

INTEVAC INC

FORM 10-Q (Quarterly Report)

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Address	3560 BASSETT STREET SANTA CLARA, CA, 95054
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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 25, 2004

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)

California
*(State or other jurisdiction of
incorporation or organization)*

94-3125814
*(IRS Employer
Identification No.)*

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

On November 1, 2004, 20,130,418 shares of the Registrant's Common Stock, no par value, were outstanding.

INTEVAC, INC.

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PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

INTEVAC, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 25, 2004	December 31, 2003
	(Unaudited)	
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,112	\$ 19,507
Short term investments	17,558	—
Trade and other accounts receivable, net of allowances of \$58 and \$22 at September 25, 2004 and December 31, 2003	12,415	14,016
Inventories	18,430	13,108
Prepaid expenses and other current assets	881	1,113
Total current assets	65,396	47,774
Property, plant and equipment, net	6,347	5,796
Long term investments	14,199	—
Investment in 601 California Avenue LLC	2,431	2,431
Other long term assets	3	4
Total assets	\$ 88,376	\$ 55,975
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Convertible notes	\$ —	\$ 1,025
Accounts payable	2,231	3,396
Accrued payroll and related liabilities	1,725	1,610
Other accrued liabilities	3,860	2,643
Customer advances	7,992	16,432
Total current liabilities	15,808	25,106
Other long-term liabilities	303	—
Shareholders' equity:		
Common stock, no par value	94,564	51,982
Accumulated other comprehensive income	219	223
Accumulated deficit	(22,518)	(21,336)
Total shareholders' equity	72,265	30,869
Total liabilities and shareholders' equity	\$ 88,376	\$ 55,975

See accompanying notes.

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
(In thousands, except per share amounts) (Unaudited)				
Net revenues:				
Systems and components	\$32,721	\$ 5,037	\$52,540	\$ 18,278
Technology development	2,150	2,579	6,810	5,940
Total net revenues	34,871	7,616	59,350	24,218
Cost of net revenues:				
Systems and components	26,199	2,713	39,148	13,745
Technology development	1,972	1,813	5,293	4,372
Inventory provisions	325	210	1,078	942
Total cost of net revenues	28,496	4,736	45,519	19,059
Gross profit	6,375	2,880	13,831	5,159
Operating expenses:				
Research and development	2,831	3,173	8,972	8,916
Selling, general and administrative	2,316	2,216	6,709	6,287
Total operating expenses	5,147	5,389	15,681	15,203
Operating profit (loss)	1,228	(2,509)	(1,850)	(10,044)
Interest expense	(41)	(522)	(53)	(1,547)
Interest income and other, net	271	132	824	(111)
Income (loss) before income taxes	1,458	(2,899)	(1,079)	(11,702)
Provision for income taxes	115	—	103	—
Net income (loss)	\$ 1,343	\$ (2,899)	(1,182)	\$(11,702)
Other comprehensive income:				
Foreign currency translation adjustments	3	17	(4)	21
Total comprehensive income (loss)	\$ 1,346	\$ (2,882)	\$(1,186)	\$(11,681)
Basic income (loss) per share:				
Net income (loss)	\$ 0.07	\$ (0.24)	\$ (0.06)	\$ (0.96)
Shares used in per share amounts	20,104	12,266	19,617	12,206
Diluted income (loss) per share:				
Net income (loss)	\$ 0.07	\$ (0.24)	\$ (0.06)	\$ (0.96)
Shares used in per share amounts	20,387	12,266	19,617	12,206

See accompanying notes.

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	Sept. 25, 2004	Sept. 27, 2003
	(In thousands) (Unaudited)	
Operating activities		
Net loss	\$ (1,182)	\$(11,702)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	1,691	1,508
Inventory provisions	1,078	942
Loss on disposal of equipment	1	644
Changes in operating assets and liabilities	(13,242)	2,607
Total adjustments	(10,472)	5,701
Net cash and cash equivalents used in operating activities	(11,654)	(6,001)
Investing activities		
Purchases of investments	(37,922)	—
Proceeds from sales of investments	6,000	—
Purchases of leasehold improvements and equipment	(1,371)	(1,951)
Net cash and cash equivalents used in investing activities	(33,293)	(1,951)
Financing activities		
Proceeds from issuance of common stock	42,582	644
Payoff of convertible notes due 2004	(1,025)	—
Net cash and cash equivalents provided by financing activities	41,557	644
Effect of exchange rate changes on cash	(5)	(1)
Net decrease in cash and cash equivalents	(3,395)	(7,309)
Cash and cash equivalents at beginning of period	19,507	28,457
Cash and cash equivalents at end of period	\$ 16,112	\$ 21,148
Supplemental Schedule of Cash Flow Information		
Cash paid (received) for:		
Interest	\$ 33	\$ 1,987
Income tax refund	\$ —	\$ (214)
Other non-cash changes:		
Inventories transferred to property, plant and equipment	\$ 706	\$ —

See accompanying notes.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business Activities and Basis of Presentation

We are the world's leading provider of thin-film disk sputtering equipment for the thin-film disk industry and a provider and developer of leading technology for extreme low light imaging sensors, cameras and systems. We operate two businesses: Equipment and Imaging.

Our Equipment business designs, manufactures, markets and services complex capital equipment used in the sputtering, or deposition, of highly engineered thin-films of material onto disks which are used in hard disk drives. Hard disk drives are the primary storage medium for digital data and function by magnetically storing data on thin-film disks. These thin-film disks are created in a sophisticated manufacturing process involving many steps, including plating, annealing, polishing, texturing, sputtering and lubrication.

Our Imaging business develops and manufactures electro-optical sensors, cameras, and systems that permit highly sensitive detection of photons in the visible and near infrared portions of the spectrum, allowing imaging in extreme low-light situations. These efforts are aimed at creating new products for both military and commercial applications.

The financial information at September 25, 2004 and for the three- and nine-month periods ended September 25, 2004 and September 27, 2003 is unaudited, but includes all adjustments (consisting only of normal recurring accruals) that we consider necessary for a fair presentation of the financial information set forth herein, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, it does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. The condensed balance sheet at December 31, 2003 has been derived from our audited financial statements at that date. For further information, refer to the Consolidated Financial Statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. Our critical accounting policies are summarized in Item 2 of this Form 10-Q.

The results for the three- and nine-month periods ended September 25, 2004 are not considered indicative of the results to be expected for any future period or for the entire year.

2. Concentrations

Historically, a significant portion of our revenues in any particular period has been attributable to sales to a limited number of customers. Our largest customers tend to change from period to period.

We evaluate the collectibility of trade receivables on an ongoing basis and provide reserves against potential losses when appropriate.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. Inventories

Inventories are priced using standard costs, which approximate first-in, first-out. The components of inventory consist of the following:

	September 25, 2004	December 31, 2003
	(In thousands)	
Raw materials	\$ 5,790	\$ 3,306
Work-in-progress	3,794	4,371
Finished goods	8,846	5,431
	<u>\$18,430</u>	<u>\$13,108</u>

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

Inventory reserves included in the above numbers were \$10.7 million and \$10.2 million at September 25, 2004 and December 31, 2003, respectively. Each quarter, we analyze our inventory (raw materials, work-in-progress and finished goods) against the forecast demand for the next 12 months. Raw materials with no forecast requirements in that period are considered excess and inventory provisions are established to write those items down to zero net book value. Work-in-progress and finished goods inventories with no forecast requirements in that period are typically written down to the lower of cost or market. During this process, some inventory is identified as having no future use or value to us and is disposed of against the reserves. During the nine months ended September 25, 2004, \$1.1 million was added to inventory reserves based on the quarterly analysis and \$449,000 of inventory was disposed of and charged to the reserve. A system in inventory with a value of \$706,000, net of a \$250,000 reserve, was transferred to fixed assets and capitalized. . During the nine months ended September 27, 2003, \$942,000 was added to inventory reserves based on the quarterly analysis and \$74,000 of inventory was disposed of and charged to the reserve.

