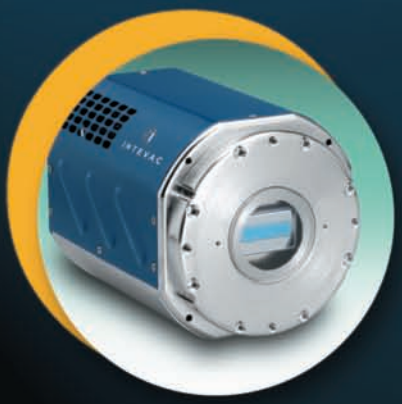
INTEVAC

ANNUAL REPORT 2005



COMPANY PROFILE We are the world's leading provider of disk sputtering equipment to manufacturers of magnetic media used in hard disk drives. We are also a developer and provider of leading technology for extreme low light imaging sensors, cameras and systems. We operate two businesses: Equipment and Imaging.

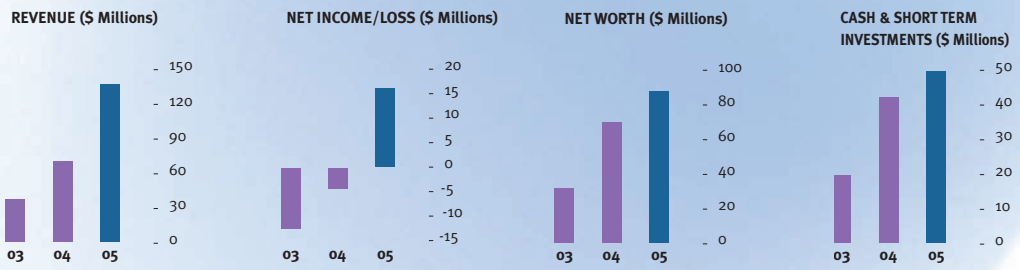
Our Equipment business designs, manufactures, markets and services complex capital equipment which deposits, or sputters, highly engineered thin-films onto magnetic disks used in hard disk drives. We believe our systems represent approximately 60% of the installed capacity of disk sputtering systems worldwide. Our customers are manufacturers of magnetic disks for hard disk drives, and include Fuji Electric, Hitachi Global Storage Technologies, Komag, Maxtor, Seagate Technology and Showa Denko. We believe the rapid growth of digital data, the transition from videocassette recorders to digital video recorders and the growth of new consumer applications, such as personal video recorders, video game consoles and MP3 players, along with new technology advances in the industry, provide us with a significant growth opportunity.

Our Imaging business develops and manufactures electro-optical sensors, cameras, and systems that permit highly sensitive detection of photons in the visible and near infrared portions of the spectrum, allowing vision in extreme low light situations. We develop night-vision technology and equipment for military and commercial applications. To date, our revenues have been derived primarily from research and development contracts funded by the U.S. government, rather than actual product sales. Applications for our imaging technology include sensors and cameras for use in extreme low light situations and systems for positive identification of targets at long range. We also plan to develop and market commercial products addressing markets such as life science, physical science and security.

FORWARD LOOKING STATEMENTS

This annual shareholder letter comments upon future events and expectations and makes projections about our future performance, including statements related to our projected revenues, gross margin, profitability and cash flow; Asian expansion plans; timing of the introduction of new products and the estimated size and growth of markets they address; the transition to perpendicular media and the effect it will have on sales of the 200 Lean; and 2006 priorities. We wish to caution you that these are forward looking statements that are based upon our current expectations, and that actual results could differ materially as a result of various risks and uncertainties, including, without limitation, the following: inability to develop and deliver our new products such as our new equipment product line or our imaging products for military and commercial markets; inability to accurately forecast and develop new markets for our products; inability to achieve cost reduction goals, gross margin improvement goals or revenue growth goals; a delay in the expected timing of the introduction of perpendicular technology into volume production, a decrease in the rate of growth in the market for hard disk drives, inability to continue to fund our growth out of retained earnings and other risk factors discussed in documents filed by us with the Securities and Exchange Commission, including our Annual report on form 10-K, which should be read together with this letter. Intevac undertakes no obligation to update these forward-looking statements.

LETTER TO OUR SHAREHOLDERS



RESULTS

2005 was a great year for Intevac as we increased our revenues by 97% to a record $137 million. This was on top of 92% revenue growth in 2004. Orders topped $200 million, another record. Growth was driven by multiple customers deploying our next generation magnetic media sputtering system, the 200 Lean™. Our order backlog at the end of 2005 was $85 million, setting us up for a flying start to 2006. We expect revenues to continue to increase in 2006.

