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**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 March 28, 2009

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  
(I.R.S. 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 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  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  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

On May 01, 2009, 21,925,526 shares of the Registrant's Common Stock, \$0.001 par value, were outstanding.

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INTEVAC, INC.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

INTEVAC, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 28, 2009	December 31, 2008
	(Unaudited)	
	(In thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 27,876	\$ 39,201
Short-term investments	5,993	—
Trade and other accounts receivable, net of allowances of \$117 at March 28, 2009 and \$145 at December 31, 2008	9,217	15,014
Inventories	17,178	17,674
Prepaid expenses and other current assets	4,803	4,806
Deferred income tax assets	3,801	3,204
Total current assets	68,868	79,899
Property, plant and equipment, net	14,417	14,886
Long-term investments	66,961	66,328
Goodwill	7,905	7,905
Other intangible assets, net of amortization of \$834 at March 28, 2009 and \$693 at December 31, 2008	3,813	4,054
Deferred income taxes and other long-term assets	18,429	16,097
Total assets	<u>\$ 180,393</u>	<u>\$ 189,169</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Note payable	\$ —	\$ 2,000
Accounts payable	4,305	4,214
Accrued payroll and related liabilities	2,927	3,395
Other accrued liabilities	2,504	3,175
Customer advances	1,071	2,807
Total current liabilities	10,807	15,591
Other long-term liabilities	384	509
Stockholders' equity:		
Common stock, \$0.001 par value	22	22
Additional paid-in capital	130,485	128,686
Accumulated other comprehensive loss	(4,701)	(4,808)
Retained earnings	43,396	49,169
Total stockholders' equity	169,202	173,069
Total liabilities and stockholders' equity	<u>\$ 180,393</u>	<u>\$ 189,169</u>

Note: Amounts as of December 31, 2008 are derived from the December 31, 2008 audited consolidated financial statements.

See accompanying notes.

INTEVAC, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended	
	March 28, 2009	March 29, 2008
	(Unaudited)	
	(In thousands, except per share amounts)	
Net revenues:		
Systems and components	\$ 8,677	\$ 29,014
Technology development	3,631	4,161
Total net revenues	12,308	33,175
Cost of net revenues:		
Systems and components	6,057	15,390
Technology development	1,986	2,474
Total cost of net revenues	8,043	17,864
Gross profit	4,265	15,311
Operating expenses:		
Research and development	8,030	9,388
Selling, general and administrative	5,709	7,064
Total operating expenses	13,739	16,452
Loss from operations	(9,474)	(1,141)
Interest income and other, net	430	1,411
Income (loss) before income taxes	(9,044)	270
Income tax benefit	3,271	1,293
Net income (loss)	<u>\$ (5,773)</u>	<u>\$ 1,563</u>
Basic income (loss) per share:		
Net income (loss)	\$ (0.26)	\$ 0.07
Shares used in per share amounts	21,882	21,647
Diluted income (loss) per share:		
Net income (loss)	\$ (0.26)	\$ 0.07
Shares used in per share amounts	21,882	22,053

See accompanying notes.

INTEVAC, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended	
	March 28, 2009	March 29, 2008
(Unaudited) (In thousands)		
<b>Operating activities</b>		
Net income (loss)	\$ (5,773)	\$ 1,563
Adjustments to reconcile net income (loss) to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	1,336	1,085
Equity-based compensation	1,397	1,596
Deferred income taxes	(3,059)	(298)
Changes in operating assets and liabilities	3,103	(15,769)
Total adjustments	<u>2,777</u>	<u>(13,386)</u>
Net cash and cash equivalents used in operating activities	(2,996)	(11,823)
<b>Investing activities</b>		
Purchases of investments	(5,993)	(7,000)
Proceeds from sales and maturities of investments	100	20,900
Purchases of leasehold improvements and equipment	(779)	(1,327)
Net cash and cash equivalents provided by (used in) investing activities	(6,672)	12,573
<b>Financing activities</b>		
Proceeds from issuance of common stock	453	804
Payment of note payable	(2,000)	(2,000)
Net cash and cash equivalents used in financing activities	(1,547)	(1,196)
Effect of exchange rate changes on cash and cash equivalents	(110)	48
Net decrease in cash and cash equivalents	(11,325)	(398)
Cash and cash equivalents at beginning of period	39,201	27,673
Cash and cash equivalents at end of period	<u>\$ 27,876</u>	<u>\$ 27,275</u>
<b>Supplemental Schedule of Cash Flow Information</b>		
Cash paid (received) for:		
Income taxes	\$ —	\$ —
Income tax refund	—	(1,135)

See accompanying notes.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**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, 2008 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, 2008 (2008 Form 10-K). Intevac's results of operations for the three months ended March 28, 2009 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. New Accounting Pronouncements**

In April 2009, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FAS 141R-1 "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" ("FSP FAS 141R-1"). This FSP amends and clarifies Statement on Financial Accounting Standards ("SFAS") No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"), to require that an acquirer recognize at fair value, at the acquisition date, an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value of such an asset acquired or liability assumed cannot be determined, the acquirer should apply the provisions of SFAS 5, "Accounting for Contingencies", to determine whether the contingency should be recognized at the acquisition date or after it. FSP FAS 141R-1 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is after the beginning of the first annual reporting period beginning after December 15, 2008. Intevac expects FSP FAS 141R may have an impact on Intevac's financial position and results of operations in future periods, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions Intevac consummates in the future.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1 and APB 28-1"). FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", to require disclosures about fair value of financial instruments in interim as well as in annual financial statements. This FSP also amends APB Opinion No. 28, "Interim Financial Reporting", to require those disclosures in all interim financial statements. FSP FAS 107-1 and APB 28-1 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 and shall be applied prospectively. Intevac does not expect that the implementation of FSP FAS 107-1 and APB 28-1 will have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4"). FSP FAS 157-4 clarifies when markets are illiquid or that market pricing may not actually reflect the "real" value of an asset. If a market is determined to be inactive and market price is reflective of a distressed price then an alternative method of pricing can be used, such as a present value technique to estimate fair value. FSP FAS 157-4 identifies factors to be considered when determining whether or not a market is inactive. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 and shall be applied prospectively. Intevac is evaluating the impact the implementation of FSP FAS 157-4 will have on its consolidated financial statements.

## INTEVAC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2 “Recognition and Presentation of Other-Than-Temporary Impairments (OTTI)” (“FSP FAS 115-2 and FAS 124-2”) which is intended to provide greater clarity to investors about the credit and noncredit component of an OTTI event and to more effectively communicate when an OTTI event has occurred. The FSP applies to debt securities and requires that the total OTTI be presented in the statement of income with an offset for the amount of impairment that is recognized in other comprehensive income, which is the noncredit component. Noncredit component losses are to be recorded in other comprehensive income if an investor can assess that (a) it does not have the intent to sell or (b) it is not more likely than not that it will have to sell the security prior to its anticipated recovery. The FSP is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP will be applied prospectively with a cumulative effect transition adjustment as of the beginning of the period in which it is adopted. An entity early adopting this FSP must also early adopt FSP FAS 157-4. Intevac is evaluating the impact the implementation of FSP FAS 115-2 and FAS 124-2 will have on its consolidated financial statements.

**3. Inventories**

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

	March 28, 2009	December 31, 2008
	(In thousands)	
Raw materials	\$ 9,640	\$ 10,470
Work-in-progress	5,542	4,932
Finished goods	1,996	2,272
	<u>\$ 17,178</u>	<u>\$ 17,674</u>

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

Inventory reserves included in the above amounts were \$9.3 million and \$9.1 million at March 28, 2009 and December 31, 2008, respectively.

**4. Equity-Based Compensation**

At March 28, 2009, 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 three months ended March 28, 2009, Intevac granted 424,000 stock options with an estimated total grant-date fair value of \$899,000. Of this amount, estimated awards of \$203,000 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 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. During the three months ended March 28, 2009, Intevac granted purchase rights with an estimated total grant-date fair value of \$301,000.

