

# INTEVAC INC

## FORM 10-Q (Quarterly Report)

Filed 08/11/05 for the Period Ending 07/02/05

Address	3560 BASSETT STREET SANTA CLARA, CA, 95054
Telephone	4089869888
CIK	0001001902
Symbol	IVAC
SIC Code	3559 - Special Industry Machinery, Not Elsewhere Classified
Industry	Industrial Machinery & Equipment
Sector	Industrials
Fiscal Year	12/31

# INTEVAC INC

## FORM 10-Q (Quarterly Report)

Filed 8/11/2005 For Period Ending 7/2/2005

Address	356O BASSETT ST SANTA CLARA, California 95054
Telephone	408-986-9888
CIK	0001001902
Industry	Computer Storage Devices
Sector	Technology
Fiscal Year	12/31

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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 July 2, 2005

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 August 8 2005, 20,574,100 shares of the Registrant's Common Stock, no par value, were outstanding.

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INTEVAC, INC.

INDEX

<b>Item 1.</b>	Financial Statements (unaudited)	
	Condensed Consolidated Balance Sheets	2
	Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)	3
	Condensed Consolidated Statements of Cash Flows	4
	Notes to Condensed Consolidated Financial Statements	5
<b>Item 2.</b>	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
<b>Item 3.</b>	Quantitative and Qualitative Disclosures About Market Risk	31
<b>Item 4.</b>	Controls and Procedures	32

## **PART II. OTHER INFORMATION**

<b>Item 1.</b>	Legal Proceedings	33
<b>Item 2.</b>	Unregistered Sales of Equity Securities and Use of Proceeds	33
<b>Item 3.</b>	Defaults Upon Senior Securities	33
<b>Item 4.</b>	Submission of Matters to a Vote of Security Holders	34
<b>Item 5.</b>	Other Information	34
<b>Item 6.</b>	Exhibits	34

<b>SIGNATURES</b>		35
EXHIBIT 3.2		
EXHIBIT 31.1		
EXHIBIT 31.2		
EXHIBIT 32.1		

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## INTEVAC, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)

	July 2, 2005 (Unaudited)	December 31, 2004
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 18,089	\$ 17,455
Short term investments	23,476	24,579
Trade and other accounts receivable, net of allowances of \$0 and \$217 at July 2, 2005 and December 31, 2004	24,535	4,775
Inventories	32,456	15,375
Prepaid expenses and other current assets	913	956
Total current assets	99,469	63,140
Property, plant and equipment, net	6,416	5,996
Long term investments	—	8,052
Investment in 601 California Avenue LLC	2,431	2,431
Other long term assets	202	3
Total assets	<u>\$ 108,518</u>	<u>\$ 79,622</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 9,811	\$ 1,647
Accrued payroll and related liabilities	2,292	1,617
Other accrued liabilities	3,053	2,943
Customer advances	22,166	3,833
Total current liabilities	37,322	10,040
Other long-term liabilities	401	207
Shareholders' equity:		
Common stock, no par value	96,229	94,802
Accumulated other comprehensive income	216	253
Accumulated deficit	(25,650)	(25,680)
Total shareholders' equity	70,795	69,375
Total liabilities and shareholders' equity	<u>\$ 108,518</u>	<u>\$ 79,622</u>

See accompanying notes.

## INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 2, 2005	June 26, 2004	July 2, 2005	June 26, 2004
Net revenues:				
Systems and components	\$ 28,545	\$ 15,626	\$ 37,139	\$ 19,819
Technology development	1,873	2,138	3,884	4,380
Total net revenues	30,418	17,764	41,023	24,199
Cost of net revenues:				
Systems and components	19,425	10,183	25,821	12,826
Technology development	1,298	1,654	2,792	3,321
Inventory provisions	34	247	754	753
Total cost of net revenues	20,757	12,084	29,367	16,900
Gross profit	9,661	5,680	11,656	7,299
Operating expenses:				
Research and development	3,413	3,083	6,538	6,141
Selling, general and administrative	2,741	2,223	5,932	4,393
Total operating expenses	6,154	5,306	12,470	10,534
Operating profit (loss)	3,507	374	(814)	(3,235)
Interest expense	34	—	32	(12)
Interest income and other, net	389	303	822	552
Income (loss) before income taxes	3,930	677	40	(2,695)
Provision for income taxes	3	—	10	(12)
Net income (loss)	\$ 3,927	\$ 677	\$ 30	\$ (2,683)
Other comprehensive income:				
Foreign currency translation adjustments	(21)	(7)	(37)	(6)
Total comprehensive income (loss)	\$ 3,906	\$ 670	\$ (7)	\$ (2,689)
Basic income (loss) per share:				
Net income (loss)	\$ 0.19	\$ 0.03	\$ 0.00	\$ (0.14)
Shares used in per share amounts	20,391	20,010	20,317	19,373
Diluted income (loss) per share:				
Net income (loss)	\$ 0.19	\$ 0.03	\$ 0.00	\$ (0.14)
Shares used in per share amounts	21,144	20,678	20,989	19,373

See accompanying notes.

## INTEVAC, INC.

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	<u>Six months ended</u>	
	<u>July 2, 2005</u>	<u>June 26, 2004</u>
<b>Operating activities</b>		
Net income (loss)	\$ 30	\$ (2,683)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	1,049	1,131
Inventory provisions	754	753
Loss on disposal of equipment	4	1
Changes in operating assets and liabilities	<u>(10,253)</u>	<u>(8,993)</u>
Total adjustments	<u>(8,446)</u>	<u>(7,108)</u>
Net cash and cash equivalents used in operating activities	(8,416)	(9,791)
<b>Investing activities</b>		
Purchases of investments	(8,859)	(27,895)
Proceeds from maturities of investments	18,000	—
Purchases of leasehold improvements and equipment	<u>(1,462)</u>	<u>(1,108)</u>
Net cash and cash equivalents provided by (used) in investing activities	7,679	(29,003)
<b>Financing activities</b>		
Net proceeds from issuance of common stock	1,427	42,207
Payoff of convertible notes due 2004	<u>—</u>	<u>(1,025)</u>
Net cash and cash equivalents provided by financing activities	1,427	41,182
Effect of exchange rate changes on cash	<u>(56)</u>	<u>(15)</u>
Net increase in cash and cash equivalents	634	2,373
Cash and cash equivalents at beginning of period	<u>17,455</u>	<u>19,507</u>
Cash and cash equivalents at end of period	<u>\$ 18,089</u>	<u>\$ 21,880</u>
<b>Supplemental Schedule of Cash Flow Information</b>		
Cash paid for:		
Interest	\$ —	\$ 33
Income taxes	\$ 2	\$ 2

See accompanying notes.



**INTEVAC, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Business Activities and Basis of Presentation**

We are the world's leading supplier of sputtering equipment used to manufacture magnetic media used in hard disk drives and a developer and provider of advanced 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 that deposits, or sputters, highly engineered thin-films onto magnetic disks used in hard disk drives. Hard disk drives are the primary storage medium for digital data and function by storing data on magnetic 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 vision in extreme low light situations. We currently develop night-vision technology and equipment for military and commercial applications.

The financial information at July 2, 2005 and for the three- and six-month periods ended July 2, 2005 and June 26, 2004 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. 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, 2004.

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.

The results for the three- and six-month periods ended July 2, 2005 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 cost under the first-in, first-out method and are stated at the lower of cost or market. Inventories consist of the following:

	<u>July 2, 2005</u>	<u>December 31, 2004</u>
	(In thousands)	
Raw materials	\$16,290	\$ 5,624
Work-in-progress	10,266	3,496
Finished goods	<u>5,900</u>	<u>6,255</u>
	<u>\$32,456</u>	<u>\$ 15,375</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 \$10.6 million and \$9.9 million at July 2, 2005 and December 31, 2004, 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 six months ended July 2, 2005, \$754,000 was added to the inventory reserves based on the quarterly analysis and a net \$87,000 of inventory was recovered and credited against the reserve. During the six months ended June 26, 2004, \$753,000 was added to inventory reserves based on the quarterly analysis and \$261,000 of inventory was disposed of and charged to the reserve.

**4. Employee Stock Plans**

At July 2, 2005, 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 plan to adopt the fair value requirements of SFAS No. 123R beginning in 2006.

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.

## Table of Contents

	Three Months Ended		Six Months Ended	
	July 2, 2005	June 26, 2004	July 2, 2005	June 26, 2004
	(in thousands)			
Net income (loss), as reported	\$ 3,927	\$ 677	\$ 30	\$ (2,683)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(717)	(341)	(1,109)	(609)
Pro forma net income (loss)	<u>\$ 3,210</u>	<u>\$ 336</u>	<u>\$ (1,079)</u>	<u>\$ (3,292)</u>
Basic income (loss) per share:				
As reported	\$ 0.19	\$ 0.03	\$ 0.00	\$ (0.14)
Pro forma	\$ 0.16	\$ 0.02	\$ (0.05)	\$ (0.17)
Diluted income (loss) per share:				
As reported	\$ 0.19	\$ 0.03	\$ 0.00	\$ (0.14)
Pro forma	\$ 0.15	\$ 0.02	\$ (0.05)	\$ (0.17)

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions for grants made in the three and six months ended July 2, 2005 and June 26, 2004:

	Three Months Ended		Six Months Ended	
	July 2, 2005	June 26, 2004	July 2, 2005	June 26, 2004
	(in thousands)			
Dividend yield	None	None	None	None
Expected volatility	91.43%	93.66%	92.65%	94.29%
Risk free interest rate	3.68%	2.63%	4.32%	2.38%
Expected lives	5.0 years	2.7 years	6.6 years	2.5 years

The weighted-average fair value of stock options granted was \$7.65 and \$6.67 for the three and six months ended July 2, 2005, respectively, and \$5.04 and \$5.76 for the three and six months ended June 26, 2004, respectively.

The pro forma net loss and net loss per share data listed above includes expense related to the Employee Stock Purchase Plan ("ESPP"). The fair value of purchase rights granted under the ESPP is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions:

	Six months ended	
	July 2, 2005	June 26, 2004
Dividend yield	None	None
Expected volatility	93.02%	95.36%
Risk free interest rate	3.83%	1.27%
Expected lives	1.5 years	1.5 years

The weighted-average fair value of purchase rights granted was \$4.42 for the six months ended July 2, 2005, and \$9.47 for the six months ended June 26, 2004.