In our Imaging business, a low light level digital video sensor was developed for use in next generation military head-mounted night vision systems. The same sensor has significant commercial applications. We also introduced our first commercial camera, MOSIR™, targeting the Physical Science imaging market.

Net profit was $16.2 million or $0.76 per diluted share, significantly better than 2004's loss of $4.3 million. The profit improvement was mainly driven by a combination of higher revenues coupled with increased gross margins in our equipment products business where gross margins improved to 33% from 25% in 2004. The gross margin improvement was the combined result of our cost reduction efforts and higher revenues. Ongoing efforts to further reduce system costs are expected to yield further gross margin improvements in 2006.

Even though business levels dramatically increased during 2005, no additional debt or equity was raised, nor was any cash consumed. We remain well capitalized to execute our business growth plan and expect to generate cash in 2006.

PRODUCTS

EQUIPMENT

We made excellent progress in the Equipment business during 2005.

Three new customer accounts for the 200 Lean were gained following fierce battles with our principle competitor.

Production capacity was ramped to a system a week and showed that we can manufacture as many systems as the market needs. Our 200 Lean cost reduction activities were the key factor that drove gross margins up in 2005.

Headcount in Asia was quadrupled to 44 personnel, to support our customers at their sites in China, Japan, Malaysia and Singapore. We expanded our existing Singapore staff and opened a second Asian field office in Shenzhen, China. During 2006 we plan to move to a larger facility in Singapore and initiate manufacturing operations and some engineering activities to further reduce our cost structure.

Significant progress was made developing a major new product to address markets not currently served by Intevac. Initial feedback on prototype demonstrations of the product to potential customers was positive. First shipment of this product is expected in the second half of 2006.

IMAGING

Our objective in Imaging is to transition from a government contract research and development business to a product based business with revenue from both government and commercial customers. Accordingly, our focus in 2005 was to develop products, rather than technology, and prepare for volume production of those products.

The U.S. Army's current technology roadmap includes a transition from today's bulky direct-view night vision systems to miniature head-mounted digital imaging systems, based upon extreme-low-light video cameras and miniature displays. In 2005, we developed a low light sensor optimized for this application and delivered cameras to several customers. Field performance was excellent and exceeded our customers' expectations. In the second half of 2005, we delivered a prototype low-light miniature camera to the Army and an export version of this sensor was shipped to our NATO customer for their head-mounted night vision system development. Progress was made towards achievement of export approval for a more capable sensor necessary for NATO customers in the future.

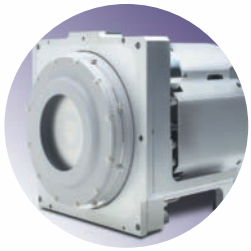
In late 2005 we released our first camera, MOSIR™, to address the needs of the Physical Science market. The MOSIR camera uses a near infrared sensor derived from our LIVAR® military low light imaging technology. The initial market reaction to MOSIR was positive.

A unique and enabling technology in the production of our extreme low light sensors has been our ability to back-thin a CMOS sensor die from its original thickness of 800 microns to less than 20 microns. In 2005 we developed and qualified a manufacturing process for back thinning CMOS sensors at the wafer, rather than the die level, which has significantly reduced our cost by improving both productivity and yield.

OUTLOOK

EQUIPMENT The key factors driving our equipment sales will be the growth in demand for hard drives and retooling of the installed base of legacy systems to support the transition to "perpendicular" magnetic media technology.

TrendFOCUS estimates that unit sales of hard drives are projected to grow at an annual rate of 14.4% through 2010. This growth has three drivers. Firstly, the traditional PC market continues to grow due to demand from the emerging economies of China, India, Eastern Europe and South East Asia. Forrestor Research estimates the annual market for these emerging markets is growing 32% per year and will reach 248 million units by 2010, similar in size to the established markets of America, Japan and Western Europe. Secondly, orders for notebook computers are surging as a result of lower pricing and the desire for mobile computing. Replacement cycles for notebooks are shorter than desktop PC's so we can expect future benefits from this transition. Lastly, the transition to digital content, in particular video, is driving growth in hard drives for consumer electronics such as personal video recorders, automobile navigation systems, digital audio/video players and host of other devices.