## INTEVAC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Compensation Expense**

The effect of recording equity-based compensation for the three-month periods ended March 28, 2009 and March 29, 2008 was as follows:

	<b>Three Months Ended</b>	
	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Equity-based compensation by type of award:		
Stock options	\$ 1,112	\$ 1,325
Employee stock purchase plan	234	202
Amounts released to cost of sales	<u>51</u>	<u>69</u>
Total equity-based compensation	1,397	1,596
Tax effect on equity-based compensation	<u>(404)</u>	<u>(493)</u>
Net effect on net income (loss)	<u>\$ 993</u>	<u>\$ 1,103</u>

**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 our 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.

The weighted-average estimated value of employee stock options granted during the three months ended March 28, 2009 and March 29, 2008 was \$2.12 per share and \$6.25 per share, respectively. The weighted-average estimated fair value of employee stock purchase rights granted pursuant to the ESPP during the three months ended March 28, 2009 and March 29, 2008 was \$2.60 per share and \$5.61 per share, respectively. 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:

	<b>Three Months Ended</b>	
	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Stock Options:		
Expected volatility	66.76%	65.18%
Risk free interest rate	1.95%	2.33%
Expected term of options (in years)	4.5	4.5
Dividend yield	None	None
Stock Purchase Rights:		
Expected volatility	82.23%	61.26%
Risk free interest rate	0.9%	1.5%
Expected term of purchase rights (in years)	2.0	1.3
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-



INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 Combination, Goodwill and Purchased Intangible Assets, Net**

On July 14, 2008, Intevac acquired certain assets and liabilities of OC Oerlikon Balzers Ltd. ("Oerlikon")'s magnetic media equipment business for a purchase price of \$15.1 million in cash, net of cash acquired. In addition Intevac agreed to pay contingent consideration to Oerlikon in the form of a royalty on Intevac's net revenue from commercial sales of certain products. This royalty agreement terminates on July 13, 2011. Intevac has made no payments to Oerlikon under this agreement through March 28, 2009. As part of the acquisition, Intevac also entered into a settlement agreement with Oerlikon related to a patent infringement lawsuit filed by Intevac against Unaxis USA, Inc., a wholly owned subsidiary of Oerlikon, and all claims in the litigation were dismissed.

In connection with this acquisition, Intevac recorded goodwill of \$9.8 million and intangible assets of \$3.8 million. Of the \$3.8 million of acquired intangible assets, \$2.6 million was assigned to customer relationships (to be amortized over 6 to 9 years), \$1.2 million was assigned to purchased technology (to be amortized over 3 to 7 years) and \$80,000 was assigned to acquired backlog (to be amortized over 1 year). Future contingent payments will also be allocated to goodwill. Any change in the estimated fair value of the net assets acquired will change the amount of the purchase price allocable to goodwill.

The results of operations for the acquired business have been included in Intevac's consolidated statements of operations for the periods subsequent to the acquisition date. Pro forma results of operations have not been presented because the effects of the acquisition were not material.

Goodwill and indefinite-life 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. In the fourth quarter of fiscal 2008, Intevac performed an interim goodwill impairment analysis. The analysis indicated that there would be no remaining implied value attributable to goodwill in the Equipment reporting unit and accordingly, Intevac wrote off all \$9.7 million of goodwill in its Equipment reporting unit. The goodwill associated with the Intevac Photonics reporting unit was not impaired. Intevac did not record any impairment of goodwill and intangible assets during the three months ended March 28, 2009. At March 28, 2009, Intevac had a total of \$7.9 million of goodwill and \$120,000 of indefinite-life intangible assets. At March 28, 2009 all goodwill is attributed to the Intevac Photonics segment.

Total amortization expense of finite-lived intangibles for the three months ended March 28, 2009 was \$141,000. As of March 28, 2009, future amortization expense is expected to be \$416,000 for the remainder of 2009, \$552,000 for 2010, \$541,000 for 2011, \$541,000 for 2012, \$541,000 for 2013 and \$1.2 million thereafter. Intangible assets by segment are as follows: Equipment: \$2.6 million and Intevac Photonics: \$1.2 million.

**6. Warranty**

Intevac provides for the estimated cost of warranty when revenue is recognized. Intevac's warranty is per contract terms and for its systems 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

## INTEVAC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 Intevac 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-month periods ended March 28, 2009 and March 29, 2008:

	Three months ended	
	March 28, 2009	March 29, 2008
	(in thousands)	
Beginning balance	\$ 1,695	\$ 3,092
Expenditures incurred under warranties	(336)	(674)
Accruals for product warranties issued during the reporting period	301	435
Adjustments to previously existing warranty accruals	(197)	(275)
Ending balance	<u>\$ 1,463</u>	<u>\$ 2,578</u>

The following table displays the balance sheet classification of the warranty provision account at March 28, 2009 and at December 31, 2008:

	March 28, 2009	December 31, 2008
	(In thousands)	
Other accrued liabilities	\$ 1,203	\$ 1,286
Other long-term liabilities	260	409
Total warranty provision	<u>\$ 1,463</u>	<u>\$ 1,695</u>

## 7. 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 corporation 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.

## INTEVAC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*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 judgment 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.

**8. Cash, Cash Equivalents and Investments**

Cash and cash equivalents are comprised of short-term, highly liquid investments with original 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 available-for-sale investments, if any, are reported in stockholders' equity. Included in accounts payable is \$1.7 million and \$916,000 of book overdraft at March 28, 2009 and December 31, 2008, respectively.

The table below presents the estimated fair value or amortized principal amount and major security type for Intevac's investments:

	March 29, 2008	December 31, 2008
	(in thousands)	
Carrying value:		
U.S. treasury bills	\$ 5,993	\$ —
Auction rate securities	66,961	66,328
Total investments in debt securities	<u>\$ 72,954</u>	<u>\$ 66,328</u>
Short-term investments	\$ 5,993	\$ —
Long-term investments	66,961	66,328
Total investments in debt securities	<u>\$ 72,954</u>	<u>\$ 66,328</u>
Approximate fair value of investments in debt securities	<u>\$ 72,954</u>	<u>\$ 66,328</u>

As of March 28, 2009, financial assets measured utilizing Level 1 inputs were valued based on quoted market prices in active markets for identical securities and included money market funds in the amount of \$11.4 million and U.S. Treasury Bills in the amount of \$15.0 million.

As of March 28, 2009, Intevac's investment portfolio included \$74.3 million par value in auction rate securities ("ARS"). All of the ARS are student loan structured issues, where the loans have been originated under the U.S. Department of Education's Federal Family Education Loan Program. The principal and interest are 97-98% reinsured by the U.S. Department of Education, the collateral ratios range from 103% to 113%. Securities with a par value of \$61.3 million are rated AAA, securities with a par value of \$10.0 million are rated A3 and a security with a par value of \$3.0 million is rated Baa3. These investments have experienced failed auctions beginning in February 2008. The investments in ARS will not be accessible until a successful auction occurs, they are restructured into a more liquid security, a buyer is found outside of the auction process, or the underlying securities have matured.

At March 28, 2009, the fair value of the ARS was estimated at \$67.0 million based on a valuation by Houlihan Smith & Company, Inc. using discounted cash flow models. The estimates of future cash flows are based on certain key assumptions, such as discount rates appropriate for the type of asset and risk, which are significant unobservable inputs. As of March 28, 2009, there was insufficient observable market information for the ARS held by Intevac to determine the fair value. Therefore Level 3 fair values were estimated for these securities by incorporating

## INTEVAC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

assumptions that market participants would use in their estimates of fair value. Some of these assumptions included credit quality, collateralization, final stated maturity, estimates of the probability of being called or becoming liquid prior to final maturity, redemptions of similar ARS, previous market activity for the same investment security, impact due to extended periods of maximum auction rates and valuation models. These securities are classified as long-term assets as management believes that the ARS market will not become liquid within the next year. Potentially, it could take until the final maturity of the underlying notes (ranging from 23 years to 39 years) to realize these investments' recorded value. Management currently believes these securities are not other-than-temporarily impaired, primarily due to the government guarantee of the underlying securities and Intevac's ability to hold these securities for the foreseeable future.

As of March 28, 2009, based on the Level 3 valuation performed, Intevac determined that there was a decline in fair value of its ARS of \$7.3 million, which was deemed temporary. The unrealized loss is included in other comprehensive loss. Factors considered in determining whether a loss is temporary include length of time and the extent to which the investment's fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and Intevac's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery of fair value.

On March 19, 2009, Intevac filed a statement of claim under the Financial Industry Regulatory Authority dispute resolution process against Citigroup Inc. and Citigroup Global Markets, Inc. (collectively, "Citigroup") with respect to alleged fraud and market manipulation by Citigroup related to ARS. The statement of claim requests that Citigroup accept Intevac's tender of its ARS at par value and that Intevac receive compensatory, consequential and punitive damages and costs and expenses. As of March 28, 2009, the total par amount of ARS held by Intevac which are subject to the Citigroup claim amounted to \$56.8 million.