## INTEVAC, INC.

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

**5. Warranty**

Our typical warranty is 12 months from customer acceptance. We also sell extended warranties beyond 12 months to our customers. 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 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, which is included in other accrued liabilities on our balance sheet, for the three and six-month periods ending July 2, 2005 and June 26, 2004:

	Three Months Ended		Six Months Ended	
	July 2, 2005	June 26, 2004	July 2, 2005	June 26, 2004
	(in thousands)			
Beginning balance	\$ 1,011	\$ 386	\$ 1,116	\$ 534
Expenditures incurred under warranties	(263)	(53)	(709)	(109)
Accruals for product warranties issued during the reporting period	709	456	994	493
Adjustments to previously existing warranty accruals	220	(135)	276	(264)
Ending balance	<u>\$ 1,677</u>	<u>\$ 654</u>	<u>\$ 1,677</u>	<u>\$ 654</u>

The following table displays the balance sheet classification of the warranty provision account at July 2, 2005 and at December 31, 2004:

	July 2, 2005	December 31, 2004
	(In thousands)	
Other accrued liabilities	\$ 1,276	\$ 909
Other long-term liabilities	401	207
Total warranty provision	<u>\$ 1,677</u>	<u>\$ 1,116</u>

**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 obligations 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

## INTEVAC, INC.

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

debt securities consists 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. Realized gains and losses are included in earnings. The table below presents the amortized principal amount, major security type and maturities for our investments in debt securities.

	<u>July 2, 2005</u>	<u>December 31, 2004</u>
	(in thousands)	
Amortized Principal Amount:		
Debt securities issued by US government agencies	\$20,429	\$ 28,017
Corporate debt securities	3,047	4,614
Total investments in debt securities	<u>\$23,476</u>	<u>\$ 32,631</u>
Short-term investments	\$23,476	\$ 24,579
Long-term investments	—	8,052
Total investments in debt securities	<u>\$23,476</u>	<u>\$ 32,631</u>
Approximate fair market value of investments in debt securities	<u>\$23,332</u>	<u>\$ 32,450</u>

Cash and cash equivalents represent cash accounts and money market funds. Included in accounts payable is \$2,994,000 and \$188,000 of book overdraft at July 2, 2005 and December 31, 2004, respectively.

### 8. Net Income (Loss) Per Share

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>July 2, 2005</u>	<u>June 26, 2004</u>	<u>July 2, 2005</u>	<u>June 26, 2004</u>
	(in thousands)			
Numerator:				
Numerator for basic income (loss) per share — loss available to common stockholders	\$ 3,927	\$ 677	\$ 30	\$ (2,683)
Effect of dilutive securities:				
6 1/2% convertible notes (1)	—	—	—	—
Numerator for diluted income (loss) per share — loss available to common stockholders after assumed conversions	<u>\$ 3,927</u>	<u>\$ 677</u>	<u>\$ 30</u>	<u>\$ (2,683)</u>

## INTEVAC, INC.

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

<b>Denominator:</b>				
Denominator for basic income (loss) per share – weighted-average shares	20,391	20,010	20,317	19,373
<b>Effect of dilutive securities:</b>				
Employee stock options (2)	753	668	672	—
6 1/2 % convertible notes (1)	—	—	—	—
Dilutive potential common shares	<u>753</u>	<u>668</u>	<u>672</u>	<u>—</u>
Denominator for diluted income (loss) per share – adjusted	<u>21,144</u>	<u>20,678</u>	<u>20,989</u>	<u>19,373</u>

- (1) Diluted EPS for the six-month period ended June 26, 2004 exclude “as converted” treatment of the convertible notes, as their inclusion would be anti-dilutive. The number of “as converted” shares excluded for the six-month period ended June 26, 2004 was 17,137.
- (2) Potentially dilutive securities, consisting of shares issuable upon exercise of employee stock options, are excluded from the calculation of diluted EPS when their effect is anti-dilutive. The weighted average number of employee stock options excluded for the three-month periods ended July 2, 2005 and June 26, 2004 was 218,313 and 247,102, respectively, and the number of employee stock options excluded for the six-month periods ended July 2, 2005 and June 26, 2004 was 281,522 and 1,486,205, respectively.

**9. New Accounting Pronouncements**

In December 2004, FASB issued SFAS No. 123 (Revised 2004), “Share-Based Payment”. SFAS 123R addresses all forms of share-based payment (“SBP”) awards, including shares issued under certain employee stock purchase plans, stock options, restricted stock and stock appreciation rights. SFAS 123R will require us to expense SBP awards with compensation cost for SBP transactions measured at fair value. Although we are in the process of evaluating the impact of applying the various provisions of SFAS 123R, we expect that this statement will have a material impact on our financial statements. On April 14, 2005, the U.S. Securities and Exchange Commission announced a deferral of the effective date of SFAS 123R until the first interim period beginning after December 15, 2005.

In March 2005, the SEC issued Staff Accounting Bulletin (“SAB”) No. 107. SAB 107 provides guidance related to share-based payment transactions with non-employees, the transition from nonpublic to public entities status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123R in an interim period, capitalization of compensation costs related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS 123R, the modification of employee share options prior to the adoption of SFAS 123R and disclosures in Management’s Discussion and Analysis subsequent to adoption of SFAS 123R. We are currently in the process of assessing the impact of this guidance.

In March 2005, the FASB issued Interpretation No. 47 (“FIN 47”), “Accounting for Conditional Asset Retirement Obligations – An Interpretation of FASB Statement No. 143”, to clarify the requirement to record liabilities stemming from a legal obligation to clean up and retire fixed assets, such as a plant or factory, when an asset retirement depends on a future event. We plan to adopt the FIN 47 in the first quarter of fiscal 2006. We do not expect the application of FIN 47 to have a material effect on our financial statements.

## INTEVAC, INC.

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

In May 2005, FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." This new standard replaces APB Opinion No. 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impractical to do so. SFAS 154 also provides that (1) a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a "restatement." SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not expect the adoption of this statement to have a material impact on our financial statements.

**10. Segment Reporting***Segment Description*

We have two reportable operating segments: Equipment and Imaging. Our reportable segments are business units that offer different products and are each managed separately, under the direction of our Chief Executive Officer. Our Equipment business designs, manufactures, markets and services complex capital equipment that deposits, or sputters, highly engineered thin-films onto magnetic disks 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 vision in extreme low light situations.

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 offset by a valuation allowance) and other assets.

*Segment Profit or Loss and Segment Assets*

We evaluate performance and allocate resources based on a number of factors including, profit or loss from operations and future revenue potential. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

*Business Segment Net Revenues*

	Three Months Ended		Six Months Ended	
	July 2, 2005	June 26, 2004	July 2, 2005	June 26, 2004
	(in thousands)			
Equipment	\$ 28,337	\$ 15,403	\$ 36,873	\$ 19,556
Imaging	2,081	2,361	4,150	4,643
Total	<u>\$ 30,418</u>	<u>\$ 17,764</u>	<u>\$ 41,023</u>	<u>\$ 24,199</u>

## INTEVAC, INC.

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

*Business Segment Profit & Loss*

	Three Months Ended		Six Months Ended	
	July 2, 2005	June 26, 2004	July 2, 2005	June 26, 2004
	(in thousands)			
Equipment	\$ 4,672	\$ 1,520	\$ 2,001	\$ (680)
Imaging	(1,278)	(942)	(2,459)	(1,831)
Corporate activities	113	(204)	(356)	(724)
Operating income (loss)	3,507	374	(814)	(3,235)
Interest expense	34	—	32	(12)
Interest income	285	148	551	232
Other income and expense, net	104	155	271	320
Income (loss) before income taxes	<u>\$ 3,930</u>	<u>\$ 677</u>	<u>\$ 40</u>	<u>\$ (2,695)</u>

*Business Segment Assets*

	July 2, 2005	December 31, 2004
		(in thousands)
Equipment	\$ 57,911	\$ 19,407
Imaging	6,695	7,135
Corporate activities	43,912	53,080
Total	<u>\$108,518</u>	<u>\$ 79,622</u>

The portion of our long-lived assets maintained outside of the United States are immaterial.

*Geographic Area Net Trade Revenues*

	Three Months Ended		Six Months Ended	
	July 2, 2005	June 26, 2004	July 2, 2005	June 26, 2004
	(in thousands)			
United States	\$ 2,798	\$ 11,030	\$ 9,583	\$ 13,826
Far East	27,332	6,454	30,967	10,093
Europe	288	280	473	280
Total	<u>\$ 30,418</u>	<u>\$ 17,764</u>	<u>\$ 41,023</u>	<u>\$ 24,199</u>

**11. Income Taxes**

For the three months ended July 2, 2005, we accrued income tax using an effective tax rate of 2.5% of pretax income. This rate is based on the estimated annual tax rate complying with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". We also paid the minimum Franchise Tax to the State of California. We did not accrue a tax provision for the three-month period ended June 26, 2004 as the profits for this period were offset by net operating loss carry-forwards. Our \$19.9 million deferred tax asset is fully offset by a \$19.9 million valuation allowance, resulting in a net deferred tax asset of zero at July 2, 2005.



**INTEVAC, INC.**

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

**12. Capital Transactions**

During the six-month period ending July 2, 2005, we sold stock to our employees under Intevac's Stock Option and Employee Stock Purchase Plans. A total of 290,503 shares were issued under these plans, for which Intevac received \$1.4 million.

**13. 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, operating expenses, interest income, cash balances and improved financial results in 2005; 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 2005, 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 are 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, 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

## Table of Contents

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. While initial shipments of our 200 Lean system were recognized for revenue upon customer acceptance during 2004, we expect that 200 Leans will be generally be recognized for revenue upon shipment during 2005. For example, during the three months ended July 2, 2005 six 200 Leans were shipped. The fair market value of all six 200 Leans was recognized for revenue upon shipment. Installation and acceptance was completed during the quarter on one of these six 200 Lean systems. Accordingly, the fair market value of installation and acceptance services for this one system was recognized for revenue.

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.

In certain cases, we sell limited rights to our intellectual property. We recognize license fee revenue when earned under the terms of the agreements. Generally, revenue is recognized upon transfer of the license unless we have continuing obligations for which fair value cannot be established, in which case the revenue is recognized over the period of the obligation. If there are extended payment terms, we recognize license fee revenue as these payments become due.

