UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended October 2, 2021

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	**94-3125814**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

3560 Bassett Street
Santa Clara, California 95054
(Address of principal executive office, including Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock ($0.001 par value)	**IVAC**	**The Nasdaq Stock Market LLC (Nasdaq) Global Select**

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

On November 2, 2021, 24,590,904 shares of the Registrant's Common Stock, $0.001 par value, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

INTEVAC, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	October 2, 2021	January 2, 2021
	(Unaudited) (In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,696	$ 29,341
Short-term investments	11,137	14,839
Trade and other accounts receivable, net of allowances of $0 at both October 2, 2021 and at January 2, 2021	13,470	28,646
Inventories	22,453	21,689
Prepaid expenses and other current assets	1,981	1,893
Total current assets	82,737	96,408
Long-term investments	5,825	5,388
Restricted cash	786	787
Property, plant and equipment, net	9,209	11,004
Operating lease right-of-use-assets	6,382	8,165
Deferred income taxes and other long-term assets	5,554	5,486
Total assets	$ 110,493	$ 127,238
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current operating lease liabilities	$ 3,047	$ 2,853
Accounts payable	4,659	4,259
Accrued payroll and related liabilities	5,657	7,679
Other accrued liabilities	2,649	3,631
Total current liabilities	16,012	18,422
Noncurrent liabilities:		
Noncurrent operating lease liabilities	4,476	6,803
Other long-term liabilities	450	457
Total noncurrent liabilities	4,926	7,260
Stockholders' equity:		
Common stock, $0.001 par value	25	24
Additional paid-in capital	198,117	193,173
Treasury stock, 5,087 shares at both October 2, 2021 and at January 2, 2021	(29,551)	(29,551)
Accumulated other comprehensive income	557	640
Accumulated deficit	(79,593)	(62,730)
Total stockholders' equity	89,555	101,556
Total liabilities and stockholders' equity	$ 110,493	$ 127,238

Note: Amounts as of January 2, 2021 are derived from the January 2, 2021 audited consolidated financial statements.

See accompanying notes to the condensed consolidated financial statements.

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
	(Unaudited) (In thousands, except per share amounts)			
Net revenues:				
Systems and components	$ 11,700	$ 15,027	$ 35,410	$ 51,589
Technology development	3,093	6,538	9,437	17,659
Total net revenues	14,793	21,565	44,847	69,248
Cost of net revenues:				
Systems and components	7,120	8,389	25,708	29,969
Technology development	2,146	3,876	7,450	10,403
Total cost of net revenues	9,266	12,265	33,158	40,372
Gross profit	5,527	9,300	11,689	28,876
Operating expenses:				
Research and development	3,743	3,603	11,262	10,594
Selling, general and administrative	5,752	5,845	17,208	17,426
Total operating expenses	9,495	9,448	28,470	28,020
Income (loss) from operations	(3,968)	(148)	(16,781)	856
Interest income and other income (expense), net	25	8	75	212
Income (loss) before provision for income taxes	(3,943)	(140)	(16,706)	1,068
Provision for income taxes	290	217	157	1,125
Net loss	$ (4,233)	$ (357)	$ (16,863)	$ (57)
Net loss per share:				
Basic and Diluted	$ (0.17)	$ (0.02)	$ (0.69)	$ (0.00)
Weighted average common shares outstanding:				
Basic and Diluted	24,522	23,771	24,265	23,605

See accompanying notes to the condensed consolidated financial statements.

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INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended		Nine Months Ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
	(Unaudited) (In thousands)			
Net loss	$ (4,233)	$ (357)	$ (16,863)	$ (57)
Other comprehensive income (loss), before tax				
Change in unrealized net gain on available-for-sale investments	(7)	(24)	(36)	29
Foreign currency translation gains (losses)	(7)	124	(47)	49
Other comprehensive income (loss), before tax	(14)	100	(83)	78
Income tax (expense) benefit related to items in other comprehensive income (loss)	—	—	—	—
Other comprehensive income (loss), net of tax	(14)	100	(83)	78
Comprehensive income (loss)	$ (4,247)	$ (257)	$ (16,946)	$ 21

See accompanying notes to the condensed consolidated financial statements.

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INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended	
	October 2, 2021	September 26, 2020
	(Unaudited) (In thousands)	
Operating activities		
Net loss	$ (16,863)	$ (57)
Adjustments to reconcile net loss to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	2,568	2,645
Net amortization (accretion) of investment premiums and discounts	88	(9)
Equity-based compensation	2,872	2,186
Straight-line rent adjustment and amortization of lease incentives	(350)	(224)
Deferred income taxes	(36)	516
Changes in operating assets and liabilities	11,681	2,714
Total adjustments	16,823	7,828
Net cash and cash equivalents provided by (used in) operating activities	(40)	7,771
Investing activities		
Purchases of investments	(13,214)	(17,071)
Proceeds from sales and maturities of investments	16,355	17,950
Purchases of leasehold improvements and equipment	(773)	(2,329)
Net cash and cash equivalents provided by (used in) investing activities	2,368	(1,450)
Financing activities		
Net proceeds from issuance of common stock	2,618	1,865
Common stock repurchases	—	(393)
Taxes paid related to net share settlement	(545)	(364)
Net cash and cash equivalents provided by financing activities	2,073	1,108
Effect of exchange rate changes on cash	(47)	49
Net increase in cash, cash equivalents and restricted cash	4,354	7,478
Cash, cash equivalents and restricted cash at beginning of period	30,128	20,554
Cash, cash equivalents and restricted cash at end of period	$ 34,482	$ 28,032
Non-cash investing and financing activity		
Additions to right-of-use-assets obtained from new operating lease liabilities	$ —	$ 128

See accompanying notes to the condensed consolidated financial statements.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Description of Business and Basis of Presentation

Description of Business

Intevac, Inc. (together with its subsidiaries "Intevac," the "Company" or "we") is a provider of vacuum deposition equipment for a wide variety of thin-film applications, and a leading provider of digital night-vision technologies and products to the defense industry. The Company leverages its core capabilities in high-volume manufacturing of small substrates to provide process manufacturing equipment solutions to the hard disk drive ("HDD"), display cover panel ("DCP"), photovoltaic ("PV") solar cell and advanced semiconductor packaging ("ASP") industries. Intevac also provides sensors, cameras and systems for government applications such as night vision. Intevac's customers include manufacturers of hard disk media, DCPs and solar cells as well as the U.S. government and its agencies, allies and contractors. Intevac reports two segments: Thin-film Equipment ("TFE") and Photonics.

Basis of Presentation

In the opinion of management, the unaudited interim condensed consolidated financial statements of Intevac included herein have been prepared on a basis consistent with the January 2, 2021 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. Intevac's results of operations for the three and nine months ended October 2, 2021 are not necessarily indicative of future operating results.

The preparation of consolidated 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 consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

COVID-19 Update

The COVID-19 outbreak, which was declared a global pandemic by the World Health Organization in March 2020, has impacted all countries in which we operate. The impact of COVID-19, including changes in consumer behavior, pandemic fears, and market downturns as well as restrictions on business and individual activities has created significant volatility in the global economy and led to reduced economic activity. There have been extraordinary actions taken by federal, state, and local public health and governmental authorities to contain the spread of COVID-19 and although many restrictions that were in place have eased in many localities, some areas that had previously eased restrictions have reverted to more stringent limitations. There remains significant uncertainty concerning the magnitude of the impact and the duration of the COVID-19 pandemic. Given that, we are unable to predict the ultimate impact it may have on our business, future operations, financial position or cash flows. The extent that our operations will continue to be impacted by the COVID-19 pandemic will depend on future developments, including any new potential waves of the virus, new strains of the virus, and the success of vaccination programs, all of which are highly uncertain and cannot be accurately predicted. However, we are monitoring the progression of the pandemic and its potential effect on our financial position, results of operations, and cash flows.

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2. Revenue

The following tables represent a disaggregation of revenue from contracts with customers for the three and nine months ended October 2, 2021 and September 26, 2020 along with the reportable segment for each category.

Major Products and Service Lines

TFE	Three Months Ended October 2, 2021					Three Months Ended September 26, 2020		
	(In thousands)							
	HDD	DCP	PV	ASP	Total	HDD	PV	Total
Systems, upgrades and spare parts	$ 6,495	$ —	$ 61	$ —	$ 6,556	$ 7,601	$ 131	$ 7,732
Field service	1,424	—	18	—	1,442	1,635	—	1,635
Total TFE net revenues	$ 7,919	$ —	$ 79	$ —	$ 7,998	$ 9,236	$ 131	$ 9,367

	Nine Months Ended October 2, 2021					Nine Months Ended September 26, 2020		
	(In thousands)							
	HDD	DCP	PV	ASP	Total	HDD	PV	Total
Systems, upgrades and spare parts	$14,034	$ 3	$ 219	$ 3,850	$18,106	$ 29,189	$ 400	$ 29,589
Field service	4,425	14	60	—	4,499	4,334	2	4,336
Total TFE net revenues	$18,459	$ 17	$ 279	$ 3,850	$22,605	$ 33,523	$ 402	$ 33,925

Photonics	Three Months Ended October 2, 2021	Three Months Ended September 26, 2020	Nine Months Ended October 2, 2021	Nine Months Ended September 26, 2020
	(In thousands)			
Products:				
Military products	$ 3,343	$ 4,947	$ 11,552	$ 15,758
Commercial products	100	139	278	257
Repair and other services	259	574	975	1,649
Total Photonics product net revenues	3,702	5,660	12,805	17,664
Technology development:				
Firm Fixed Price (“FFP”)	1,571	5,482	4,919	15,374
Cost Plus Fixed Fee (“CPFF”)	1,522	1,056	4,518	2,285
Total technology development net revenues	3,093	6,538	9,437	17,659
Total Photonics net revenues	$ 6,795	$ 12,198	$ 22,242	$ 35,323

Primary Geographical Markets

	Three Months Ended October 2, 2021			Three Months Ended September 26, 2020		
	(In thousands)					
	TFE	Photonics	Total	TFE	Photonics	Total
United States	$ 220	$ 6,738	$ 6,958	$ 1,764	$ 12,079	$ 13,843
Asia	7,778	—	7,778	7,536	—	7,536
Europe	—	57	57	67	119	186
Total net revenues	$ 7,998	$ 6,795	$ 14,793	$ 9,367	$ 12,198	$ 21,565

	Nine Months Ended October 2, 2021			Nine Months Ended September 26, 2020		
	(In thousands)					
	TFE	Photonics	Total	TFE	Photonics	Total
United States	$ 2,708	$ 22,069	$ 24,777	$ 2,596	$ 35,060	$ 37,656
Asia	16,047	—	16,047	31,262	—	31,262
Europe	3,850	173	4,023	67	263	330
Total net revenues	$ 22,605	$ 22,242	$ 44,847	$ 33,925	$ 35,323	$ 69,248