The following table presents the changes in Level 3 instruments measured on a recurring basis for the three months ended March 28, 2009 and March 29, 2008. The majority of Intevac's Level 3 balances consist of investment securities classified as available-for-sale with changes in fair value recorded in equity. Changes in Level 3 instruments (in thousands):

	Three months ended	
	March 28, 2009	March 29, 2008
	(in thousands)	
Beginning balance	\$ 66,328	\$ 81,450
Net unrealized gains and losses included in earnings	—	—
Net unrealized gains and losses included in other comprehensive loss	733	(1,567)
Purchases and settlements, net	(100)	(3,100)
Ending balance	<u>\$ 66,961</u>	<u>\$ 76,783</u>
Net change in unrealized gains and losses	<u>\$ 733</u>	<u>\$ (1,567)</u>

**9. Borrowing Facility**

On March 5, 2008, Intevac entered into an agreement with Citigroup for a secured revolving loan facility. This loan facility may be terminated at the discretion of Citigroup and amounts outstanding are payable on demand. It is secured by Intevac's ARS held at Citigroup. Approximately \$20 million of credit is currently available pursuant to the loan facility. The interest rate on the loan facility is prime minus 1.5 percent. No amounts were outstanding under this credit facility at March 28, 2009.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**10. Other Comprehensive Loss**

The components of accumulated other comprehensive loss, at March 28, 2009 and December 31, 2008 were as follows:

	March 28, 2009	December 31, 2008
	(In thousands)	
Accumulated net unrealized holding loss on available-for-sale investments, net of tax	\$ (4,771)	\$ (5,247)
Foreign currency translation gains	70	439
Total accumulated other comprehensive loss	<u>\$ (4,701)</u>	<u>\$ (4,808)</u>

The changes in the components of comprehensive income (loss) for the three months ended March 28, 2009 and March 29, 2008 were as follows:

	Three months ended	
	March 28, 2009	March 29, 2008
	(In thousands)	
Net income (loss)	\$ (5,773)	\$ 1,563
Unrealized holding gains (losses) on available-for-sale investments, net of taxes	476	(1,567)
Foreign currency translation gains (losses)	(369)	232
Total comprehensive income (loss)	<u>\$ (5,666)</u>	<u>\$ 228</u>

**11. Net Income (Loss) Per Share**

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

	Three months ended	
	March 28, 2009	March 29, 2008
	(In thousands)	
<b>Numerator:</b>		
Numerator for diluted earnings per share — income (loss) available to common stockholders	<u>\$ (5,773)</u>	<u>\$ 1,563</u>
<b>Denominator:</b>		
Denominator for basic earnings per share — weighted-average shares	21,882	21,647
<b>Effect of dilutive securities:</b>		
Employee stock compensation (1)	—	406
Dilutive potential common shares	—	406
Denominator for diluted earnings per share — adjusted	<u>21,882</u>	<u>22,053</u>

- (1) Potentially dilutive securities, consisting of shares issuable upon exercise of employee stock options, are excluded from the calculation of diluted EPS when their effect would be anti-dilutive. The weighted average number of employee stock options excluded for the three-month periods ended March 28, 2009 and March 29, 2008 was 3,009,394 and 1,597,575 respectively.

## INTEVAC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**12. Segment Reporting**

Intevac's two reportable segments are: Equipment and Intevac Photonics. Effective in the second quarter of 2008, Intevac renamed the Imaging Instrumentation segment to Intevac Photonics. Intevac's chief operating decision-maker has been identified as the President and CEO, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon Intevac's management organization structure as of March 28, 2009 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to the reportable segments disclosed.

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

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

The Equipment segment designs, manufactures and markets magnetic media processing systems to the hard disk drive industry and offers leading-edge, high-productivity etch systems to the semiconductor industry. Additionally, Intevac's 200 Lean® platform may be suitable for certain non-magnetic thin-film applications such as optical coatings, photovoltaic and wear-resistant coating although to date Intevac has not received revenue from such applications. Historically, the majority of Intevac's revenue has been derived from the Equipment segment and Intevac expects that the majority of its revenues for at least the next several years will continue to be derived from the Equipment segment.

The Intevac Photonics segment develops compact, cost-effective, high-sensitivity digital-optical products for the capture and display of low-light images and the optical analysis of materials. Intevac provides sensors, cameras and systems for commercial applications in the inspection, medical, scientific and security industries and for government applications such as night vision and long-range target identification.

Information for each reportable segment for the three months ended March 28, 2009 and March 29, 2008 is as follows:

**Net Revenues**

	Three months ended	
	March 28, 2009	March 29, 2008
	(in thousands)	
Equipment	\$ 6,118	\$ 26,973
Intevac Photonics	6,190	6,202
Total segment net revenues	<u>\$ 12,308</u>	<u>\$ 33,175</u>

## INTEVAC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Operating Loss*

	Three months ended	
	March 28, 2009	March 29, 2008
	(in thousands)	
Equipment	\$ (6,811)	\$ 496
Intevac Photonics	(1,221)	(821)
Total loss from segment operations	(8,032)	(325)
Unallocated costs	(1,442)	(816)
Loss from operations	(9,474)	(1,141)
Interest income, net	445	1,448
Other income and expense, net	(15)	(37)
Income (loss) before income taxes	<u>\$ (9,044)</u>	<u>\$ 270</u>

Total assets for each reportable segment as of March 28, 2009 and December 31, 2008 are as follows:

*Assets*

	March 28, 2009	December 31, 2008
	(in thousands)	
Equipment	\$ 25,475	\$ 33,132
Intevac Photonics	24,718	23,839
Total segment assets	<u>50,193</u>	<u>56,971</u>
Cash, cash equivalents and investments	100,830	105,529
Deferred income taxes	21,028	17,969
Other current assets	3,804	3,753
Common property, plant and equipment	3,360	3,643
Other assets	1,178	1,304
Consolidated total assets	<u>\$ 180,393</u>	<u>\$ 189,169</u>

**13. Income Taxes**

Intevac recorded an income tax benefit at an effective rate of 47.4% for the three months ended March 28, 2009, compared with (478.9%) for the three months ended March 29, 2008. Intevac adjusts its effective income tax rate each quarter to be consistent with the estimated annual effective income tax rate. The effective income tax rate differs from the applicable statutory rates due primarily to the utilization of deferred and current credits, the effect of permanent differences and the geographical composition of Intevac's worldwide earnings. Intevac's effective income tax rate is highly dependent on the availability of tax credits and the geographic composition of Intevac's worldwide earnings.

During the first quarter of 2009, Intevac established an additional valuation allowance to fully reserve its California state deferred tax assets due to the impact of California tax legislation that was enacted in February 2009. This additional valuation allowance decreased the income tax benefit by \$1.0 million. Intevac recognized the effect of the change in valuation allowance as a discrete item during the period.

Intevac is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and

**INTEVAC, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

require significant judgment to apply. With few exceptions, Intevac is not subject to U.S. federal, state and local, or international jurisdictions income tax examinations by tax authorities for the years before 2004. In February 2009, the state of California commenced an examination of the fiscal years ended 2005, 2006 and 2007. Presently, there are no other active income tax examinations in the jurisdictions where Intevac operates.

**14. Contingencies**

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



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

This Quarterly Report on Form 10-Q contains forward-looking statements, which involve risks and uncertainties. Words such as “believes,” “expects,” “anticipates” and the like indicate forward-looking statements. These forward-looking statements include comments related to Intevac's shipments, projected revenue recognition, product costs, gross margin, operating expenses, interest income, income taxes, cash balances and financial results in 2009; projected customer requirements for Intevac's new and existing products, and when, and if, Intevac's customers will place orders for these products; Intevac's ability to proliferate its technology into major military programs and to develop and introduce commercial imaging products; and the timing of delivery and/or acceptance of the systems and products that comprise Intevac's backlog for revenue; legal proceedings; and internal controls. Intevac's actual results may differ materially from the results discussed in the forward-looking statements for a variety of reasons, including those set forth under “Risk Factors” and in other documents we file from time to time with the Securities and Exchange Commission, including our Annual Report on Form 10-K filed in March 2009, and our periodic Form 10-Q's and Form 8-K's.