4. Employee Stock Plans

At September 25, 2004, we had two stock-based employee compensation plans. We account for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. We do not plan to adopt the fair value requirements of SFAS 123 for reporting purposes, unless it is mandated by GAAP.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table illustrates the effects on net income and earnings per share if Intevac had applied the fair value-recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation.

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
	(In thousands)			
Net income (loss), as reported	\$1,343	\$(2,899)	\$(1,182)	\$(11,702)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(47)	(139)	(657)	(406)
Pro forma net income (loss)	\$1,296	\$(3,038)	\$(1,839)	\$(12,108)
Basic and diluted loss per share:				
As reported	\$ 0.07	\$ (0.24)	\$ (0.06)	\$ (0.96)
Pro forma	\$ 0.06	\$ (0.25)	\$ (0.09)	\$ (0.99)

5. Warranty

Our typical warranty is 12 months from customer acceptance. In some cases we market extended warranty periods beyond 12 months to our customers. The warranty period on used systems is generally shorter than 12 months. During this warranty period any necessary non-consumable parts are supplied and installed. The warranty period on consumable parts is limited to their reasonable usable life. A provision for the estimated warranty cost is recorded at the time revenue is recognized.

On the condensed consolidated balance sheet, the short-term portion of the warranty provision is included in Other Accrued Liabilities, while the long-term portion is included in Other Long-Term Liabilities.

The following table displays the activity in the warranty provision account, for the three- and nine-month periods ending September 25, 2004 and September 27, 2003:

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
	(In thousands)			
Beginning balance	\$ 684	\$ 664	\$ 534	\$ 845
Expenditures incurred under warranties	(277)	(239)	(386)	(846)
Accruals for product warranties issued during the reporting period	1,321	50	1,815	241
Adjustments to previously existing warranty accruals	(150)	—	(385)	235
Ending balance	\$1,578	\$ 475	\$1,578	\$ 475

The following table displays the balance sheet classification of the warranty provision account at September 25, 2004 and at December 31, 2003:

	September 25, 2004	December 31, 2003
	(In thousands)	
Other accrued liabilities	\$1,275	\$534
Other long-term liabilities	303	—
Total warranty provision	\$1,578	\$534



INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. Guarantees

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

7. Cash, Cash Equivalents and Investments in Debt Securities

Our investment portfolio consists of cash, cash equivalents and investments in debt securities. We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments in debt securities consist principally of highly rated debt instruments with maturities generally between one and 25 months.

In accordance with Statement of Accounting Standards No. 115 “Accounting for Certain Investments in Debt and Equity Securities,” and based on our intentions regarding these instruments, we have classified our investments in debt securities as held-to-maturity and account for these investments at amortized cost. Interest income is recorded using an effective interest rate, with the associated premium or discount amortized to interest income. The table below presents the amortized principal amount, major security type and maturities for our investments in debt securities. The amortized principal amount approximates fair value at September 25, 2004.

	September 25, 2004	December 31, 2003
	(In thousands)	
Amortized Principal Amount:		
Debt securities issued by US government agencies	\$25,071	\$ —
Corporate debt securities	6,686	—
	<u>\$31,757</u>	<u>\$ —</u>
Total investments in debt securities	\$31,757	\$ —
	<u> </u>	<u> </u>
Short-term investments	\$17,558	\$ —
Long-term investments	14,199	—
	<u> </u>	<u> </u>
Total investments in debt securities	\$31,757	\$ —
	<u> </u>	<u> </u>

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. Net Income (Loss) Per Share

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

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
(In thousands)				
Numerator:				
Numerator for basic income (loss) per share — income (loss) available to common stockholders	\$ 1,343	\$(2,899)	\$(1,182)	\$(11,702)
Effect of dilutive securities:				
6 1/2% convertible notes(1)	—	—	—	—
Numerator for diluted income (loss) per share — income (loss) available to common stockholders after assumed conversions	\$ 1,343	\$(2,899)	\$(1,182)	\$(11,702)
Denominator:				
Denominator for basic income (loss) per share — weighted-average shares	20,104	12,266	19,617	12,206
Effect of dilutive securities:				
Employee stock options(2)	283	—	—	—
6 1/2% convertible notes(1)	—	—	—	—
Dilutive potential common shares	283	—	—	—
Denominator for diluted income (loss) per share — adjusted	20,387	12,266	19,617	12,206

(1) Diluted EPS for the three- and nine-month periods ended September 25, 2004 and September 27, 2003 exclude “as converted” treatment of the convertible notes, as their inclusion would be anti-dilutive. The number of “as converted” shares excluded for the nine-month period ended September 25, 2004 was 11,424 and the number of “as converted” shares excluded for the three- and nine-month periods ended September 27, 2003 was 4,269,983. \$29.4 million of the notes were converted in the fourth quarter of 2003 and the \$1.0 million balance of the notes was repaid in March 2004.

(2) Potentially dilutive securities, consisting of shares issuable upon exercise of employee stock options, are excluded from the calculation of diluted EPS as their effect would be anti-dilutive. The weighted average number of employee stock options excluded for the three-month periods ended September 25, 2004 and September 27, 2003 was 822,980 and 1,785,904, respectively, and the number of employee stock options excluded for the nine-month periods ended September 25, 2004 and September 27, 2003 was 1,558,484 and 1,790,007, respectively.

9. Segment Reporting

Segment Description

We have two reportable operating segments: Equipment and Imaging. Our Equipment business designs, manufactures, markets and services complex capital equipment used in the sputtering, or deposition, of highly engineered thin-films of material onto thin-film disks which are used in hard disk drives. Our Imaging business develops and manufactures electro-optical sensors, cameras and systems that permit highly sensitive detection of photons in the visible and near infrared portions of the spectrum, allowing imaging in extreme low light situations.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Included in corporate activities are general corporate expenses, less an allocation of corporate expenses to operating units equal to 3% of net revenues. Assets of corporate activities include unallocated cash and short-term investments, deferred income tax assets (which are fully reserved) and other assets.

Business Segment Net Revenues

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
	(In thousands)			
Equipment	\$32,636	\$4,963	\$52,192	\$17,776
Imaging	2,235	2,653	7,158	6,442
Total	\$34,871	\$7,616	\$59,350	\$24,218

Business Segment Profit & Loss

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
	(In thousands)			
Equipment	\$ 1,926	\$ (969)	\$ 1,123	\$ (4,126)
Imaging	(1,063)	(912)	(2,614)	(3,933)
Corporate activities	365	(628)	(359)	(1,985)
Operating income (loss)	1,228	(2,509)	(1,850)	(10,044)
Interest expense	(41)	(522)	(53)	(1,547)
Interest income	173	39	405	204
Other income and expense, net	98	93	419	(315)
Income (loss) before income taxes	\$ 1,458	\$(2,899)	\$(1,079)	\$(11,702)

Business Segment Assets

	Sept. 25, 2004	December 31, 2003
	(In thousands)	
Equipment	\$29,792	\$25,462
Imaging	7,369	7,702
Corporate activities	51,215	22,811
Total	\$88,376	\$55,975

Geographic Area Net Trade Revenues

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
	(In thousands)			
United States	\$ 6,019	\$3,238	\$20,034	\$ 7,846
Far East	28,678	4,378	38,771	16,366
Europe	174	—	545	—
Rest of World	—	—	—	6

Total	\$34,871	\$7,616	\$59,350	\$24,218
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INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. Income Taxes

We did not accrue a tax provision for the three-month period ended September 25, 2004 as the profits for this period were offset by net operating loss carry-forwards. We did not accrue a tax benefit for either the nine-month period ended September 25, 2004 or the three- and nine-month periods ended September 27, 2003, due to the inability to realize additional refunds from loss carry-backs. We recorded \$115,000 of income tax expense during the three-month period ended September 25, 2004 related to a claim we received from the California Franchise Tax Board for a portion of income tax credits we claimed in prior years. During the nine-month period ended September 25, 2004, we also recorded a credit to income tax expense related to a revised estimate of 2003 taxes owed by our Singapore subsidiary. Our \$17.1 million deferred tax asset is fully offset by a \$17.1 million valuation allowance, resulting in a net deferred tax asset of zero at September 25, 2004.