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 government-sponsored 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. A cost to market reserve is established for work-in-progress and finished goods inventories when the value of the inventory plus the estimated cost to complete exceeds the net realizable value of the inventory.

### *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. We also sell extended warranties beyond 12 months to some 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.

## Table of Contents

### Results of Operations

#### Three Months Ended July 2, 2005 and June 26, 2004.

##### Net revenues

	Three months ended		Change over prior period	
	July 2, 2005	June 26, 2004	Amount	%
Equipment net revenues	\$ 28,337	\$ 15,403	\$ 12,934	84%
Imaging net revenues	2,081	2,361	(280)	(12)%
Total net revenues	<u>\$ 30,418</u>	<u>\$ 17,764</u>	<u>\$ 12,654</u>	71%

Net revenues consist primarily of sales of equipment used to manufacture thin-film disks, related equipment and system components, flat panel equipment technology license fees, contract research and development related to the development of electro-optical sensors, cameras and systems and low light imaging products.

The increase in Equipment revenue for the three months ending July 2, 2005 was primarily the result of revenue recognition for six 200 Lean systems and three disk lubrication systems and the sale of a D STAR<sup>®</sup> flat panel technology license for \$1.5 million. The three months ended June 26, 2004 included two 200 Lean systems in revenue. Revenue from disk equipment technology upgrades and spare parts decreased in the three months ending July 2, 2005. As of July 27, 2005, we have orders for fifteen 200 Lean systems and six MDP-250B systems. We expect to ship and recognize for revenue twenty of these twenty-one systems in fiscal 2005. We expect significant growth in Equipment revenues in 2005, compared to 2004.

The decrease in Imaging revenues was the result of decreased revenues from contract research and development. We expect the Imaging business revenue to grow in the second half of 2005 as a result of increasing shipment of low light level cameras, but we do not expect the Imaging business to be profitable in 2005.

Our backlog of orders at July 2, 2004 was \$65.4 million, as compared to \$10.5 million at December 31, 2004 and \$46.4 million at June 26, 2004. The increase in backlog was primarily the result of orders for disk manufacturing systems. We include in backlog the value of purchase orders for our products that have scheduled delivery dates. We do not recognize revenue on this backlog until we have met the criteria contained in our revenue recognition policy, including customer acceptance of newly developed systems.

International sales increased by 310% to \$27.6 million for the three months ended July 2, 2005 from \$6.8 million for the three months ended June 26, 2004. The increase in international sales was due to higher shipments of disk sputtering systems. International sales constituted 91% of net revenues for the three months ended July 2, 2005 and 38% of net revenues for the three months ended June 26, 2004. International revenues include products shipped to overseas operations of US companies.

##### Gross margin

	Three months ended		Change over prior period	
	July 2, 2005	June 26, 2004	Amount	%
Equipment gross margin	33.4%	35.0%	(1.6 pts)	(5)%
Imaging gross margin	9.2%	12.5%	(3.3 pts)	(26)%
Total gross margin	<u>31.8%</u>	<u>32.0%</u>	(0.2 pts)	(1)%

## Table of Contents

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.

Equipment gross margin for the three months ended July 2, 2005 was lower than in the three months ended June 26, 2004 due to a reduction in revenue from disk equipment technology upgrades and due to a lower average selling price on the 200 Lean systems recognized for revenue. The 200 Lean systems recognized for revenue in the second quarter of 2004 were engineering systems, while the 200 Lean systems recognized for revenue in the second quarter of 2005 were production systems configured for longitudinal media. The average selling price for the engineering systems was significantly higher than the average selling price for the production systems. Gross margin for the three months ended July 2, 2005 was favorably impacted by \$1.4 million of flat panel equipment related activities. The \$1.4 million included \$1.5 million of gross profit from the technology license sale less \$82,000 of increased costs related to obtaining final acceptance of a flat panel manufacturing system shipped in 2003. Gross margins in the Equipment business vary depending on a number of factors, including product cost, system configuration and pricing, factory utilization, and inventory provisions. We expect the gross margin for the Equipment business to improve in the second half of 2005 as a result of lower manufacturing costs and higher average selling prices for the 200 Lean.

The decrease in Imaging gross margin was due primarily to an increase in inventory reserve expense. Although we expect improvement in the second half of 2005, Imaging gross margins will vary depending on a number of factors, including the mix of contract research and development revenue vs. product revenue, the level of cost-sharing on our contract research and development efforts and labor utilization.

### *Research and development.*

	<u>Three months ended</u>		<u>Change over prior period</u>	
	<u>July 2, 2005</u>	<u>June 26, 2004</u>	<u>Amount</u>	<u>%</u>
Research and development expense	\$ 3,413	\$ 3,083	\$ 330	11%
% of net revenues	11.2%	17.4%		

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. The increase in research and development expense in the three months ending July 2, 2005 was the result of increased spending on Imaging projects. We expect that research and development spending in the remainder of 2005 will increase over 2004 as a result of increased spending in both Equipment and Imaging.

Research and development expenses do not include costs of \$1.3 million and \$1.7 million, respectively, for the three-month periods ended July 2, 2005 and June 26, 2004 related to Imaging contract research and development. These expenses are included in cost of net revenues.

### *Selling, general and administrative.*

	<u>Three months ended</u>		<u>Change over prior period</u>	
	<u>July 2, 2005</u>	<u>June 26, 2004</u>	<u>Amount</u>	<u>%</u>
Selling, general and administrative expense	\$ 2,741	\$ 2,223	\$ 518	23%
% of net revenues	9.0%	12.5%		

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

## Table of Contents

professional services and bad debt expense. Domestic sales and international sales of disk manufacturing products in the Far East, with the exception of Japan, are typically made by Intevac's direct sales force, whereas sales in Japan of disk manufacturing products and other products are typically made by our Japanese distributor, Matsubo, who provides services such as sales, installation, warranty and customer support. We also have a subsidiary in Singapore to support customers in Southeast Asia. We are planning to open field offices in China and Japan during 2005.

The increase in selling, general and administrative expense was primarily the result of increases in costs related to customer service and support in the Equipment business. We expect that selling, general and administrative expenses for the balance of 2005 will increase over the amount spent in 2004 due primarily to a projected increase in field offices, headcount, travel and employee benefit costs.

### *Interest expense.*

	<u>Three months ended</u>		<u>Change over prior period</u>	
	<u>July 2, 2005</u>	<u>June 26, 2004</u>	<u>Amount</u>	<u>%</u>
Interest expense	\$ 34	\$ —	\$ 34	N/A

In the three months ended July 2, 2005, we received a refund of interest paid in 2002 and 2004 related to a sales & use tax audit by the State of California Board of Equalization ("BOE"). We executed a settlement agreement with the BOE for a reduction in the amount of tax and interest previously paid in response to the audit.

### *Interest income and other, net.*

	<u>Three months ended</u>		<u>Change over prior period</u>	
	<u>July 2, 2005</u>	<u>June 26, 2004</u>	<u>Amount</u>	<u>%</u>
Interest income and other, net	\$ 389	\$ 303	\$ 86	28%

Interest income and other, net in both 2005 and 2004 consisted primarily of interest and dividend income on investments. The increase in the three months ended July 2, 2005 was driven by higher interest rates on our investments.

### *Provision for (benefit from) income taxes.*

	<u>Three months ended</u>		<u>Change over prior period</u>	
	<u>July 2, 2005</u>	<u>June 26, 2004</u>	<u>Amount</u>	<u>%</u>
Provision for (benefit from) income taxes	\$ 3	\$ —	\$ 3	N/A

For the three months ended July 2, 2005, we accrued income tax using an effective tax rate of 2.5% of pretax income. Our tax rate differs from the applicable statutory rates due to the utilization of net operating loss carry-forwards and deferred credits. We also paid the minimum Franchise Tax of \$2,400 to the State of California. We did not accrue a tax provision for the three-month period ended June 26, 2004 as the profits for this period were offset by net operating loss carry-forwards. Our \$19.9 million deferred tax asset is fully offset by a \$19.9 million valuation allowance, resulting in a net deferred tax asset of zero at July 2, 2005.

## Table of Contents

### Six Months Ended July 2, 2005 and June 26, 2004.

#### Net revenues

	Six months ended		Change over prior period	
	July 2, 2005	June 26, 2004	Amount	%
	(in thousands, except percentages)			
Equipment net revenues	\$ 36,873	\$ 19,556	\$ 17,317	89%
Imaging net revenues	4,150	4,643	(493)	(11)%
Total net revenues	<u>\$41,023</u>	<u>\$ 24,199</u>	<u>\$ 16,824</u>	70%

The increase in Equipment revenue was the result of higher sales of disk sputtering systems and spare parts and sale of a flat panel equipment technology license. The decrease in Imaging revenues was the result of a reduction in revenues from contract research and development.

International sales increased by 203% to \$31.4 million for the six months ended July 2, 2005 from \$10.4 million for the six months ended June 26, 2004. The increase in international sales was due to higher shipments of disk sputtering systems. International sales constituted 77% of net revenues for the six months ended July 2, 2005 and 43% of net revenues for the six months ended June 26, 2004. International revenues include products shipped to overseas operations of US companies.

#### Gross margin

	Six months ended		Change over prior period	
	July 2, 2005	June 26, 2004	Amount	%
Equipment gross margin	30.2%	34.2%	(4.0 pts)	(12)%
Imaging gross margin	12.1%	13.3%	(1.2 pts)	(9)%
Total gross margin	<u>28.4%</u>	<u>30.2%</u>	<u>(1.8 pts)</u>	<u>(6)%</u>

Gross margin for the six months ended July 2, 2005 was favorably impacted by \$908,000 of flat panel equipment related activities. The \$908,000 included \$1.5 million of gross profit from the technology license sale less \$592,000 booked as a lower of cost or market reserve for costs we expect to incur related to obtaining final customer acceptance of a flat panel manufacturing system shipped 2003. Gross margin for the six months ended July 2, 2005 was adversely impacted by the recognition of revenue on a 200 Lean system that was built early in 2004, prior to the completion of our cost reduction activities. Gross margin for the six months ended June 26, 2004 was favorably impacted by the 200 Lean systems recognized for revenue in 2004 being sold at a significantly higher average selling price than the systems sold in the six months ended July 2, 2005.

The decrease in Imaging margin was due primarily to higher unabsorbed overhead in 2005.