**Overview**

Intevac provides manufacturing equipment and solutions to the hard disk drive industry and offers advanced etch technology systems to the semiconductor industry. Intevac's 200 Lean® platform may be suitable for certain non-magnetic thin-film applications such as optical coatings, photovoltaic and wear-resistant coatings although to date Intevac has not received revenue from such applications. Intevac also provides sensitive electro-optical devices used in high-performance digital cameras for military and commercial applications. Intevac's customers and potential customers include manufacturers of hard disk drives, semiconductor chips and wafers, as well as medical, scientific and security companies and the U.S. government and its contractors. Intevac reports two segments: Equipment and Intevac Photonics. Effective in the second quarter of 2008, Intevac renamed the Imaging Instrumentation segment to Intevac Photonics. During the third quarter of 2008, Intevac completed the acquisition of certain assets and liabilities of the magnetic media equipment business of OC Oerlikon Balzers Ltd. (“Oerlikon”).

Product development and manufacturing activities occur in North America and Asia. Intevac has field offices in Asia to support its equipment customers. Intevac's equipment and service products are highly technical and, with the exception of Japan, are sold primarily through a direct sales force. In Japan, sales are typically made by Intevac's Japanese distributor, Matsubo. During the third quarter of 2008, Intevac entered into an alliance with a Korean equipment manufacturer and distributor, TES Co., Ltd. (“TES”). Under the agreement TES has the rights to manufacture and sell Intevac's Lean Etch® system to the Korean and Chinese markets, and Intevac has the rights to manufacture and sell TES' chemical vapor deposition equipment to customers throughout the rest of the world. To date no sales have been made pursuant to this contract.

Intevac's results are driven primarily by worldwide demand for hard disk drives, which in turn depends on end-user demand for personal computers, enterprise data storage, personal audio and video players and video game platforms. Intevac's business is subject to cyclical industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for hard disk drives, chips, and other electronic devices, as well as other factors, such as global economic conditions and technological advances in fabrication processes.

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The following table presents certain significant measurements for the three months ended March 28, 2009 and March 29, 2008:

	Three months ended		
	March 28, 2009	March 29, 2008	% Change
(in thousands, except percentages and per share amounts)			
Net revenues	\$ 12,308	\$ 33,175	(62.9)%
Gross profit	\$ 4,265	\$ 15,311	(72.1)%
Gross margin percent	34.7%	46.2%	(11.5)%
Net income (loss)	\$ (5,773)	\$ 1,563	(469.4)%
Earnings (loss) per diluted share	\$ (0.26)	\$ 0.07	(471.4)%

First quarter financial results for fiscal 2009 reflected a challenging environment as Intevac's Equipment customers reduced or delayed capital expenditures as a result of reduced demand, price erosion and industry consolidation. Net sales decreased during the first quarter of fiscal 2009 primarily due to lower equipment sales to disk manufacturers partially offset by increased Intevac Photonics' product sales. The global economic climate and constrained financing environment have caused a broad slowdown in capital equipment purchases by Intevac's hard drive customers. Net income for the first quarter of fiscal 2009 decreased compared to the same period in the prior year due to lower net sales and lower investment income, partially offset by lower operating expenses and higher income tax benefits. The decrease in operating expenses was a result of the global cost reduction plan implemented in the fourth quarter of 2008 and continuing focus on operating efficiency. As part of the global cost reduction plan, Intevac has reduced its global workforce by 21% and reduced its global infrastructure.

For the second quarter of 2009, Intevac expects its Equipment revenue to be down from the first quarter of 2009 as a result of lower demand, seasonality and global macroeconomic conditions as hard drive customers experience tightening credit, inventory rationalization throughout all channels and price competition. Intevac expects Intevac Photonics revenues in the second quarter of 2009 to increase from the first quarter of 2009.

"200 Lean<sup>®</sup>", "AccuLuber<sup>™</sup>", "ExaminerR<sup>™</sup>", "Lean Etch<sup>®</sup>", "LIVAR<sup>®</sup>", "MicroVista<sup>®</sup>", "NightVista<sup>®</sup>", "MOSIR<sup>®</sup>" and "Night Port<sup>™</sup>", among others, are our trademarks.

## Results of Operations

### Net revenues

	Three months ended		Change over Prior period	
	March 28, 2009	March 29, 2008	Amount	%
(in thousands, except percentages)				
Equipment	\$ 6,118	\$ 26,973	\$(20,855)	(77.3)%
Intevac Photonics	6,190	6,202	(12)	(0.2)%
Total net revenues	\$ 12,308	\$ 33,175	\$(20,867)	(62.9)%

Net revenues consist primarily of equipment sales used to manufacture thin-film disks, and, to a lesser extent, related equipment and system components; contract research and development related to the development of electro-optical sensors, cameras and systems; and low-light imaging products.

Equipment revenue for the three months ending March 28, 2009 included revenue recognized for four AccuLuber<sup>™</sup> systems, disk equipment technology upgrades and spare parts. Equipment revenue for the three months ended March 28, 2009 did not include any 200 Lean systems. Equipment revenue for the three months ended March 29, 2008 included revenue recognition for two 200 Lean systems, eleven disk lubrication systems including one AccuLuber system, upgrades and spare parts. While the uncertainty of end market demand continues to dampen

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expectations for the hard drive market, Intevac expects that in 2009 the demand for equipment will result primarily from the first shipments of patterned media development systems, incremental research and development systems, and the replacement of legacy systems with 200 Leans to support the continued growth in mobile drives. Intevac does not expect any of its hard drive customers to add new systems for capacity in 2009.

Intevac Photonics revenue for the three months ended March 28, 2009 consisted of \$3.6 million of research and development contract revenue and \$2.6 million of product sales. Intevac Photonics revenue for the three months ended March 29, 2008 consisted of \$4.2 million of research and development contract revenue and \$2.0 million of product sales. The increase in product revenue resulted from higher sales of digital night vision camera modules and commercial products. The decrease in contract research and development revenue was the result of a lower volume of contracts and no revenue from contract close-outs. Intevac expects that in 2009, Intevac Photonics revenues will grow driven by government spending as well as growth in commercial products. Substantial growth in future Intevac Photonics revenues is dependent on proliferation of Intevac's technology into major military programs, continued defense spending, the ability to obtain export licenses for foreign customers, obtaining production subcontracts for these programs, and development and sale of commercial products.

Intevac's backlog of orders at March 28, 2009 was \$17.0 million, as compared to \$20.2 million at December 31, 2008 and \$43.5 million at March 29, 2008. The \$17.0 million of backlog at March 28, 2009 consisted of \$8.3 million of Equipment backlog and \$8.7 million of Intevac Photonics backlog. The \$20.2 million of backlog at December 31, 2008 consisted of \$11.4 million of Equipment backlog and \$8.8 million of Intevac Photonics backlog. Backlog at March 28, 2009 and December 31, 2008 included one 200 Lean system, compared to seven at March 29, 2008.

International sales decreased by 78% to \$5.9 million for the three months ended March 28, 2009 from \$26.4 million for the three months ended March 29, 2008. International sales include products shipped to overseas operations of U.S. companies. The decrease in international sales was primarily due to a decrease in net revenues from disk sputtering systems, upgrades and spare parts. Substantially all of Intevac's international sales are to customers in Asia. International sales constituted 48% of net revenues for the three months ended March 28, 2009 and 80% of net revenues for the three months ended March 29, 2008. The mix of domestic versus international sales will change from period to period depending on the location of Intevac's largest customers in each period.

### *Gross profit*

	Three months ended		
	March 28, 2009	March 29, 2008	% Change
	(in thousands, except percentages)		
Equipment gross profit	\$ 1,828	\$ 12,708	(85.6)%
% of Equipment net revenues	29.9%	47.1%	
Intevac Photonics gross profit	\$ 2,437	\$ 2,603	(6.4)%
% of Intevac Photonics net revenues	39.4%	42.0%	
Total gross profit	\$ 4,265	\$ 15,311	(72.1)%
% of net revenues	34.7%	46.2%	

Cost of net revenues consists primarily of purchased materials and costs attributable to contract research and development, and also includes fabrication, assembly, test and installation labor and overhead, customer-specific engineering costs, warranty costs, royalties, provisions for inventory reserves and scrap. Cost of net revenues for the three months ended March 28, 2009 and March 29, 2008 included \$107,000 and \$249,000 of equity-based compensation expense, respectively.

