profit (loss)	(2,698)	13,340	(3,839)	26,417
Interest income and other, net	806	1,538	2,217	2,858
Income (loss) before income taxes	(1,892)	14,878	(1,622)	29,275
Provision (benefit) for income taxes	(955)	3,326	(2,248)	7,878
Net income (loss)	$ (937)	$ 11,552	$ 626	$ 21,397
Other comprehensive income (loss):				
Unrealized gain (loss) on securities held as available for sale	12		(1,555)	
Foreign currency translation adjustments	129	(11)	361	10
Total comprehensive income (loss)	$ (796)	$ 11,541	$ (568)	$ 21,407
Basic income (loss) per share:				
Net income (loss)	$ (0.04)	$ 0.54	$ 0.03	$ 1.00
Shares used in per share amounts	21,691	21,396	21,669	21,345
Diluted income (loss) per share:				
Net income (loss)	$ (0.04)	$ 0.52	$ 0.03	$ 0.97

Shares used in per share amounts	21,691	22,146	22,115	22,167

See accompanying notes to the condensed consolidated financial statements.

INTEVAC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended	
	June 28, 2008	June 30, 2007
	(Unaudited) (In thousands)	
Operating activities		
Net income	$ 626	$ 21,397
Adjustments to reconcile net income to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation and amortization	2,252	2,187
Equity-based compensation	3,238	2,738
Deferred income taxes	(2,800)	
Changes in operating assets and liabilities	(23,359)	(9,005)
Total adjustments	(20,669)	(4,080)
Net cash and cash equivalents (used in) provided by operating activities	(20,043)	17,317
Investing activities		
Purchases of investments	(7,000)	(71,661)
Proceeds from maturities of investments	28,500	48,200
Acquisition of DeltaNu LLC, net of cash acquired		(2,083)
Purchases of leasehold improvements and equipment	(2,263)	(3,406)
Net cash and cash equivalents provided by (used in) investing activities	19,237	(28,950)
Financing activities		
Net proceeds from issuance of common stock	940	1,861
Repayment of note payable	(2,000)	
Excess tax benefit from equity-based compensation		767
Net cash and cash equivalents (used in) provided by financing activities	(1,060)	2,628
Effect of exchange rate changes on cash	153	7
Net decrease in cash and cash equivalents	(1,713)	(8,998)
Cash and cash equivalents at beginning of period	27,673	39,440
Cash and cash equivalents at end of period	$ 25,960	$ 30,442
Supplemental Schedule of Cash Flow Information		
Cash paid (received) for:		
Income taxes	$	$ 6,544
Income tax refund	$ (1,135)	$
Other non-cash changes		
Notes payable issued for the acquisition of DeltaNu, LLC	$	$ 3,720

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

INTEVAC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Basis of Presentation

In the opinion of management, the unaudited interim consolidated condensed 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, 2007 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, 2007 (2007 Form 10-K). Intevac s results of operations for the three and six months ended June 28, 2008 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 (United States) 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.

Reclassifications

Certain prior year amounts in the Condensed Consolidated Financial Statements have been reclassified to conform to the 2008 presentation. The Condensed Consolidated Statements of Cash Flows for the period ended June 30, 2007 was reclassified to reflect the year-end 2007 presentation of the cash flow impact of the acquisition of DeltaNu, LLC. The reclassifications had no material effect on total assets, liabilities, equity, revenue, net income or comprehensive income previously reported.

2. New Accounting Pronouncements

In May 2008, the Financial Accounting Standard Board (FASB) issued Statement on Financial Accounting Standards (SFAS) No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162), which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. SFAS 162 is effective sixty days following the SEC s approval of The Public Company Accounting Oversight Board s related amendments to remove the GAAP hierarchy from auditing standards. Intevac is currently evaluating the potential impact of the implementation of SFAS 162 on its financial position and results of operations.