11. Capital Transactions

During the nine-month period ending September 25, 2004, we completed a public offering of 4,750,000 shares of our common stock, of which 2,969,000 were newly issued and outstanding shares sold by us for net proceeds of \$41.6 million. A selling shareholder sold 1,781,000 shares in the offering. We also sold stock to our employees under Intevac's Stock Option and Employee Stock Purchase Plans. A total of 207,834 shares were issued under these plans during the nine-month period ending September 25, 2004, for which Intevac received \$1.0 million.

12. Financial Presentation

Certain prior year amounts in the Condensed Consolidated Financial Statements have been reclassified to conform to 2004 presentation.

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 our shipments, projected revenue, system revenue recognition, gross margin, interest income, cash balances and improved financial results in 2004; our projected customer requirements for new capacity and technology upgrades for our installed base of thin-film disk manufacturing equipment, and when, and if, our customers will place orders for these products; Imaging's ability to proliferate its technology into major military weapons programs and to develop and introduce commercial imaging products; and the timing of delivery and/or acceptance of the systems and products that comprise our backlog for revenue. Our actual results may differ materially from the results discussed in the forward-looking statements for a variety of reasons, including those set forth under "Certain Factors Which May Affect Future Operating Results" and in other documents we file from time to time with the Securities and Exchange Commission, including Intevac's Annual Report on Form 10-K filed in March 2004, Form 10-Q's and Form 8-K's.

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. Our significant accounting policies are described in Note 2 to the consolidated financial statements included in Item 8 of our Annual Report on Form 10-K. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

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

Estimates and assumptions about future events and their effects cannot be determined with certainty. We base our 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 our 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. These uncertainties are discussed in the section entitled "Certain Factors Which May Affect Future Operating Results." Based on a critical assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that our consolidated financial statements are fairly stated in accordance with US GAAP, and provide a meaningful presentation of our financial condition and results of operation.

We believe the following critical accounting policies affect the more significant judgments and estimates we make in preparing our consolidated financial statements. We also have other key accounting policies and accounting estimates related to the collectibility of trade receivables, valuation of deferred tax assets and prototype product costs. We believe that these other accounting policies and other accounting estimates either do not generally require us to make estimates and judgments that are as difficult or subjective or would be less likely to have a material impact on our reported results of operation for a given period.

Revenue Recognition

Certain of our system sales with customer acceptance provisions are accounted for as multiple-element arrangements. If we have previously met defined customer acceptance levels with the specific type of system,

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then we recognize revenue for the fair market value of the system upon shipment and transfer of title, and recognize revenue for the fair market value of installation and acceptance services when those services are completed. We estimate the fair market value of the installation and acceptance services based on our actual historical experience. For systems that have generally not been demonstrated to meet product specifications prior to shipment, revenue recognition is typically deferred until customer acceptance. For example, our legacy MDP-250B system is recognized for revenue on shipment, while our new 200 Lean system has not been recognized for revenue until customer acceptance.

In some instances, hardware that is not essential to the functioning of the system may be delivered after acceptance of the system. In these cases, we estimate the fair market value of the non-essential hardware as if it had been sold on a stand-alone basis, and defer recognizing revenue on that value until the hardware is delivered.

We perform best efforts research and development work under various government-sponsored research contracts. These contracts are a mixture of cost-plus-fixed-fee ("CPFF") and firm fixed-price ("FFP"). Revenue on CPFF contracts is recognized in accordance with contract terms, typically as costs are incurred. Revenue on FFP contracts is generally recognized on the percentage-of-completion method based on costs incurred in relation to total estimated costs. Provisions for estimated losses on FFP research contracts are recorded in the period in which such losses are determined.

Inventories

Inventories are priced using standard costs, which approximate first-in, first-out, and are stated at the lower of cost or market. The carrying value of inventory is reduced for estimated excess and obsolescence by the difference between its cost and the estimated market value based on assumptions about future demand. We evaluate the inventory carrying value for potential excess and obsolete inventory exposures by analyzing historical and anticipated demand. In addition, inventories are evaluated for potential obsolescence due to the effect of known and anticipated engineering change orders and new products. If actual demand were to be substantially lower than estimated, additional inventory adjustments would be required, which could have a material adverse effect on our business, financial condition and results of operation.

Warranty

We provide for the estimated cost of warranty when revenue is recognized. Our warranty is per contract terms and is typically 12 months from customer acceptance. In some cases we market extended warranty periods beyond 12 months to our customers. We use estimated repair or replacement costs along with our actual warranty experience to determine our warranty obligation. We exercise judgment in determining the underlying estimates. Should actual warranty costs differ substantially from our estimates, revisions to the estimated warranty liability would be required, which could have a material adverse effect on our business, financial condition and results of operations.

Results of Operations

Three Months Ended September 25, 2004 and September 27, 2003.

Net revenues. Net revenues consist primarily of sales of equipment used to manufacture thin-film disks, equipment used to manufacture flat panel displays, related equipment and system components, and contract research and development related to the development of electro-optical devices and systems. Net revenues increased 358% to \$34.9 million for the three months ended September 25, 2004 from \$7.6 million for the three months ended September 27, 2003.

Equipment revenues increased to \$32.6 million for the three months ended September 25, 2004 from \$5.0 million for the three months ended September 27, 2003. The increase in Equipment revenue was the result of customer acceptance of eight 200 Lean systems and the sale of one MDP-250B system, partially offset by a 19% reduction in revenue from disk equipment technology upgrades and spare parts in the three months ending September 25, 2004. The remaining 200 Lean system in backlog at September 25, 2004 was

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accepted by our customer early in the fourth quarter. We expect to see continued variability in our quarterly revenue, as customers tend to add capacity and capability to their factories in time for their peak production quarters. Based on input from customers, we believe that production deliveries of our systems will resume about the middle of 2005.

Imaging revenues decreased to \$2.2 million for the three months ended September 25, 2004 from \$2.7 million for the three months ended September 27, 2003. The decrease in Imaging revenues was the result of decreased revenues from contract research and development. We expect Imaging revenues to increase in the fourth quarter from the third quarter of 2004.

Our backlog of orders at September 25, 2004 was \$16.2 million, as compared to a September 27, 2003 backlog of \$24.1 million. Backlog declined primarily as the result of the nine disk sputtering systems recognized for revenue during the three months ended September 25, 2004. Our backlog includes one 200 Lean system which was accepted by the same customer early in the fourth quarter. We include in backlog the value of purchase orders for our products that have been shipped but not accepted or have scheduled delivery dates. We do not recognize revenue on this backlog until we have met the criteria contained in our revenue recognition policy.

International sales increased by 559% to \$28.9 million for the three months ended September 25, 2004 from \$4.4 million for the three months ended September 27, 2003. The increase in international sales was due to higher shipments of disk sputtering systems. International sales constituted 83% of net revenues for the three months ended September 25, 2004 and 58% of net revenues for the three months ended September 25, 2003. International revenues include products shipped to overseas operations of US companies.