Equipment gross margin was 29.9% in the three months ended March 28, 2009 compared to 47.1% in the three months ended March 29, 2008. The lower gross margin was due primarily to lower revenues, product mix, lower factory utilization, and costs from an acquired business partially offset by the savings from the global cost reduction plan implemented in the fourth quarter of 2008. Intevac expects the gross margin for the Equipment business in the second quarter of 2009 will improve over the first quarter of 2009 due to improved factory utilization and product



[Table of Contents](#)*Interest income and other, net*

	Three months ended		Change over prior period	
	March 28, 2009	March 29 2008	Amount	%
		(in thousands, except percentages)		
Interest income and other, net	\$ 430	\$ 1,411	\$ (981)	(69.5)%

Interest income and other, net consists primarily of interest income on investments and foreign currency gains and losses. The decrease in interest and other income in the three months ended March 28, 2009 resulted from lower average invested balances, lower interest rates and fluctuations in foreign currency gains and losses. Intevac expects interest income to decrease in the second quarter of 2009 over the same period in the previous year due primarily to lower investment portfolio balances and interest rates.

*Income tax benefit*

	Three months ended		Change over prior period	
	March 28, 2009	March 29, 2008	Amount	%
		(in thousands, except percentages)		
Income tax benefit	\$ 3,271	\$ 1,293	\$ 1,978	153.0%

Intevac recorded an income tax benefit at an effective rate of 47.4% for the three months ended March 28, 2009, compared with (478.9%) for the three months ended March 29, 2008. Intevac adjusts its effective income tax rate each quarter to be consistent with the estimated annual effective income tax rate. The effective income tax rate differs from the applicable statutory rates due primarily to the utilization of deferred and current credits, the effect of permanent differences and the geographical composition of Intevac's worldwide earnings. Intevac's effective income tax rate is highly dependent on the availability of tax credits and the geographic composition of Intevac's worldwide earnings.

During the first quarter of 2009, Intevac established an additional valuation allowance to fully reserve its California state deferred tax assets due to the impact of California tax legislation that was enacted in February 2009. This additional valuation allowance decreased the income tax benefit by \$1.0 million. Intevac recognized the effect of the change in valuation allowance as a discrete item during the period.

**Liquidity and Capital Resources**

At March 28, 2009, Intevac had \$100.8 million in cash, cash equivalents, and investments compared to \$105.5 million at December 31, 2008. During the first three months of 2009, cash and cash equivalents and investments decreased by \$4.7 million due primarily to cash used by operating activities, a scheduled payment to the owners of DeltaNu, LLC, and purchases of fixed assets partially offset by cash received from the sale of Intevac common stock to Intevac's employees through Intevac's employee benefit plans.

Cash, cash-equivalents and investments consist of the following:

	March 28, 2009	December 31, 2008
	(In thousands)	
Cash and cash equivalents	\$ 27,876	\$ 39,201
Short-term investments	5,993	—
Long-term investments	66,961	66,328
Total cash, cash equivalents and investments	<u>\$ 100,830</u>	<u>\$ 105,529</u>

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Operating activities used cash of \$3.0 million and \$11.8 million during the first three months of 2009 and 2008, respectively. The decrease in cash used by operating activities was due primarily to changes in working capital, partially offset by the reduction in net income, and non-cash changes in deferred taxes during the first three months of 2009.

Accounts receivable totaled \$9.2 million at March 28, 2009, compared to \$15.0 million at December 31, 2008. The decrease of \$5.8 million in the receivable balance was due to lower revenues and improved collection activities. Total net inventories decreased to \$17.2 million at March 28, 2009, compared to \$17.7 million at December 31, 2008 primarily as a result of lower business levels. Accounts payable increased slightly to \$4.3 million at March 28, 2009 compared to December 31, 2008. Accrued payroll and related liabilities decreased by \$468,000 during the three months ended March 28, 2009. Customer advances decreased by \$1.7 million during the first three months of 2009, as liquidations related to revenue recognition were higher than new advances received from Intevac's customers.

Investing activities in the first three months of 2009 used cash of \$6.7 million. Purchases of investments, net of proceeds from maturities of investments totaled \$5.9 million. Capital expenditures for the three months ended March 28, 2009 were \$779,000.

Financing activities in the first three months of 2009 used cash of \$1.5 million. Intevac made a scheduled payment of \$2.0 million to the owners of DeltaNu, LLC, which Intevac acquired in the first quarter of 2007. Intevac generated \$453,000 during the three months ended March 28, 2009 from the sale of Intevac common stock to Intevac's employees through Intevac's employee benefit plans.

It is anticipated that market conditions may continue to weaken, but Intevac anticipates that its efforts to reduce costs through its global cost reduction plan and headcount restructuring activity implemented in the fourth quarter will reduce its cash loss from operations to a level sustainable until market conditions and Intevac's business improves.

As of March 28, 2009, Intevac's available-for-sale securities represented \$74.3 million par value of auction rate securities ("ARS"), less a temporary valuation adjustment of \$7.3 million to reflect their current lack of liquidity. Since this valuation adjustment is deemed to be temporary it was recorded in other comprehensive loss. Due to current market conditions, these investments have experienced failed auctions beginning in mid-February 2008. These failed auctions result in a lack of liquidity in the securities, but do not affect the underlying collateral of the securities. Intevac believes that given their high credit quality, it will ultimately recover at par all amounts invested in these securities. Intevac does not anticipate that any potential lack of liquidity in these ARS will affect its ability to finance its operations and planned capital expenditures. Intevac continues to monitor efforts by the financial markets to find alternative means for restoring the liquidity of these investments. During April 2009, \$3.3 million of ARS were redeemed at par. These investments are classified as non-current assets until Intevac has better visibility as to when their liquidity will be restored. The classification and valuation of these securities will continue to be reviewed quarterly.

As described in Note 8 of Notes to Condensed Consolidated Financial Statements, at March 28, 2009, the fair value of the ARS was estimated at \$67.0 million based on a valuation by Houlihan Smith & Company, Inc., using discounted cash flow models. The estimates of future cash flows are based on certain key assumptions, such as discount rates appropriate for the type of asset and risk, which are significant unobservable inputs. As of March 28, 2009, there was insufficient observable market information for the ARS held by Intevac to determine the fair value. Therefore Level 3 fair values were estimated for these securities by incorporating assumptions that market participants would use in their estimates of fair value. Some of these assumptions included credit quality, collateralization, final stated maturity, estimates of the probability of being called or becoming liquid prior to final maturity, redemptions of similar ARS, previous market activity for the same investment security, impact due to extended periods of maximum auction rates and valuation models.

On March 19, 2009, Intevac filed a statement of claim under the Financial Industry Regulatory Authority dispute resolution process against Citigroup Inc. and Citigroup Global Markets, Inc. (collectively, "Citigroup") with respect to alleged fraud and market manipulation by Citigroup related to ARS. The statement of claim requests that

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Citigroup accept Intevac's tender of its ARS at par value and that Intevac receive compensatory, consequential and punitive damages and costs and expenses. As of March 28, 2009, the total par amount of ARS held by Intevac which are subject to the Citigroup claim amounted to \$56.8 million.

Intevac has entered into a line of credit with Citigroup under which approximately \$20 million is available. For additional information on this borrowing facility, see Note 9 of Notes to Condensed Consolidated Financial Statements.

Intevac believes that its existing cash, cash equivalents, investments and credit facility will be sufficient to meet its cash requirements for the foreseeable future. Intevac intends to undertake approximately \$4 to \$5 million in capital expenditures during the remainder of 2009.

### **Critical Accounting Policies and Estimates**

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

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

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

For further information about Intevac's critical accounting policies, see the discussion of critical accounting policies in Intevac's 2008 Form 10-K. Management believes that there has been no significant change during the three months ended March 28, 2009 to the items identified as critical accounting policies in Intevac's 2008 Form 10-K.

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

*Interest rate risk.* Intevac's exposure to market risk for changes in interest rates relates primarily to its investment portfolio. Intevac does not use derivative financial instruments in Intevac's investment portfolio. Intevac places its investments with high quality credit issuers and, by policy, limits the amount of credit exposure to any one issuer. Investments typically consist of auction rate securities and debt instruments issued by the U.S. government and its agencies.