In April 2008, the FASB issued FASB Staff Position (FSP) 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). The FSP amends the factors that an entity should consider in determining the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets , to include the entity s historical experience in renewing or extending similar arrangements, whether or not the arrangements have explicit renewal or extension provisions. Previously an entity was precluded from using its own assumptions about renewal or extension of an arrangement where there was likely to be substantial cost or modifications. Entities without their own historical experience should consider the assumptions market participants would use about renewal or extension. The amendment may result in the useful life of an entity s intangible asset differing from the period of expected cash flows that was used to measure the fair value of the underlying asset using the market participant s perceived value. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years. Early adoption is prohibited. The requirements for determining the useful life of intangible assets apply to intangible assets acquired after January 1, 2009. The disclosure requirements will be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. Intevac is currently evaluating the potential impact of the implementation of FSP 142-3 on its financial position and results of operations.

Table of Contents

INTEVAC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 enhances required disclosures regarding derivatives and hedging activities. SFAS is effective for fiscal years and interim periods beginning after November 15, 2008. Intevac is currently evaluating the potential impact of the implementation of SFAS 161 on its financial position and results of operations.

In December 2007 the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141R). SFAS 141R retains the fundamental acquisition method of accounting established in Statement 141; however, among other things, SFAS 141R requires recognition of assets and liabilities of non-controlling interests acquired, fair value measurement of consideration and contingent consideration, expense recognition for transaction costs and certain integration costs, recognition of the fair value of contingencies, and adjustments to income tax expense for changes in an acquirer s existing valuation allowances or uncertain tax positions that result from the business combination. SFAS 141R is effective for annual reporting periods beginning after December 15, 2008 and will be applied prospectively. Intevac is currently evaluating the potential impact of the implementation of SFAS 141R on its financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin No 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, changes in a parent s ownership of a noncontrolling interest, calculation and disclosure of the consolidated net income attributable to the parent and the noncontrolling interest, changes in a parent s ownership interest while the parent retains its controlling financial interest and fair value measurement of any retained noncontrolling equity investment. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early implementation is prohibited. Intevac must implement these new requirements in its first quarter of fiscal 2009. Intevac is currently evaluating the potential impact of the implementation of SFAS 160 on its financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment to FASB No. 115 (SFAS 159). Under SFAS 159, entities may elect to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. The election, called the fair value option, will enable entities to achieve an offset accounting effect for changes in fair value of certain related assets and liabilities without having to apply more complex hedge accounting provisions. SFAS 159 is effective as of the beginning of a company s first fiscal year that begins after November 15, 2007. Intevac chose not to apply the provisions of SFAS 159.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. Intevac implemented the measurement and disclosure requirements related to financial assets and financial liabilities in the first quarter of fiscal 2008. The implementation of this standard did not have a material impact on Intevac s financial condition, results of operations or cash flows.

In February 2008, the FASB issued FSP 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP 157-1) and FSP 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008.

Table of Contents

INTEVAC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Inventories

Inventories are priced using average actual costs and are stated at the lower of cost or market. Inventories consist of the following:

	June 28, 2008	December 31, 2007
	(In thousands)	
Raw materials	$ 10,888	$ 13,666
Work-in-progress	9,123	6,191
Finished goods	5,719	2,276
	$ 25,730	$ 22,133

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

Inventory reserves included in the above balances were $8.2 million and $7.8 million at June 28, 2008 and December 31, 2007, respectively. Each quarter, Intevac analyzes its inventory (raw materials, work-in-progress and finished goods) against the forecasted demand for the next twelve months. Raw materials with no forecasted requirements in that period are considered excess and inventory provisions are established to write those items down to zero net book value. Work-in-progress and finished goods inventories with no forecast requirements in that period are typically written down to the lower of cost or market. During this process, some inventory is identified as having no future use or value to us and is disposed of against the reserves.

4. Equity-Based Compensation

At June 28, 2008, Intevac had equity-based awards outstanding under the 2004 Equity Incentive Plan (the 2004 Plan) and the 2003 Employee Stock Purchase Plan (the ESPP). Intevac s stockholders approved both of these plans.

The 2004 Plan permits the grant of incentive or non-statutory stock options, restricted stock, stock appreciation rights, performance units and performance shares. During the six months ended June 28, 2008, Intevac granted 161,000 stock options with an estimated total grant-date fair value of $1.1 million. Of this amount, estimated awards of $222,000 are not expected to vest.