Gross margin. 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. Gross margin decreased to 18.3% for the three months ended September 25, 2004 from 37.8% for the three months September 27, 2003.

Gross margin in Equipment decreased to 19.5% for the three-month period ended September 25, 2004 from 45.3% for the three-month period ended September 27, 2003. Equipment margin for the three months ended September 25, 2004 was adversely impacted by higher than anticipated costs incurred during the rapid production, installation and startup of the initial production run of 200 Lean systems, by costs for scrap, rework and actual and expected obsolescence, related primarily to design changes on our 200 Lean disk manufacturing system, and due to favorable pricing offered to our first 200 Lean customer. We expect product costs on the next production build of 200 Lean systems to be about 20% lower than were incurred on the initial build. The savings are expected to come from reduced labor and material costs and the absence of one-time costs related to the initial production build.

Imaging gross margins decreased to 1.2% during the three months ended September 25, 2004 from 23.8% during the three months ended September 27, 2003. The low gross margin in Imaging was due to the establishment of a cost to complete reserve on the first phase of the head mounted display program and by delayed funding of a few programs. While we expect Imaging gross margins to improve in the fourth quarter, they will vary quarter to quarter depending on the portion of revenue being derived from the sale of prototype products, from fully funded research and development contracts, and from cost-sharing research and development contracts.

Research and development. Research and development expense consists primarily of prototype materials, salaries and related costs of employees engaged in ongoing research, design and development activities for disk manufacturing equipment, flat panel manufacturing equipment and imaging products. Research and development expense decreased 10.8% to \$2.8 million for the three-month period ended September 25, 2004 from \$3.2 million for the three-month period ended September 27, 2003, representing 8.1% and 41.7%, respectively, of net revenues. The decrease was due primarily to reduced spending on imaging products, partially offset by the initiation of a project to develop a new equipment product line. We expect research and development expenses in the fourth quarter to be similar to the expenses in the third quarter of 2004.

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Research and development expenses do not include costs of \$2.0 million and \$1.8 million, respectively, for the three-month periods ended September 25, 2004 and September 27, 2003 related to Imaging contract research and development. These expenses are included in cost of net revenues.

Selling, general and administrative. Selling, general and administrative expense consists primarily of selling, marketing, customer support, financial and management costs and also includes production of customer samples, travel, liability insurance, legal and professional services and bad debt expense. Domestic sales and international sales of disk manufacturing products in Singapore, Malaysia and Taiwan are made by Intevac's direct sales force, whereas other international sales of disk manufacturing products and other products are made by distributors and representatives that provide services such as sales, installation, warranty and customer support. We also have a subsidiary in Singapore to support customers in Southeast Asia.

Selling, general and administrative expense increased to \$2.3 million for the three months ended September 25, 2004 from \$2.2 million for the three months ended September 27, 2003, representing 6.6% and 29.1%, respectively, of net revenue. The dollar increase was primarily the result of increases in marketing and business development headcount, partially offset by a reduction of surplus facility costs being recorded in selling, general and administrative expense. We expect selling, general and administrative expenses to increase in the fourth quarter as a result of Sarbanes-Oxley related costs and increased marketing activities.

Interest expense. We recorded interest expense of \$41,000 in the three months ended September 25, 2004 related to a claim from the State of California for a portion of income tax credits we claimed in prior years. Interest expense of \$522,000 in the three months ended September 27, 2003 consists primarily of interest on our convertible notes and amortization of debt issuance costs. The decrease in interest expense was due to the elimination of our convertible notes outstanding as a result of the conversion of the notes due 2009 in November 2003, and the repayment of the remaining \$1.0 million of convertible notes in March 2004.

Interest income and other, net. Interest income and other, net consists primarily of interest and dividend income on investments. Interest income and other, net totaled \$271,000 and \$132,000 for the three months ended September 25, 2004 and September 27, 2003, respectively, reflecting higher balances for cash and investments in 2004.

Provision for (benefit from) income taxes. We did not accrue a tax provision for the three-month period ended September 25, 2004 as the profits for this period were offset by net operating loss carry-forwards. We did not accrue a tax benefit for the three-month period ended September 27, 2003, due to the inability to realize additional refunds from loss carry-backs. We recorded \$115,000 of income tax expense during the three-month period ended September 25, 2004 related to a claim we received from the California Franchise Tax Board for a portion of income tax credits we claimed in prior years. Our \$17.1 million deferred tax asset is fully offset by a \$17.1 million valuation allowance, resulting in a net deferred tax asset of zero at September 25, 2004.

Nine Months Ended September 25, 2004 and September 27, 2003.

Net revenues. Net revenues increased 145% to \$59.4 million for the nine months ended September 25, 2004 from \$24.2 million for the nine months ended September 27, 2003.

Equipment revenues increased to \$52.2 million for the nine months ended September 25, 2004 from \$17.8 million for the nine months ended September 27, 2003. The increase in Equipment revenue was the result of the customer acceptance of ten 200 Lean systems, the sale of two MDP-250B systems and a 29% increase in revenue from disk equipment technology upgrades and spare parts in the nine months ended September 25, 2004. Imaging revenues increased to \$7.2 million for the nine months ended September 25, 2004 from \$6.4 million for the nine months ended September 27, 2003. The increase in Imaging revenues was the result of increased revenues from contract research and development.

International sales increased by 140% to \$39.3 million for the nine months ended September 25, 2004 from \$16.4 million for the nine months ended September 27, 2003. The increase in international sales was due to increased shipments of disk equipment systems, technology upgrades and spare parts, partially offset by a decrease in revenue from flat panel manufacturing systems. International sales constituted 66% of net

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revenues for the nine months ended September 25, 2004 and 68% of net revenues for the nine months ended September 27, 2003.

Gross margin. Gross margin increased to 23.3% for the nine months ended September 25, 2004 from 21.3% for the nine months ended September 27, 2003.

Gross margin in Equipment increased to 24.7% for the nine-month period ended September 25, 2004 from 21.1% for the nine-month period ended September 27, 2003. The increase in Equipment margin was due primarily to the increase in revenue from disk equipment technology upgrades and spare parts. Gross margin for the nine months ended September 25, 2004 was adversely impacted by costs incurred during the rapid production, installation and startup of the initial production run of 200 Lean systems, and by costs for scrap and rework and actual and expected obsolescence, related primarily to design changes on our 200 Lean disk manufacturing system. The gross margin in the nine months ended September 27, 2003 was depressed due to the majority of revenue being derived from the sale of flat panel systems, which contributed minimal gross margin. Imaging gross margins decreased to 12.9% during the nine months ended September 25, 2004 from 21.9% during the nine months ended September 27, 2003. The decrease in Imaging margin was due primarily to a cost to complete reserve established for the head mounted display program and to increased overhead expenditures in 2004.

Research and development. Research and development expense increased 0.6% to \$9.0 million for the nine months ended September 25, 2004 from \$8.9 million for the nine months ended September 27, 2003, representing 15.1% and 36.8%, respectively, of net revenue. The increase was due to increased spending for development of disk manufacturing equipment and the initiation of a project to develop a new equipment product line, partially offset by decreased spending for flat panel manufacturing equipment and imaging products.

Research and development expenses do not include costs of \$5.3 million and \$4.4 million, respectively, for the nine-month periods ended September 25, 2004 and September 27, 2003 related to Imaging contract research and development. These expenses are included in cost of net revenues.

Selling, general and administrative. Selling, general and administrative expense increased 6.7% to \$6.7 million for the nine months ended September 25, 2004 from \$6.3 million for the nine months ended September 27, 2003, representing 11.3% and 26.0%, respectively, of net revenue. The increase was primarily the result of increases in marketing and business development headcount, partially offset by a reduction of surplus facility costs being recorded in selling, general and administrative expense.