#### Research and development.

	Six months ended		Change over prior period	
	July 2, 2005	June 26, 2004	Amount	%
	(in thousands, except percentages)			
Research and development expense	\$ 6,538	\$ 6,141	\$ 397	7%
% of net revenues	15.9%	25.4%		

The increase in research and development expense in the six months ending July 2, 2005 was the result of a \$766,000 or 83% increase in spending on Imaging projects related to development of sensors and cameras for

## Table of Contents

military night-vision systems and near infrared commercial applications, partially offset by a 7% reduction in spending on Equipment projects.

Research and development expenses do not include costs of \$2.8 million and \$3.3 million, respectively, for the six-month periods ended July 2, 2005 and June 26, 2004 related to Imaging contract research and development. These expenses are included in cost of net revenues.

### *Selling, general and administrative.*

	<u>Six months ended</u>		<u>Change over prior period</u>	
	<u>July 2, 2005</u>	<u>June 26, 2004</u>	<u>Amount</u>	<u>%</u>
Selling, general and administrative expense	\$ 5,932	\$ 4,393	\$ 1,539	35%
% of net revenues	14.5%	18.2%		

The increase in selling, general and administrative expense for the six months ending July 2, 2005 was primarily the result of \$832,000 of increased costs related to customer service and support in the Equipment business and \$371,000 of increased costs for our 2004 audit, including the audit of our Sarbanes-Oxley internal control efforts. Additional headcount and related expenses in marketing and business development for the Equipment Business accounted for most of the remaining increase.

### *Interest expense.*

	<u>Six months ended</u>		<u>Change over prior period</u>	
	<u>July 2, 2005</u>	<u>June 26, 2004</u>	<u>Amount</u>	<u>%</u>
Interest expense	\$ 32	\$ (12)	\$ 44	N/A

In the three months ended July 2, 2005, we received a refund of interest we had paid in 2002 and 2004 related to a sales & use tax audit by the State of California Board of Equalization ("BOE"). We executed a settlement agreement with the BOE for a reduction in the amount of tax and interest we had previously paid in response to the audit. Interest expense in the three months ended June 26, 2004 was interest payable on our convertible notes that were paid off in March 2004.

### *Interest income and other, net.*

	<u>Six months ended</u>		<u>Change over prior period</u>	
	<u>July 2, 2005</u>	<u>June 26, 2004</u>	<u>Amount</u>	<u>%</u>
Interest income and other, net	\$ 822	\$ 552	\$ 270	49%

Interest income and other, net in both 2005 and 2004 consisted primarily of interest and dividend income on investments. The increase in the six months ended July 2, 2005 was the driven by higher interest rates on our investments and a higher average invested balance.



## Table of Contents

*Provision for (benefit from) income taxes.*

	<u>Six months ended</u>		<u>Change over prior period</u>	
	<u>July 2, 2005</u>	<u>June 26, 2004</u>	<u>Amount</u>	<u>%</u>
Provision for (benefit from) income taxes	\$ 10	\$ (12)	\$ 22	(183)%

Income tax expense for the six months ending July 2, 2005 consists of a 2.5% provision on net pretax income, minimum Franchise Tax payment of \$2,400 to the State of California and a \$7,000 accrual related to a claim we received from the California Franchise Tax Board. We did not accrue a tax benefit for the six-month period ended June 26, 2004 due to the inability to realize additional refunds from loss carry-backs. The \$12,000 credit to income tax expense in 2004 related to a revised estimate of 2003 taxes owed by our Singapore subsidiary.

### Liquidity and Capital Resources

Our operating activities used cash of \$8.4 million during the six months ended July 2, 2005. The cash used was due primarily to increases in inventory of \$17.9 million and in accounts receivable of \$19.8 million, partially offset by increases in accounts payable of \$8.2 million and in customer advances of \$18.3 million. The increase in inventories, accounts payable and customer advances all relate to the orders for disk sputtering systems received in the period. In the six months ended June 26, 2004, our operating activities used cash of \$9.8 million. The cash used was due primarily to increases in inventory of \$26.6 million and in accounts receivable of \$1.6 million, partially offset by increases in accounts payable of \$3.8 million and in customer advances of \$14.2 million.

Our investing activities in the six months ended July 2, 2005 provided cash of \$7.7 million from the net redemption of \$9.2 million of investments partially offset by \$1.5 million in fixed assets purchases. In the six months ended June 26, 2004, our investing activities used cash of \$29.0 million due primarily to the purchase of investments.

Our financing activities provided cash of \$1.4 million in the six months ended July 2, 2005 as a result of the sale of our common stock to our employees through our employee benefit plans. In the six months ended June 26, 2004, our financing activities provided cash of \$41.2 million due primarily to a public offering of our common stock, for which we received \$41.6 million. We also sold our common stock to our employees through our employee benefit plans. We retired the remaining \$1.0 million of our convertible notes during the six months ended June 26, 2004.

At July 2, 2005, we had \$18.1 million of cash and cash equivalents and \$23.5 million of short-term investments. We intend to undertake approximately \$5 million in capital expenditures during 2005, and we expect the cash and cash equivalent balances will increase in the second half of 2005.

We have incurred operating losses each year since 1998 and cannot predict with certainty when we will return to operating profitability on an annual basis. However, based upon the current outlook in our Equipment business we expect to be profitable on a consolidated basis in fiscal 2005.

### 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 July 2, 2005 are shown in the table below.

	Total	Payments due by period			
		< 1 Year	1-3 Years (in thousands)	3-5 Years	> 5 Years
Operating lease obligations	\$ 14,865	\$ 3,523	\$ 4,591	\$ 3,365	\$ 3,386
Purchase obligations	16,126	16,126	—	—	—
Total	<u>\$ 30,991</u>	<u>\$ 19,649</u>	<u>\$ 4,591</u>	<u>\$ 3,365</u>	<u>\$ 3,386</u>

**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 10 quarters, our revenues per quarter have fluctuated between \$35.0 million and \$4.6 million. Over the same period our operating income as a percentage of revenues has fluctuated between 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 containing disks our customers produce with 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, quarterly revenues in our Equipment business fluctuated between \$8.3 million and \$32.6 million in the last four quarters. 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.

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

Historically, a significant portion of our revenue in any particular period has been attributable to sales of our magnetic media sputtering systems to a limited number of customers. In 2004, Seagate accounted for \$43.4 million, or 62% of our revenue; and Matsubo accounted for \$7.5 million, or 11% of our revenue. Orders from a relatively limited number of magnetic 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. The concentration of our customer base may enable customers to demand pricing and other terms unfavorable to us. Furthermore, the concentration of customers can lead to extreme variability in revenue and financial results from period to period. For example, during 2004 revenues ranged between \$6.4 million in the first quarter and \$35.0 million in the third quarter. These factors could have a material adverse effect on our business, financial condition and results of operations.

*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.*

We have invested heavily, and continue to invest, in the development of new products. Our success in developing and selling new products depends upon a variety of factors, including our ability to predict future

## Table of Contents

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.

Our future revenues depend significantly on the market acceptance of new products, such as our 200 Lean magnetic media sputtering system, which was first delivered in December 2003, and our ability to cost effectively manufacture and install these products. 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, than for mature systems, and are designed to highlight problems encountered with early versions of the equipment. For example, initial builds of the 200 Lean experienced high initial production and warranty costs in comparison to our more established product lines. 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 product, rework and warranty costs, penalties for non-performance, cancellation of orders, or return of products for credit.

We are making a substantial investment to develop a new manufacturing system to address applications other than magnetic media manufacturing. We are in the concept and feasibility stage for this new product. We have not yet completed a fully working prototype, and do not expect to generate any revenue from this product in the next twelve months. We spent \$975,000, or 8.4% of our research development costs related to the development of this new product in 2004 and expect to significantly increase our level of spending on this project in 2005. Failure to correctly assess the size of the market, or to successfully develop a product to cost effectively address the market, or to establish effective sales and support of the new product would have a material adverse effect on our future revenues and profits, including loss of the Company's entire investment in the project.

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 high volume, and we may encounter unforeseen difficulties when we commence volume 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 these new products. To date, commercial sales of our commercial Imaging products have not been significant and we do not expect to collect significant revenues in 2005 from deployment of LIVAR or our other Imaging products. Failure of any of these products to perform as intended, to penetrate their markets and develop into profitable product lines or to achieve their production cost objectives, 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, and to seasonal cycles driven by consumer purchasing patterns, which tend to be heaviest in the third and fourth quarters of each year.

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 cycles have affected the timing and amounts of our customers' capital equipment purchases and investments in new technology. For example, sales of systems for magnetic disk

production were severely depressed from the middle of 1998 until mid-2003. In addition, our disk manufacturing customers are generally more sensitive to the cyclical nature of the hard disk drive industry, because many of their customers have internal magnetic 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.

***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 magnetic disk manufacturers were burdened with over-capacity and were not investing in new disk sputtering equipment. By 2003, however, over-capacity had diminished, three of our customers announced plans for major capacity expansions, and we shipped our first next generation 200 Lean system. Since then, sales of our 200 Lean have increased.

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 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 have 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. Our operating loss in 2004 was \$5.2 million, and as of December 31, 2004, we had an accumulated deficit of \$25.7 million. To regain and sustain profitability, we will need to increase gross margins and generate and sustain substantially higher 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.

***Recently enacted and proposed changes in securities laws and regulations will increase our costs.***

The Sarbanes-Oxley Act of 2002 has required changes in some of our corporate governance, securities disclosure and/or compliance practices. As part of the Act's requirements, the Securities and Exchange Commission has promulgated 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, and could also expose us to additional liability.

Costs of compliance were significantly larger in 2004 than originally anticipated, and costs of compliance in future periods may continue to be unpredictable, which could have an adverse effect on our financial results. In

addition, we were unable to complete the efforts required in order to comply with Section 404 in a timely manner in 2004, which impacted our ability to make a timely filing of our Report on Form 10-K. There can be no guarantee that we will not face similar issues in future filings.

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.

***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. We do not enter into long-term contracts with our customers and therefore until an order is actually submitted by a customer there is no binding commitment to purchase our systems.

Our Imaging business is also subject to long sales cycles because many of our products, such as our LIVAR system, often must be designed into our customers products, which are often complex state-of-the-art products. These development cycles are often multi-year and our sales are contingent on our customer successfully integrating our product into their product, completing development of their product and then obtaining production orders for their product.