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Timing of Revenue Recognition

	Three Months Ended October 2, 2021			Three Months Ended September 26, 2020		
	(In thousands)					
	TFE	Photonics	Total	TFE	Photonics	Total
Products transferred at a point in time	$ 7,998	$ 259	$ 8,257	$ 9,367	$ 574	$ 9,941
Products and services transferred over time	—	6,536	6,536	—	11,624	11,624
	$ 7,998	$ 6,795	$ 14,793	$ 9,367	$ 12,198	$ 21,565

	Nine Months Ended October 2, 2021			Nine Months Ended September 26, 2020		
	(In thousands)					
	TFE	Photonics	Total	TFE	Photonics	Total
Products transferred at a point in time	$ 22,605	$ 574	$ 23,179	$ 33,925	$ 1,649	$ 35,574
Products and services transferred over time	—	21,668	21,668	—	33,674	33,674
	$ 22,605	$ 22,242	$ 44,847	$ 33,925	$ 35,323	$ 69,248

The following table reflects the changes in our contract assets, which we classify as accounts receivable, unbilled or retainage, and our contract liabilities, which we classify as deferred revenue and customer advances, for the nine months ended October 2, 2021:

	October 2, 2021	January 2, 2021	Nine Months Change
		(In thousands)	
TFE:			
Contract assets:			
Accounts receivable, unbilled	$ —	$ 369	$ (369)
Contract liabilities:			
Deferred revenue	$ 197	$ 482	$ (285)
Customer advances	24	33	(9)
	$ 221	$ 515	$ (294)
Photonics:			
Contract assets:			
Accounts receivable, unbilled	$ 1,493	$ 5,439	$ (3,946)
Retainage	87	126	(39)
	$ 1,580	$ 5,565	$ (3,985)
Contract liabilities:			
Deferred revenue	$ 550	$ 779	$ (229)

Accounts receivable, unbilled in our TFE segment represents a contract asset for revenue that has been recognized in advance of billing the customer. For our system and certain upgrade sales, our TFE customers generally pay in three installments, with a portion of the system price billed upon receipt of an order, a portion of the price billed upon shipment, and the balance of the price due upon completion of installation and acceptance of the system at the customer's factory. Accounts receivable, unbilled in our TFE segment generally represents the balance of the system price that is due upon completion of installation and acceptance, less the amount that has been deferred as revenue for the performance of the installation tasks. During the nine months ended October 2, 2021, contract assets in our TFE segment decreased by $369,000 primarily due to the recognition of revenue for the installation portion of revenue for one system that completed installation and acceptance.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

Customer advances in our TFE segment generally represent a contract liability for amounts billed to the customer prior to transferring goods. The Company has elected to use the practical expedient to disregard the effect of the time value of money in a significant financing component when its payment terms are less than one year. These contract advances are liquidated when revenue is recognized. Deferred revenue in our TFE segment generally represents a contract liability for amounts billed to a customer for completed systems at the customer site that are undergoing installation and acceptance testing where transfer of control has not yet occurred, as Intevac does not yet have a demonstrated history of meeting the acceptance criteria upon the customer's receipt of product. During the nine months ended October 2, 2021, we recognized revenue in our TFE segment of $33,000 and $296,000 that was included in customer advances and deferred revenue, respectively, at the beginning of the period.

Accounts receivable, unbilled in our Photonics segment represents a contract asset for revenue that has been recognized in advance of billing the customer, which is common for contracts in the defense industry. In our Photonics segment, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., monthly) or upon achievement of contractual milestones. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. Our contracts with the U.S. government may also contain retainage provisions. Retainage represents a contract asset for the portion of the contract price earned by us for work performed but held for payment by the U.S. government as a form of security until satisfactory completion of the contract. The retainage is billable upon completion of the contract performance and approval of final indirect expense rates by the government. During the nine months ended October 2, 2021, contract assets in our Photonics segment decreased by $4.0 million primarily due to the billing of contractual milestones, offset in part by the accrual of revenue for incurred costs under FFP and CPFF contracts.

Deferred revenue in our Photonics segment generally represents a contract liability for amounts billed to the customer upon achievement of contractual milestones. These amounts are liquidated when revenue is recognized. During the nine months ended October 2, 2021, we recognized revenue in our Photonics segment of $779,000 that was included in deferred revenue at the beginning of the period.

On October 2, 2021, we had $44.9 million of remaining performance obligations, which we also refer to as backlog. Backlog at October 2, 2021 consisted of $16.9 million of TFE backlog and $27.9 million of Photonics backlog. We expect to recognize approximately 38% of our remaining performance obligations as revenue in 2021, 40% in 2022, 21% in 2023 and 1% in 2024.

3. Inventories

Inventories are stated at the lower of average cost or net realizable value and consist of the following:

	October 2, 2021	January 2, 2021
	(In thousands)	
Raw materials	$ 11,262	$ 9,999
Work-in-progress	6,929	4,832
Finished goods	4,262	6,858
	$ 22,453	$ 21,689

Finished goods inventory at October 2, 2021 included one VERTEX SPECTRA system for DCP at a customer's factory previously under evaluation for which the evaluation period has ended but the tool is being considered for another application at that site. Finished goods inventory at January 2, 2021 included one VERTEX SPECTRA system for DCP under evaluation at a customer's factory and one MATRIX PVD system for advanced semiconductor packaging under evaluation at a customer's factory.

4. Equity-Based Compensation

At October 2, 2021, Intevac had equity-based awards outstanding under the 2020 Equity Incentive Plan and the 2012 Equity Incentive Plan (together, the "Plans") and the 2003 Employee Stock Purchase Plan (the "ESPP"). Intevac's stockholders approved all of these plans. The Plans permit the grant of incentive or non-statutory stock options, performance-based stock options ("PSOs"), restricted stock, stock appreciation rights, restricted stock units ("RSUs"), performance-based restricted stock units ("PRSUs") and performance shares.

The ESPP provides that eligible employees may purchase Intevac's common stock through payroll deductions at a price equal to 85% of the lower of the fair market value at the entry date 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. Under the terms of the ESPP, employees can choose to have up to 50% of their base earnings withheld to purchase Intevac common stock (not to exceed $25,000 per year).

Equity-based Compensation Expense

The effect of recording equity-based compensation for the three and nine months ended October 2, 2021 and September 26, 2020 was as follows:

	Three Months Ended		Nine Months Ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
	(In thousands)			
Equity-based compensation by type of award:				
Stock options	$ 27	$ 47	$ 159	$ 411
RSUs	673	495	1,872	1,311
ESPP awards	185	316	841	464
Total equity-based compensation	$ 885	$ 858	$ 2,872	$ 2,186

Stock Options and ESPP

The fair value of stock options and ESPP awards is estimated at the grant date using the Black-Scholes option valuation model. The determination of fair value of stock options and ESPP awards on the date of grant using an option-pricing model is affected by Intevac's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards and actual employee stock option exercise behavior. Intevac accounts for forfeitures as they occur, rather than estimating expected forfeitures. Option activity as of October 2, 2021 and changes during the nine months ended October 2, 2021 were as follows:

	Shares	Weighted-Average Exercise Price
Options outstanding at January 2, 2021	1,814,467	$ 6.66
Options granted	—	$ —
Options cancelled and forfeited	(211,042)	$ 7.47
Options exercised	(73,744)	$ 5.89
Options outstanding at October 2, 2021	1,529,681	$ 6.57
Options exercisable at October 2, 2021	1,317,356	$ 6.78

Intevac issued 434,054 shares of common stock under the ESPP during the nine months ended October 2, 2021.

Intevac estimated the weighted-average fair value of stock options and employee stock purchase rights using the following weighted-average assumptions:

	Three Months Ended		Nine Months Ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Stock Options:				
Weighted-average fair value of grants per share	$ —	$ —	$ —	$ 1.82
Expected volatility	—	—	—	46.04%
Risk-free interest rate	—	—	—	0.44%
Expected term of options (in years)	—	—	—	4.39
Dividend yield	—	—	—	None

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Stock Purchase Rights:				
Weighted-average fair value of grants per share	$ 2.43	$ 2.20	$ 2.59	$ 2.20
Expected volatility	64.94%	51.72%	60.88%	51.49%
Risk-free interest rate	0.07%	0.12%	0.08%	0.14%
Expected term of purchase rights (in years)	0.75	1.26	0.91	1.24
Dividend yield	None	None	None	None

The computation of the expected volatility assumptions used in the Black-Scholes calculations for new stock option grants and ESPP purchase rights is based on the historical volatility of Intevac's stock price, measured over a period equal to the expected term of the stock option grant or purchase right. The risk-free interest rate is based on the yield available on U.S. Treasury Strips with an equivalent remaining term. The expected term of employee stock options represents the weighted-average period that the stock options are expected to remain outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the equity-based awards and vesting schedules. The expected term of purchase rights represents the period of time remaining in the current offering period. The dividend yield assumption is based on Intevac's history of not paying dividends and the assumption of not paying dividends in the future.

RSUs

RSU activity as of October 2, 2021 and changes during the nine months ended October 2, 2021 were as follows:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested RSUs at January 2, 2021	901,634	$ 5.30
Granted	590,931	$ 6.18
Vested	(301,305)	$ 6.07
Cancelled and forfeited	(82,529)	$ 4.66
Non-vested RSUs at October 2, 2021	1,108,731	$ 5.60

Time-based RSUs are converted into shares of Intevac common stock upon vesting on a one-for-one basis. Time-based RSUs typically are scheduled to vest over four years. Vesting of time-based RSUs is subject to the grantee's continued service with Intevac. The compensation expense related to these awards is determined using the fair market value of Intevac common stock on the date of the grant, and the compensation expense is recognized over the vesting period.

In May 2021, we granted 126,320 performance-based restricted stock units ("PRSUs") to members of our senior management. The number of PRSUs that will vest is determined by our common stock achieving a certain Total Shareholder Return ("TSR") for the Company, relative to the TSR of a specified peer group over a measurement period of two years from the time of grant. The fair value of each PRSU award was estimated on the date of grant using a Monte Carlo simulation. PRSU activity is included in the above RSU tables. At the end of the performance measurement period, the Compensation Committee of the Board of Directors (the "Compensation Committee") will determine the achievement against the performance objectives. Depending on the Company's TSR relative to the peer group TSR, the actual number of shares that will be vested for each PRSU grant can range from zero to 200% of the initial grant.

