

# intevac

2002 Annual Report



The Photonics Technology Division is developing extreme low light level sensors, cameras and systems for sale to military and government markets. Products include LIVAR® systems for detection and positive target identification at long range and extreme low light level sensors and cameras for use in military applications. Photonics Technology Division sales to date consist primarily of contract research and development and prototype products funded by the US government.

The Commercial Imaging Division was formed in July 2002 to develop products utilizing Photonics Technology Division technology for sale to commercial markets. The Commercial Imaging Division expects to begin sales of its first products during 2003.

# COMPANY PROFILE

The Equipment Products Division designs, manufactures and sells complex capital equipment which deposits highly engineered thin-films of material onto a substrate, which are used to manufacture products such as computer hard disk drives and flat panel displays. These systems are designed for high-volume continuous operation and use precision robotics, computerized controls and complex software programs to fully automate and control the production process.

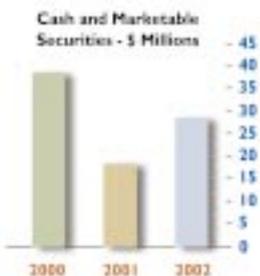
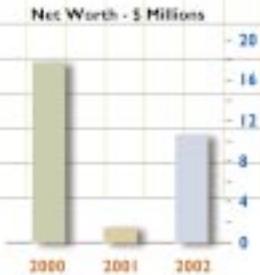
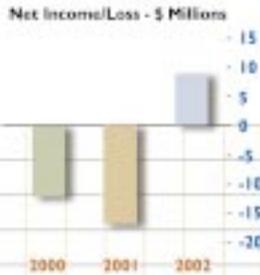
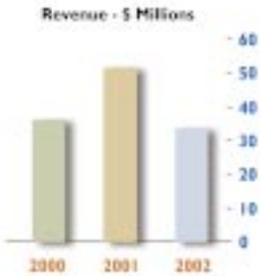
#### FORWARD LOOKING STATEMENTS

This annual shareholder letter comments upon future events and expectations and makes projections about our future performance, including statements related to our products, markets, outlook and 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 new products and technologies as planned; inability to accurately forecast and develop markets for our products; 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.

TiVo® is a registered trademark of TiVo, Inc. ReplayTV® is a registered trademark of SONICblue, Inc. iPod® is a registered trademark of Apple Computer, Inc.

## Letter to Our Shareholders

In 2002 management implemented significant changes to position Intevac for future growth. We streamlined operations to focus on the large growth potential for our imaging technology and the possibility of near term recovery and growth in demand for hard disk drive media manufacturing equipment. To further direct our resources toward these growth areas, we organized into three divisions according to products and related markets; Photonics Technology, Commercial Imaging and Equipment Products. The Photonics Technology Division continues to develop our revolutionary imaging technologies for sale to military markets.



2002 RESULTS

From a financial standpoint, revenues declined as a result of lower sales of flat panel manufacturing equipment. However, the combined effects of reduced operating expenses, improved gross margins and the profitable sale of our rapid thermal processing product line led to substantial net income for the year. The sale of the rapid thermal processing product line also allowed us to quickly realize the value created by this product line and to further simplify our business.

We also significantly improved our balance sheet. We reduced our outstanding debt by 19% and restructured and extended the maturity on the remaining balance. Cash grew from the proceeds of the sale of the rapid thermal processing product line and from a large refund of taxes paid in prior years. Net worth also grew.

**A** major milestone for the Photonics Technology Division was the shipment of the first LIVAR<sup>®</sup> based system to the U.S. Army in Q1, which was well received. LIVAR<sup>®</sup> is a cost effective and compact intensified imaging technology that can identify targets at very long ranges, night or day. Later in the year we introduced the LIVAR<sup>®</sup> 2200, a man-portable tripod-mounted system.

**LIVAR<sup>®</sup>** continued to gain momentum throughout the year. We continued work on a LIVAR<sup>®</sup> upgrade for a major weapons system and expect limited production to begin by the end of 2003. LIVAR<sup>®</sup> was selected to be part of the Army's Cost Effective Targeting System for use in an unmanned surveillance vehicle being developed by the Army. Additionally, Congress approved \$4 million of "Plus Up" funding for further LIVAR<sup>®</sup> development.

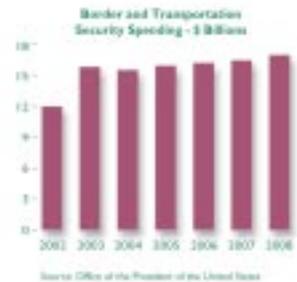
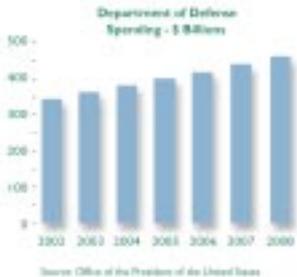
**We** won an U.S. Army contract for development of a miniature CMOS camera, utilizing our extreme low light sensor technology, for a head mounted night vision system. This sensor technology has been developed over the last three years and represents a paradigm shift in performance, cost, power and size compared to today's vacuum tube based imagers. We also began activity on a pilot-production line, which will be used to meet early shipment requirements and fine-tune the manufacturing process.