As a result, we may not recognize revenue from our products for extended periods of time after we have completed development, and made initial shipments of, our products, during which time 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, which is a subsidiary of NEC Corporation, and Unaxis Holdings, Ltd, each of which has sold

substantial numbers of systems worldwide. Up to 1998, we also experienced competition from Ulvac Technologies, Inc. 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, 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 are 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 many of our Imaging products and services directly to the U.S. government, as well as to prime contractors for various U.S. government programs. In 2002, 2003 and 2004, 18%, 26% and 12%, respectively of our consolidated revenues were derived from government contracts. 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 the U.S. government 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.

***We may not be successful in maintaining and obtaining the necessary export licenses to conduct operations abroad, and the United States government may prevent proposed sales to foreign customers.***

Many of our Imaging products require export licenses from United States Government agencies under the Export Administration Act, the Trading with the Enemy Act of 1917, the Arms Export Act of 1976 and the International Trading in Arms Regulations ("ITAR"). We can give no assurance that we will be successful in obtaining all the licenses necessary to export our products. Export to countries which are not considered by the United States Government to be allies is also likely to be prohibited. This limits the potential market for our products. Failure to obtain, or delays in obtaining, or revocation of previously issued licenses would prevent us from selling our products outside the United States, may subject us to fines or other penalties, and would have a material adverse effect on our business, financial condition and results of operations.

***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

## Table of Contents

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 magnetic 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. Over the past 12 months, the closing price of our common stock, as traded on The Nasdaq National Market, fluctuated from a low of \$3.92 to a high of \$12.00 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.

For example, in July 2004 when we announced that our gross margin and gross revenue for the year would be under the expectations of investment analysts, our stock price dropped by approximately half. In addition, the general economic, political, stock market and hard drive industry 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 future success depends on international sales and the management of global operations***

International sales accounted for 68% of total revenues in 2004 and 77% of our revenues during the six months ended July 2, 2005. We currently have a customer support office in Singapore and are in the process of opening customer support offices in China and Japan. We expect that international sales will continue to account for a significant portion of our total revenue in future years. We market to customers located in the Far East in countries such as China, Japan, Malaysia, Singapore and Taiwan. We are subject to various challenges related to the management of global operations, and international sales are subject to risks including, but not limited to regional economic and political conditions, challenges in staffing and managing foreign operations, changes in currency

## Table of Contents

controls, potentially adverse tax consequences, difference in enforcement of intellectual property rights and fluctuation in interest and currency exchange rates. Any of these factors could have a material adverse effect on our business and operating results.

***Changes in existing financial accounting standards or practices or taxation rules or practices may adversely affect our results of operations.***

Changes in existing accounting or taxation rules or practices, new accounting pronouncements or taxation rules, or varying interpretations of current accounting pronouncements or taxation practice could have a significant adverse effect on our results of operations or the manner in which we conduct our business. Further, such changes could potentially affect our reporting of transactions completed before such changes are effective. For example, we currently are not required to record stock-based compensation charges to earnings in connection with stock options grants to our employees. However, Financial Accounting Standards Board (FASB) 123R, "Stock-Based Payments" will require us to record stock-based compensation charges to earnings for employee stock option grants commencing in the first quarter of 2006. Such charges will negatively impact our earnings.

***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), we are required to furnish a report by our management on our internal control over financial reporting. Such report contains, 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. The report must also contain a statement that our auditors have issued an attestation report on management's assessment of our 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. Therefore the report is especially difficult to prepare.

We were not able to assert, in our management certifications filed with our Annual Report on Form 10-K, that our internal control over financial reporting was effective as of December 31, 2004, as our management identified three material weaknesses in our internal control over financial reporting. This or any future inability to assert that our internal controls over financial reporting are effective for any given reporting period (or if our auditors are unable to attest that our management's report is fairly stated or if they are unable to express an opinion on the effectiveness of our internal controls), could cause us to lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

***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;
- 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 and Fremont, California, where the cost of doing business and recruiting employees is high. Failure to manage these costs well could have a material adverse effect on our operating results. Additionally, our operating results depend, in large part, upon our ability to retain and attract qualified management, engineering, marketing, manufacturing, customer support, sales and administrative personnel. Furthermore, we compete with 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 market to customers located in the Far East in countries such as China, Japan, Malaysia, Singapore and Taiwan.

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. 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.

## Table of Contents

### *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. In May 2005, Redemco LLC exercised that right and requested that we register the sale of 2,000,000 shares at any time and in any manner Redemco LLC chooses. We are currently in the process of seeking to have a registration statement covering such sales declared effective. 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, 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.

## 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 July 2, 2005.

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Beyond</u>	<u>Total</u>	<u>Fair Value</u>
Cash equivalents						
Fixed rate amounts	\$ 4,994	—	—	—	\$ 4,994	\$ 4,992
Weighted-average rate	2.97%					
Variable rate amounts	\$ 10,876	—	—	—	\$ 10,876	\$ 10,876
Weighted-average rate	2.95%					
Short-term investments						
Fixed rate amounts	\$ 15,446	\$ 8,030	—	—	\$ 23,476	\$ 23,332
Weighted-average rate	2.51%	2.13%				
Long-term investments						
Fixed rate amounts	—	—	—	—	—	—
Weighted average rate						
Total investment portfolio	\$ 31,316	\$ 8,030	—	—	\$ 39,346	\$ 39,200

*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 July 2, 2005, we had no foreign currency forward exchange contracts.

### Item 4. Controls and Procedures

*Evaluation of disclosure controls and procedures.* We maintain a set of disclosure controls and procedures that are designed to ensure that information relating to Intevac, Inc. required to be disclosed in periodic filings under Securities Exchange Act of 1934, or Exchange Act, is recorded, processed, summarized and reported in a timely manner under the Exchange Act. In connection with the filing of this Form 10-Q for the quarter ended July 2, 2005, as required under Rule 13a-15(b) of the Exchange Act, an evaluation was carried out under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of July 2, 2005 as a result of the one material weakness not remediated of the three material weaknesses reported in our Form 10-K for the fiscal year ended December 31, 2004, and discussed below.

*Changes in internal controls.* In our Management's Report over Internal Controls, which was contained in our Form 10-K for the fiscal year ending December 31, 2004, we reported three material weaknesses and the steps we proposed taking to remediate such weaknesses. As of December 31, 2004, we concluded that we did not maintain effective controls over (1) aspects of the Imaging Business, (2) approval of inventory cycle count adjustments, and (3) documentation related to our quarterly review and approval of excess and obsolete inventory reserves. In the first quarter of 2005, we began efforts to remediate the material weaknesses. Specifically, our evaluation and remediation efforts were as follows:

*Imaging Business* — We determined during the course of our year-end audit that projected, rather than approved, billing rates were used to calculate revenue for cost-plus-fixed-fee technology development contracts. In addition, journal entries for revenue recognition and the related documentation were not subjected to adequate review and approval.

We also determined during the course of our year-end audit that firm fixed-price technology development contracts were not being accounted for in accordance with U.S. GAAP for firm fixed-price contracts. This would have resulted in an overstatement of revenue and operating profit had it not been discovered prior to the public release of our 2004 earnings.

We also determined during the course of our year-end audit that a receivable greater than one year old had not been reserved as a bad debt. During the fourth quarter of 2004, we implemented a bad debt policy that required receivables aged more than one year to be fully reserved. Our review did not include unbilled receivables and we did not establish the appropriate bad debt reserve. This would have resulted in an understatement of bad debt expense and an overstatement of operating profit had it not been discovered prior to the public release of our 2004 earnings.

To remediate this material weakness, during the first quarter of 2005, we retrained our accounting staff in proper application of revenue recognition policies and implemented policies regarding analyzing contracts for proper revenue recognition accounting. We also changed our process for evaluating accounts receivable to ensure that all balances are reviewed for collectibility on a regular basis. During both the first and second quarters of 2005, we tested the new controls and found them to be working effectively. We believe that this material weakness has been remediated.

## Table of Contents

*Approval of Inventory Cycle Count Adjustments* — We routinely cycle count our stockroom inventories and make corrections to our inventory balances as a result of those cycle counts. We determined late in 2004 that the cycle count adjustments were being made, but without written approval by management as required by our internal control policies. Management authorization of cycle count adjustments is necessary to reduce the potential of an employee using a cycle count adjustment to conceal a theft of inventory.

To remediate this material weakness, the requirement for the appropriate management approval of all cycle count adjustments was re-emphasized in December 2004. During the first quarter of 2005, we tested a significant sample of the cycle count adjustments and found them to be properly approved. We believe that this material weakness has been remediated.

*Documentation of Excess and Obsolete Inventory Reserve Calculation Review and Approval* — We determine, on a quarterly basis, the level of reserves required related to excess and obsolete inventory. Excess and obsolete inventory reserves are an estimate, which requires significant judgment on the part of management. Our Chief Financial Officer reviews and approves these estimates on a quarterly basis. Given the significant nature of the estimate, we determined during the course of our internal controls evaluation that improved documentation of those reviews was needed.

To begin remediation of this material weakness, we have documented the management review of the quarterly excess and obsolete calculations in each of the last two quarters. The calculations surrounding the excess and obsolete requirements are complex, and the reviews and corresponding documentation required, will be modified as additional risk areas are identified. Remediation efforts are underway and we expect to complete remediation in the third quarter of 2005.

We believe each of the changes discussed above is a change in our internal controls over financial reporting which was identified in connection with the evaluation required by Rule 13(a)-15(d) of the Exchange Act that occurred during our second quarter ended July 2, 2005 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 claims and legal proceedings that arise in the ordinary course of business. We expect that the number and significance of these matters will increase as our business expands. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources, or require us to enter into royalty or licensing agreements which, if required, may not be available on terms favorable to us or at all. We are not presently 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.

## Table of Contents

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

Our annual meeting of shareholders was held May 19, 2005. The following actions were taken at this meeting:

	<u>Affirmative Votes</u>	<u>Negative Votes</u>	<u>Votes Withheld</u>	<u>Abstentions and Broker Non-Votes</u>
(a) Election of Directors				
Norman H. Pond	20,017,535	4,664	—	277,306
Kevin Fairbairn	20,009,737	12,462	—	277,306
David S. Dury	20,018,435	3,764	—	277,306
Stanley J. Hill	19,983,772	38,427	—	277,306
David N. Lambeth	19,793,248	228,951	—	277,306
Robert Lemos	19,913,936	108,263	—	277,306
Arthur L. Money	15,064,921	4,957,278	—	277,306
(b) Proposal to approve an amendment to the Company's Bylaws to increase the range of authorized directors to a range of five to nine	20,006,344	15,355	—	277,806
(c) Ratification of Grant Thornton LLP as independent public accountants	20,020,60	4 100	—	278,801

### Item 5. Other Information

None.