Intevac estimated the weighted-average fair value of PRSUs using the following weighted-average assumptions:

	Nine Months Ended October 2, 2021
Weighted-average fair value of grants per share	$ 7.65
Expected volatility	56.26%
Risk-free interest rate	0.15%
Dividend yield	None

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

In May 2020, we granted 109,465 PRSUs to members of our senior management. The PRSUs were issued collectively in four separate tranches with individual one-year performance periods beginning in May 2020, 2021, 2022 and 2023, respectively. Vesting of the PRSUs is based on the performance of our common stock relative to the performance of a specified peer group. The fair value of each PRSU award was estimated on the date of grant using a Monte Carlo simulation. PRSU activity is included in the above RSU tables. At the end of each performance measurement period, the Compensation Committee will determine the achievement against the performance objectives. Any earned PRSU awards will vest 100% after the end of the applicable performance measurement period. The first performance measurement period ended in May 2021 and the metric was not achieved and 27,366 PRSUs were cancelled.

Intevac estimated the weighted-average fair value of PRSUs using the following weighted-average assumptions:

	Nine Months Ended September 26, 2020
Weighted-average fair value of grants per share	$ 3.16
Expected volatility	46.7%
Risk-free interest rate	0.25%
Dividend yield	None

5. Warranty

Intevac provides for the estimated cost of warranty when revenue is recognized. Intevac's warranty is subject to contract terms and, for its HDD manufacturing, DCP manufacturing, solar cell manufacturing and advanced semiconductor packaging manufacturing systems, the warranty typically ranges between 12 and 24 months from customer acceptance. During this warranty period any defective non-consumable parts are replaced and installed at no charge to the customer. Intevac uses estimated repair or replacement costs along with its historical warranty experience to determine its warranty obligation. The provision for the estimated future costs of warranty is based upon historical cost and product performance experience. Intevac exercises judgment in determining the underlying estimates.

On the condensed consolidated balance sheets, the short-term portion of the warranty provision is included in other accrued liabilities, while the long-term portion is included in other long-term liabilities. The expense associated with product warranties issued or adjusted is included in cost of net revenues on the condensed consolidated statements of operations.

The following table displays the activity in the warranty provision account for the three and nine months ended October 2, 2021 and September 26, 2020:

	Three Months Ended		Nine Months Ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
	(In thousands)			
Opening balance	$ 572	$ 662	$ 480	$ 1,022
Expenditures incurred under warranties	(148)	(89)	(564)	(398)
Accruals for product warranties issued during the reporting period	80	39	553	198
Adjustments to previously existing warranty accruals	106	(57)	141	(267)
Closing balance	$ 610	$ 555	$ 610	$ 555

The following table displays the balance sheet classification of the warranty provision account at October 2, 2021 and at January 2, 2021:

	October 2, 2021	January 2, 2021
	(In thousands)	
Other accrued liabilities	$ 542	$ 405
Other long-term liabilities	68	75
Total warranty provision	$ 610	$ 480

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

6. Guarantees

Officer and Director Indemnifications

As permitted or required under Delaware law and to the maximum extent allowable under that law, Intevac has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was, serving at Intevac's request in such capacity. These indemnification obligations are valid as long as the director or officer acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The maximum potential amount of future payments Intevac could be required to make under these indemnification obligations is unlimited; however, Intevac has a director and officer insurance policy that mitigates Intevac's exposure and enables Intevac to recover a portion of any future amounts paid. As a result of Intevac's insurance policy coverage, Intevac believes the estimated fair value of these indemnification obligations is not material.

Other Indemnifications

As is customary in Intevac's industry, many of Intevac's contracts provide remedies to certain third parties such as defense, settlement, or payment of judgments for intellectual property claims related to the use of its products. Such indemnification obligations may not be subject to maximum loss clauses. Historically, payments made related to these indemnifications have been immaterial.

Letters of Credit

As of October 2, 2021, we had letters of credit and bank guarantees outstanding totaling $786,000, including the standby letter of credit outstanding under the Santa Clara, California facility lease and various other guarantees with our bank. These letters of credit and bank guarantees are collateralized by $786,000 of restricted cash.

7. Cash, Cash Equivalents and Investments

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

	October 2, 2021			
	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
	(In thousands)			
Cash and cash equivalents:				
Cash	$ 28,749	$ —	$ —	$ 28,749
Money market funds	4,447	—	—	4,447
Municipal bonds	500	—	—	500
Total cash and cash equivalents	$ 33,696	$ —	$ —	$ 33,696
Short-term investments:				
Certificates of deposit	$ 6,299	$ 3	$ —	$ 6,302
Commercial paper	400	—	—	400
Corporate bonds and medium-term notes	2,919	1	—	2,920
Municipal bonds	515	—	—	515
U.S. treasury and agency securities	1,000	—	—	1,000
Total short-term investments	$ 11,133	$ 4	$ —	$ 11,137
Long-term investments:				
Asset backed securities	$ 480	$ —	$ —	$ 480
Certificates of deposit	500	—	1	499
Corporate bonds and medium-term notes	2,541	1	1	2,541
Municipal bonds	145	—	1	144
U.S. treasury and agency securities	2,161	—	—	2,161
Total long-term investments	$ 5,827	$ 1	$ 3	$ 5,825
Total cash, cash equivalents, and investments	$ 50,656	$ 5	$ 3	$ 50,658

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

	January 2, 2021			
	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
	(In thousands)			
Cash and cash equivalents:				
Cash	$ 24,729	$ —	$ —	$ 24,729
Money market funds	3,612	—	—	3,612
Certificates of deposit	1,000	—	—	1,000
Total cash and cash equivalents	$ 29,341	$ —	$ —	$ 29,341
Short-term investments:				
Certificates of deposit	$ 6,450	$ 2	$ —	$ 6,452
Commercial paper	500	—	—	500
Corporate bonds and medium-term notes	2,929	6	—	2,935
Municipal bonds	400	—	—	400
U.S. treasury and agency securities	4,527	25	—	4,552
Total short-term investments	$ 14,806	$ 33	$ —	$ 14,839
Long-term investments:				
Certificates of deposit	$ 500	$ —	$ —	$ 500
Corporate bonds and medium-term notes	3,474	4	—	3,478
U.S. treasury and agency securities	1,409	1	—	1,410
Total long-term investments	$ 5,383	$ 5	$ —	$ 5,388
Total cash, cash equivalents, and investments	$ 49,530	$ 38	$ —	$ 49,568

The contractual maturities of available-for-sale securities at October 2, 2021 are presented in the following table.

	October 2, 2021	
	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$ 16,080	$ 16,084
Due after one through three years	5,827	5,825
	$ 21,907	$ 21,909

The following table provides the fair market value of Intevac's investments with unrealized losses that are not deemed to be other-than temporarily impaired as of October 2, 2021.

	October 2, 2021			
	In Loss Position for Less than 12 Months		In Loss Position for Greater than 12 Months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)			
Certificates of deposit	$ 499	$ 1	$ —	$ —
Corporate bonds and medium-term notes	1,944	1	—	—
Municipal bond	145	1	—	—
	$ 2,588	$ 3	$ —	$ —

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

All prices for the fixed maturity securities including U.S. Treasury and agency securities, certificates of deposit, commercial paper, corporate bonds and municipal bonds are received from independent pricing services utilized by Intevac's outside investment manager. This investment manager performs a review of the pricing methodologies and inputs utilized by the independent pricing services for each asset type priced by the vendor. In addition, on at least an annual basis, the investment manager conducts due diligence visits and interviews with each pricing vendor to verify the inputs utilized for each asset class. The due diligence visits include a review of the procedures performed by each vendor to ensure that pricing evaluations are representative of the price that would be received for a security in an orderly sale. Any pricing where the input is based solely on a broker price is deemed to be a Level 3 price. Intevac uses the pricing data obtained from its outside investment manager as the primary input to make its assessments and determinations as to the ultimate valuation of the above-mentioned securities and has not made, during the periods presented, any material adjustments to such inputs.

The following table represents the fair value hierarchy of Intevac's available-for-sale securities measured at fair value on a recurring basis as of October 2, 2021.

	Fair Value Measurements at October 2, 2021		
	Total	Level 1	Level 2
	(In thousands)		
Recurring fair value measurements:			
Available-for-sale securities			
Money market funds	$ 4,447	$4,447	$ —
U.S. treasury and agency securities	3,161	3,161	—
Asset backed securities	480	—	480
Certificates of deposit	6,801	—	6,801
Commercial paper	400	—	400
Corporate bonds and medium-term notes	5,461	—	5,461
Municipal bonds	1,159	—	1,159
Total recurring fair value measurements	$21,909	$7,608	$14,301

8. Derivative Instruments

The Company uses foreign currency forward contracts to mitigate variability in gains and losses generated from the re-measurement of certain monetary assets and liabilities denominated in foreign currencies and to offset certain operational exposures from the impact of changes in foreign currency exchange rates. These derivatives are carried at fair value with changes recorded in interest income and other income (expense), net in the condensed consolidated statements of operations. Changes in the fair value of these derivatives are largely offset by re-measurement of the underlying assets and liabilities. Cash flows from such derivatives are classified as operating activities. The derivatives have original maturities of approximately 30 days.

The following table summarizes the Company's outstanding derivative instruments on a gross basis as recorded in its condensed consolidated balance sheets as of October 2, 2021 and January 2, 2021:

Derivative Instrument	Notional Amounts		Derivative Liabilities			
	October 2 2021	January 2, 2021	October 2, 2021		January 2, 2021	
			Balance Sheet Line	Fair Value	Balance Sheet Line	Fair Value
			(In thousands)			
Undesignated Hedges:						
Forward Foreign Currency Contracts	$ 811	$ 983	(a)	$ 2	(a)	$ 3
Total Hedges	$ 811	$ 983		$ 2		$ 3

(a) Other accrued liabilities

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

9. Equity

Condensed Consolidated Statement of Changes in Equity

The changes in stockholders' equity by component for the three and nine months ended October 2, 2021 and September 26, 2020, are as follows (in thousands):

	Three months ended October 2, 2021				
	Common Stock and Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balance at July 3, 2021	$ 196,088	$ (29,551)	$ 571	$ (75,360)	$ 91,748
Common stock issued under employee plans	1,182	—	—	—	1,182
Shares withheld for net share settlement of RSUs	(13)	—	—	—	(13)
Equity-based compensation expense	885	—	—	—	885
Net loss	—	—	—	(4,233)	(4,233)
Other comprehensive loss	—	—	(14)	—	(14)
Balance at October 2, 2021	$ 198,142	$ (29,551)	$ 557	$ (79,593)	$ 89,555