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The table below presents principal amounts and related weighted-average interest rates by year of maturity for Intevac's investment portfolio at March 28, 2009.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Beyond</u>	<u>Total</u>	<u>Fair</u>
						<u>Value</u>
Cash equivalents						
Fixed rate amounts	\$ 8,998	—	—	—	\$ 8,998	\$ 8,999
Weighted-average rate	0.24%	—	—	—		
Variable rate amounts	\$11,419	—	—	—	\$ 11,419	\$11,419
Weighted-average rate	0.35%	—	—	—		
Short-term investments						
Fixed rate amounts	\$ 5,993	—	—	—	\$ 5,993	\$ 5,993
Weighted-average rate	0.31%	—	—	—		
Long-term investments						
Fixed rate amounts	—	—	—	\$74,300	\$ 74,300	\$66,961
Weighted-average rate	—	—	—	2.58%		
Total investment portfolio	\$26,410	—	—	\$74,300	\$100,710	\$93,372

At March 28, 2009, Intevac held investments in auction rate securities. With the liquidity issues experienced in global credit and capital markets, Intevac's auction rate securities have experienced multiple failed auctions. Intevac continues to earn interest at the maximum contractual rate for each security. The estimated values of the auction rate securities held by Intevac are no longer at par. As of March 28, 2009, Intevac had \$67.0 million in auction rate securities in the condensed consolidated balance sheet, which is net of an unrealized loss of \$7.3 million. The unrealized loss is included in other comprehensive loss as the decline in value is deemed to be temporary due primarily to Intevac's ability and intent to hold these securities long enough to recover their values.

Intevac continues to monitor the market for auction rate securities and consider its impact (if any) on the fair market value of its investments. If the current market conditions continue, or the anticipated recovery in market values does not occur, Intevac may be required to record additional unrealized losses or record an impairment charge in 2009.

Based on Intevac's ability to access its cash, its expected operating cash flows, and other sources of cash, Intevac does not anticipate that the lack of liquidity of these investments will affect Intevac's ability to operate its business in the ordinary course.

*Foreign exchange risk.* From time to time, Intevac enters into foreign currency forward exchange contracts to economically hedge certain of anticipated foreign currency transaction, translation and re-measurement exposures. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on Intevac's operating results. At March 28, 2009, Intevac had no foreign currency forward exchange contracts.

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

### **Evaluation of disclosure controls and procedures**

Intevac maintains a set of disclosure controls and procedures that are designed to ensure that information relating to Intevac, Inc. required to be disclosed in periodic filings under the Securities Exchange Act of 1934, or Exchange Act, is recorded, processed, summarized and reported in a timely manner under the Exchange Act. In connection with the filing of this Form 10-Q for the quarter ended March 28, 2009, as required under Rule 13a-15(b) of the Exchange Act, an evaluation was carried out under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of Intevac's disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation,



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Intevac's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 28, 2009.

Attached as exhibits to this Quarterly Report are certifications of the CEO and the CFO, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (Exchange Act). This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

### **Definition of disclosure controls**

Disclosure Controls are controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure Controls are also designed to ensure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our Disclosure Controls include components of our internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the U.S. To the extent that components of our internal control over financial reporting are included within our Disclosure Controls, they are included in the scope of our quarterly controls evaluation.

### **Limitations on the effectiveness of controls**

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

### **Changes in internal controls over financial reporting**

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

## **PART II. OTHER INFORMATION**

### **Item 1. *Legal Proceedings***

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

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all. Intevac is not presently a party to any lawsuit or proceeding that, in Intevac's opinion, is likely to seriously harm Intevac's business.

On March 19, 2009, Intevac filed a statement of claim under the Financial Industry Regulatory Authority dispute resolution process against Citigroup Inc. and Citigroup Global Markets, Inc. (collectively, "Citigroup") with respect to alleged fraud and market manipulation by Citigroup related to auction rate securities. The statement of claim requests that Citigroup accept Intevac's tender of its auction rate securities at par value and that Intevac receive compensatory, consequential and punitive damages and costs and expenses. As of March 28, 2009, the total par amount of auction rate securities held by Intevac which are subject to the Citigroup claim amounted to \$56.8 million.

### **Item 1A. Risk Factors**

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

#### ***The industries we serve are cyclical, volatile and unpredictable.***

The majority of our revenue is derived from the sale of equipment used to manufacture commodity products such as disk drives and semiconductors. This subjects us to business cycles, the timing, length and volatility of which can be difficult to predict. When demand for commodity products exceeds production capacity, then demand for new capital equipment such as ours tends to be amplified. Conversely, when supply of commodity products exceeds demand, then demand for new capital equipment such as ours tends to be depressed. For example, sales of systems for magnetic disk production were severely depressed from mid-1998 until mid-2003 and grew rapidly from 2004 through 2006. The number of new systems delivered in the second half of 2007 was significantly lower than the number of systems delivered in the first half of the year, and fiscal 2008 new system shipments were significantly lower than 2007. We cannot predict with any certainty when these cycles will begin or end, although we believe we entered into a downturn in the cycle in late 2007 which we expect to continue through 2009.

Our equipment represents only a portion of the capital expenditure that our customers incur when they upgrade or add production capacity. Accordingly, our customers generally commit to make large capital expenditures, far in excess of the cost of our systems alone, when they decide to purchase our systems. The magnitude of these capital expenditures requires our customers to have access to large amounts of capital. The magnetic disk and semiconductor manufacturing industries have made significant additions to their production capacity in the last few years. Our customers are unlikely to be willing or able to continue this level of capital investment during the recent downturn in the overall economy, or during a downturn in the hard disk drive industry, or the semiconductor industry.

We must effectively manage our resources and production capacity to meet rapidly changing demand. Our business experiences rapid growth and contraction, which stresses our infrastructure, internal systems and managerial resources. During periods of increasing demand for our products, we must have sufficient manufacturing capacity and inventory to meet customer demand; attract, retain and motivate a sufficient number of qualified individuals; and effectively manage our supply chain. During periods of decreasing demand for our products, we must be able to align our cost structure with prevailing market conditions; motivate and retain key employees and effectively manage our supply chain. For example, in the fourth quarter of 2008 and the first quarter of 2009, we engaged in significant cost reduction measures, as a result of which we expect to reduce expenses by approximately \$15 million on an annual basis.

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

We have no control over our customers' upgrade and capacity expansion plans, and we cannot be sure they will select, or continue to select, our equipment when they upgrade or expand their capacity. The sales cycle for our equipment systems can be a year or longer, involving individuals from many different areas of Intevac and

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numerous product presentations and demonstrations for our prospective customers. Our sales process also commonly includes production of samples, customization of our product and installation of evaluation systems in the factories of our prospective customers. We do not enter into long-term contracts with our customers, and until an order is actually submitted by a customer there is no binding commitment to purchase our systems. Intevac Photonics' business is also subject to long sales cycles because many of its products, such as our military imaging products, often must be designed into the customers' end products, which are often complex state-of-the-art products. These development cycles are often multi-year, and our sales are contingent on our customers successfully integrating our product into their product, completing development of their product and then obtaining production orders for their product from the U.S. government or its allies.

Sales of new manufacturing systems are also dependent on obsolescence and replacement of the installed base of our customers' existing equipment with newer, more capable equipment. If upgrades are developed that extend the useful life of the installed base of legacy systems, then we tend to sell more upgrade products for the legacy systems and fewer new systems, which can significantly reduce total revenue. For example, during 2007 and 2008 some of our 200 Lean customers decided to use legacy systems for the production of first generations of perpendicular media, which delayed the replacement of such legacy systems with new 200 Lean systems.

Our 200 Lean customers also experience competition from companies that produce alternative storage technologies like flash memory, which offer smaller size, lower power consumption and more rugged designs. If alternative technologies, such as flash memory, replace hard disk drives as a primary method of digital storage, then demand for our hard disk manufacturing products would decrease.

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

Historically, a significant portion of our revenue in any particular period has been attributable to sales of our disk sputtering systems to a limited number of customers. In 2008, two of our customers accounted for 69% of total revenues, and four customers in aggregate accounted for 80% of total revenues. The same four customers, in aggregate, accounted for 56% of our net accounts receivable at December 31, 2008. This concentration of customers can lead to extreme variability in revenue and financial results from period to period. For example, over the last eight quarters, our revenues per quarter have fluctuated between \$12.3 million and \$72.1 million.

Industry consolidation can limit the number of potential customers for our products. For example, Seagate acquired Maxtor in 2006 and Western Digital acquired Komag in 2007. The concentration of our customer base may enable our customers to demand pricing and other terms unfavorable to Intevac, and makes us more vulnerable to changes in demand by a given customer. Orders from a relatively limited number of manufacturers have accounted for, and will likely continue to account for, a substantial portion of our revenues. The loss of one of these large customers, or delays in purchasing by them, could have a material and adverse effect on our revenues.