Interest expense. Interest expense decreased to \$53,000 for the nine months ended September 25, 2004 from \$1.5 million in the nine months ended September 27, 2003. The decrease in interest expense was due to the elimination of our convertible notes outstanding as a result of the conversion of all of our convertible notes due 2009 by November 2003, and the repayment of \$1.0 million of our convertible notes due 2004 in March 2004.

Interest income and other, net. Interest income and other, net totaled \$824,000 and (\$111,000) for the nine months ended September 25, 2004 and September 27, 2003, respectively. Interest income and other, net in 2004 consisted primarily of interest and dividend income on investments and, to a lesser extent, purchase discounts. Interest income and other, net in 2003 consisted primarily of \$497,000 of interest and dividend income on investments, offset by the establishment of a \$638,000 reserve for the disposition of a fixed asset.

Provision for (benefit from) income taxes. We did not accrue a tax benefit for either of the nine-month periods ended September 25, 2004 or September 27, 2003, due to the inability to realize additional refunds from loss carry-backs. The \$103,000 of income tax expense in 2004 relates to the claim we received from the California Franchise Tax Board, partially offset by a \$12,000 credit we booked due to a revised estimate of 2003 taxes owed by our Singapore subsidiary.

Liquidity and Capital Resources

Our operating activities used cash of \$11.7 million during the nine months ended September 25, 2004. The cash used was due primarily to the net loss incurred, increases in inventory and reductions in accounts payable and customer advances, partially offset by decreases in accounts receivable and increases in other accrued liabilities. In the nine months ended September 27, 2003, our operating activities used cash of \$6.0 million due primarily to the net loss incurred and the semi-annual interest payments on our convertible notes, partially offset by changes in operating assets and liabilities aggregating \$2.6 million and non-cash charges of \$3.1 million.

Our investing activities in the nine months ended September 25, 2004 used cash of \$33.3 million due primarily to the purchase of investments. Investing activities in the nine months ended September 27, 2003 used cash of \$2.0 million for the purchase of fixed assets.

Our financing activities provided cash of \$41.6 million in the nine months ended September 25, 2004 due primarily to a public offering of our common stock and, to a lesser extent, the sale of our common stock through our employee benefit plans. We retired the remaining \$1.0 million of our convertible notes during the nine months ended September 25, 2004. In the nine months ended September 27, 2003, our financing activities provided cash of \$644,000 as the result of the sale of our common stock to our employees through our employee benefit plans.

At September 25, 2004, we had \$16.1 million of cash and cash equivalents. We intend to undertake approximately \$3.0 to \$4.0 million in capital expenditures over the next year, and we believe the existing cash and cash equivalent balances will be sufficient to meet our cash requirements for the next twelve months.

We have incurred operating losses each year since 1998 and cannot predict with certainty if and when we will return to operating profitability on an annual basis. We believe an upturn in demand for the type of disk manufacturing equipment we produce is occurring, and we expect to recognize revenue from a total of thirteen disk manufacturing systems in 2004 in comparison to only two systems in 2003.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that will be settled in cash. These obligations consist primarily of operating lease and purchase obligations. The expected future cash flows required to meet these obligations as of September 25, 2004 are shown in the table below. During the nine months ended September 25, 2004, we executed an amendment to extend the lease at our Santa Clara facility through March 2012, we entered into a lease for a sensor fabrication facility located in Fremont, California, and we leased a larger facility in Singapore to house our Singapore customer support organization.

	Payments Due by Period				
	Total	< 1 Year	1-3 Years	3-5 Years	> 5 Years
	(In thousands)				
Operating lease obligations	\$17,284	\$3,356	\$5,996	\$3,250	\$4,682
Purchase obligations	2,503	2,503	—	—	—
Total	\$19,787	\$5,859	\$5,996	\$3,250	\$4,682

Certain Factors Which May Affect Future Operating Results

Our operating results fluctuate significantly from quarter to quarter, which may cause the price of our stock to decline.

Over the last 11 quarters, our revenues per quarter have fluctuated between \$34.9 million and \$4.6 million. Over the same period our operating income as a percentage of revenues has fluctuated between

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approximately 4% and (90%) of revenues. We anticipate that our revenues and operating margins will continue to fluctuate. We expect this fluctuation to continue for a variety of reasons, including:

- delays or problems in the introduction and acceptance of our new products, or delivery of existing products;
- changes in the demand, due to seasonality and other factors, for the computer systems, storage subsystems and consumer electronics that contain the thin-film disks that our customers produce using our systems; and
- announcements of new products, services or technological innovations by us or our competitors.

Additionally, because our systems are priced in the millions of dollars and we sell a relatively small number of systems, our business is inherently subject to fluctuations in revenue from quarter to quarter due to factors such as timing of orders, acceptance of new systems by our customers or cancellation of those orders. For example, we do not currently anticipate resuming volume system deliveries in our equipment business until the middle of 2005 although we recognized significant revenue in the third quarter of 2004 as a result of customer acceptance of eight 200 Lean systems and the sale of one MDP-250B system. As a result, we believe that quarter-to-quarter comparisons of our revenues and operating results may not be meaningful and that these comparisons may not be an accurate indicator of our future performance. Our operating results in one or more future quarters may fail to meet the expectations of investment research analysts or investors, which could cause an immediate and significant decline in the trading price of our common shares.

If the projected growth in demand for hard disk drives does not materialize and our customers do not replace or upgrade their installed base of disk sputtering systems, then future sales of our disk sputtering systems will suffer.

From the middle of 1998 until mid-2003, there was very little demand for new disk sputtering systems, as thin-film disk manufacturers were burdened with overcapacity and were not investing in new disk sputtering equipment. Recently, however, overcapacity has diminished, and three of our customers have announced plans for major capacity expansions. Customers for our legacy MDP-250B system, who had previously indicated plans to add capacity, have now become more conservative with respect to their capacity expansion plans. Sales of our equipment for capacity expansions are dependent on the capacity expansion plans of our customers and upon whether our customers select our equipment for their capacity expansions. We have no control over our customers' expansion plans, and we cannot assure you that they will select our equipment if they do expand their capacity. Our customers may not implement capacity expansion plans, or we may fail to win orders for equipment for those capacity expansions, which could have a material adverse effect on our business and our operating results. In addition, some manufacturers may choose to purchase used systems from other manufacturers or customers rather than purchasing new systems from us. Furthermore, if hard disk drives were to be replaced by an alternative technology as a primary method of digital storage, demand for our products would decrease.

Sales of our new 200 Lean disk sputtering systems are also dependent on obsolescence and replacement of the installed base of disk sputtering equipment. If technological advancements are developed that extend the useful life of the installed base of systems, then any sales of our 200 Lean will be limited to the capacity expansion needs of our customers, which would have a material adverse effect on our operating results.

We have a recent history of significant losses and may not regain annual profitability. If we do not establish profitable operations in the future, then our share price is likely to decline.

The majority of our revenues and gross profit has historically been derived from sales of disk sputtering equipment. Sales of our disk sputtering equipment were severely depressed from the middle of 1998 until mid-2003. Also, our Imaging business has yet to earn an annual profit. We have experienced an operating loss in each of the last five fiscal years. For the nine-months ended September 25, 2004, our operating loss is \$1.8 million, and as of September 25, 2004, we have an accumulated deficit of \$22.5 million. To regain and sustain profitability, we will need to increase gross margins and generate and sustain substantially higher

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revenue while maintaining reasonable cost and expense levels. We cannot assure you that we will regain profitability in the near future, or at all, and if we do regain profitability we cannot assure you that we will be able to sustain profitability on a going-forward basis. If we fail to regain profitability within the time frame expected by securities analysts or investors, then the market price of our common stock will likely decline.