### Item 6. Exhibits

The following exhibits are filed herewith:

<u>Number</u>	<u>Exhibit Description</u>
3.2	Bylaws of the Registrant
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: August 11, 2005

By: /s/ KEVIN FAIRBAIRN  
Kevin Fairbairn  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

Date: August 11, 2005

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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**BYLAWS  
OF  
INTEVAC, INC.**

**Revised Effective May 19, 2005**

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## TABLE OF CONTENTS

	<b>Page</b>
<b>ARTICLE I OFFICES</b>	<b>1</b>
Section 1.    PRINCIPAL OFFICES	1
Section 2.    OTHER OFFICES	1
<b>ARTICLE II MEETINGS OF SHAREHOLDERS</b>	<b>1</b>
Section 1.    PLACE OF MEETINGS	1
Section 2.    ANNUAL MEETING	1
Section 3.    SPECIAL MEETING	1
Section 4.    NOTICE OF SHAREHOLDERS' MEETINGS	2
Section 5.    MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE	2
Section 6.    QUORUM	3
Section 7.    ADJOURNED MEETING; NOTICE	3
Section 8.    VOTING	3
Section 9.    WAIVER OF NOTICE OR CONSENT BY ABSENT SHAREHOLDERS	4
Section 10.   SHAREHOLDER ACTION	4
Section 11.   RECORD DATE FOR SHAREHOLDER NOTICE, VOTING, AND GIVING CONSENTS	4
Section 12.   PROXIES	5
Section 13.   INSPECTORS OF ELECTION	5
<b>ARTICLE III DIRECTORS</b>	<b>6</b>
Section 1.    POWERS	6
Section 2.    NUMBER OF DIRECTORS	7
Section 3.    ELECTION AND TERM OF OFFICE OF DIRECTORS	7
Section 4.    VACANCIES	7
Section 5.    PLACE OF MEETINGS AND MEETINGS BY TELEPHONE	7
Section 6.    ANNUAL MEETING	8
Section 7.    OTHER REGULAR MEETINGS	8
Section 8.    SPECIAL MEETINGS	8
Section 9.    QUORUM	8
Section 10.   WAIVER OF NOTICE	8
Section 11.   ADJOURNMENT	9
Section 12.   NOTICE OF ADJOURNMENT	9
Section 13.   ACTION WITHOUT MEETING	9
Section 14.   FEES AND COMPENSATION OF DIRECTORS	9
<b>ARTICLE IV COMMITTEES</b>	<b>9</b>
Section 1.    COMMITTEES OF DIRECTORS	9
Section 2.    MEETINGS AND ACTION OF COMMITTEES	10

**TABLE OF CONTENTS**  
**(continued)**

	<b>Page</b>
<b>ARTICLE V OFFICERS</b>	<b>10</b>
Section 1. OFFICERS	10
Section 2. ELECTION OF OFFICERS	10
Section 3. SUBORDINATE OFFICERS	10
Section 4. REMOVAL AND RESIGNATION OF OFFICERS	10
Section 5. VACANCIES IN OFFICES	11
Section 6. CHAIRMAN OF THE BOARD	11
Section 7. PRESIDENT	11
Section 8. VICE PRESIDENTS	11
Section 9. SECRETARY	11
Section 10. CHIEF FINANCIAL OFFICER	12
Section 11. APPROVAL OF LOANS TO OFFICERS	12
<b>ARTICLE VI INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS</b>	<b>13</b>
Section 1. INDEMNIFICATION OF DIRECTORS AND OFFICERS	13
Section 2. INDEMNIFICATION OF EMPLOYEES AND OTHERS	13
Section 3. PAYMENT OF EXPENSES IN ADVANCE	13
Section 4. INDEMNITY NOT EXCLUSIVE	13
Section 5. INSURANCE INDEMNIFICATION	14
Section 6. CONFLICTS	14
<b>ARTICLE VII GENERAL CORPORATE MATTERS</b>	<b>14</b>
Section 1. RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING	14
Section 2. CHECKS, DRAFTS, EVIDENCES OF INDEBTEDNESS	14
Section 3. CORPORATE CONTRACTS AND INSTRUMENTS; HOW EXECUTED	14
Section 4. CERTIFICATES FOR SHARES	15
Section 5. LOST CERTIFICATES	15
Section 6. REPRESENTATION OF SHARES OF OTHER CORPORATIONS	15
Section 7. CONSTRUCTION AND DEFINITIONS	15
<b>ARTICLE VIII AMENDMENTS</b>	<b>16</b>
Section 1. AMENDMENT BY SHAREHOLDERS	16
Section 2. AMENDMENT BY DIRECTORS	16

**BYLAWS**  
**OF**  
**INTEVAC, INC.**

**ARTICLE I**

**OFFICES**

Section 1. **PRINCIPAL OFFICES**. The Board of Directors shall fix the location of the principal executive office of the corporation at any place within or outside the State of California. If the principal executive office is located outside this state, and the corporation has one or more business offices in this state, the Board of Directors shall fix and designate a principal business office in the State of California.

Section 2. **OTHER OFFICES**. The Board of Directors may at any time establish branch or subordinate offices at any place or places where the corporation is qualified to do business.

**ARTICLE II**

**MEETINGS OF SHAREHOLDERS**

Section 1. **PLACE OF MEETINGS**. Meetings of shareholders shall be held at any place within or outside the State of California designated by the Board of Directors. In the absence of any such designation, shareholders' meetings shall be held at the principal executive office of the corporation.

Section 2. **ANNUAL MEETING**. The annual meeting of shareholders shall be held each year on such date and at a time designated by the Board of Directors. At each annual meeting Directors shall be elected, and any other proper business may be transacted.

Section 3. **SPECIAL MEETING**. A special meeting of the shareholders may be called at any time by the Board of Directors, or by the chairman of the Board, or by the president, or by one or more shareholders holding shares in the aggregate entitled to cast not less than ten percent (10%) of the votes at that meeting.

If a special meeting is called by any person or persons other than the Board of Directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the Board, the president, any vice president, or the secretary of the corporation. The officer receiving the request shall cause notice to be promptly given to the shareholders entitled to vote, in accordance with the provisions of

Sections 4 and 5 of this Article II, that a meeting will be held at the time requested by the person or persons calling the meeting, not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after receipt of the request, the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 3 shall be construed as limiting, fixing or affecting the time when a meeting of shareholders called by action of the Board of Directors may be held.

Section 4. NOTICE OF SHAREHOLDERS' MEETINGS . All notices of meetings of shareholders shall be sent or otherwise given in accordance with Section 5 of this Article II not less than ten (10) (or, if sent by third-class mail, thirty (30) days) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted, or (ii) in the case of the annual meeting, those matters which the Board of Directors, at the time of giving the notice, intends to present for action by the shareholders. The notice of any meeting at which Directors are to be elected shall include the name of any nominee or nominees whom, at the time of notice, management intends to present for election.

If action is proposed to be taken at any meeting for approval of (i) a contract or transaction in which a Director has a direct or indirect financial interest, pursuant to Section 310 of the Corporations Code of California (the "Code"), (ii) an amendment of the Articles of Incorporation, pursuant to Section 902 of that Code, (iii) a reorganization of the corporation, pursuant to Section 1201 of that Code, (iv) a voluntary dissolution of the corporation, pursuant to Section 1900 of that Code, or (v) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares, pursuant to Section 2007 of that Code, the notice shall also state the general nature of that proposal.

Section 5. MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE . Notice of any meeting of shareholders shall be given either personally or by first-class mail (unless the corporation has 500 or more shareholders determined as provided by the California Corporations Code on the record date for the meeting, in which case notice may be sent by third-class mail) or telegraph or other written communication, charges prepaid, addressed to the shareholder at the address of that shareholder appearing on the books of the corporation or given by the shareholder to the corporation for the purpose of notice. If no such address appears on the corporation's books or is given, notice shall be deemed to have been given if sent to that shareholder by first-class mail or telegraphic or other written communication to the corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where that office is located. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication.

If any notice addressed to a shareholder at the address of that shareholder appearing on the books of the corporation is returned to the corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the shareholder at that address, all future notices or reports shall be deemed to have been duly given without further mailing

if these shall be available to the shareholder on written demand of the shareholder at the principal executive office of the corporation for a period of one year from the date of the giving of the notice.

Any affidavit of the mailing or other means of giving any notice of any shareholders' meeting shall be executed by the secretary, assistant secretary, or any transfer agent of the corporation giving the notice, and shall be filed and maintained in the minute book of the corporation.

Section 6. QUORUM . The presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting of shareholders shall constitute a quorum for the transaction of business. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

Section 7. ADJOURNED MEETING; NOTICE . Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares represented at that meeting, either in person or by proxy, but in the absence of a quorum, no other business may be transacted at that meeting, except as provided in Section 6 of this Article II.

When any meeting of shareholders, either annual or special, is adjourned to another time or place; notice need not be given of the adjourned meeting if the time and place are announced at a meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is fixed, or unless the adjournment is for more than forty-five (45) days from the date set for the original meeting, in which case the Board of Directors shall set a new record date. Notice of any such adjourned meeting shall be given to each shareholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 4 and 5 of this Article II. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

Section 8. VOTING . The shareholders entitled to vote at any meeting of shareholders shall be determined in accordance with the provisions of Section 11 of this Article II, subject to the provisions of Sections 702 to 704, inclusive, of the Corporations Code of California (relating to voting shares held by a fiduciary, in the name of a corporation, or in joint ownership).

The voting at all meetings of shareholders need not be by ballot, but any qualified shareholder before the voting begins may demand a stock vote whereupon such stock vote shall be taken by ballot, each of which shall state the name of the shareholder voting and the number of shares voted by such shareholder, and if such ballot be cast by a proxy, it shall also state the name of such proxy.

At any meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote in person, or by proxy appointed in a writing subscribed by such shareholder and bearing a date not more than eleven (11) months prior to said meeting, unless the writing states it is

irrevocable and is held by a person specified in Section 705(e) of the California Corporations Code, in which event it is irrevocable for the period specified in said writing.