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

We have invested heavily, and continue to invest, in the development of new products, such as our 200 Lean Gen II and our Lean Etch systems. Our success in developing and selling new products depends upon a variety of factors, including our ability to: predict future customer requirements, make technological advances, achieve a low total cost of ownership for our products, introduce new products on schedule, manufacture products cost-effectively including transitioning production to volume manufacturing; commercialize and attain customer acceptance of our products; and achieve acceptable and reliable performance of our new products in the field. Our new product decisions and development commitments must anticipate continuously evolving industry requirements significantly in advance of sales. In addition, we are attempting to expand into new or related markets, including the semiconductor market for our Lean Etch system. Failure to correctly assess the size of the markets, to successfully develop cost effective products to address the markets or to establish effective sales and support of the new products would have a material adverse effect on future revenues and profits.

Rapid technological change in our served markets requires us to rapidly develop new technically advanced products. Our future success depends in part on our ability to develop and offer new products with improved capabilities and to continue to enhance our existing products. If new products have reliability or quality problems,

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our performance may be impacted by reduced orders, higher manufacturing costs, delays in acceptance and payment for new products and additional service and warranty expenses.

***Adverse economic conditions and volatility and disruption of the capital and credit markets may negatively impact our revenues and our ability to access financing.***

Economic conditions worldwide have contributed to decreased spending by our customers and a slowdown in the hard disk drive industry. These factors have adversely impacted our operating results in prior periods, including most recently in the first quarter of 2009, and have created significant and increasing uncertainty for the future and have caused us to be cautious about our future outlook. If adverse economic conditions persist or worsen, we could continue to experience decreased revenues from our operations. Because we have long sales cycles, even if the economic conditions improve and demand increases, there will still be a significant delay before we see an improvement in our revenues. The current recession, the continuing credit crisis that has affected worldwide financial markets, the extraordinary volatility in the stock markets, other current negative macroeconomic and global recessionary factors, and uncertainty or further weakening in key markets are expected to continue to negatively impact spending for our products and may materially adversely affect our business, operating results and financial condition.

In addition, while we intend to finance operations with existing cash, cash flow from operations and, if necessary, borrowing under our existing credit facility, we may require additional financing to support our continued operations. Due to the existing uncertainty in the capital and credit markets, our access to capital may not be available on terms acceptable to us or at all.

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

Over the last eight quarters, our quarterly revenues have fluctuated between \$12.3 million and \$72.1 million and our operating income (loss) as a percentage of revenues has fluctuated between approximately (120.2%) and 18.5% of revenues. Over the same period, the price of our common stock has fluctuated between \$3.43 and \$26.77 per share.

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

Any of these, or other factors, could lead to volatility and/or a rapid change in the trading price of our common shares. In the past, securities class action litigation has been instituted against companies following periods of volatility in the market price of their securities. Any such litigation, if instituted against Intevac, could result in substantial costs and diversion of management.

***The liquidity of our auction rate securities is impaired, which could impact our ability to meet cash requirements and require additional debt financing.***

At March 28, 2009, we held auction rate securities with a par value of \$74.3 million. The market for these securities had historically been highly liquid, even though the auction rate securities that we hold have underlying maturities ranging from 23 to 39 years. The liquidity was achieved through auctions, which occurred every 7 or 28 days depending on the security, in which the interest paid on each security was reset to current market rates. We never intended to hold these securities to maturity, but rather to use the auction feature to sell the securities as needed to provide liquidity. Since February 2008, all of these auction rate securities have failed auction. The auction rate securities will continue to be illiquid until a successful auction process is reinstated, they are restructured into a more

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liquid security, or a buyer is found outside of the auction process. We do not know when, or if, this will occur. All of the auction rate securities held by us are student loan structured issues, originated under the U.S. Department of Education's Federal Family Education Loan Program with principal and interest 97% — 98% reinsured by the U.S. Department of Education. Twenty-one securities with a par value of \$61.3 million continue to be rated AAA, but there is no assurance that AAA ratings will continue in the future. As of March 28, 2009, the ratings of four securities with a par value of \$10 million had been downgraded to A3 and the rating of a security with a par value of \$3.0 million had been downgraded to Baa3. These securities are classified as long-term investments and we recorded a temporary impairment charge of \$7.3 million. If: (1) the issuers of the auction rate securities are unable to successfully resume auctions; or (2) the issuers do not redeem the auction rate securities; or (3) a liquid market for the auction rate securities does not develop; or (4) the U.S. Department of Education fails to support its guaranty of the obligations; or (5) these or any other valuation metrics or processes change, then Intevac may be required to further adjust the carrying value of the auction rate securities and/or record an other-than-temporary impairment charge. On March 19, 2009, Intevac filed a statement of claim under the Financial Industry Regulatory Authority dispute resolution process against Citigroup Inc. and Citigroup Global Markets, Inc. (collectively, "Citigroup") with respect to alleged fraud and market manipulation by Citigroup related to auction rate securities. The statement of claim requests that Citigroup accept Intevac's tender of its auction rate securities at par value and that Intevac receive compensatory, consequential and punitive damages and costs and expenses. As of March 28, 2009, the total par amount of auction rate securities held by Intevac which are subject to the Citigroup claim amounted to \$56.8 million. We could incur significant legal costs associated with the legal action and there can be no guarantee our efforts would be successful.

In order to increase our liquidity we entered into a line of credit with Citigroup, secured by \$57 million of our auction rate securities. At March 28, 2009, approximately \$20 million of credit is available pursuant to the loan facility. This loan facility may be terminated at the discretion of Citigroup and amounts outstanding are payable on demand. If we are unable to maintain this line of credit, or if the interest rate of the line of credit is prohibitive or the amount of the line of credit is insufficient, we could experience difficulties in meeting our cash requirements until the market for the auction rate securities becomes liquid again and we could have to seek additional debt funding to finance our operations.

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

As a result of our acquisitions, we have significant goodwill and intangible assets on our balance sheet. We test goodwill and intangible assets for impairment on a periodic basis as required, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The events or changes that could require us to test our goodwill and intangible assets for impairment include: a reduction in our stock price, and as a result market capitalization, changes in our estimated future cash flows, as well as changes in rates of growth in our industry or in any of our reporting units. In the fourth quarter of 2008, we recorded an impairment charge of \$10.5 million for goodwill due to a decline in our market capitalization and certain purchased technology intangible assets due to lower revenue expectations in light of current operating performance and future operating expectations. We will continue to evaluate the carrying value of our remaining goodwill and intangible assets and if we determine in the future that there is a potential further impairment in any of our reporting units, we may be required to record additional charges to earnings which could materially adversely affect our financial results and could also materially adversely affect our business.

***We operate in an intensely competitive marketplace, and our competitors have greater resources than we do.***

In the market for our disk sputtering systems, we have experienced competition from Anelva Corporation, a subsidiary of Canon, which has sold substantial numbers of systems worldwide. In the market for semiconductor equipment we are attempting to enter a market dominated by competitors such as Applied Materials, LAM Research and Tokyo Electron, Ltd. In the market for our military imaging products we experience competition from companies such as ITT Industries, Inc. and BAE. In the markets for our commercial imaging products we compete with companies such as Andor, Basler, Dalsa, E2V, Hamamatsu, Texas Instruments and Roper Industries for sensor and camera products, and with companies such as Ahura, B&W Tek, Horiba — Jobin Yvon, InPhotonics, Ocean Optics, Renishaw, and Smiths Detection for Raman spectrometer products. Our competitors have substantially greater financial, technical, marketing, manufacturing and other resources than we do, especially in the semiconductor equipment market where we have not previously offered a product. We cannot ensure that our

competitors will not develop enhancements to, or future generations of, competitive products that offer superior price or performance features. Likewise, we cannot ensure that new competitors will not enter our markets and develop such enhanced products. Moreover, competition for our customers is intense, and our competitors have historically offered substantial pricing concessions and incentives to attract our customers or retain their existing customers.

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

Many of our products, and especially Intevac Photonics' products, require export licenses from U.S. government agencies under the Export Administration Act, the Trading with the Enemy Act of 1917, the Arms Export Act of 1976 or the International Traffic in Arms Regulations. These regulations limit the potential market for some of our products. We can give no assurance that we will be successful in obtaining all the licenses necessary to export our products. Heightened government scrutiny of export licenses for defense related products has resulted in lengthened review periods for our license applications. Exports to countries that are not considered by the U.S. government to be allies are likely to be prohibited, and even sales to U.S. allies may be limited. Failure to obtain export licenses or delays in obtaining licenses, or revocation of previously issued licenses would prevent us from selling the affected products outside the United States and could negatively impact our results of operations.

