UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from __________ to __________

Commission file number 0-26946

INTEVAC, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☐

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

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

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

On November 2, 2023, 26,373,454 shares of the Registrant's Common Stock, $0.001 par value, were outstanding.

INTEVAC, INC.

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Item 1. ***Financial Statements***

INTEVAC, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2023	December 31, 2022
	(Unaudited) (In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 43,822	$ 68,904
Short-term investments	17,805	25,541
Trade and other accounts receivable, net of allowances of $0 at both September 30, 2023 and December 31, 2022	27,980	15,823
Inventories	42,837	30,003
Prepaid expenses and other current assets	1,905	1,898
Total current assets	134,349	142,169
Long-term investments	3,855	17,585
Restricted cash	700	786
Property, plant and equipment, net	7,536	3,658
Operating lease right-of-use-assets	1,772	3,390
Intangible assets, net of amortization of $144 at September 30, 2023 and $42 at December 31, 2022	988	1,090
Deferred income taxes and other long-term assets	3,877	4,381
Total assets	$ 153,077	$ 173,059
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current operating lease liabilities	$ 1,694	$ 3,404
Accounts payable	5,538	11,610
Accrued payroll and related liabilities	3,196	3,087
Other accrued liabilities	2,732	5,430
Customer advances	21,523	2,444
Total current liabilities	34,683	25,975
Noncurrent liabilities:		
Noncurrent operating lease liabilities	646	1,417
Customer advances	1,482	22,215
Other noncurrent liabilities	29	—
Total noncurrent liabilities	2,157	23,632
Stockholders' equity:		
Common stock, $0.001 par value	26	26
Additional paid-in capital	209,396	206,355
Treasury stock, 5,087 shares at both September 30, 2023 and at December 31, 2022	(29,551)	(29,551)
Accumulated other comprehensive loss	(104)	(193)
Accumulated deficit	(63,530)	(53,185)
Total stockholders' equity	116,237	123,452
Total liabilities and stockholders' equity	$ 153,077	$ 173,059

Note: Amounts as of December 31, 2022 are derived from the December 31, 2022 audited consolidated financial statements.

See accompanying notes to the condensed consolidated financial statements.

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
	(Unaudited) (In thousands, except per share amounts)			
Net revenues	$ 17,915	$ 10,750	$ 39,758	$ 24,502
Cost of net revenues	10,916	5,860	25,471	14,402
Gross profit	6,999	4,890	14,287	10,100
Operating expenses:				
Research and development	3,720	3,311	11,340	10,339
Selling, general and administrative	4,707	4,741	14,281	13,007
Total operating expenses	8,427	8,052	25,621	23,346
Loss from operations	(1,428)	(3,162)	(11,334)	(13,246)
Interest income and other income (expense), net	600	413	1,922	723
Loss before provision for income taxes	(828)	(2,749)	(9,412)	(12,523)
Provision for income taxes	796	467	1,298	992
Net loss from continuing operations, net of taxes	(1,624)	(3,216)	(10,710)	(13,515)
Net income (loss) from discontinued operations, net of taxes	48	(20)	365	(394)
Net loss	$ (1,576)	$ (3,236)	$ (10,345)	$(13,909)
Net income (loss) per share:				
Basic and diluted – continuing operations	$ (0.06)	$ (0.13)	$ (0.41)	$ (0.54)
Basic and diluted – discontinued operations	$ 0.00	$ (0.00)	$ 0.01	$ (0.02)
Basic and diluted – net loss	$ (0.06)	$ (0.13)	$ (0.40)	$ (0.55)
Weighted-average common shares outstanding:				
Basic and diluted	26,287	25,370	26,033	25,104

See accompanying notes to the condensed consolidated financial statements.

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
	(Unaudited) (In thousands)			
Net loss	$ (1,576)	$ (3,236)	$ (10,345)	$(13,909)
Other comprehensive income (loss), before tax				
Change in unrealized net gain (loss) on available-for-sale investments	101	(225)	323	(560)
Foreign currency translation losses	(15)	(233)	(234)	(485)
Other comprehensive income (loss), before tax	86	(458)	89	(1,045)
Income tax (expense) benefit related to items in other comprehensive loss	—	—	—	—
Other comprehensive income (loss), net of tax	86	(458)	89	(1,045)
Comprehensive loss	$ (1,490)	$ (3,694)	$ (10,256)	$(14,954)

See accompanying notes to the condensed consolidated financial statements.