	Nine months ended October 2, 2021				
	Common Stock and Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balance at January 2, 2021	$ 193,197	$ (29,551)	$ 640	$ (62,730)	$ 101,556
Common stock issued under employee plans	2,618	—	—	—	2,618
Shares withheld for net share settlement of RSUs	(545)	—	—	—	(545)
Equity-based compensation expense	2,872	—	—	—	2,872
Net loss	—	—	—	(16,863)	(16,863)
Other comprehensive loss	—	—	(83)	—	(83)
Balance at October 2, 2021	$ 198,142	$ (29,551)	$ 557	$ (79,593)	$ 89,555

	Three months ended September 26, 2020				
	Common Stock and Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balance at June 27, 2020	$ 190,290	$ (29,551)	$ 402	$ (63,486)	$ 97,655
Common stock issued under employee plans	871	—	—	—	871
Shares withheld for net share settlement of RSUs	(19)	—	—	—	(19)
Equity-based compensation expense	858	—	—	—	858
Net loss	—	—	—	(357)	(357)
Other comprehensive income	—	—	100	—	100
Balance at September 26, 2020	$ 192,000	$ (29,551)	$ 502	$ (63,843)	$ 99,108

	Nine months ended September 26, 2020				
	Common Stock and Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balance at December 28, 2019	$ 188,313	$ (29,158)	$ 424	$ (63,786)	$ 95,793
Common stock issued under employee plans	1,865	—	—	—	1,865
Shares withheld for net share settlement of RSUs	(364)	—	—	—	(364)
Equity-based compensation expense	2,186	—	—	—	2,186
Net loss	—	—	—	(57)	(57)
Other comprehensive income	—	—	78	—	78
Common stock repurchases	—	(393)	—	—	(393)
Balance at September 26, 2020	$ 192,000	$ (29,551)	$ 502	$ (63,843)	$ 99,108

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income by component for the three and nine months ended October 2, 2021 and September 26, 2020, are as follows.

	Three Months Ended			Nine Months Ended		
	October 2, 2021					
	Foreign currency	Unrealized holding gains (losses) on available-for-sale investments	Total	Foreign currency	Unrealized holding gains (losses) on available-for-sale investments	Total
	(In thousands)					
Beginning balance	$ 562	$ 9	$571	$ 602	$ 38	$640
Other comprehensive loss before reclassification	(7)	(7)	(14)	(47)	(36)	(83)
Amounts reclassified from other comprehensive income (loss)	—	—	—	—	—	—
Net current-period other comprehensive loss	(7)	(7)	(14)	(47)	(36)	(83)
Ending balance	$ 555	$ 2	$557	$ 555	$ 2	$557

	Three Months Ended			Nine Months Ended		
	September 26, 2020					
	Foreign currency	Unrealized holding gains (losses) on available-for-sale investments	Total	Foreign currency	Unrealized holding gains on available-for-sale investments	Total
	(In thousands)					
Beginning balance	$ 306	$ 96	$402	$ 381	$ 43	$424
Other comprehensive income (loss) before reclassification	124	(24)	100	49	29	78
Amounts reclassified from other comprehensive income (loss)	—	—	—	—	—	—
Net current-period other comprehensive income	124	(24)	100	49	29	78
Ending balance	$ 430	$ 72	$502	$ 430	$ 72	$502

Stock Repurchase Program

On November 21, 2013, Intevac's Board of Directors approved a stock repurchase program authorizing up to $30.0 million in repurchases. On August 15, 2018, Intevac's Board of Directors approved a $10.0 million increase to the original stock repurchase program for an aggregate authorized amount of up to $40.0 million. At October 2, 2021, $10.4 million remains available for future stock repurchases under the repurchase program.

The following table summarizes Intevac's stock repurchases:

	Three Months Ended		Nine Months Ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
	(In thousands, except per share amounts)			
Shares of common stock repurchased	—	—	—	98
Cost of stock repurchased	$ —	$ —	$ —	$ 393
Average price paid per share	$ —	$ —	$ —	$ 3.97

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

Intevac records treasury stock purchases under the cost method using the first-in, first-out (FIFO) method. Upon reissuance of treasury stock, amounts in excess of the acquisition cost are credited to additional paid-in capital. If Intevac reissues treasury stock at an amount below its acquisition cost and additional paid-in capital associated with prior treasury stock transactions is insufficient to cover the difference between the acquisition cost and the reissue price, this difference is recorded against the accumulated deficit.

10. Net Loss Per Share

The following table sets forth the computation of basic and diluted net loss per share for the three and nine months ended October 2, 2021 and September 26, 2020:

	Three Months Ended		Nine Months Ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
	(In thousands, except per share amounts)			
Net loss	$ (4,233)	$ (357)	$ (16,863)	$ (57)
Weighted-average shares – basic	24,522	23,771	24,265	23,605
Effect of dilutive potential common shares	—	—	—	—
Weighted-average shares – diluted	24,522	23,771	24,265	23,605
Net loss per share – basic	$ (0.17)	$ (0.02)	$ (0.69)	$ (0.00)
Net loss per share –diluted	$ (0.17)	$ (0.02)	$ (0.69)	$ (0.00)

As the Company is in a net loss position, all of the Company's equity instruments are considered antidilutive.

11. Segment Reporting

Intevac's two reportable segments are TFE and 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 October 2, 2021 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, gains and losses on divestitures and sales of intellectual property, or unallocated costs in measuring the performance of the reportable segments.

The TFE segment designs, develops and markets vacuum process equipment solutions for high-volume manufacturing of small substrates with precise thin-film properties, such as for the hard drive, solar cell, DCP and advanced semiconductor packaging industries, as well as other adjacent thin-film markets.

The Photonics segment develops compact, cost-effective, high-sensitivity digital-optical products for the capture and display of low-light images. Intevac provides sensors, cameras and systems for government applications such as night vision.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

Information for each reportable segment for the three and nine months ended October 2, 2021 and September 26, 2020 is as follows:

Net Revenues

	Three Months Ended		Nine Months Ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
	(In thousands)			
TFE	$ 7,998	$ 9,367	$ 22,605	$ 33,925
Photonics	6,795	12,198	22,242	35,323
Total segment net revenues	$ 14,793	$ 21,565	$ 44,847	$ 69,248

Operating Income (Loss)

	Three Months Ended		Nine Months Ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
	(In thousands)			
TFE	$ (1,841)	$ (1,661)	$ (10,148)	$ (4,366)
Photonics	(341)	3,032	(1,742)	9,480
Total segment operating income (loss)	(2,182)	1,371	(11,890)	5,114
Unallocated costs	(1,786)	(1,519)	(4,891)	(4,258)
Income (loss) from operations	(3,968)	(148)	(16,781)	856
Interest income and other income (expense), net	25	8	75	212
Income (loss) before provision for income taxes	$ (3,943)	$ (140)	$ (16,706)	$ 1,068

Total assets for each reportable segment as of October 2, 2021 and January 2, 2021 are as follows:

Assets

	October 2, 2021	January 2, 2021
	(In thousands)	
TFE	$ 33,411	$ 44,335
Photonics	16,810	22,923
Total segment assets	50,221	67,258
Cash, cash equivalents and investments	50,658	49,568
Restricted cash	786	787
Deferred income taxes	5,371	5,335
Other current assets	907	1,093
Common property, plant and equipment	1,100	1,443
Common operating lease right-of-use assets	1,267	1,603
Other assets	183	151
Consolidated total assets	$ 110,493	$ 127,238

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

12. Income Taxes

Intevac recorded income tax provisions of $290,000 and $157,000 for the three and nine months ended October 2, 2021, respectively, and income tax provisions of $217,000 and $1.1 million for the three and nine months ended September 26, 2020, respectively. The income tax provisions for these three and nine month periods are based upon estimates of annual income (loss), annual permanent differences and statutory tax rates in the various jurisdictions in which Intevac operates. For the three months ended October 2, 2021 Intevac recorded an income tax provision on earnings of its international subsidiaries of $179,000. For the nine months ended October 2, 2021 Intevac recorded an income tax benefit of $29,000 on losses of its international subsidiaries. For the three and nine months ended October 2, 2021 Intevac recorded $111,000 and $183,000, respectively, for withholding taxes on royalties paid into the United States from Intevac's Singapore subsidiary as discrete items. For the three and nine month periods ended September 26, 2020 Intevac recorded income tax provisions on earnings of its international subsidiaries of $111,000 and $659,000, respectively, and recorded $98,000 and $471,000, respectively, for withholding taxes on royalties paid into the United States from Intevac's Singapore subsidiary as discrete items. For all periods presented Intevac utilized net operating loss carry-forwards to offset the impact of global intangible low-taxed income ("GILTI"). Intevac's tax rate differs from the applicable statutory rates due primarily to establishment of a valuation allowance, utilization of deferred and current credits and the effect of permanent differences and adjustments of prior permanent differences. Intevac's future effective income tax rate depends on various factors, including the level of Intevac's projected earnings, the geographic composition of worldwide earnings, tax regulations governing each region, net operating loss carry-forwards, availability of tax credits and the effectiveness of Intevac's tax planning strategies. Management carefully monitors these factors and timely adjusts the effective income tax rate.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted on March 27, 2020 in the United States. The CARES Act includes several significant provisions for corporations, including the usage of net operating losses and payroll benefits. Several foreign (non-U.S.) jurisdictions in which we operate have taken similar economic stimulus measures. The Company evaluated the provisions of the CARES Act and other non-U.S. economic measures and determined the impact on our financial position at October 2, 2021 and on the results of operations and cash flows for the three and nine months then ended to be as follows.

Under the CARES Act, we elected to defer payment, on an interest-free basis, of the employer portion of social security payroll taxes incurred from March 27, 2020 to December 31, 2020. One-half of such deferral amount will become due on each of December 31, 2021 and December 31, 2022. We elected to utilize this deferral program to delay payment of $764,000 of the employer portion of payroll taxes which were incurred between March 27, 2020 and December 31, 2020. On the condensed consolidated balance sheets, the short-term portion of the deferred payroll tax liability is included in accrued payroll and related liabilities, while the long-term portion is included in other long-term liabilities. The Company also utilized the employee retention tax credit under the CARES Act for certain qualifying employee salary and wage expenditures. Tax benefits under the employee retention tax credit were not significant.

In Singapore, Intevac receives government assistance under the Job Support Scheme ("JSS"). The purpose of the JSS is to provide wage support to employers to help them retain their local employees. During the nine months ended October 2, 2021, the Company received $83,000 in JSS grants, of which $56,000 is reported as a reduction of cost of net revenues, $10,000 is reported as a reduction of research and development ("R&D") expenses and $17,000 is reported as a reduction of selling, general and administrative expenses on the condensed consolidated statements of operations. During the quarter ended September 26, 2020, the Company received $124,000 in JSS grants, of which $72,000 is reported as a reduction of cost of net revenues, $20,000 is reported as a reduction of R&D expenses and $32,000 is reported as a reduction of selling, general and administrative expenses on the condensed consolidated statement of operations. During the nine months ended September 26, 2020, the Company received $434,000 in JSS grants, of which $252,000 is reported as a reduction of cost of net revenues, $68,000 is reported as a reduction of R&D expenses and $114,000 is reported as a reduction of selling, general and administrative expenses on the condensed consolidated statement of operations.