Except as otherwise provided in the Articles of Incorporation, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote of shareholders. No shareholder shall be entitled to cumulate such shareholder's votes for any Director. The preceding sentence of this provision shall become effective only when the Corporation becomes a listed corporation within the meaning of Section 301.5 of the California Corporations Code.

Section 9. WAIVER OF NOTICE OR CONSENT BY ABSENT SHAREHOLDERS. The transactions of any meeting of shareholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though a meeting had been duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each person entitled to vote, who was not present in person or by proxy, signs a written waiver of notice or a consent to a holding of the meeting, or an approval of the minutes. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any annual or special meeting of shareholders, except that if action is taken or proposed to be taken for approval of any of those matters specified in the second paragraph of Section 4 of this Article II, the waiver of notice or consent shall state the general nature of the proposal. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance by a person at a meeting shall also constitute a waiver of notice of that meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice of the meeting if that objection is expressly made at the meeting.

Section 10. SHAREHOLDER ACTION. Any action required or permitted to be taken by the holders of the Common Stock or Preferred Stock of the Corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders other than a written consent at such a meeting.

Section 11. RECORD DATE FOR SHAREHOLDER NOTICE, VOTING, AND GIVING CONSENTS. For purposes of determining the shareholders entitled to give consent to corporate action without a meeting, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting, and in this event only shareholders of record on the date so fixed are entitled to notice and to vote or to give consents, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in California General Corporations Law.

If the Board of Directors does not so fix a record date:

(a) The record date for determining shareholders entitled to notice of or to a vote at a meeting of shareholders shall be at the close of business on the business date next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

(b) The record date for determining shareholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto, or the sixtieth (60th) day before the date of such other action, whichever is later.

Section 12. PROXIES. Every person entitled to vote for Directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation. A proxy shall be deemed signed if the shareholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission, or otherwise) by the shareholder or the shareholder's attorney in fact. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, before the vote pursuant to that proxy, by a writing delivered to the corporation stating that the proxy is revoked, or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the person executing the proxy; or (ii) written notice of the death or incapacity of the maker of that proxy is received by the corporation before the vote pursuant to that proxy is counted; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from the date of the proxy, unless otherwise provided in the proxy. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Sections 705(e) and 705(f) of the Corporations Code of California.

Section 13. INSPECTORS OF ELECTION. Before any meeting of shareholders, the Board of Directors may appoint any persons other than nominees for office to act as inspectors of election at the meeting or its adjournment. If no inspectors of election are so appointed, the chairman of the meeting may, and on the request of any shareholder or a shareholder's proxy shall appoint inspectors of election at the meeting. The number of inspectors shall be either one (1) or three (3). If inspectors are appointed at a meeting on the request of one or more shareholders or proxies, the holders of a majority of shares or their proxies present at the meeting shall determine whether one (1) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, the chairman of the meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill that vacancy.

These inspectors shall:

(a) Determine the number of shares outstanding and the voting power of each, the shares' represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies;

(b) Receive votes, ballots, or consents;



- (c) Hear and determine all challenges and questions in any way arising in connection with the right to vote;
- (d) Count and tabulate all votes or consents;
- (e) Determine when the polls shall close;
- (f) Determine the result; and
- (g) Do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

### ARTICLE III

#### DIRECTORS

Section 1. POWERS. Subject to the provisions of the California General Corporation Law and any limitation in the Articles of Incorporation and these Bylaws relating to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Directors.

Without prejudice to these general powers, and subject to the same limitations, the Directors shall have the power to:

- (a) Select and remove all officers, agents, and employees of the corporation; prescribe any powers and duties for them that are consistent with law, with the Articles of Incorporation, and with these Bylaws; fix their compensation; and require from them security for faithful service.
- (b) Change the principal executive office or the principal business office in the State of California from one location to another; cause the corporation to be qualified to do business in any other state, territory, dependency, or country and conduct business within or without the State of California; and designate any place within or without the State of California for the holding of any shareholders' meeting, or meetings, including annual meetings.
- (c) Adopt, make, and use a corporate seal; prescribe the forms of certificates of stock; and alter the form of the seal and certificates.
- (d) Authorize the issuance of shares of stock of the corporation on any lawful terms, in consideration of money paid, labor done, services actually rendered, debts or securities cancelled, or tangible or intangible property actually received.
- (e) Borrow money and incur indebtedness on behalf of the corporation, and cause to be executed and delivered for the corporation's purposes, in the corporate name, promissory notes,

bonds, debentures, deeds of trust, mortgages, pledges, hypothecations, and other evidences of debt and securities.

Section 2. NUMBER OF DIRECTORS. The number of Directors of the corporation shall be no less than five (5) nor more than nine (9), the exact number of Directors to be fixed from time to time within such limit by a duly adopted resolution of the Board of Directors or shareholders. The exact number of Directors presently authorized shall be seven (7) until changed within the limits specified above by a duly adopted resolution of the Board of Directors or shareholders.

Section 3. ELECTION AND TERM OF OFFICE OF DIRECTORS. Directors shall be elected at each annual meeting of the shareholders to hold office until the next annual meeting. Each Director, including a Director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been qualified and elected.

Section 4. VACANCIES. Vacancies in the Board of Directors may be filled by a majority of the remaining Directors, though less than a quorum, or by a sole remaining Director, except that a vacancy created by the removal of a Director by the vote of the shareholders or by court order may be filled only by the vote of a majority of the shares entitled to vote represented at a duly held meeting at which a quorum is present. Each Director so elected shall hold office until the next annual meeting of the shareholders and until a successor has been elected or qualified.

A vacancy or vacancies in the Board of Directors shall be deemed to exist in the event of death or resignation or removal of any Director, or if the Board of Directors by resolution declares vacant the office of a Director who has been declared of unsound mind, by an order of Court or convicted of a felony, or if the authorized number of Directors is increased, or if the shareholders fail, at any meeting of shareholders at which any Director or Directors are elected, to elect the number of Directors to be voted for at that meeting.

Any Director may resign effective on giving written notice to the chairman of the board, the president, the secretary, or the Board of Directors, unless the notice specifies a later time for the resignation to become effective. If the resignation of a Director is effective at a future time, the Board of Directors may elect a successor to take office when the resignation becomes effective.

No reduction of the authorized number of Directors shall have the effect of removing any Director before that Director's term of office expires.

Section 5. PLACE OF MEETINGS AND MEETINGS BY TELEPHONE. Regular meetings of the Board of Directors may be held at any place within or outside the State of California that has been designated from time to time by resolution of the Board. In the absence of such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the Board shall be held at any place within or outside the State of California that has been designated in the notice of the meeting or, if not stated in the notice or there is no notice, at the principal executive office of the corporation. Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all Directors participating in

the meeting can hear one another, and all such Directors shall be deemed to be present in person at the meeting.

Section 6. ANNUAL MEETING. Immediately following each annual meeting of shareholders, the Board of Directors shall hold a regular meeting for the purpose of organization, any desired election of officers, and the transaction of other business. Notice of this meeting shall not be required.

Section 7. OTHER REGULAR MEETINGS. Other regular meetings of the Board of Directors shall be held without call at such time as shall from time to time be fixed by the Board of Directors. Such regular meetings may be held without notice.

Section 8. SPECIAL MEETINGS. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the chairman of the Board or the president or any vice president or the secretary or any two Directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each Director or sent by first class mail or telegram, charges prepaid, addressed to each Director at that Director's address as it is shown on the records of the corporation. In case the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. In case the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. In case the notice is delivered personally, or by telephone or telegram, it shall be delivered personally or by telephone or to the telegraph company at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the Director or to a person at the office of the Director who the person giving the notice has reason to believe will promptly communicate it to the Director. The notice need not specify the purpose of the meeting nor the place if the meeting is to be held at the principal executive office of the corporation.

Section 9. QUORUM. A majority of the authorized number of Directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 11 of this Article III. Every act or decision done or made by a majority of the Directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors, subject to the provisions of Section 310 of the Corporations Code of California (as to approval of contracts or transactions in which a Director has direct or indirect material financial interest), Section 311 of that Code (as to appointment of committee), and Section 317(e) of that Code (as to indemnification of Directors). A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of Directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

Section 10. WAIVER OF NOTICE. The transactions of any meeting of the Board of Directors, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the Directors not present signs a written waiver of notice, a consent to holding the meeting or an approval of the minutes. The waiver of notice or consent need not specify the purpose of the

meeting. All such waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Notice of a meeting shall also be deemed given to any Director who attends the meeting without protesting before or at its commencement, the lack of notice to that Director.

Section 11. ADJOURNMENT. A majority of the Directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

Section 12. NOTICE OF ADJOURNMENT. Notice of the time and place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four hours, in which case notice of the adjourned meeting, in the manner specified in Section 8 of this Article II, to the Directors who were not present at the time of the adjournment.

Section 13. ACTION WITHOUT MEETING. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting, if all members of the board shall individually or collectively consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the Board of Directors. Such written consents shall be filed with the minutes of the proceedings of the Board.

Section 14. FEES AND COMPENSATION OF DIRECTORS. Directors and members of committees may receive such compensation, if any, for their services, and such reimbursement of expenses, as may be fixed or determined by resolution of the Board of Directors. This Section 14 shall not be construed to preclude any Director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation for those services.

## ARTICLE IV

### COMMITTEES

Section 1. COMMITTEES OF DIRECTORS. The Board of Directors may, by resolution adopted by a majority of the authorized number of Directors, designate one or more committees, each consisting of two or more Directors, to serve at the pleasure of the Board. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. Any committee, to the extent provided in the resolution of the Board, shall have all the authority of the Board, except with respect to:

- (a) the approval of any action which, under the General Corporation Law of California, also requires shareholders' approval or approval of the outstanding shares;
- (b) the filling of vacancies on the Board of Directors or in any committee;
- (c) the fixing of compensation of the Directors for serving on the Board or any committee;

(d) the amendment or repeal of Bylaws or the adoption of new Bylaws;

(e) a distribution to the shareholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the Board of Directors; or

(f) the appointment of any other committees of the Board of Directors or the members of these committees.