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	September 30, 2023	October 1, 2022
	(Unaudited) (In thousands)	
Operating activities		
Net loss	$ (10,345)	$ (13,909)
Adjustments to reconcile net loss to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	1,038	1,097
Net amortization (accretion) of investment premiums and discounts	(145)	(111)
Amortization of intangible assets	102	8
Equity-based compensation	3,393	2,698
Straight-line rent adjustment and amortization of lease incentives	(863)	(686)
Foreign currency loss on liquidation of entity	—	14
(Gain) loss on disposal of fixed assets	(41)	1,453
Deferred income taxes	629	632
Changes in operating assets and liabilities	(34,693)	12,621
Total adjustments	(30,580)	17,726
Net cash and cash equivalents provided by (used in) operating activities	(40,925)	3,817
Investing activities		
Purchases of investments	(10,453)	(48,684)
Proceeds from sales and maturities of investments	31,887	14,062
Proceeds from sales of fixed assets	65	—
Purchase of Hia, Inc.	—	(763)
Purchases of leasehold improvements and equipment	(4,940)	(1,426)
Net cash and cash equivalents provided by (used in) investing activities	16,559	(36,811)
Financing activities		
Net proceeds from issuance of common stock	1,365	2,898
Payment of acquisition-related contingent consideration	(250)	—
Taxes paid related to net share settlement	(1,683)	(358)
Net cash and cash equivalents provided by (used in) financing activities	(568)	2,540
Effect of exchange rate changes on cash	(234)	(498)
Net decrease in cash, cash equivalents and restricted cash	(25,168)	(30,952)
Cash, cash equivalents and restricted cash at beginning of period	69,690	103,514
Cash, cash equivalents and restricted cash at end of period	$ 44,522	$ 72,562
Non-cash investing and financing activity		
Additions to right-of-use-assets obtained from new operating lease liabilities	$ 81	$ 1,122

See accompanying notes to the condensed consolidated financial statements.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Description of Business, Basis of Presentation and Significant Accounting Policy

Description of Business

Intevac, Inc. (together with its subsidiaries, "Intevac", the "Company" or "we") is a leader in the design and development of high-productivity, thin-film processing systems. Intevac's production-proven platforms are designed for high-volume manufacturing of substrates with precise thin-film properties, such as for the hard disk drive ("HDD") and display cover panel ("DCP") markets.

Principles of Consolidation and Basis of Presentation

The condensed consolidated financial statements include the accounts of Intevac, Inc. and its subsidiaries after elimination of inter-company balances and transactions.

In the opinion of management, the unaudited interim condensed consolidated financial statements of Intevac included herein have been prepared on a basis consistent with the December 31, 2022 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Reportable Segment

During fiscal 2021, we sold the business of one of our reporting segments, Photonics. Therefore, we have one reportable segment remaining. See Note 2 for additional disclosure related to discontinued operations.

The remaining segment, Thin Film Equipment ("TFE"), designs, develops and markets vacuum process equipment solutions for high-volume manufacturing of small substrates with precise thin-film properties, such as for the HDD and DCP markets, as well as other adjacent thin-film markets. The TFE segment also previously designed, developed and marketed manufacturing equipment for the photovoltaic ("PV") solar cell and advanced semiconductor packaging ("ASP") industries.

In March 2022, the Company approved and implemented a restructuring program to realign the Company's operational focus, scale the business and improve costs. The restructuring program included (i) reducing the Company's headcount and (ii) eliminating several research and development ("R&D") programs and product offerings. As part of this realignment effort, the Company ceased its efforts to develop and market several of its manufacturing platforms for the DCP, PV and ASP industries and ceased offering certain legacy products in these industries.

Trade Accounts Receivable and Allowance for Credit Losses

The Company's accounts receivable are recorded at invoiced amounts less allowance for any credit losses. In accordance with the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-13 that we adopted on January 1, 2023, the Company recognizes credit losses based on forward-looking current expected credit losses ("CECL"). The Company makes estimates of expected credit losses based upon its assessment of various factors, including the age of accounts receivable balances, credit quality of its customers, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect its ability to collect from customers. The allowance for credit losses is recognized in the condensed consolidated statement of operations. The uncollectible accounts receivable are written off in the period in which a determination is made that all commercially reasonable means of recovering them have been exhausted. The total allowance for credit losses was $0 at both September 30, 2023 and December 31, 2022, and there was no write-off of accounts receivable for the periods presented.