13. Restructuring Charges

During the third quarter of fiscal 2021, Intevac substantially completed implementation of the 2021 cost reduction plan (the "2021 Cost Reduction Plan"), which was intended to reduce expenses and reduce its workforce by 5.2 percent. The cost of implementing the 2021 Cost Reduction Plan was reported under cost of net revenues and operating expenses in the condensed consolidated statements of operations. Substantially all cash outlays in connection with the Cost Reduction Plan occurred in the first nine months of fiscal 2021. Implementation of the 2021 Cost Reduction Plan is expected to reduce salary, wages and other employee-related expenses by approximately $2.0 million on an annual basis.

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During the third quarter of fiscal 2020, Intevac substantially completed implementation of the 2020 cost reduction plan (the "2020 Cost Reduction Plan"), which was intended to reduce expenses and reduce its workforce by 1.0 percent. The cost of implementing the 2020 Cost Reduction Plan was reported under cost of net revenues and operating expenses in the condensed consolidated statements of operations. Substantially all cash outlays in connection with the 2020 Cost Reduction Plan occurred in the third quarter of fiscal 2020. Implementation of the 2020 Cost Reduction Plan is expected to reduce salary, wages and other employee-related expenses by approximately $864,000 on an annual basis.

The changes in restructuring reserves, which resulted from cash-based severance payments and other employee-related costs, associated with the cost reduction plans for the three and nine months ended October 2, 2021 and September 26, 2020 were as follows.

	Three Months Ended October 2, 2021	Nine Months Ended October 2, 2021	Three and Nine Months Ended September 26, 2020
	(In thousands)		
	Severance and other employee-related costs		
Beginning balance	$ —	$ —	$ —
Provision for restructuring reserves	276	319	103
Cash payments made	(276)	(319)	(103)
Ending balance	$ —	$ —	$ —

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.

In July 2020, a former contract employee who worked for us via a staffing agency filed an action against us under the Private Attorneys General Act in California state court alleging that the Company failed to provide rest and meal breaks, pay overtime and reimburse business expenses for non-exempt California employees. The former employee has since added class action claims to his original complaint. The Company disputes the claims and intends to defend the matter vigorously. Given the uncertainty of litigation and the preliminary stage of the case, the Company is currently unable to estimate the amount of loss, or range of possible loss, that may result from this action. Accordingly, no accrual has been made with respect to this matter.

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 2021 and beyond; 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 Photonics technology into major military programs; the timing of delivery and/or acceptance of the systems and products that comprise Intevac's backlog for revenue and the Company's ability to achieve cost savings. 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 ("SEC"), including our Annual Report on Form 10-K filed on February 17, 2021, and our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

Intevac's trademarks include the following: "200 Lean ®," "DiamondClad ®," "EBAPS ®," "ENERG *i* ®," "LIVAR ®," "INTEVAC LSMA ®," "INTEVAC MATRIX ®," "MicroVista ®," "NightVista ®," "oDLC ®," "INTEVAC VERTEX ®," "VERTEX Marathon ®," and "VERTEX SPECTRA ®."

Overview

Intevac is a provider of vacuum deposition equipment for a wide variety of thin-film applications, and a leading provider of digital night-vision technologies and products to the defense industry. The Company leverages its core capabilities in high-volume manufacturing of small substrates to provide process manufacturing equipment solutions to the hard disk drive ("HDD"), display cover panel ("DCP"), photovoltaic ("PV") solar cell, and advanced semiconductor packaging industries. Intevac also provides sensors, cameras and systems for government applications such as night vision. Intevac's customers include manufacturers of hard disk media, DCPs and solar cells, semiconductor outsourced assembly and test companies as well as the U.S. government and its agencies, allies and contractors. Intevac reports two segments: Thin-film Equipment ("TFE") and Photonics.

Product development and manufacturing activities occur in North America and Asia. Intevac also has field offices in Asia to support its TFE customers. Intevac's products are highly technical and are sold primarily through Intevac's direct sales force. Intevac also sells its products through distributors in Japan and China.

Intevac's results of operations are driven by a number of factors including success in its equipment growth initiatives in the DCP, solar and advanced semiconductor packaging markets and by worldwide demand for HDDs. Demand for HDDs depends on the growth in digital data creation and storage, the rate of areal density improvements, and the end-user demand for PCs, enterprise data storage, nearline "cloud" applications, video players and video game consoles that include such drives. Intevac continues to execute its strategy of equipment diversification into new markets by introducing new products, such as for a thin-film physical vapor deposition ("PVD") application for protective coating for DCP manufacturing, a thin-film PVD application for PV solar cell manufacturing, and a PVD fan-out application for advanced semiconductor packaging. Intevac believes that expansion into these markets will result in incremental equipment revenues for Intevac and decrease Intevac's dependence on the HDD industry. Intevac's equipment business is subject to cyclical industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for HDDs, cell phones, PV cells, and semiconductor chips as well as other factors such as global economic conditions and technological advances in fabrication processes.

The following table presents certain significant measurements for the three and nine months ended October 2, 2021 and September 26, 2020:

	Three months ended			Nine months ended		
	October 2, 2021	September 26, 2020	Change over prior period	October 2, 2021	September 26, 2020	Change over prior period
	(In thousands, except percentages and per share amounts)					
Net revenues	$ 14,793	$ 21,565	$ (6,772)	$ 44,847	$ 69,248	$ (24,401)
Gross profit	$ 5,527	$ 9,300	$ (3,773)	$ 11,689	$ 28,876	$ (17,187)
Gross margin percent	37.4%	43.1%	(5.7) points	26.1%	41.7%	(15.6)points
Income (loss) from operations	$ (3,968)	$ (148)	$ (3,820)	$ (16,781)	$ 856	$ (17,637)
Net loss	$ (4,233)	$ (357)	$ (3,876)	$ (16,863)	$ (57)	$ (16,806)
Net loss per diluted share	$ (0.17)	$ (0.02)	$ (0.15)	$ (0.69)	$ (0.00)	$ (0.69)

Net revenues for the third quarter of fiscal 2021 decreased compared to the same period in the prior year primarily due to lower equipment sales to HDD manufacturers, lower Photonics product sales and lower Photonics contract R&D. TFE did not recognize revenue on any systems in either the third quarter of fiscal 2021 or the third quarter of fiscal 2020. During the third quarter of fiscal 2021, the Company did not receive any significant government assistance related to COVID-19 from the government of Singapore. During the third quarter of fiscal 2020, the Company received $124,000 in government assistance related to COVID-19 from the government of Singapore of which $72,000 was reported as a reduction of cost of net revenues, $20,000 was reported as a reduction of R&D expenses and $32,000 was reported as a reduction of selling, general and administrative expenses. The Company reported a larger net loss for the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 due to lower revenues, lower gross profit and higher R&D expenses, offset in part by lower selling, general and administrative expenses.

Net revenues for the first nine months of fiscal 2021 decreased compared to the same period in the prior year primarily due to lower equipment sales to HDD manufacturers, lower Photonics product sales and lower Photonics contract R&D revenue, offset in part by higher equipment sales for advanced semiconductor packaging. TFE recognized revenue on one MATRIX PVD system for advanced semiconductor packaging in the first nine months of fiscal 2021 compared to two 200 Lean HDD systems in the first nine months of fiscal 2020. During the first nine months of fiscal 2021, Photonics delivered the first prototype units for our U.S. Army Integrated Visual Augmentation System ("IVAS") product. During the first nine months of fiscal 2021, the Company received $83,000 in government assistance related to COVID-19 from the government of Singapore of which $56,000 was reported as a reduction of cost of net revenues, $10,000 was reported as a reduction of R&D expenses and $17,000 was reported as a reduction of selling, general and administrative expenses. During the nine months of fiscal 2020, the Company received $434,000 in government assistance related to COVID-19 from the government of Singapore of which $252,000 was reported as a reduction of cost of net revenues, $68,000 was reported as a reduction of R&D expenses and $114,000 was reported as a reduction of selling, general and administrative expenses. The Company reported a larger net loss for the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020 due to lower revenues, lower gross profit and higher spending on R&D, offset in part by lower selling, general and administrative expenses.

We believe fiscal 2021 will be a challenging year and we do not expect to be profitable in fiscal 2021. We expect that fiscal 2021 HDD equipment sales will be lower than fiscal 2020 levels. In 2021, we expect product revenue in Photonics to decline as shipments for the Apache camera under the current contract with the U.S. government concluded in the third quarter of fiscal 2020. We were recently awarded a 5-year, $16.3 million IDIQ (indefinite delivery/indefinite quantity) contract for the Apache helicopter program and received our first order under this contract in the third quarter of fiscal 2021. In the remainder of fiscal 2021, we will continue to deliver product shipments of the night-vision camera modules for the F35 Joint Strike Fighter program and our LIVAR cameras for advanced precision targeting systems. In fiscal 2021, we expect decreased contract R&D revenue as development work on the multi-year IVAS contract award for the development and production of digital night-vision cameras to support the U.S. Army's IVAS program completed in early 2021. In fiscal 2021, we delivered the first prototype units for our IVAS product. We do not expect to receive any follow on production orders for our IVAS product for the remainder of fiscal 2021 as the deployment of which was recently delayed for approximately one year while the platform is further developed and enhanced. We do not expect to receive any additional government assistance related to COVID-19 from the government of Singapore in the remainder of fiscal 2021.

Updates to the COVID-19 response included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2021

The impact of COVID-19, including changes in consumer behavior, pandemic fears, and market downturns, as well as restrictions on business and individual activities, has created significant volatility in the global economy and led to reduced economic activity. Although COVID-19 vaccines are now broadly distributed and administered, there remains significant uncertainty concerning the magnitude of the impact and the duration of the COVID-19 pandemic. If new strains of COVID-19 develop, the continued impacts to our business could be material to our fiscal 2021 results. Our customers may delay or cancel orders due to reduced demand, supply chain disruptions, and/or travel restrictions and border closures. We have experienced pandemic-related delays in our TFE evaluation and development work. In response to COVID-19, we implemented initiatives to safeguard our employees, including work-from-home protocols. In June 2021 we began reopening our offices on a regional basis in accordance with local authority guidelines while ensuring that our return to work is thoughtful, prudent, and handled with a safety-first approach. All employees in the United States who could work from home did so through the middle of June 2021 when we fully reopened our offices as restrictions were lifted by the applicable authorities. All employees in Singapore that can do so continue to work remotely and will do so until restrictions are lifted by the applicable authorities in Singapore. Our employees' health and safety is our top priority, and we will continue to monitor local restrictions across the world, the administration of vaccines, and the number of new cases.