We sell our equipment products to a small number of large customers.

Historically, a significant portion of our revenue in any particular period has been attributable to sales to a limited number of customers. In 2003, three of our customers, in the aggregate, accounted for 75% of our equipment revenues. Orders from a relatively limited number of thin-film disk manufacturers have accounted for, and likely will continue to account for, a substantial portion of our revenues. The loss of, or delays in purchasing by, any one of our large customers would significantly reduce potential future revenues. Furthermore, the concentration of our customer base may lead customers to demand pricing and other terms unfavorable to us.

The majority of our future revenue is dependent on new products. If these new products are not successful, then our results of operations will be adversely affected.

Our success in developing and selling new products depends upon a variety of factors, including our ability to predict future customer requirements accurately, technological advances, total cost of ownership of our systems, our introduction of new products on schedule, our ability to manufacture our systems cost-effectively and the performance of our systems in the field. Our new product decisions and development commitments must anticipate continuously evolving industry requirements significantly in advance of sales.

We have invested heavily, and continue to invest, in the development of new products. Our 200 Lean disk sputtering system is designed to address the demand for increased areal density in hard disk drives and our customers' concurrent need to produce more complex thin-film disks. Our future revenues depend on the industry recognizing the need for improved recording methodologies and the need for disk sputtering systems that facilitate manufacturing of advanced media with technologies such as perpendicular recording. Our future revenues also depend significantly on the market acceptance of our 200 Lean disk sputtering system, which we have only recently introduced and which competes against a product that has been on the market longer. New products, such as the 200 Lean, will typically bear higher production and warranty costs in comparison to our more established product lines. Additionally, our gross margins on our new products may be lower and more difficult to predict. In particular, the 200 Lean is a complex system that pushes the limits of technology and we have encountered a number of challenges in production, installation and start-up of the first batch of systems. Although we believe our margins will improve in the future on our 200 Lean systems, the timing and amount of such improvements is difficult to predict. Advanced vacuum manufacturing equipment, such as the 200 Lean, is subject to extensive customer acceptance tests after installation at the customer's factory. These acceptance tests are designed to validate reliable operation to specification in areas such as throughput, vacuum level, robotics, process performance and software features and functionality. These tests are generally more comprehensive for new systems, like the 200 Lean, than for mature systems, such as the MDP-250B, and are designed to highlight any problems typically encountered with early versions of the equipment. Failure to promptly address any of the problems uncovered in these tests could have adverse effects on our business, including rescheduling of backlog, failure to achieve customer acceptance and therefore revenue recognition as anticipated, unanticipated rework and warranty costs, penalties for non-performance, cancellation of orders, or return of products for credit.

Our LIVAR target identification and low light level camera technologies are designed to offer significantly improved capability to military customers. We are also developing commercial products based on the technology we have developed in our Imaging business. None of our imaging products is currently being manufactured in commercial volumes or available for general sale, and we may encounter unforeseen difficulties when we commence general production of these products. Our Imaging business will require substantial further investment in sales and marketing, in product development and in additional production facilities in order to expand our operations. We cannot assure you that we will succeed in these activities or generate significant sales of new products. Failure of any of these products to perform as intended, or failure to

penetrate their markets and develop into profitable product lines, would have a material adverse effect on our business.

Demand for capital equipment is cyclical, which subjects our business to long periods of depressed revenues interspersed with periods of unusually high revenues.

Our Equipment business sells equipment to capital intensive industries, which sell commodity products such as disk drives. When demand for these commodity products exceeds capacity, demand for new capital equipment such as ours tends to be amplified. Conversely, when supply of these commodity products exceeds demand, the demand for new capital equipment such as ours tends to be depressed. The hard disk drive industry has historically been subject to multi-year cycles because of the long lead times and high costs involved in adding capacity.

The cyclical nature of the capital equipment industry means that in some years we will have unusually high sales of new systems, and that in other years our sales of new systems will be severely depressed. The timing, length and volatility of these cycles are difficult to predict. These changes have affected the timing and amounts of our customers' capital equipment purchases and investments in new technology. For example, sales of systems for thin-film disk production were severely depressed from the middle of 1998 until mid-2003. In addition, our thin-film disk manufacturing customers are generally more sensitive to the cyclical nature of the hard disk drive industry, because many of their customers have internal thin-film disk manufacturing operations and will cut back their purchases of disks from outside suppliers first in an industry downturn. If we fail to anticipate or respond quickly to the industry business cycle, it could have a material adverse effect on our business.

While we believe we currently have adequate internal control over financial reporting, 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 (Section 404), beginning with our Annual Report on Form 10-K for the fiscal year ending December 31, 2004, we will be required to furnish a report by our management on our internal control over financial reporting. Such report will contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. Such report must also contain a statement that our auditors have issued an attestation report on management's assessment of such internal controls.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a framework for companies to assess and improve their internal control systems. Auditing Standard No. 2 provides the professional standards and related performance guidance for auditors to attest to, and report on, management's assessment of the effectiveness of internal control over financial reporting under Section 404. Management's assessment of internal controls over financial reporting requires management to make subjective judgments and, particularly because Section 404 and Auditing Standard No. 2 are newly effective, some of the judgments will be in areas that may be open to interpretation and therefore the report may be uniquely difficult to prepare and our auditors may not agree with our assessments.

While we currently believe our internal control over financial reporting is effective, we are still performing the system and process documentation and evaluation needed to comply with Section 404, which is both costly and challenging. During this process, if our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert such internal control is effective. If we are unable to assert that our internal control over financial reporting is effective as of December 31, 2004 (or if our auditors are unable to attest that our management's report is fairly stated or they are unable to express an opinion on the effectiveness of our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our stock price.

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While we currently anticipate being able to satisfy the requirements of Section 404 in a timely fashion, we cannot be certain as to the timing of completion of our evaluation, testing and any required remediation due in large part to the fact that there is no precedent available by which to measure compliance with these new requirements. In this regard, our auditors have advised us that it is of critical importance that we diligently continue to complete our Section 404 work and to provide our results and assessments to our auditors on a timely basis so that our auditors can have available the staff necessary to complete their work and issue their attestation report by the required date. If we are not able to complete our assessment in a timely manner, we and our auditors may be unable to conclude that our internal control over financial reporting is effective as of December 31, 2004.

Our products are complex, constantly evolving and often must be customized to individual customer requirements.

The systems we manufacture and sell in our Equipment business have a large number of components and are highly complex, which require us to make substantial investments in research and development. If we were to fail to develop, manufacture and market new systems or to enhance existing systems, that failure would have an adverse effect on our business. We may experience delays and technical and manufacturing difficulties in future introduction, volume production and acceptance of new systems or enhancements. In addition, some of the systems that we manufacture must be customized to meet individual customer site or operating requirements. In some cases, we market and commit to deliver new systems, modules and components with advanced features and capabilities that we are still in the process of designing. We have limited manufacturing capacity and engineering resources and may be unable to complete the development, manufacture and shipment of these products, or to meet the required technical specifications for these products, in a timely manner. Failure to deliver these products on time, or failure to deliver products that perform to all contractually committed specifications, could have adverse effects on our business, including rescheduling of backlog, failure to achieve customer acceptance and therefore revenue recognition as anticipated, unanticipated rework and warranty costs, penalties for non-performance, cancellation of orders, or return of products for credit. In addition, we may incur substantial unanticipated costs early in a product's life cycle, such as increased engineering, manufacturing, installation and support costs, that we may be unable to pass on to the customer and that may affect our gross margins. Sometimes we work closely with our customers to develop new features and products. In connection with these transactions, we sometimes offer a period of exclusivity to these customers. Any of these factors could have a material adverse effect on our business.