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2. Divestiture and Discontinued Operations

Sale of Photonics

On December 30, 2021, the Company entered into an asset purchase agreement (the "Purchase Agreement") with EOTECH, LLC ("EOTECH") governing the sale of the Company's Photonics business to EOTECH in exchange for (i) $70.0 million in cash consideration, (ii) up to $30.0 million in earnout payments and (iii) the assumption by EOTECH of certain liabilities of the Photonics business as specified in the Purchase Agreement. The transaction closed on December 30, 2021. Under the Purchase Agreement, EOTECH also agreed to pay to the Company, if earned, earnout payments of up to an aggregate of $30.0 million based on achievement of fiscal year 2023, 2024 and 2025 Photonics segment revenue targets for the Integrated Visual Augmentation System ("IVAS") program as specified in the Purchase Agreement. At any time prior to December 31, 2024, EOTECH may elect to pay to the Company $14.0 million, which would terminate EOTECH's obligations with respect to any remaining earnout payments. As of September 30, 2023, there have been no earnout payments under the Purchase Agreement. The cash proceeds do not include any estimated future payments from the revenue earnout as the Company has elected to record the proceeds when the consideration is deemed realizable. The Company believes the disposition of the Photonics business will allow it to benefit from a streamlined business model, simplified operating structure, and enhanced management focus.

In connection with the Photonics sale, the Company and EOTECH also entered into a Transition Service Agreement (the "TSA") and a Lease Assignment Agreement. The TSA, which expired on June 30, 2022, outlined the information technology, people, and facility support the parties provided to each other for a period after the closing of the sale. The Lease Assignment Agreement assigns the lease obligation for two buildings in the Company's California campus to EOTECH. As part of the assignment, the Company has agreed to subsidize a portion of EOTECH's lease payments through the remainder of the lease term which expires in March 2024. In August 2022, Intevac and EOTECH entered into a Shared Services Agreement (the "Shared Services Agreement") to share certain building maintenance costs.

TSA fees earned since the divestiture were $950,000 for the nine months ended October 1, 2022. The agreed-upon charges for such services were generally intended to allow the service provider to recover all costs and expenses of providing such services. The TSA fees were included in selling, general and administrative expenses and cost of net revenues, respectively, in the Company's condensed consolidated statement of operations. In September 2022, Intevac entered into a settlement agreement and agreed to refund to EOTECH $200,000 as well as cancel $46,000 in outstanding invoices related to disputed TSA fees. These fees were reported in selling, general and administrative expenses for the nine months ended October 1, 2022. In August 2022, Intevac and EOTECH entered into a Shared Services Agreement to share certain building maintenance costs. Charges for the three and nine months ended September 30, 2023 associated with the Shared Services Agreement were $39,000 and $104,000, respectively. There were no charges for the three and nine months ended October 1, 2022 associated with the Shared Services Agreement. Additionally, during the nine months ended October 1, 2022, the Company sold inventory in the amount of $148,000 to EOTECH. Accounts receivable from EOTECH of $30,000 at September 30, 2023 and $49,000 at December 31, 2022 were included in trade and other accounts receivable in the Company's condensed consolidated balance sheets.

Based on its magnitude and because the Company exited certain markets, the sale of the Photonics segment represents a significant strategic shift that has a material effect on the Company's operations and financial results, and the Company has separately reported the results of its Photonics segment as discontinued operations in the condensed consolidated statements of operations for the three and nine months ended September 30, 2023 and October 1, 2022.

The operating results of the discontinued operations only reflect revenues and expenses that are directly attributable to the Photonics segment that have been eliminated from continuing operations. Previously reported expenses for the Photonics segment have been recast to exclude certain allocated expenses that are not directly attributable to the Photonics segment. The key components from discontinued operations related to the Photonics segment are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
	(In thousands)			
Selling, general and administrative	$ (48)	$ 20	$ (365)	$ 394
Total operating expenses	(48)	20	(365)	394
Operating income (loss) – discontinued operations	48	(20)	365	(394)
Other income (expense) – discontinued operations	—	—	—	—
Loss from discontinued operations before provision for income taxes	48	(20)	365	(394)
Provision for income taxes	—	—	—	—
Net loss from discontinued operations, net of taxes	$ 48	$ (20)	$ 365	$ (394)

INTEVAC, INC.

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

The cash flows related to discontinued operations have not been segregated and are included in the condensed consolidated statements of cash flows. The following table presents cash flow and non-cash information related to discontinued operations for the three and nine months ended September 30, 2023 and October 1, 2022:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
	(In thousands)			
Equity-based compensation	$ —	$ 31	$ (260)	$ (260)

3. Revenue

The following tables represent a disaggregation of revenue from contracts with customers for the three and nine months ended September 30, 2023 and October 1, 2022.