Section 2. MEETINGS AND ACTION OF COMMITTEES . Meetings and action of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these Bylaws, Sections 5 (place of meetings), 7 (regular meetings), 8 (special meetings and notice), 9 (quorum), 10 (waiver of notice), 11 (adjournment), 12 (notice of adjournment), and 13 (action without meeting), with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the Board of Directors and its members, except that the time of regular meetings of committees may be determined either by resolution of the Board of Directors or by resolution of the committee; special meetings of committees may also be called by resolution of the Board of Directors; and notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board of Directors may adopt rules for the government of any committee not inconsistent with the provisions of these Bylaws.

## ARTICLE V

### OFFICERS

Section 1. OFFICERS . The officers of the corporation shall be a president, a secretary, and a chief financial officer. The corporation may also have, at the discretion of the Board of Directors, a chairman of the Board, one or more vice presidents, one or more assistant secretaries, one or more chief financial officers, and such other officers as may be appointed in accordance with the provisions of Section 3 of this Article V. Any number of offices may be held by the same person.

Section 2. ELECTION OF OFFICERS . The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 3 or Section 5 of this Article V, shall be chosen by the Board of Directors, and each shall serve at the pleasure of the Board, subject to the rights, if any, of an officer under any contract of employment.

Section 3. SUBORDINATE OFFICERS . The Board of Directors may appoint, and may empower the president to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the Bylaws or as the Board of Directors may from time to time determine.

Section 4. REMOVAL AND RESIGNATION OF OFFICERS . Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the Board of Directors, at any regular or special meeting of the Board, or, except

in case of an officer chosen by the Board of Directors, by any officer upon whom such power of removal may be conferred by the Board of Directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

Section 5. VACANCIES IN OFFICES . A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to that office.

Section 6. CHAIRMAN OF THE BOARD . The chairman of the Board, if such an officer is elected, shall, if present, preside at meetings of the Board of Directors and exercise and perform such other powers and duties as may be from time to time assigned to him by the Board of Directors or prescribed by the Bylaws. If there is no president, the chairman of the Board shall in addition be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 7 of this Article V.

Section 7. PRESIDENT . Subject to such supervisory powers, if any, as may be given by the Board of Directors to the chairman of the board, if there be such an officer, the president shall be the chief executive officer of the corporation and shall, subject to the control of the Board of Directors, have general supervision, direction, and control of the business and the officers of the corporation. He shall preside at all meetings of the shareholders and, in the absence of the chairman of the Board, or if there be none, at all meetings of the Board of Directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or the Bylaws.

Section 8. VICE PRESIDENTS . In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the Board of Directors or, if not ranked, a vice president designated by the Board of Directors, shall perform all the duties of the president, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board of Directors or the Bylaws, and the president, or the chairman of the Board.

Section 9. SECRETARY . The secretary shall keep or cause to be kept, at the principal executive office or such other place as the Board of Directors may direct, a book of minutes of all meetings and actions of Directors, committees or Directors, and shareholders, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice given, the names of those present at the Directors' meetings or committee meetings, the number of shares present or represented at shareholders' meetings, and the proceedings.

The secretary shall keep, or cause to be kept, at the principal executive office or at the office of the corporation's transfer agent or registrar, as determined by resolution of the Board of Directors a share register, or a duplicate share register, showing the names of all shareholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the shareholders and of the Board of Directors required by the Bylaws or ByLaw to be given, and he shall keep the seal of the corporation if one be adopted, in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or by the Bylaws.

Section 10. CHIEF FINANCIAL OFFICER. The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any Director.

The chief financial officer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the Board of Directors. He shall disburse the funds of the corporation as may be ordered by the Board of Directors, shall render to the president and Directors, whenever they request it, an account of all of his transactions as chief financial officer and of the financial condition of the corporation, and shall have other power and perform such other duties as may be prescribed by the Board of Directors or the Bylaws.

Section 11. APPROVAL OF LOANS TO OFFICERS. \* The Corporation may, upon the approval of the Board of Directors alone, make loans of money or property to, or guarantee the obligations of, any officer of the Corporation or its parent or subsidiary, whether or not a director, or adopt an employee benefit plan or plans authorizing such loans or guaranties provided that (i) the Board of Directors determines that such a loan or guaranty or plan may reasonably be expected to benefit the Corporation, (ii) the Corporation has outstanding shares held of record by 100 or more persons (determined as provided in Section 605 of the California Corporations Code) on the date of approval by the Board of Directors, and (iii) the approval of the Board of Directors is by a vote sufficient without counting the vote of any interested director or directors.

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\*This section is effective only if it has been approved by the shareholders in accordance with Sections 315(b) and 152 of the California Corporations Code.

## ARTICLE VI

### INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS

Section 1. INDEMNIFICATION OF DIRECTORS AND OFFICERS. The corporation shall, to the maximum extent and in the manner not prohibited by the Code, indemnify each of its directors and officers against expenses (as defined in Section 317(a) of the Code), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding (as defined in Section 317(a) of the Code), arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Article VI, a “director” or “officer” of the corporation includes any person (i) who is or was a director or officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was a director or officer of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

Section 2. INDEMNIFICATION OF EMPLOYEES AND OTHERS. The corporation shall have the power, to the extent and in the manner not prohibited by the Code, to indemnify each of its employees and agents (other than directors and officers) against expenses (as defined in Section 317(a) of the Code), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding (as defined in Section 317(a) of the Code), arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Article VI, an “employee” or “agent” of the corporation (other than a director or officer) includes any person (i) who is or was an employee or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

Section 3. PAYMENT OF EXPENSES IN ADVANCE. Expenses incurred in defending any civil or criminal action or proceeding for which indemnification is required pursuant to Section 6.1 or for which indemnification is permitted pursuant to Section 6.2 following authorization thereof by the Board of Directors shall be paid by the corporation in advance of the final disposition of such action or proceeding upon receipt of an undertaking by or on behalf of the indemnified party to repay such amount if it shall ultimately be determined that the indemnified party is not entitled to be indemnified as authorized in this Article VI.

Section 4. INDEMNITY NOT EXCLUSIVE. The indemnification provided by this Article VI shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office, to the extent that such additional rights to indemnification are authorized in the Articles of Incorporation.



Section 5. INSURANCE INDEMNIFICATION. The corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation against any liability asserted against or incurred by such person in such capacity or arising out of such person's status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this Article VI.

Section 6. CONFLICTS. Unless mandated by the law, or order, judgment or decree of any court of competent jurisdiction, no indemnification or advance shall be made under this Article VI in any circumstance where it appears:

(1) That it would be inconsistent with a provision of the Articles of Incorporation, these bylaws, a resolution of the shareholders or an agreement in effect at the time of the accrual of the alleged cause of the action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or

(2) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

## ARTICLE VII

### GENERAL CORPORATE MATTERS

Section 1. RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING. For purposes of determining the shareholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action (other than action by shareholders by written consent without a meeting), the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) days before any such action, and in that case only shareholders of record on the date so fixed are entitled to receive the dividends, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided in the California General Corporation Law.

If the Board of Directors does not so fix a record date, the record date for determining shareholders for any such purpose shall be at the close of business on the day on which the Board adopts the applicable resolutions or the sixtieth (60th) day before the date of that action, whichever is later.

Section 2. CHECKS, DRAFTS, EVIDENCES OF INDEBTEDNESS. All checks, drafts, or other orders for payment of money, notes, or other evidences of indebtedness, issued in the name of or payable to the corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board of Directors.

Section 3. CORPORATE CONTRACTS AND INSTRUMENTS; HOW EXECUTED. The Board of Directors, except as otherwise provided in the Bylaws, may authorize any officer or

officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation, and this authority may be general or confined to specific instances; and unless so authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to tender it liable for any purpose or for any amount.

Section 4. CERTIFICATES FOR SHARES . A certificate or certificates for shares of the capital stock of the corporation shall be issued to each shareholder when any of these shares are fully paid, and the Board of Directors may authorize the issuance of certificates or shares as partly paid provided that these certificates shall state the amount of the consideration to be paid for them and the amount paid. All certificates shall be signed in the name of the corporation by the chairman of the Board or vice chairman of the Board or the president or vice president and by the chief financial officer or an assistant treasurer or the secretary or any assistant secretary, certifying the number of shares and the class or series of shares owned by the shareholder. Any or all of the signatures on the certificate may be facsimile. In case any officer, transfer agent, or registrar who has signed or show facsimile signature has been placed on a certificate shall have ceased to be that officer, transfer agent, or registrar before that certificate is issued, it may be issued by the corporation with the same effect as if that person were an officer, transfer agent, or registrar at the date of issuance.

Section 5. LOST CERTIFICATES . Except as provided in this Section 5, no new certificates for shares shall be issued to replace an old certificate unless the latter is surrendered to the corporation and cancelled at the same time. The Board of Directors may, in case any share certificate or certificate for any other security is lost, stolen, or destroyed, authorize the issuance of a replacement certificate on such terms and conditions as the Board may require, including provision for indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft, or destruction of the certificate or the issuance of the replacement certificate.

Section 6. REPRESENTATION OF SHARES OF OTHER CORPORATIONS . The chairman of the Board, the president, or any vice president, or any other person authorized by resolution of the Board of Directors or by any of the foregoing designated officers, is authorized to vote on behalf of the corporation any and all shares of any other corporation or corporations, foreign or domestic, standing in the name of the corporation. The authority granted to these officers to vote or represent on behalf of the corporation any and all shares held by the corporation in any other corporation or corporations may be exercised by any of these officers in person or by any person authorized to do so by a proxy duly executed by these officers.

Section 7. CONSTRUCTION AND DEFINITIONS . Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the California General Corporations Law shall govern the construction of these Bylaws. Without limiting the generality this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

## ARTICLE VIII

### AMENDMENTS

Section 1. AMENDMENT BY SHAREHOLDERS. New Bylaws may be adopted or these Bylaws may be amended or repealed by the vote of holders of a majority of the outstanding shares entitled to vote; provided, however, that if the Articles of Incorporation of the corporation set forth the number of authorized Directors of the corporation, the authorized number of Directors may be changed only by an amendment of the Articles of Incorporation.

Section 2. AMENDMENT BY DIRECTORS. Subject to the rights of the shareholders as provided in Section 1 of this Article VIII, Bylaws, other than a Bylaw or an amendment of a Bylaw changing the authorized number of Directors, may be adopted, amended, or repealed by the Board of Directors.

I, Kevin Fairbairn certify that:

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

Date: August 11, 2005

/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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2005

/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 July 2, 2005 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 July 2, 2005 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.

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**End of Filing**

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