In Singapore, Intevac receives government assistance under the Job Support Scheme ("JSS"). The purpose of the JSS is to provide wage support to employers to help them retain their local employees. Under the JSS, Intevac received $83,000 in JSS grants in the first nine months of fiscal 2021. During the three and nine months ended September 26, 2020, the Company received $124,000 and $434,000, respectively, in JSS grants. Intevac does not expect to receive any additional government assistance related to COVID-19 from the government of Singapore in the remainder of fiscal 2021.

For the three and nine months ended October 2, 2021, the Company's expenses included approximately $36,000 and $123,000, respectively, due to costs related to actions taken in response to COVID-19. For the three and nine months ended September 26, 2020, the Company's expenses included approximately $43,000 and $116,000, respectively, due to costs related to actions taken in response to COVID-19.

Results of Operations

Net revenues

	Three months ended			Nine months ended		
	October 2, 2021	September 26, 2020	Change over prior period	October 2, 2021	September 26, 2020	Change over prior period
	(In thousands)					
TFE	$ 7,998	$ 9,367	$ (1,369)	$ 22,605	$ 33,925	$ (11,320)
Photonics:						
Contract R&D	3,093	6,538	(3,445)	9,437	17,659	(8,222)
Products	3,702	5,660	(1,958)	12,805	17,664	(4,859)
	6,795	12,198	(5,403)	22,242	35,323	(13,081)
Total net revenues	$ 14,793	$ 21,565	$ (6,772)	$ 44,847	$ 69,248	$ (24,401)

TFE revenue for the three months ended October 2, 2021 decreased compared to the same period in the prior year as a result of lower sales of technology upgrades, spares and service. TFE revenue for the nine months ended October 2, 2021 decreased compared to the same period in the prior year as a result of lower sales of systems and technology upgrades, offset in part by higher sales of spares and service. TFE revenue for both the three months ended October 2, 2021 and September 26, 2020 did not include revenue recognized for any systems. TFE recognized revenue in the first nine months of fiscal 2021 on one MATRIX PVD system for advanced semiconductor packaging compared to revenue recognized for two 200 Lean HDD systems in the first nine months of fiscal 2020.

Photonics revenue for the three and nine months ended October 2, 2021 decreased compared to the same periods in the prior year as a result of lower product sales revenues and lower contract R&D work. Development work on the multi-year IVAS contract award for the development and production of digital night-vision cameras to support the U.S. Army's IVAS program completed in early 2021. During the first nine months of fiscal 2021, Photonics delivered the first prototype units for our IVAS product.

Backlog

	October 2, 2021	January 2, 2021	September 26, 2020
		(In thousands)	
TFE	$ 16,925	$ 5,623	$ 18,092
Photonics	27,942	41,317	45,159
Total backlog	$ 44,867	$ 46,940	$ 63,251

TFE backlog at October 2, 2021, at January 2, 2021 and at September 26, 2020 did not include any 200 Lean HDD systems.

Revenue by geographic region

	Three Months Ended October 2, 2021			Three Months Ended September 26, 2020		
	(In thousands)					
	TFE	Photonics	Total	TFE	Photonics	Total
United States	$ 220	$ 6,738	$ 6,958	$ 1,764	$ 12,079	$13,843
Asia	7,778	—	7,778	7,536	—	7,536
Europe	—	57	57	67	119	186
Total net revenues	$ 7,998	$ 6,795	$14,793	$ 9,367	$ 12,198	$21,565

	Nine Months Ended October 2, 2021			Nine Months Ended September 26, 2020		
	(In thousands)					
	TFE	Photonics	Total	TFE	Photonics	Total
United States	$ 2,708	$ 22,069	$24,777	$ 2,596	$ 35,060	$37,656
Asia	16,047	—	16,047	31,262	—	31,262
Europe	3,850	173	4,023	67	263	330
Total net revenues	$22,605	$ 22,242	$44,847	$33,925	$ 35,323	$69,248

International sales include products shipped to overseas operations of U.S. companies. The decrease in sales to the U.S. region in the three and nine months ended October 2, 2021 versus the same periods in the prior year, reflected lower Photonics product shipments and lower Photonics contract R&D work. Sales to the Asia region in both three and nine month periods ended October 2, 2021 did not include any systems. Sales to the Asia region in the nine months ended September 26, 2020 included two 200 Lean HDD systems. Sales to the Europe region in the nine months ended October 2, 2021 included one MATRIX PVD system for advanced semiconductor packaging. Sales to the Europe region in the three and nine months ended September 26, 2020 were not significant.

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Gross profit

	Three months ended			Nine months ended		
	October 2, 2021	September 26, 2020	Change over prior period	October 2, 2021	September 26, 2020	Change over prior period
	(In thousands, except percentages)					
TFE gross profit	$ 3,350	$ 4,075	$ (725)	$ 6,491	$ 13,622	$ (7,131)
% of TFE net revenues	41.9%	43.5%		28.7%	40.2%	
Photonics gross profit	$ 2,177	$ 5,225	$ (3,048)	$ 5,198	$ 15,254	$ (10,056)
% of Photonics net revenues	32.0%	42.8%		23.4%	43.2%	
Total gross profit	$ 5,527	$ 9,300	$ (3,773)	$ 11,689	$ 28,876	$ (17,187)
% of net revenues	37.4%	43.1%		26.1%	41.7%	

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.

TFE gross margin was 41.9% in the three months ended October 2, 2021 compared to 43.5% in the three months ended September 26, 2020 and was 28.7% in the nine months ended October 2, 2021 compared to 40.2% in the nine months ended September 26, 2020. The decline in the gross margin percentage for the three months ended October 2, 2021 compared to the same period in the prior year was due primarily to lower revenues and lower factory utilization, offset in part by favorable product mix. The decrease in the gross margin percentage for the nine months ended October 2, 2021 was due primarily to lower revenues, lower factory utilization, and the lower margin on the first MATRIX PVD system for advanced semiconductor packaging. Gross margins in the TFE business will vary depending on a number of factors, including product mix, product cost, system configuration and pricing, factory utilization, and provisions for excess and obsolete inventory.

Photonics gross margin was 32.0% in the three months ended October 2, 2021 compared to 42.8% in the three months ended September 26, 2020 and was 23.4% in the nine months ended October 2, 2021 compared to 43.2% in the nine months ended September 26, 2020. The decline in gross margin for the three months October 2, 2021 was due to lower revenue levels and lower margins on contract R&D work. The decline in gross margin for the nine months ended October 2, 2021 was due to lower revenue levels, incremental start-up costs for non-recurring engineering associated with the first shipments of our IVAS product, lower margins on contract R&D work primarily due to additional development costs to integrate our camera into the IVAS platform, incremental scrapping of materials and loss provisions taken on several small firm fixed price contracts. Gross margins in the Photonics business will vary depending on a number of factors, including sensor yield, product mix, product cost, pricing, factory utilization, provisions for warranty and inventory reserves.

Research and development

	Three months ended			Nine months ended		
	October 2, 2021	September 26, 2020	Change over prior period	October 2, 2021	September 26, 2020	Change over prior period
	(In thousands)					
Research and development expense	$ 3,743	$ 3,603	$ 140	$ 11,262	$ 10,594	$ 668

Research and development spending in TFE during the three and nine months ended October 2, 2021 decreased compared to the same periods in the prior year due to lower spending on DCP, semiconductor Fan-out and PV development, offset in part by higher spending on semiconductor HDD development. TFE spending consisted primarily of DCP, semiconductor Fan-out, HDD and PV development. Research and development spending increased in Photonics during the three and nine months ended October 2, 2021, as compared to the same periods in the prior year, primarily related to incremental start-up non-recurring engineering costs associated with our IVAS product and higher spending on the development of the next generation of our low light level CMOS camera. Research and development expenses do not include costs of $2.1 million and $7.5 million for the three and nine months ended October 2, 2021, respectively, or $3.9 million and $10.4 million for the three and nine months ended September 26, 2020, respectively, which are related to customer-funded Photonics contract R&D programs and therefore included in cost of net revenues.

Selling, general and administrative

	Three months ended			Nine months ended		
	October 2, 2021	September 26, 2020	Change over prior period	October 2, 2021	September 26, 2020	Change over prior period
	(In thousands)					
Selling, general and administrative expense	$ 5,752	$ 5,845	$ (93)	$ 17,208	$ 17,426	$ (218)

Selling, general and administrative expense consists primarily of selling, marketing, customer support, financial and management costs. Selling, general and administrative expenses for the three months ended October 2, 2021 decreased compared to the same period in the prior year as lower variable compensation expenses and lower e-commerce costs were offset in part by higher stock compensation expenses, higher legal expenses, and higher consulting expenses related to network security. Selling, general and administrative expenses for the nine months ended October 2, 2021 decreased compared to the same period in the prior year as lower variable compensation expenses and lower e-commerce costs were offset in part by higher stock compensation expenses, higher legal expenses, higher consulting expenses related to network security and higher bid and proposal costs for contract R&D work in Photonics.

Cost reduction plans

During the third quarter of fiscal 2021, Intevac substantially completed implementation of the 2021 cost reduction plan (the “2021 Cost Reduction Plan”), which was intended to reduce expenses and reduce its workforce by 5.2 percent. The total cost of implementing the 2021 Cost Reduction Plan was $319,000 of which $224,000 was reported under cost of net revenues and $95,000 was reported under operating expenses. Substantially all cash outlays in connection with the 2021 Cost Reduction Plan were completed in the third quarter of fiscal 2021. Implementation of the 2021 Cost Reduction Plan is expected to reduce salary, wages and other employee-related expenses by approximately $2.0 million on an annual basis.

During the third quarter of fiscal 2020, Intevac substantially completed implementation of the 2020 cost reduction plan (the “2020 Cost Reduction Plan”), which was intended to reduce expenses and reduce its workforce by 1.0 percent. The total cost of implementing the 2020 Cost Reduction Plan was $103,000 of which $16,000 was reported under cost of net revenues and $87,000 was reported under operating expenses. Substantially all cash outlays in connection with the 2020 Cost Reduction Plan were completed in the third quarter of fiscal 2020. Implementation of the 2020 Cost Reduction Plan is expected to reduce salary, wages and other employee-related expenses by approximately $864,000 on an annual basis.