Major Products and Service Lines

	Three Months Ended September 30, 2023			Three Months Ended October 1, 2022			
	HDD	ASP	Total	HDD	PV	ASP	Total
Systems, upgrades and spare parts	$ 16,477	$ 6	$ 16,483	$ 8,233	$ 77	$100	$ 8,410
Field service	1,335	97	1,432	2,160	180	—	2,340
Total net revenues	$ 17,812	$ 103	$ 17,915	$10,393	$ 257	$100	$10,750

	Nine Months Ended September 30, 2023				Nine Months Ended October 1, 2022				
	HDD	PV	ASP	Total	HDD	DCP	PV	ASP	Total
Systems, upgrades and spare parts	$ 36,345	$ 28	$ 17	$ 36,390	$19,112	$ 1	$ 212	$100	$19,425
Field service	3,271	—	97	3,368	4,844	43	190	—	5,077
Total net revenues	$ 39,616	$ 28	$ 114	$ 39,758	$23,956	$ 44	$ 402	$100	$24,502

Primary Geographical Markets

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
	(In thousands)			
United States	$ 784	$ 1,377	$ 3,060	$ 3,327
Asia	17,034	9,273	36,590	21,075
Europe	97	100	108	100
Total net revenues	$ 17,915	$ 10,750	$ 39,758	$ 24,502

Timing of Revenue Recognition

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
	(In thousands)			
Products transferred at a point in time	$ 17,915	$ 10,750	$ 39,758	$ 24,502
Products and services transferred over time	—	—	—	—
Total net revenues	$ 17,915	$ 10,750	$ 39,758	$ 24,502

The following table reflects the changes in our contract assets, which we classify as accounts receivable, unbilled or retainage, and our contract liabilities, which we classify as deferred revenue and customer advances, for the nine months ended September 30, 2023:

	September 30, 2023	December 31, 2022	Nine Months Change
		(In thousands)	
Contract assets:			
Accounts receivable, unbilled	$ 394	$ 424	$ (30)
Contract liabilities:			
Deferred revenue	$ 409	$ 2,446	$ (2,037)
Customer advances	23,005	24,659	(1,654)
	$ 23,414	$ 27,105	$ (3,691)

Accounts receivable, unbilled represents a contract asset for revenue that has been recognized in advance of billing the customer. For our system and certain upgrade sales, our customers generally pay in three installments, with a portion of the system price billed upon receipt of an order, a portion of the price billed upon shipment, and the balance of the price due upon completion of installation and acceptance of the system at the customer's factory. Accounts receivable, unbilled generally represents the balance of the system price that is due upon completion of installation and acceptance, less the amount that has been deferred as revenue for the performance of the installation tasks. During the nine months ended September 30, 2023, contract assets decreased by $30,000 primarily due to the invoicing of accrued revenue related to certain upgrades and spare parts that were unbilled as of December 31, 2022, offset in part by the accrual of revenue for a system delivered in the quarter ended July 1, 2023 that was pending acceptance as of September 30, 2023 and the accrual of revenue related to the sale of upgrades and billable services during the nine months ended September 30, 2023.

Customer advances generally represent a contract liability for amounts billed to the customer prior to transferring goods. The Company has elected to use the practical expedient to disregard the effect of the time value of money in a significant financing component when its payment terms are less than one year. These customer advances are liquidated when revenue is recognized. Deferred revenue generally represents a contract liability for amounts billed to a customer for completed systems at the customer site that are undergoing installation and acceptance testing where transfer of control has not yet occurred as Intevac does not yet have a demonstrated history of meeting the acceptance criteria upon the customer's receipt of product. During the nine months ended September 30, 2023, we recognized revenue of $3.4 million and $2.2 million that was included in customer advances and deferred revenue, respectively, at the beginning of the period.

In May 2023, the Company received notice of the cancellation of a $54.6 million order for eight 200 Lean HDD systems due to the customer postponing previously planned media capacity additions, and, accordingly, the Company removed the order from backlog. The customer contract associated with the cancelled order requires the customer to pay the Company a prorated price based upon the percentage of work completed on the order. The Company has received customer advances in the amount of $19.1 million associated with the cancelled order, all of which will be utilized to settle this customer obligation. In September 2023, the Company applied $444,000 of billings against these advances in connection with inventory scrapped at the customer's direction.