Our sales cycle is long and unpredictable, which requires us to incur high sales and marketing expenses with no assurance that a sale will result.

The sales cycle for our equipment systems can be a year or longer, involving individuals from many different areas of our company and numerous product presentations and demonstrations for our prospective customers. Our sales process for these systems also includes the production of samples and customization of products for our prospective customers. Additionally, our Imaging business is subject to long sales cycles as a result of government procurement cycles. As a result, we may not recognize revenue from efforts to sell particular products for extended periods of time, during which we may expend substantial funds and management time and effort with no assurance that a sale will result.

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

In the market for our disk sputtering systems, we have experienced competition from competitors such as Anelva Corporation, a subsidiary of NEC Corporation, Ulvac Technologies, Inc. and Unaxis Holdings, Ltd, each of which has sold substantial numbers of systems worldwide. In the market for our Imaging products, we experience competition from companies such as ITT Industries, Inc. and Northrop Grumman Corporation, the primary U.S. manufacturers of Generation-III night vision devices and their derivative products. Our competitors have substantially greater financial, technical, marketing, manufacturing and other resources than we do. We cannot assure you that our competitors will not develop enhancements to, or future generations of,

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competitive products that offer superior price or performance features. Likewise, we cannot assure you that new competitors will not enter our markets and develop such enhanced products. Accordingly, 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.

Our Imaging business depends heavily on government contracts, which are subject to immediate termination and funded in increments. The termination of or failure to fund one or more of these contracts could have a negative impact on our operations.

We sell our products directly to the U.S. government, as well as to prime contractors for various U.S. government programs. Generally, government contracts are subject to oversight audits by government representatives and 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 assure you 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 assure you 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 assure you that we or our customers will continue to remain in good standing as federal contractors. The loss of one or more government contracts by us or our customers could have a material adverse effect on our operating results.

Furthermore, the funding of multi-year government programs is subject to congressional appropriations, and there is no guarantee that Congress will make further appropriations. The loss of funding for a government program would result in a loss of anticipated future revenues attributable to that program. That could increase our overall costs of doing business and have a material adverse effect on our operating results.

In addition, sales to the U.S. government and its prime contractors may be affected by changes in procurement policies, budget considerations and political developments in the United States or abroad. The influence of any of these factors, which are beyond our control, could also negatively impact our financial condition. We also may experience problems associated with advanced designs required by the government which may result in unforeseen technological difficulties and cost overruns. Failure to overcome these technological difficulties and the occurrence of cost overruns would have a material adverse effect on our business.

Our sales of disk sputtering systems are dependent on substantial capital investment by our customers, far in excess of the cost of our products.

Our customers must make extremely large capital expenditures in order to purchase our systems and other related equipment and facilities. These costs are far in excess of the cost of our systems alone. The magnitude of such capital expenditures requires that our customers have access to large amounts of capital and that they be willing to invest that capital over long periods of time to be able to purchase our equipment. The thin-film disk manufacturing industry has not made significant additions to its production capacity until recently. Some of our potential customers may not be willing or able to make the magnitude of capital investment required, especially during a downturn in either the overall economy or the hard disk drive industry.

Our stock price is volatile.

The market price and trading volume of our common stock has been subject to significant volatility, and this trend may continue. In particular, our historical trading volume has been low, and the market price of our common stock increased dramatically in late 2003 and early 2004 and has since declined significantly. Over the past 12 months, the closing price of our common stock, as traded on The Nasdaq National Market, has

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fluctuated from a low of \$3.92 to a high of \$17.92 per share. The value of our common stock may decline regardless of our operating performance or prospects. Factors affecting our market price include:

- our perceived prospects;
- variations in our operating results and whether we achieve our key business targets;
- sales or purchases of large blocks of our stock;
- changes in, or our failure to meet, our revenue and earnings estimates;
- changes in securities analysts' buy or sell recommendations;
- differences between our reported results and those expected by investors and securities analysts;
- announcements of new contracts, products or technological innovations by us or our competitors;
- market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors;
- our high fixed operating expenses, including research and development expenses;
- developments in the financial markets; and
- general economic, political or stock market conditions in the United States and other major regions in which we do business.

Recent events have caused stock prices for many companies, including ours, to fluctuate in ways unrelated or disproportionate to their operating performance. The general economic, political and stock market conditions that may affect the market price of our common stock are beyond our control. The market price of our common stock at any particular time may not remain the market price in the future. 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 us, could result in substantial costs and a diversion of management's attention and resources.

Our dependence on suppliers for certain parts, some of them sole-sourced, makes us vulnerable to manufacturing interruptions and delays, which could affect our ability to meet customer demand.

We are a manufacturing business. Purchased parts constitute the largest component of our product cost. Our ability to manufacture depends on the timely delivery of parts, components, and subassemblies from suppliers. We obtain some of the key components and sub-assemblies used in our products from a single supplier or a limited group of suppliers. If any of our suppliers fail to deliver quality parts on a timely basis, we may experience delays in manufacturing, which could result in delayed product deliveries or increased costs to expedite deliveries or develop alternative suppliers. Development of alternative suppliers could require redesign of our products. Any or all of these factors could have a material adverse effect on our business and operating results.

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

The success of our business depends upon integrity of our intellectual property rights and we cannot assure you that:

- any of our pending or future patent applications will be allowed or that any of the allowed applications will be issued as patents;
- any of our patents will not be invalidated, deemed unenforceable, circumvented or challenged;
- the rights granted under our patents will provide competitive advantages to us;
- any of our pending or future patent applications will issue with claims of the scope that we sought, if at all;

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- other parties will not develop similar products, duplicate our products or design around our patents; or
- our patent rights, intellectual property laws or our agreements will adequately protect our intellectual property or competitive position.

Failure to protect our intellectual property rights adequately could have a material adverse effect on our business.

We provide products that are expected to have long useful lives and that are critical to our customers' operations. From time to time, as part of business agreements, we place portions of our intellectual property into escrow to provide assurance to our customers that our technology will be available to them in the event that we are unable to support them at some point in the future.

From time to time, we have received claims that we are infringing third parties' intellectual property rights. We cannot assure you 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. Any of the foregoing could have a material adverse effect on our business.

Our business is based in Northern California, where operating costs are high and competition for employees is intense.

Our U.S. operations are located in Santa Clara, California, where the cost of doing business is extremely high. Failure to manage these costs well could have a material adverse effect on our operating results. Additionally, our operating results depend, in part, upon our ability to retain and attract qualified management, engineering, marketing, manufacturing, customer support, sales and administrative personnel. The cost of living in Northern California is also extremely high, which increases the cost and difficulty of recruiting new employees. Furthermore, we compete with various similar industries, such as the semiconductor industry, for the same pool of skilled employees. Failure to attract and retain qualified personnel could have a material adverse effect on our business.

Business interruptions, such as earthquakes or other natural or man-made disasters, could disrupt our operations and adversely affect our business.

Our operations are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure, unauthorized intrusion and other catastrophic events beyond our control. Our contingency plans for addressing these kinds of events may not be sufficient to prevent system failures and other interruptions in our operations that have a material adverse effect on our business. Additionally, our suppliers' suffering similar business interruptions could have an adverse effect on our manufacturing ability. If any natural or man-made disasters do occur, our operations could be disrupted for prolonged periods, which could have a material adverse effect on our business.

Changes in demand caused by fluctuations in interest and currency exchange rates may reduce our international sales.

Sales and operating activities outside of the United States are subject to inherent risks, including fluctuations in the value of the U.S. dollar relative to foreign currencies, tariffs, quotas, taxes and other market barriers, political and economic instability, restrictions on the export or import of technology, potentially limited intellectual property protection, difficulties in staffing and managing international operations and potentially adverse tax consequences. We earn a significant portion of our revenue from international sales, and there can be no assurance that any of these factors will not have an adverse effect on our ability to sell our products or operate outside the United States.