The transition to perpendicular magnetic media technology started in late 2005 with the introduction by Seagate of a 160 Gigabyte hard drive for notebook computers. Historically, hard drives used "longitudinal" media technology, where magnetic bits are recorded horizontally on the disk. In order to continue increasing the areal density, and the resulting storage capacity of disks, a new media technology called "perpendicular" has been developed, where the magnetic bits are placed perpendicular to the surface of the disk. The tighter packing made possible by the perpendicular orientation enables substantially higher storage capacity.

Economic production of perpendicular media requires equipment, like our 200 Lean, that can economically deposit the thicker magnetic films required by perpendicular recording. The majority of the installed base of legacy equipment, primarily Intevac® MDP-250Bs and other manufacturers' systems, are not well suited to economically produce the thicker films required for perpendicular media. We expect the majority of 200 Lean shipments in 2006 will be for increased capacity related to ramping perpendicular production capacity. Eventually replacement of the installed base of legacy systems will be required as perpendicular media becomes the standard. We expect this retooling to start in 2007 and run through 2009.

IMAGING The outlook for our Imaging business continues to be positive. Our low light imaging technology and products are being designed for use on major military programs and we are developing commercial products that take advantage of our leading edge technology.

Our low light camera technology is well positioned for next generation digital head-mounted night vision systems for the US Army. The estimated size of the US Army night vision business continues at over $400 million per year for today's legacy night vision goggles and is representative of the expected market size after transitioning to digital video based night vision products. We are teamed with a major defense contractor to develop a head-mounted digital night vision system. In this system we plan to "fuse" imagery from Intevac's low light camera with imagery from our partner's thermal camera and display it in front of the soldier's eye. This system development will leverage Intevac's investment in sensor technology, our expertise in digital electronics, and provide a complete product to the military end user. Complete prototype systems will be shipped to the Army in 2006. Two other major US defense contractors developing other digital head-mounted night vision demonstrator products have also selected Intevac's sensor. Deployment of these new systems is expected to begin during the next 5 years.

Provided we achieve export approval for our night vision camera, we expect to begin the initial pre-production ramp of camera modules to a European NATO customer in the second half of 2006. This would be the first major deployment of head-mounted digital video night vision systems.

Our LIVAR cameras for long distance target identification continue in their preproduction qualification by our system integration customers with their end customers. Results continue to be positive. Production roll out on several programs is expected post 2006.

Shipments of our MOSIR camera commenced in early 2006 and we are building our distribution channel by signing on OEM's and Value Added Resellers. In the second half of 2006 we plan to introduce a new camera targeting the Life Sciences market. The sensor for this new product line will come from our head-mounted night vision system product line, further leveraging our military technology developments.

PRIORITIES

EQUIPMENT

- Keep our 200 Lean customers satisfied by ensuring timely delivery of quality product to support their capacity expansions and equipment retooling plans.
- Improve 200 Lean gross margins by further reducing product cost.
- Establish manufacturing and engineering capabilities in Singapore.
- Introduce a major new system product based upon our technology and capabilities that addresses an entirely new market area.

IMAGING

- Complete development, in partnership with a large defense company, of a state-of-the-art head-mounted video based night vision prototype system to meet the needs of the US Army.
- Achieve export approval for our night vision camera technology and ramp production for these cameras in support of our NATO customer's needs.
- Proliferate LIVAR cameras into additional military programs.
- Ramp revenues for MOSIR, our first commercial camera addressing the Physical Sciences market.
- Develop and market a low light imaging camera to address the needs of the Life Sciences market.

SUMMARY

Intevac is now well positioned for ongoing profitable growth. Our Equipment business is profitable and we have a path to profitability in Imaging with potential for large revenue growth. Our new product pipelines are full and positioned to deliver products in both businesses that address new growing markets. We substantially enhanced the capability of our organization by key hires in all areas of our business. Significant progress has been made on expanding our Asian operations so we can better serve our Equipment customers and increase our operational efficiencies. We have set clear and achievable priorities in order to pursue the many identified opportunities, and we are looking forward to realizing these opportunities in 2006.

Finally, I would like to express my sincere appreciation and thanks to all Intevac employees for their commitment, hard work, and creativity, as well as to our customers and shareholders for their continuing support.

Kevin Fairbairn

Kevin P. Fairbairn

President and Chief Executive Officer

CORPORATE INFORMATION

CORPORATE HEADQUARTERS
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INVESTOR INFORMATION
THE COMPANY'S ANNUAL REPORT, ITS 10-K AND 10-Q REPORTS TO THE SEC, AND OTHER INFORMATION ABOUT INTEVAC, INC. ARE AVAILABLE AT WWW.INTEVAC.COM OR BY E-MAIL TO JDIENER@INTEVAC.COM.