On September 30, 2023, we had $46.5 million of remaining performance obligations, which we also refer to as total backlog. We expect to recognize approximately 25.3% of our remaining performance obligations as revenue in 2023, 50.2% in 2024 and 24.5% in 2025.

4. Inventories

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

	September 30, 2023	December 31, 2022
	(In thousands)	
Raw materials	$ 33,325	$ 19,116
Work-in-progress	9,512	9,499
Finished goods	—	1,388
	$ 42,837	$ 30,003

Finished goods inventory at December 31, 2022 is comprised of a refurbished system at a customer location where the sales transaction did not meet our revenue recognition criteria. In May 2023, the Company received notice of the cancellation of a $54.6 million order for eight 200 Lean HDD systems. The customer contract associated with the cancelled order requires the customer to pay the Company a prorated price based upon the percentage of work completed on the order. The Company has received customer advances in the amount of $19.1 million associated with the cancelled order, all of which will be utilized to settle this customer obligation. In the fourth quarter of 2023 and into the beginning of 2024, as part of the cancellation of the order for eight 200 Lean HDD systems, the customer is expected to take delivery of $12.7 million of inventory on hand at September 30, 2023 and $6.8 million of inventory on order plus reimburse us for any supplier cancellation charges.

5. Equity-Based Compensation

At September 30, 2023, Intevac had equity-based awards outstanding under the 2020 Equity Incentive Plan, the 2012 Equity Incentive Plan, the 2022 Inducement Equity Incentive Plan (the "Inducement Plan") (together, the "Plans") and the 2003 Employee Stock Purchase Plan (the "ESPP"). Intevac's stockholders approved the 2020 Equity Incentive Plan, the 2012 Equity Incentive Plan and the ESPP. The Plans permit the grant of incentive or non-statutory stock options, performance-based stock options ("PSOs"), restricted stock, stock appreciation rights, restricted stock units ("RSUs"), performance-based restricted stock units ("PRSUs") and performance shares.

On January 19, 2022, Intevac's Board of Directors adopted the Inducement Plan and, subject to the adjustment provisions of the Inducement Plan, reserved 1,200,000 shares of the Company's common stock for issuance pursuant to equity awards granted under the Inducement Plan. The Inducement Plan provides for the grant of equity-based awards, including nonstatutory stock options, restricted stock units, restricted stock, stock appreciation rights, performance shares and performance units, and its terms are substantially similar to the Company's 2020 Equity Incentive Plan. The Inducement Plan was adopted without stockholder approval pursuant to Rule 5635(c)(4) of the Nasdaq Listing Rules. In accordance with that rule, awards under the Inducement Plan may only be made to individuals not previously employees or non-employee directors of the Company (or following such individuals' bona fide period of non-employment with the Company), as an inducement material to the individuals' entry into employment with the Company.

The ESPP provides that eligible employees may purchase Intevac's common stock through payroll deductions at a price equal to 85% of the lower of the fair market value at the entry date of the applicable offering period or at the end of each applicable purchase interval. Offering periods are generally two years in length and consist of a series of six-month purchase intervals. Eligible employees may join the ESPP at the beginning of any six-month purchase interval. Under the terms of the ESPP, employees can choose to have up to 50% of their base earnings withheld to purchase Intevac common stock (not to exceed $25,000 per year).

Compensation Expense

The effect of recording equity-based compensation for the three and nine months ended September 30, 2023 and October 1, 2022 was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
	(In thousands)			
Equity-based compensation by type of award:				
Stock options	$ (3)	$ 5	$ (14)	$ (159)
RSUs	221	896	1,576	1,232
PRSUs	35	1,101	1,367	1,332
ESPP purchase rights	63	207	464	293
Total equity-based compensation	$ 316	$ 2,209	$ 3,393	$ 2,698

Included in the table above are:

(a) A reversal of $462,000 in equity-based compensation expense related to forfeitures of awards due to our 2023 cost reduction plan for the three and nine months ended September 30, 2023. A reversal of $1.3 million in equity-based compensation expense related to forfeitures of awards due to our 2022 cost reduction plan and a $37,000 benefit related to the modification of certain stock-based awards for the nine months ended October 1, 2022. (See Note 13. Restructuring and Other Costs, Net); and

(b) Equity-based compensation reported in discontinued operations of $0 and ($260,000) for the three and nine months ended September 30, 2023, respectively, and $31,000 and ($260,000) for the three and nine months ended October 1, 2022, respectively. Equity-based compensation expense allocated to discontinued operations for the nine months ended October 1, 2022 includes $75,000 related to the modification of certain stock-based awards and is net of a divestiture-related forfeiture benefit of $446,000 that was recognized when employees were conveyed to EOTECH upon closing of the Photonics divestiture. (See Note 2. Divestiture and Discontinued Operations.)