**We** created the Commercial Imaging Division to develop commercial products utilizing the technology developed by the Photonics Technology Division. Marketing activities focused on LIVAR<sup>®</sup> applications for extended perimeter security applications. Engineering activities focused on creation of video cameras utilizing our extreme low light imaging sensors.

**The** Equipment Products Division sold capacity upgrades to hard disk drive media manufacturers for the first time since 1998. Industry consolidation and lack of investment has finally started to create supply constraints. We also sold two sets of MDP-200 upgrade modules, which enable the number of magnetic media process steps to be increased from twelve to eighteen. This is important, as our customers' product roadmaps require more layers than can be manufactured on their current production systems. Lessons learned from these MDP-200 modules have been applied to a new system that will be designed to accommodate any number of layers and is expected to be available in the latter part of 2003.

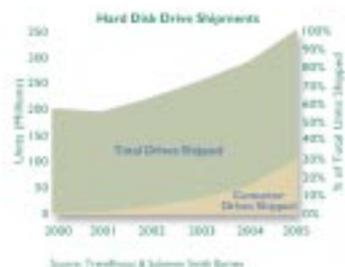
The end markets for products from Intevac's three divisions are all showing positive signs of growth, despite the current difficult economic climate. The military's transition to highly mobile, information-centric warfare is driving the need for advanced, but cost effective, digital nighttime imaging and data/image transmission. Our LIVAR® technology addresses long-range imaging needs, while our extreme low light image sensors address the short to medium range. We are experiencing significantly higher proposal activity related to the incorporation of these new technologies into major military programs.



Our commercial imaging products will be designed to address the rapidly growing needs of homeland defense and related security markets. For example, for wide perimeter surveillance, the trend has been to use numerous closely spaced CCTV cameras and labor intensive monitoring to effect improved security; but this approach is expensive and not always reliable. The range, sensitivity, compact size, and digital output of our LIVAR® and extreme low light based intelligent camera systems will be designed to enable our customers to conduct more effective day and night surveillance at a lower cost, with less manpower and fewer cameras.



The hard disk drive media equipment market began showing signs of improvement after years of consolidation and limited investment by disk drive manufacturers. Two variables are strengthening demand: capacity and technology. First, the need for additional media manufacturing capacity is being driven by growth in new consumer applications like TiVo® and ReplayTV® hard disk drive based video recorders and the Apple iPod® MP3 players. Second, the need for high-density memory to enable smaller, cheaper hard disk drives requires new technology and, therefore, new equipment. We concluded 2002 with a high level of quotation activity, which we hope to turn into orders in 2003.



The industry spent an estimated \$800 million during the 1990s installing today's production equipment which can typically complete twelve process steps. The new memory media technology will require from eighteen to twenty-four process steps. We intend to leverage our large market share of the current installed base, with the goal of capturing the majority of the future upgrade systems business.

Our priorities and goals for 2003 are as follows:

#### **Photonics Technology Division**

- Continue to proliferate our LIVAR® cost effective targeting system into additional U.S. military programs and those of our allies.
- Ensure that our extreme low light sensor technology is designed into next-generation military head mounted night vision systems.
- Ramp our extreme low light and LIVAR® image sensor pilot production capability to 1000 units per month, and finalize plans for increasing capacity to 5000 units per month.

#### **Commercial Imaging Division**

- Complete security and scientific video camera products based upon extreme low light image sensors.
- Address homeland security and related market needs with LIVAR® long-range identification systems and extreme low light video cameras.
- Roll out sales and service organization to drive market growth.



#### **Equipment Products Division**

- Win the majority of technology and capacity upgrade orders for media production for the hard disk drive market.
- Complete and ship manufacturing systems for perpendicular media production for the hard disk drive market.
- Extract value from our flat panel display products and technology.

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

*Kevin P. Fairbairn*

**Kevin P. Fairbairn**  
President and Chief Executive Officer

## BOARD OF DIRECTORS

**David S. Dury (2002)**<sup>(1)</sup>

Co-Founder Mentor Capital Group LLC

**Kevin P. Fairbairn (2002)**

President and Chief Executive Officer

**Robert D. Hempstead (1997)**<sup>(1)(2)</sup>

Former Chief Operating Officer, Intevac, Inc.

**David N. Lambeth (1996)**<sup>(2)</sup>

Professor of Electrical and Computer Engineering, and

Professor of Materials Science and Engineering

at Carnegie Mellon University

**Robert Lemos (2002)**<sup>(1)</sup>

Retired

Former Chief Financial Officer, Varian Associates

**Norman H. Pond (1990)**

Chairman, Intevac, Inc.