Interest income and other income (expense), net

	Three months ended			Nine months ended		
	October 2, 2021	September 26, 2020	Change over prior period	October 2, 2021	September 26, 2020	Change over prior period
	(In thousands)					
Interest income and other income (expense), net	$ 25	$ 8	$ 17	$ 75	$ 212	$ (137)

Interest income and other income (expense), net is comprised of interest income, foreign currency gains and losses, and other income and expense such as gains and losses on sales of fixed assets.

Interest income and other income (expense), net in the three months ended October 2, 2021 included $4,000 of interest income on investments, various other income of $4,000, and $18,000 of foreign currency gains. Interest income and other income (expense), net in the nine months ended October 2, 2021 included $31,000 of interest income on investments, various other income of $28,000 and $16,000 of foreign currency gains. Interest income and other income (expense), net in the three months ended September 26, 2020 included $46,000 of interest income on investments and various other income of $3,000, offset in part by $41,000 of foreign currency losses. Interest income and other income (expense), net in the nine months ended September 26, 2020 included $247,000 of interest income on investments and various other income of $12,000, offset in part by $47,000 of foreign currency losses. The decrease in interest income in the three and nine months ended October 2, 2021 resulted from lower interest rates and lower invested balances compared to the same periods in 2020.

Provision for income taxes

	Three months ended			Nine months ended		
	October 2, 2021	September 26, 2020	Change over prior period	October 2, 2021	September 26, 2020	Change over prior period
	(In thousands)					
Provision for income taxes	$ 290	$ 217	$ 73	$ 157	$ 1,125	$ (968)

Intevac recorded income tax provisions of $290,000 and $157,000 for the three and nine months ended October 2, 2021, respectively, and income tax provisions $217,000 and $1.1 million for the three and nine months ended September 26, 2020, respectively. The income tax provisions for these three and nine month periods are based upon estimates of annual income (loss), annual permanent differences and statutory tax rates in the various jurisdictions in which Intevac operates. For the three months ended October 2, 2021, Intevac recorded an income tax provision on earnings of its international subsidiaries of $179,000. For the nine months ended October 2, 2021, Intevac recorded an income tax benefit of $29,000 on losses of its international subsidiaries. For the three and nine months ended October 2, 2021, Intevac recorded $111,000 and $183,000, respectively, for withholding taxes on royalties paid into the United States from Intevac's Singapore subsidiary as discrete items. For the three and nine month periods ended September 26, 2020, Intevac recorded income tax provisions on earnings of its international subsidiaries of $111,000 and $659,000, respectively, and recorded $98,000 and $471,000, respectively, for withholding taxes on royalties paid into the United States from Intevac's Singapore subsidiary as discrete items. For all periods presented, Intevac utilized net operating loss carry-forwards to offset the impact of the global intangible low-taxed income ("GILTI"). Intevac's tax rate differs from the applicable statutory rates due primarily to establishment of a valuation allowance, utilization of deferred and current credits and the effect of permanent differences and adjustments of prior permanent differences. Intevac's future effective income tax rate depends on various factors, including the level of Intevac's projected earnings, the geographic composition of worldwide earnings, tax regulations governing each region, net operating loss carry-forwards, availability of tax credits and the effectiveness of Intevac's tax planning strategies. Management carefully monitors these factors and timely adjusts the effective income tax rate.

The income tax expense (benefit) consists primarily of income taxes in foreign jurisdictions in which we conduct business and foreign withholding taxes. We maintain a full valuation allowance for domestic deferred tax assets, including net operating loss carryforwards and certain domestic tax credits. Intevac's effective tax rate differs from the U.S. statutory rate in both fiscal 2021 and fiscal 2020 primarily due to the Company not recognizing an income tax benefit on the domestic loss.

Liquidity and Capital Resources

At October 2, 2021, Intevac had $51.4 million in cash, cash equivalents, restricted cash and investments compared to $50.4 million at January 2, 2021. During the first nine months of fiscal 2021, cash, cash equivalents, restricted cash and investments increased by $1.1 million due primarily to cash received from the sale of Intevac common stock to Intevac's employees through Intevac's employee benefit plans, offset in part by to cash used in operating activities, purchases of fixed assets and tax payments for net share settlement.

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

	October 2, 2021	January 2, 2021
	(In thousands)	
Cash and cash equivalents	$ 33,696	$ 29,341
Restricted cash	786	787
Short-term investments	11,137	14,839
Long-term investments	5,825	5,388
Total cash, cash equivalents, restricted cash and investments	$ 51,444	$ 50,355

Operating activities used cash of $40,000 during the first nine months of fiscal 2021 and generated cash of $7.8 million during the first nine months of fiscal 2020.

Accounts receivable totaled $13.5 million at October 2, 2021 compared to $28.6 million at January 2, 2021. Net inventories totaled $22.5 million at October 2, 2021 compared to $21.7 million at January 2, 2021. Net inventories at October 2, 2021 included one VERTEX SPECTRA system for DCP held at a customer's factory previously under an evaluation agreement that expired. Net inventories at January 2, 2021 included one VERTEX SPECTRA system for DCP under evaluation in a customer's factory and one MATRIX PVD system for advanced semiconductor packaging under evaluation in a customer's factory. Accounts payable increased to $4.7 million at October 2, 2021 from $4.3 million at January 2, 2021 due to the timing of payments. Accrued payroll and related liabilities decreased to $5.7 million at October 2, 2021 compared to $7.7 million at January 2, 2021 due primarily to the settlement of 2020 bonuses. Other accrued liabilities decreased to $2.6 million at October 2, 2021 compared to $3.6 million at January 2, 2021 primarily due to lower deferred revenue balances and sales tax liabilities due to lower business levels.

Investing activities generated cash of $2.4 million during the first nine months of fiscal 2021. Proceeds from sales net of purchases of investments totaled $3.1 million. Capital expenditures for the nine months ended October 2, 2021 were $773,000.

Financing activities generated cash of $2.1 million in the first nine months of fiscal 2021. The sale of Intevac common stock to Intevac's employees through Intevac's employee benefit plans generated cash of $2.6 million. Tax payments related to the net share settlement of restricted stock units were $545,000.

Intevac's investment portfolio consists principally of investment grade money market mutual funds, U.S. Treasury and agency securities, asset backed securities, certificates of deposit, commercial paper and corporate bonds. Intevac regularly monitors the credit risk in its investment portfolio and takes measures, which may include the sale of certain securities, to manage such risks in accordance with its investment policies.

As of October 2, 2021, approximately $25.3 million of cash and cash equivalents and $2.4 million of investments were domiciled in foreign tax jurisdictions. Intevac expects a significant portion of these funds to remain offshore in the short term. If the Company chose to repatriate these funds to the United States, it would be required to accrue and pay additional taxes on any portion of the repatriation subject to foreign withholding taxes.

We believe that our existing cash, cash equivalents and investments and cash flows from operating activities will be adequate to meet our liquidity needs for the next twelve months and for the foreseeable future beyond the next twelve months. Our significant funding requirements include procurement of manufacturing inventories, operating expenses, non-cancelable operating lease obligations, capital expenditures and variable compensation. We have flexibility over some of these uses of cash, including capital expenditures and discretionary operating expenses, to preserve our liquidity position. Capital expenditures for fiscal 2021 are projected to be approximately between $2.0 million to $3.0 million related to network infrastructure and security, and laboratory and test equipment to support our R&D programs.

Off-Balance Sheet Arrangements

Off-balance sheet firm commitments relating to outstanding letters of credit amounted to approximately $786,000 as of October 2, 2021. These letters of credit and bank guarantees are collateralized by $786,000 of restricted cash. We do not maintain any other off-balance sheet arrangements, transactions, obligations, or other relationships that would be expected to have a material current or future effect on the consolidated financial statements.

Climate Change

We believe that neither climate change, nor governmental regulations related to climate change, have had any material effect on our business, financial condition or results of operations.

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 for the year ended January 2, 2021, filed with the SEC on February 17, 2021. 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 operations.

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For a description of critical accounting policies that affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements, refer to our Annual Report on Form 10-K for the year ended January 2, 2021 filed with the SEC on February 17, 2021. There have been no material changes to our critical accounting policies during the nine months ended October 2, 2021.

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

Not applicable to smaller reporting companies.

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 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 Quarterly Report on Form 10-Q for the quarter ended October 2, 2021, as required under Rule 13a-15(e) of the Exchange Act, an evaluation was carried out under the supervision and with the participation of management, including the Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), 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, Intevac's CEO and CFO concluded that our disclosure controls and procedures were effective as of October 2, 2021.

Attached as exhibits to this Quarterly Report on Form 10-Q are certifications of the CEO and the CFO, which are required in accordance with Rule 13a-14 of the 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 on Form 10-Q, 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 errors 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 Intevac 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 Control over Financial Reporting

There were no changes in our internal control 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.

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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 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.

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.

Risks Related to Our Business

The industries we serve are cyclical, volatile and unpredictable.

A significant portion of our revenue is derived from the sale of equipment used to manufacture commodity technology products such as disk drives, PV solar cells and cell phones. This subjects us to business cycles, the timing, length and volatility of which can be difficult to predict. When demand for commodity technology products exceeds production capacity, then demand for new capital equipment such as ours tends to be amplified. Conversely, when supply of commodity technology products exceeds demand, then demand for new capital equipment such as ours tends to be depressed. We cannot predict with any certainty when these cycles will begin or end. Our sales of systems for magnetic disk production increased in 2016 as a customer began upgrading the technology level of its manufacturing capacity. Sales of systems and upgrades for magnetic disk production in 2017 and 2018 were higher than in 2016 as this customer's technology upgrade continued. Sales of systems and upgrades for magnetic disk production in 2019 were slightly down from the levels in 2018 as this customer took delivery of four systems. Sales of systems and upgrades for magnetic disk production in 2020 were down from the levels in 2019 as this customer took delivery of only two systems. Intevac expects sales of systems and upgrades for magnetic disk production in 2021 will be at levels lower than the levels in 2020.

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 making 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. Our customers generally reduce their level of capital investment during downturns in the overall economy or during a downturn in their industries.

In recent years the photovoltaic (solar) market has undergone a downturn, which is likely to impact our sales of PV equipment. The solar industry from time to time experiences periods of structural imbalance between supply and demand, and such periods put intense pressure on our customers' pricing. The solar industry is currently in such a period. Competition in solar markets globally and across the solar value chain is intense, and could remain that way for an extended period of time. During any such period, solar module manufacturers may reduce their sales prices in response to competition, even below their manufacturing costs, in order to generate sales and may do so for a sustained period of time. As a result, our customers may be unable to sell their solar modules or systems at attractive prices or for a profit during a period of excess supply of solar modules, which would adversely affect their results of operations and their ability to make capital investments such as purchasing our products.

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.

The impact of the COVID-19 outbreak, or similar global health concerns, could negatively impact our operations, supply chain and customer base.