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

We sell many of our imaging products and services directly to the U.S. government, as well as to prime contractors for various U.S. government programs. Our revenues from government contracts totaled \$14.8 million, \$14.1 million, and \$10.2 million in 2008, 2007, and 2006, respectively. Funding of multi-year government programs is subject to congressional appropriations, and there is no guarantee that the U.S. government will make further appropriations, particularly given the U.S. government's recent focus on spending in other areas. Sales to the U.S. government and its prime contractors may also be affected by changes in procurement policies, budget considerations and political developments in the United States or abroad. For example, if the U.S. government is less focused on defense spending or there is a decrease in hostilities, demand for our products could decrease. The loss of funding for a government program would result in a loss of future revenues attributable to that program. The influence of any of these factors, which are beyond our control, could negatively impact our results of operations.

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

Generally, government contracts contain provisions permitting termination, in whole or in part, without prior notice at the government's convenience upon the payment of compensation only for work done and commitments made at the time of termination. We cannot ensure that one or more of the government contracts under which we, or our customers, operate will not be terminated under these circumstances. Also, we cannot ensure that we, or our customers, would be able to procure new government contracts to offset the revenues lost as a result of any termination of existing contracts, nor can we ensure that we, or our customers, will continue to remain in good standing as federal contractors.

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

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

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

We booked a significant tax benefit in 2008 based on management's belief that we could both carry-back losses to years Intevac paid income taxes and carry-forward tax credits to future years where we would generate taxable income. If our expectations of future income are incorrect, we could be required to establish a valuation allowance against some or all of the deferred tax assets. This could result in Intevac recording income tax expense in a year with a net operating loss.

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

In 2008, approximately 69% of our revenues came from regions outside the United States. Most of our international sales are to customers in Asia, which includes products shipped to overseas operations of U.S. companies. We currently have manufacturing facilities in California, Wyoming and Singapore and international customer support offices in Asia. We expect that international sales will continue to account for a significant portion of our total revenue in future years. Certain of our suppliers are also located outside the United States.

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

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

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

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

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

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

We are a manufacturing business. Purchased parts constitute the largest component of our product cost. Our ability to manufacture depends on the timely delivery of parts, components and subassemblies from suppliers. We obtain some of the key components and sub-assemblies used in our products from a single supplier or a limited group of suppliers. If any of our suppliers fail to deliver quality parts on a timely basis, we may experience delays in manufacturing, which could result in delayed product deliveries, increased costs to expedite deliveries or develop alternative suppliers, or require redesign of our products to accommodate alternative suppliers. Some of our suppliers are thinly capitalized and may be vulnerable to failure given recent economic conditions.

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

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

From time to time, we have received claims that we are infringing third parties' intellectual property rights or seeking to invalidate our rights. We cannot ensure that third parties will not in the future claim that we have infringed current or future patents, trademarks or other proprietary rights relating to our products. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us.

***We could be involved in litigation.***

From time to time we may be involved in litigation of various types, including litigation alleging infringement of intellectual property rights and other claims. For example, in March 2009, Intevac filed a statement of claim under the Financial Industry Regulatory Authority dispute resolution process against Citigroup with respect to alleged fraud and market manipulation by Citigroup related to auction rate securities. The statement of claim requests that Citigroup accept Intevac's tender of its auction rate securities at par value and that Intevac receive compensatory, consequential and punitive damages and costs and expenses. As of March 28, 2009, the total par amount of auction rate securities held by Intevac which are subject to the Citigroup claim amounted to \$56.8 million. Litigation is expensive, subjects us to the risk of significant damages and requires significant management time and attention and could have a material and adverse effect on our business, financial condition and results of operations.

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

We have completed a number of acquisitions during our operating history. For example, in 2007, we acquired certain assets of DeltaNu, LLC and certain assets of Creative Display Systems, LLC and in 2008 we acquired certain assets of OC Oerlikon Balzers Ltd. We have spent and may continue to spend significant resources identifying and pursuing future acquisition opportunities. Acquisitions involve numerous risks including: (1) difficulties in integrating the operations, technologies and products of the acquired companies; (2) the diversion of our management's attention from other business concerns; and (3) the potential loss of key employees of the acquired companies. Failure to achieve the anticipated benefits of the prior and any future acquisitions or to successfully integrate the operations of the companies we acquire could have a material and adverse effect on our business, financial condition and results of operations. Any future acquisitions could also result in potentially dilutive issuance of equity securities, acquisition- or divestiture-related write-offs or the assumption of debt and contingent liabilities.



***We use hazardous materials and are subject to risks of non-compliance with environmental and safety regulations.***

We are subject to a variety of governmental regulations relating to the use, storage, discharge, handling, emission, generation, manufacture, treatment and disposal of toxic or otherwise hazardous substances, chemicals, materials or waste. If we fail to comply with current or future regulations, such failure could result in suspension of our operations, alteration of our manufacturing process, or substantial civil penalties or criminal fines against us or our officers, directors or employees. Additionally, these regulations could require us to acquire expensive remediation or abatement equipment or to incur substantial expenses to comply with them.

***Business interruptions could adversely affect our operations.***

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

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

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

We have completed the evaluation of our internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act. Although our assessment, testing, and evaluation resulted in our conclusion that as of December 31, 2008, our internal controls over financial reporting were effective, we cannot predict the outcome of our testing in future periods. Ongoing compliance with this requirement is complex, costly and time-consuming. If: (1) Intevac fails to maintain effective internal control over financial reporting; (2) our management does not timely assess the adequacy of such internal control; or (3) our independent registered public accounting firm does not deliver an unqualified opinion as to the effectiveness of our controls, then we could be subject to: (1) restatement of previously reported financial results, (2) regulatory sanctions and (3) a decline in the public's perception of Intevac, which could have a material and adverse effect on our business, financial condition and results of operations.

**Item 1B. Unresolved Staff Comments**

None.

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

None.

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

None.

**Item 4. *Submission of Matters to a Vote of Security-Holders***

None.

**Item 5. *Other Information***

None.

**Item 6. *Exhibits***

The following exhibits are filed herewith:

Exhibit Number	Description
23.2	Consent of Independent Valuation Firm
31.1	Certification of President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications Pursuant to U.S.C. 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTEVAC, INC.

Date: May 1, 2009

By: /s/ KEVIN FAIRBAIRN

Kevin Fairbairn  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

Date: May 1, 2009

By: /s/ JEFFREY ANDRESON

Jeffrey Andreson  
Executive Vice President, Finance and Administration,  
Chief Financial Officer, Treasurer and Secretary  
(Principal Financial and Accounting Officer)

**CONSENT OF INDEPENDENT VALUATION FIRM**

We consent to the inclusion in the Quarterly Report on Form 10-Q of Intevac, Inc. and subsidiaries for the quarterly period ended March 28, 2009 of references to our Valuation Report relating to the estimation of fair value of certain auction rate securities held by the Company as of March 28, 2009 and to references to our firm's name therein.

/s/ Houlihan Smith & Company, Inc.

Chicago, Illinois

May 1, 2009

I, Kevin Fairbairn certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Intevac, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2009

/s/ KEVIN FAIRBAIRN

Kevin Fairbairn  
President, Chief Executive Officer and Director

I, Jeffrey Andreson certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Intevac, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2009

/s/ JEFFREY ANDRESON

Jeffrey Andreson  
Executive Vice President, Finance and Administration, Chief  
Financial Officer, Treasurer and Secretary

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kevin Fairbairn, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Intevac, Inc. on Form 10-Q for the quarterly period ended March 28, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Intevac, Inc.

Date: May 1, 2009

/s/ KEVIN FAIRBAIRN

Kevin Fairbairn  
President, Chief Executive Officer and Director

I, Jeffrey Andreson, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Intevac, Inc. on Form 10-Q for the quarterly period ended March 28, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Intevac, Inc.

Date: May 1, 2009

/s/ JEFFREY ANDRESON

Jeffrey Andreson  
Executive Vice President, Finance and Administration, Chief  
Financial Officer, Treasurer and Secretary

A signed original of this written statement required by Section 906 has been provided to Intevac, Inc. and will be retained by Intevac, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.