INVESTOR RELATIONS CONTACT
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COMMON STOCK
THE COMPANY'S COMMON STOCK TRADES ON THE NASDAQ NATIONAL MARKET® TIER OF THE NASDAQ STOCK MARKET® UNDER THE SYMBOL IVAC.

STOCK PRICE HISTORY
CLOSING PRICES FOR THE QUARTER ENDED:

	4/2/05	7/2/05	10/1/05	12/31/05
HIGH	$9.81	$12.00	$14.94	$13.95
LOW	$ 7.06	$ 8.42	$9.75	$8.88

DIVIDENDS
THE COMPANY DOES NOT CURRENTLY ANTICIPATE PAYING ANY CASH DIVIDENDS.

ANNUAL MEETING OF SHAREHOLDERS
THE ANNUAL MEETING OF SHAREHOLDERS WILL BE HELD AT THE COMPANY'S OFFICES AT 9:00 A.M. PDT ON MONDAY, MAY 15, 2006.

OFFICERS

VERLE W. AEBI (1991)
PRESIDENT, PHOTONICS TECHNOLOGY DIVISION

MICHAEL S. BARNES (2006)
CHIEF TECHNICAL OFFICER, EQUIPMENT

JAMES P. BIRT (2004)
VICE PRESIDENT, CUSTOMER SUPPORT, EQUIPMENT

TERRY M. BLUCK (2004)
VICE PRESIDENT, TECHNOLOGY, EQUIPMENT

KIMBERLY M. BURK (2000)
DIRECTOR, HUMAN RESOURCES

CHARLES B. EDDY (1991)
VICE PRESIDENT, FINANCE AND ADMINISTRATION, CHIEF FINANCIAL OFFICER, TREASURER AND SECRETARY

KEVIN P. FAIRBAIRN (2002)
CHIEF EXECUTIVE OFFICER AND PRESIDENT

STEPHEN J. GUSTAFSON (2002)
DIRECTOR, IMAGING OPERATIONS

TIMOTHY E. JUSTYN (1991)
VICE PRESIDENT, MANUFACTURING, EQUIPMENT

RALPH C. KERNS (2003)
VICE PRESIDENT, BUSINESS DEVELOPMENT, EQUIPMENT

CHRISTOPHER T. LANE (2002)
VICE PRESIDENT, NEW PRODUCT DEVELOPMENT, EQUIPMENT

PATRICK L. LEAHEY (2005)
VICE PRESIDENT, ENGINEERING, EQUIPMENT

LUKE A. MARUSIAK (2004)
CHIEF OPERATING OFFICER

NORMAN H. POND (1990)
CHAIRMAN

( ) INDICATES YEAR JOINED INTEVAC

BOARD OF DIRECTORS

DAVID S. DURY (2002)1,3,4
CO-FOUNDER MENTOR CAPITAL GROUP LLC

KEVIN P. FAIRBAIRN (2002)
CHIEF EXECUTIVE OFFICER AND PRESIDENT

STANLEY J. HILL (2004)3
FORMER CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF KAISER AEROSPACE & ELECTRONICS CORPORATION

DAVID N. LAMBETH (1996)2
PROFESSOR OF ELECTRICAL AND COMPUTER ENGINEERING, AND PROFESSOR OF MATERIALS SCIENCE AND ENGINEERING AT CARNEGIE MELLON UNIVERSITY

ROBERT LEMOS (2002)1,2
FORMER CHIEF FINANCIAL OFFICER, VARIAN ASSOCIATES

ARTHUR L. MONEY (2003)1
FORMER ASSISTANT SECRETARY OF DEFENSE (ASD/C31) FOR COMMAND, CONTROL, COMMUNICATIONS AND INTELLIGENCE

NORMAN H. POND (1990)
CHAIRMAN

PING YANG (2006)
FORMER VICE PRESIDENT OF RESEARCH AND DEVELOPMENT FOR TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY (TSMC)

1 MEMBER OF THE AUDIT COMMITTEE
2 MEMBER OF THE COMPENSATION COMMITTEE
3 MEMBER OF THE NOMINATING AND GOVERNANCE COMMITTEE
4 LEAD INDEPENDENT DIRECTOR
( ) INDICATES YEAR JOINED BOARD OF DIRECTORS

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