We currently quote and sell the majority of our products in U.S. dollars. From time to time, we may enter into foreign currency contracts in an effort to reduce the overall risk of currency fluctuations to our business.

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However, there can be no assurance that the offer and sale of products denominated in foreign currencies, and the related foreign currency hedging activities, will not adversely affect our business.

Our principal competitor for disk sputtering equipment is based in Japan and has a cost structure based on the Japanese yen. Accordingly, currency fluctuations could cause the price of our products to be more or less competitive than our principal competitor's products. Currency fluctuations will decrease or increase our cost structure relative to those of our competitors, which could lessen the demand for our products and affect our competitive position.

We routinely evaluate acquisition candidates and other diversification strategies.

We have completed a number of acquisitions as part of our efforts to expand and diversify our business. For example, our business was initially acquired from Varian Associates in 1991. We acquired our gravity lubrication and rapid thermal processing product lines in two acquisitions. We sold the rapid thermal processing product line in November 2002. We also acquired our RPC electron beam processing business in late 1997, and subsequently closed this business. We intend to continue to evaluate new acquisition candidates, divestiture and diversification strategies. Any acquisition involves numerous risks, including difficulties in the assimilation of the acquired company's employees, operations and products, uncertainties associated with operating in new markets and working with new customers, and the potential loss of the acquired company's key employees. Additionally, unanticipated expenses, difficulties and consequences may be incurred relating to the integration of technologies, research and development, and administrative and other functions. Any future acquisitions may also result in potentially dilutive issuance of equity securities, acquisition- or divestiture-related write-offs or the assumption of debt and contingent liabilities. Any of the above factors could have a material adverse effect on our business.

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

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

Future sales of shares of our common stock by our officers, directors and affiliates could cause our stock price to decline.

Substantially all of our common stock may be sold without restriction in the public markets. Shares held by our directors, executive officers and affiliates are subject to volume and manner of sale restrictions, and as otherwise described in the following sentence. We have an agreement with Foster City LLC and Redemco, LLC, that gives Foster City and Redemco the right to require us to file a registration statement on Form S-3, registering the resale of all shares of our common stock held by Foster City and Redemco. Sales of a substantial number of shares of common stock in the public market or the perception that these sales could occur could materially and adversely affect our stock price and make it more difficult for us to sell equity securities in the future at a time and price we deem appropriate.

Anti-takeover provisions in our charter documents and under California law could prevent or delay a change in control, which could negatively impact the value of our common stock by discouraging a favorable merger or acquisition of us.

Our articles of incorporation authorize our board of directors to issue up to 10,000,000 shares of preferred stock and to determine the powers, preferences, privileges, rights, including voting rights, qualifications,

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limitations and restrictions of those shares, without any further vote or action by the shareholders. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that we may issue in the future. The issuance of preferred stock could have the effect of delaying, deterring or preventing a change in control and could adversely affect the voting power of your shares. In addition, provisions of California law could make it more difficult for a third party to acquire a majority of our outstanding voting stock by discouraging a hostile bid, or delaying or deterring a merger, acquisition or tender offer in which our shareholders could receive a premium for their shares or a proxy contest for control of our company or other changes in our management.

Recently Enacted and Proposed Changes in Securities Laws and Regulations Will Increase Our Costs.

The Sarbanes-Oxley Act (“the Act”) of 2002 has required changes in some of our corporate governance and securities disclosure and/or compliance practices. As part of the Act’s requirements, the Securities and Exchange Commission has been promulgating new rules on a variety of subjects, in addition to other rule proposals, and the NASDAQ Stock Market has enacted new corporate governance listing requirements. These developments have and will continue to increase our accounting and legal compliance costs, particularly in 2004, and could also expose us to additional liability. In addition, such developments may make retention and recruitment of qualified persons to serve on our board of directors or executive management more difficult. We continue to evaluate and monitor regulatory and legislative developments and cannot reliably estimate the timing or magnitude of all costs we may incur as a result of the Act or other related legislation or regulation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. We place our investments with high quality credit issuers and, by policy, limit the amount of credit exposure to any one issuer. Short-term investments typically consist of investments in commercial paper and market auction rate bonds.

The table below presents principal amounts and related weighted-average interest rates by year of maturity for our investment portfolio at September 25, 2004.

	2004	2005	2006	2007	2008	Beyond	Total	Fair Value	
	(In thousands)								
Cash equivalents									
Variable rate	\$14,981	—	—	—	—	—	\$14,981	\$14,968	
Average rate	1.49%	—	—	—	—	—			
Short-term investments									
Variable rate	\$ 7,001	\$10,557	—	—	—	—	\$17,558	\$17,523	
Average rate	1.30%	1.51%	—	—	—	—			
Long-term investments									
Variable rate	—	\$ 4,118	\$10,081	—	—	—	\$14,199	\$14,105	
Average rate	—	1.91%	2.06%	—	—	—			
Total investments									
Variable rate	\$21,982	\$14,675	\$10,081	—	—	—	\$46,738	\$46,596	
Average rate	1.43%	1.62%	2.06%	—	—	—			

Foreign exchange risk. From time to time, we enter into foreign currency forward exchange contracts to economically hedge certain of our anticipated foreign currency transaction, translation and re-measurement exposures. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on our operating results. At September 25, 2004, we had no foreign currency forward exchange contracts.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. An evaluation was carried out under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, the “Exchange Act”) as of the end of the period covered by this quarterly report. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in internal controls. We continue to enhance our internal control over financial reporting, primarily by evaluating and enhancing our process and control documentation and increasing our systems security, in connection with our ongoing efforts to meet the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. We discuss with and disclose these matters to the audit committee of our board of directors and our auditors.

No change in our internal controls over financial reporting was identified in connection with the evaluation required by Rule 13a-15(d) of the Exchange Act that occurred during our third quarter ended September 25, 2004 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

From time to time we are involved in litigation incidental to the conduct of our business. We are not party to any lawsuit or proceeding that, in our opinion, is likely to seriously harm our business.

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

None.

Item 3. *Defaults Upon Senior Securities*

None.

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

None.

Item 5. *Other Information*

None.

Item 6. *Exhibits*

The following exhibits are filed herewith:

Number	Exhibit 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 Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to U.S.C. 1350 adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.

SIGNATURES

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

INTEVAC, INC.

Date: November 9, 2004

By: /s/ KEVIN FAIRBAIRN

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

Date: November 9, 2004

By: /s/ CHARLES B. EDDY III

Charles B. Eddy III
Vice President, Finance and Administration,
Chief Financial Officer, Treasurer and Secretary
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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32.1	Certification Pursuant to U.S.C. 1350 adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

I, Kevin Fairbairn certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Intevac, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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
 - (c) 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 controls 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 9, 2004

/s/ KEVIN FAIRBAIRN

Kevin Fairbairn
President, Chief Executive Officer and Director

I, Charles B. Eddy 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)) 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) 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
 - (c) 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 controls 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 9, 2004

/s/ CHARLES B. EDDY III

Charles B. Eddy III
Vice President, Finance and Administration,
Chief Financial Officer, Treasurer and Secretary

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

I, Kevin Fairbairn, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Intevac, Inc. on Form 10-Q for the quarterly period ended September 25, 2004 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.

By: /s/ KEVIN FAIRBAIRN
Name: Kevin Fairbairn
Title: President, Chief Executive Officer and Director

I, Charles B. Eddy III, 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 September 25, 2004 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.

By: /s/ CHARLES B. EDDY III
Name: Charles B. Eddy III
Title: Vice President, Finance and Administration,
Chief Financial Officer, Treasurer and Secretary

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