**H. Joseph Smead (1990)**

Retired

Former Chairman Kaiser Aerospace and Electronics

<sup>1</sup> Member of Audit Committee

<sup>2</sup> Member of Compensation Committee

() Indicates year joined Board of Directors

## OFFICERS

**Verle W. Aebi (1991)**

President, Photonics Technology Division

**Charles B. Eddy (1991)**

Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary

**Kevin P. Fairbairn (2002)**

President and Chief Executive Officer

**Daniel E. Gentry (1991)**

Vice President, General Manager, Equipment Products Division

**John L. Hughes (1991)**

Vice President, Technology

**Timothy E. Justyn (1991)**

Vice President, Operations, Equipment Products Division

**Christopher T. Lane (2002)**

Vice President, General Manager, Commercial Imaging Division

**Robert Weiss (1991)**

Vice President, Chief Technology Officer

() Indicates year joined Intevac

# CORPORATE INFORMATION

## CORPORATE HEADQUARTERS

3560 Bassett Street

Santa Clara, CA 95054-2704

408-986-9888

## INVESTOR INFORMATION

Intevac's Annual Report, its 10-K, 10-Q, 8-K and other reports to the SEC are available through our Internet home page or by contacting Sandra Thompson at (408) 987-2500 or [sthompson@intevac.com](mailto:sthompson@intevac.com).

[www.intevac.com](http://www.intevac.com)

## INVESTOR RELATIONS CONTACT

**Charles B. Eddy**

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Eugene Heller, Silverman Heller Associates

(310) 208-2550

## REGISTRAR AND TRANSFER AGENT

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Tel: 1-877-282-1169

[www.equiserve.com](http://www.equiserve.com)

## INDEPENDENT AUDITORS

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San Jose, CA 95150-6779

## GENERAL COUNSEL

Wilson Sonsini Goodrich & Rosati

650 Page Mill Road

Palo Alto, CA 94304-1050

## COMMON STOCK

Intevac's Common Stock trades on The Nasdaq National Market<sup>®</sup> tier of The Nasdaq Stock Market<sup>®</sup> under the symbol IVAC.

## STOCK PRICE HISTORY

Closing prices for quarter ended:

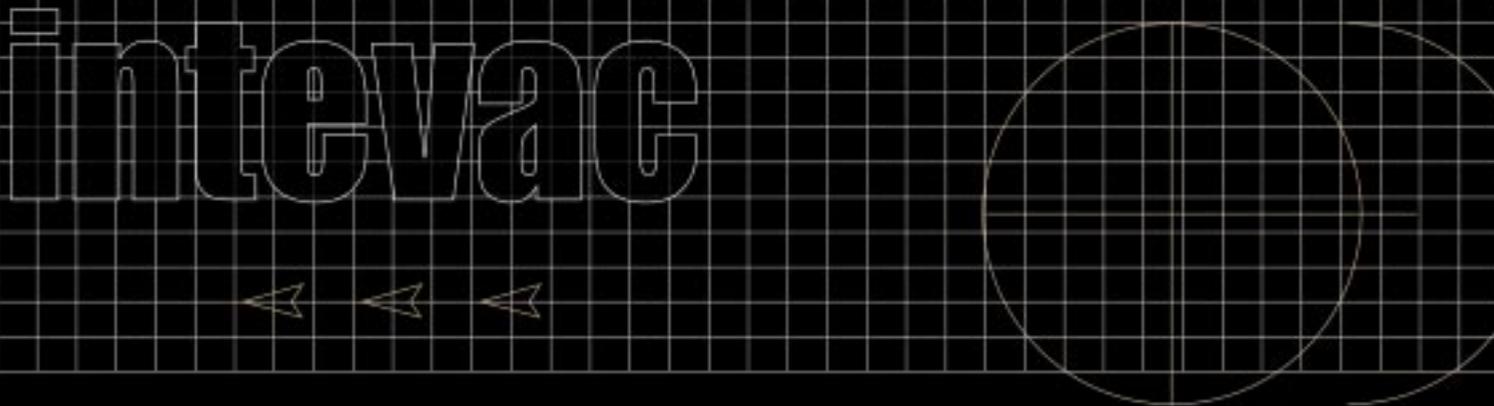
	3/31/02	6/30/02	9/29/02	12/31/02
High	\$4.39	\$5.11	\$4.25	\$4.00
Low	\$2.38	\$2.50	\$2.06	\$3.49

## DIVIDENDS

We do not currently anticipate paying any cash dividends.

## ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders will be held at Intevac's Santa Clara offices at 10:00 a.m. PDT on Wednesday, May 14, 2003.



intevac

**intevac**

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