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 period. 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. During the six months ended June 28, 2008, Intevac granted purchase rights with an estimated total grant-date value of $408,000.

Table of Contents

INTEVAC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Compensation Expense

The effect of recording equity-based compensation for the three- and six-month periods ended June 28, 2008 and June 30, 2007 was as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Equity-based compensation by type of award:				
Stock options	$ 1,325	$ 1,169	$ 2,649	$ 2,314
Employee stock purchase plan	297	214	500	427
Amounts (capitalized as inventory) released to cost of sales	20	1	89	(3)
Total equity-based compensation	1,642	1,384	3,238	2,738
Tax effect on equity-based compensation	(640)	(305)	(1,264)	(737)
Net effect on net income	1,002	1,079	1,974	2,001
Effect on earnings per share:				
Basic	$ 0.05	$ 0.05	$ 0.09	$ 0.09
Diluted	$ 0.05	$ 0.05	$ 0.09	$ 0.09

Valuation Assumptions

The fair value of share-based payment awards is estimated at the grant date using the Black-Scholes option valuation model. The determination of fair value of share-based payment 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, the expected stock price volatility over the term of the awards, and actual employee stock option exercise behavior.

The weighted-average estimated value of employee stock options granted during the three months ended June 28, 2008 and June 30, 2007 was $7.09 per share and $11.49 per share, respectively. The weighted-average estimated value of employee stock options granted during the six months ended June 28, 2008 and June 30, 2007 was $6.99 per share and $13.35 per share, respectively. The weighted-average estimated fair value of employee stock purchase rights granted pursuant to the ESPP during the six months ended June 28, 2008 and June 30, 2007 was $5.61 and $10.54 per share, respectively. No purchase rights were granted under the ESPP during either the three months ended June 28, 2008 and June 30, 2007. The fair value of each option and employee stock purchase right grant is estimated on the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions:

INTEVAC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Stock Options:				
Expected volatility	65.16%	68.30%	65.16%	67.93%
Risk free interest rate	3.13%	4.67%	3.04%	4.59%
Expected term of options (in years)	4.4	4.4	4.4	4.5
Dividend yield	None	None	None	None

	Six Months Ended	
	June 28, 2008	June 30, 2007
Stock Purchase Rights:		
Expected volatility	61.26%	63.48%
Risk free interest rate	1.5%	4.84%
Expected term of purchase rights (in years)	1.3	1.5
Dividend yield	None	None

The computation of the expected volatility assumptions used in the Black-Scholes calculations for new 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 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.

As the equity-based compensation expense recognized in the Condensed Consolidated Statements of Operations is based on awards ultimately expected to vest, 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.

5. Business Combinations

On November 9, 2007, Intevac acquired the assets and certain liabilities of Creative Display Systems, LLC (CDS) for a purchase price of $6.0 million in cash, net of cash acquired. The acquired business is a supplier of high-performance micro-display products for near-eye and portable applications in defense and commercial markets. In connection with this acquisition, Intevac recorded goodwill of $2.5 million and intangible assets of $1.6 million. Of the $1.6 million of acquired intangible assets, $890,000 was assigned to purchased technology (to be amortized over 10 years), $560,000 was assigned to customer relationships (to be amortized over 13 years), $110,000 was assigned to acquired backlog (to be amortized over 1 year), and $40,000 was assigned to covenants not to compete (to be amortized over 3 years).

On January 31, 2007, Intevac acquired the assets and certain liabilities of DeltaNu, LLC (DeltaNu) for a purchase price of $5.8 million of which $2 million was paid in cash at the close of the acquisition, $2 million was paid on January 31, 2008 and $2 million is payable on January 31, 2009, which is in the form of a non interest-bearing note. Interest is imputed, and the related note payable is recorded at a discount in the accompanying Condensed Consolidated Balance Sheets. The acquired business is a supplier of small footprint and handheld Raman spectrometry instruments. In connection with this acquisition, Intevac recorded goodwill of $5.4 million, an

Table of Contents

INTEVAC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

indefinite-life tradename of $120,000 and amortizable intangible assets of $280,000 which are comprised of customer relationships, covenants not to compete and backlog to be amortized over their respective useful lives of 1-2 years.