The COVID-19 outbreak has severely restricted the level of economic activity around the world, which may impact demand for our products. Our operations and supply chains for certain of our products or services could be negatively impacted by the regional or global outbreak of illnesses, including COVID-19. The impact of COVID-19, including changes in consumer behavior, pandemic fears, and market downturns as well as restrictions on business and individual activities has created significant volatility in the global economy and led to reduced economic activity. There have been extraordinary actions taken by federal, state, and local public health and governmental authorities to contain the spread of COVID-19 and although many restrictions that were in place have eased in many localities, some areas that had previously eased restrictions have reverted to more stringent limitations. There remains significant uncertainty concerning the magnitude of the impact and the duration of the COVID-19 pandemic. The extent that our operations will continue to be impacted by the COVID-19 pandemic will depend on future developments, including any new potential waves of the virus, new strains of the virus, and the success of vaccination programs, all of which are highly uncertain and cannot be accurately predicted.

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 numerous product presentations and demonstrations for our prospective customers. Our sales process also commonly includes production of samples and customization of our products. We do not typically 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. In some cases, orders are also subject to customer acceptance or other criteria even in the case of a binding agreement.

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 systems, then we tend to sell more upgrade products and fewer new systems, which can significantly reduce total revenue.

Our 200 Lean HDD 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. These storage technologies are being used increasingly in enterprise applications and smaller form factors such as tablets, smart-phones, ultra-books, and notebook PCs instead of hard disk drives. Tablet computing devices and smart-phones have never contained, nor are they likely in the future to contain, a disk drive. Products using alternative technologies, such as flash memory, optical storage and other storage technologies are becoming increasingly common and could become a significant source of competition to particular applications of the products of our 200 Lean HDD customers, which could adversely affect our results of operations. If alternative technologies, such as flash memory, replace hard disk drives as a significant method of digital storage, then demand for our hard disk manufacturing products would decrease.

The 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 typically 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.

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 experience competition primarily from Canon Anelva, which has sold a substantial number of systems worldwide. In the PV equipment market, we face competition from large established competitors including Centrotherm Photovoltaics, Jusung, Kingstone, Von Ardenne and Belight Technology. In the military market for soldier and helicopter night vision goggles, Elbit Systems and L3Harris Technologies are large and well-established defense contractors and are the primary U.S. manufacturers of analog image intensifier tubes used in Generation-III night-vision devices. For long range airborne targeting applications, we compete against camera providers using low light CMOS imagery. Some of our competitors have substantially greater financial, technical, marketing, manufacturing and other resources than we do, especially in the DCP and PV equipment markets. With respect to U.S. military programs, we also face competition from other suppliers of components that receive development funding from the U.S. government. Our competitors may develop enhancements to, or future generations of, competitive products that offer superior price or performance features, and new competitors may 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 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. This concentration of customers, when combined with changes in the customers' specific capacity plans and market share shifts can lead to extreme variability in our revenue and financial results from period to period.

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

Our quarterly revenues and common stock price have fluctuated significantly. We anticipate that our revenues, operating margins and common stock price will continue to fluctuate for a variety of reasons, including: (1) changes in the demand, due to seasonality, cyclicality and other factors in the markets for computer systems, storage subsystems and consumer electronics containing disks as well as cell phones and PV solar cells 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 or delay 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 time and attention.

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

In previous years, the majority of our revenues have come 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 and Singapore and international customer support offices in Singapore, China, and Malaysia. 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 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. 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, semiconductor, and solar industries for skilled employees. Failure to retain existing 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 subassemblies 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.

Risks Related to Our Intellectual Property

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 HDD and other PVD systems, our coating systems for DCP, our solar systems for PV applications, our digital night-vision products and our near-eye display products. 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 PV and display cover glass markets. Our expansion into the PV and cover glass markets is dependent upon the success of our customers' development plans. To date we have not recognized material revenue from such products. 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. In addition, if we invest in products for which the market does not develop as anticipated, we may incur significant charges related to such investments.

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, 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.

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.

Risks Related to Government Regulation

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, especially 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 comply with export control laws, including identification and reporting of all exports and re-exports of controlled technology or exports made without correct license approval or improper license use could result in severe penalties and revocation of licenses. Failure to obtain export licenses, 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 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 our Photonics products and services directly to the U.S. government, as well as to prime contractors for various U.S. government programs. The U.S government is considering significant changes in the level of existing, follow-on or replacement programs. We cannot predict the impact of potential changes in priorities due to military transformations and/or the nature of future war-related activities. A shift of government priorities to programs in which we do not participate and/or reductions in funding for or the termination of programs in which we do participate, unless offset by other programs and opportunities, could have a material adverse effect on our financial position, results of operations, or cash flows.

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. 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.

We are subject to risks of non-compliance with environmental and other governmental 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, remediation costs 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 and incur substantial expenses to comply with them.

In addition, climate change legislation is a significant topic of recent discussion and has generated and may continue to generate federal, international or other regulatory responses in the near future. If we or our suppliers, customers or partners fail to timely comply with applicable legislation, certain customers may refuse to purchase our products or we may face increased operating costs as a result of taxes, fines or penalties, or incur legal liability and reputational damage, which could harm our business, financial condition and results of operations.

General Risk Factors

Our business could be negatively impacted by cyber and other security threats or disruptions.

As a defense contractor, we face various cyber and other security threats, including espionage and attempts to gain unauthorized access to sensitive information and networks. Although we utilize various procedures and controls to monitor and mitigate the risk of these threats, there can be no assurance that these procedures and controls will be sufficient. These threats could lead to losses of sensitive information or capabilities; financial liabilities and damage to our reputation. If we are unable to maintain compliance with security standards applicable to defense contractors, we could lose business or suffer reputational harm. Cyber threats to businesses in general are evolving and include, but are not limited to, malicious software, destructive malware, attempts to gain unauthorized access to data, disruption or denial of service attacks, and other electronic security breaches that could lead to disruptions in our systems, unauthorized release of confidential, personal or otherwise protected information (ours or that of our employees, customers or partners), and corruption of data, networks or systems. We have experienced cybersecurity threats and incidents involving our systems and expect these incidents to continue. While none of the cybersecurity events have been material to date, a successful breach or attack could have a material adverse effect on our results of operations, financial condition or business, harm our reputation and relationships with our customers, business partners, employees or other third parties, and subject us to consequences such as litigation and direct costs associated with incident response. In addition, we could be impacted by cyber threats or other disruptions or vulnerabilities found in products we use or in our partners' or customers' systems that are used in connection with our business. These events, if not prevented or effectively mitigated, could damage our reputation, require remedial actions and lead to loss of business, regulatory actions, potential liability and other financial losses.

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

As a global company, we are subject to taxation in the United States, Singapore 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.

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

We have completed a number of acquisitions and dispositions during our operating history. 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. In addition, we have made and will continue to consider making strategic divestitures. With any divestiture, there are risks that future operating results could be unfavorably impacted if targeted objectives, such as cost savings, are not achieved or if other business disruptions occur as a result of the divestiture or activities related to the divestiture.

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 and customer disputes. 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.

Business interruptions could adversely affect our operations.

Our operations are vulnerable to interruption by fire, earthquake, floods 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. Climate change has in the past increased, and is expected to continue to increase the incidence and severity of certain natural disasters. We do not have a detailed disaster recovery plan. Despite our implementation of network security measures, our tools and servers may be 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 or cause international currency markets to fluctuate. All these unforeseen disruptions and instabilities 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 could be negatively affected as a result of a proxy contest and the actions of activist stockholders.

A proxy contest with respect to election of our directors, or other activist stockholder activities, could adversely affect our business because: (1) responding to a proxy contest and other actions by activist stockholders can be costly and time-consuming, disruptive to our operations and divert the attention of management and our employees; (2) perceived uncertainties as to our future direction caused by activist activities may result in the loss of potential business opportunities, and may make it more difficult to attract and retain qualified personnel and business partners; and (3) if individuals are elected to our Board of Directors with a specific agenda, it may adversely affect our ability to effectively and timely implement our strategic plans.

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. Beginning in 2004, our Annual Report on Form 10-K has included a report by management of their assessment of the adequacy of such internal control. We have completed the evaluation of our internal control 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 January 2, 2021, our internal control over financial reporting was effective, we cannot predict the outcome of our testing in future periods. Ongoing compliance with this requirement is complex, costly and time-consuming. If Intevac fails to maintain effective internal control over financial reporting; our management does not timely assess the adequacy of such internal control; or our independent registered public accounting firm does not deliver an unqualified opinion as to the effectiveness of our internal control over financial reporting, then we could be subject to restatement of previously reported financial results, regulatory sanctions and 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 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

On November 21, 2013, Intevac announced that its Board of Directors approved a stock repurchase program authorizing up to $30.0 million in repurchases. On August 15, 2018, Intevac's Board of Directors approved a $10.0 million increase to the original stock repurchase program for an aggregate authorized amount of $40.0 million. At October 2, 2021, $10.4 million remains available for future stock repurchases under the repurchase program. Intevac did not make any common stock repurchases during the three months ended October 2, 2021.

Item 3. *Defaults upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

Not applicable.

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Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

The following exhibits are filed herewith:

Exhibit Number	Description
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 and Treasurer 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.*
101	The following financial statements from the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2021, formatted in Inline XBRL (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss), (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* The certification attached as Exhibit 32.1 is deemed "furnished" and not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 and is not to be incorporated by reference into any filing of Intevac, Inc. under the Securities Exchange Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof, irrespective of any general incorporation by reference language contained in any such filing, except to the extent that the registrant specifically incorporates it by reference.

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: November 2, 2021

By: /s/ WENDELL BLONIGAN
Wendell Blonigan
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: November 2, 2021

By: /s/ JAMES MONIZ
James Moniz
Executive Vice President, Finance and Administration,
Chief Financial Officer, Secretary and Treasurer
(Principal Financial and Accounting Officer)

Exhibit 31.1

I, Wendell Blonigan 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: November 2, 2021

/s/ WENDELL BLONIGAN

Wendell Blonigan
President, Chief Executive Officer and Director

Exhibit 31.2

I, James Moniz 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: November 2, 2021

/s/ JAMES MONIZ

James Moniz
Executive Vice President, Finance and Administration,
Chief Financial Officer, Secretary and Treasurer

Exhibit 32.1

**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, Wendell Blonigan, 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 October 2, 2021 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: November 2, 2021

/s/ WENDELL BLONIGAN
Wendell Blonigan
President, Chief Executive Officer and Director

I, James Moniz, 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 October 2, 2021 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: November 2, 2021

/s/ JAMES MONIZ
James Moniz
Executive Vice President, Finance and Administration,
Chief Financial Officer, Secretary and Treasurer

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.

This certification accompanies the report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Intevac, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.