The results of operations for the acquired businesses have been included in our consolidated statements of operations for the periods subsequent to our acquisition of DeltaNu and CDS, respectively. The results of operations for DeltaNu and CDS for periods prior to their acquisition were not material to our consolidated statements of operations and, accordingly, pro forma financial information has not been presented.

At June 28, 2008, Intevac had recorded a total of $7.9 million of goodwill and $120,000 of unamortized intangible assets, from the acquisitions described above, all of which was attributable to the Intevac Photonics segment. Goodwill and unamortized intangible assets are tested for impairment on an annual basis or more frequently upon the occurrence of circumstances that indicate that goodwill and unamortized intangible assets may be impaired. Intevac did not record any impairment of goodwill and intangible assets during the six months ended June 28, 2008.

Total amortization expense of purchased intangibles for the three months and six months ended June 28, 2008 was $68,000 and $145,000, respectively. As of June 28, 2008, future amortization expense is expected to be $191,000 for the remainder of 2008, $152,000 for 2009, $143,000 for 2010, $132,000 for 2011, $132,000 for 2012 and $768,000 thereafter.

6. Warranty

Intevac provides for the estimated cost of warranty when revenue is recognized. Intevac s warranty is per contract terms and for Intevac s systems the warranty typically ranges between 12 and 24 months from customer acceptance. For systems sold through Intevac s distributor, Intevac offers a 3 month warranty, where the remainder of any warranty period is the responsibility of the distributor. During the 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. Estimated repair or replacement costs are used along with Intevac s historical warranty experience to determine Intevac s warranty obligation. Management exercises judgment in determining the underlying estimates. Intevac also provides for estimated retrofit costs, which typically relate to design changes or improvements we identify. On a case-by-case basis, management determines whether or not to retrofit systems in the field at no charge to the customer.

On the Condensed Consolidated Balance Sheet, the short-term portion of the warranty provision is included in other accrued liabilities, while the long-term portion is included in other long-term liabilities. The expense associated with product warranties issued or adjusted is included in cost of net revenues on the Condensed Consolidated Statement of Operations and Comprehensive Income.

Table of Contents

INTEVAC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table displays the activity in the warranty provision account for the three- and six-month periods ending June 28, 2008 and June 30, 2007:

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
	(in thousands)			
Beginning balance	$ 2,578	$ 5,229	$ 3,092	$ 5,283
Expenditures incurred under warranties	(537)	(1,189)	(1,211)	(2,424)
Accruals for product warranties issued during the reporting period	430	674	790	1,748
Adjustments to previously existing warranty accruals	(335)	(156)	(535)	(49)
Ending balance	$ 2,136	$ 4,558	$ 2,136	$ 4,558

The following table displays the balance sheet classification of the warranty provision account at June 28, 2008 and at December 31, 2007:

	June 28, 2008	December 31, 2007
	(In thousands)	
Other accrued liabilities	$ 1,915	$ 2,814
Other long-term liabilities	221	278
Total warranty provision	$ 2,136	$ 3,092

7. Guarantees

Intevac has entered into agreements with customers and suppliers that include limited intellectual property indemnification obligations that Intevac believes are customary in the industry. These guarantees generally require Intevac to compensate the other party for certain damages and costs incurred as a result of third party intellectual property claims arising from these transactions. The nature of the intellectual property indemnification obligations prevents Intevac from making a reasonable estimate of the maximum potential amount Intevac could be required to pay its customers and suppliers. Historically, Intevac has not made any significant indemnification payments under such agreements, and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

8. Cash, Cash Equivalents and Investments in Debt Securities

Cash and cash equivalents are comprised of short-term, highly liquid investments with maturities of 90 days or less from the date of purchase. Investments are comprised of both available-for-sale securities, which are recorded at estimated fair value, and held-to-maturity securities, which are carried at amortized cost. Unrealized gains and losses associated with Intevac s investments, if any, are reported in stockholders equity. Included in accounts payable is $1.7 million and $2.1 million of book overdraft at June 28, 2008 and December 31, 2007, respectively.

Table of Contents

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The table below presents the amortized principal amount and major security type for Intevac s investments:

	June 28, 2008	December 31, 2007