Stock Options and ESPP

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

Option activity as of September 30, 2023 and changes during the nine months ended September 30, 2023 were as follows:

	Shares	Weighted-Average Exercise Price
Options outstanding at December 31, 2022	383,099	$ 7.07
Options cancelled and forfeited	(48,093)	$ 9.97
Options exercised	(52,813)	$ 5.15
Options outstanding at September 30, 2023	282,193	$ 6.93
Options exercisable at September 30, 2023	281,443	$ 6.93

Intevac issued 304,538 shares of common stock under the ESPP during the nine months ended September 30, 2023.

Intevac estimated the weighted-average fair value of ESPP purchase rights using the following weighted-average assumptions:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
ESPP Purchase Rights:				
Weighted-average fair value of grants per share	$ 0.63	$ 0.65	$ 0.91	$ 1.26
Expected volatility	41.61%	44.54%	40.33%	52.57%
Risk-free interest rate	5.29%	2.94%	5.15%	1.94%
Expected term of purchase rights (in years)	1.09	1.24	1.08	1.24
Dividend yield	None	None	None	None

The computation of the expected volatility assumptions used in the Black-Scholes calculations for ESPP purchase rights is based on the historical volatility of Intevac's stock price, measured over a period equal to the expected term of the purchase right. The risk-free interest rate is based on the yield available on U.S. Treasury Strips with an equivalent remaining term. The expected term of purchase rights represents the period of time remaining in the current offering period. The dividend yield assumption is based on Intevac's history of not paying dividends and the assumption of not paying dividends in the future.

RSUs

RSU activity as of September 30, 2023 and changes during the nine months ended September 30, 2023 were as follows:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested RSUs at December 31, 2022	1,309,792	$ 5.14
Granted	433,745	$ 4.70
Vested	(546,633)	$ 5.16
Cancelled and forfeited	(252,678)	$ 5.11
Non-vested RSUs at September 30, 2023	944,226	$ 4.93

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

PRSUs

PRSU activity as of September 30, 2023 and changes during the nine months ended September 30, 2023 were as follows:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested PRSUs at December 31, 2022	1,089,339	$ 3.54
Granted	525,656	$ 4.92
Vested	(190,903)	$ 4.26
Cancelled and forfeited	(263,799)	$ 3.57
Non-vested PRSUs at September 30, 2023	1,160,293	$ 4.04

In May 2023, we granted to members of our senior management awards of performance-based restricted stock units (the “2023 PRSU Awards”) covering an aggregate of 525,656 shares of Intevac common stock (at maximum performance). The 2023 PRSU Awards are eligible to be earned based on achievement of five strategic goals during a three-year performance period commencing on May 18, 2023 and ending on May 31, 2026 (the “2023 Performance Period”). The 2023 PRSU Awards will vest, if at all, in five possible tranches. Each of the five tranches will vest only if the applicable strategic goal is achieved within the 2023 Performance Period, and each tranche may only be achieved once during the 2023 Performance Period. If a strategic goal is not achieved within the 2023 Performance Period, the corresponding PRSUs will not vest, and all unvested PRSUs at the end of the 2023 Performance Period will immediately be forfeited. Stock compensation expense is recorded based on the probability of achievement of the performance conditions specified in the PRSU grant. The Company evaluated the strategic goals in the context of its current long-range financial plan and its product development roadmap and determined the probability of achieving each goal for accounting purposes commencing in the quarter granted. Management expectations related to the achievement of performance goals associated with PRSUs with performance conditions are assessed regularly to determine whether such grants are expected to vest. The fair value of each PRSU is the Company’s stock price on the date of grant. Over the 2023 Performance Period, the number of shares expected to be issued may be adjusted upward or downward based upon the probability of achievement of the performance conditions.

In September 2022 and May 2022, we granted to members of our senior management awards of performance-based restricted stock units (“2022 PRSU Awards”) covering an aggregate of 82,600 and 935,600 shares, respectively, of Intevac common stock (at maximum performance). The 2022 PRSU Awards are eligible to be earned based on achievement of certain stock prices based on the average closing price of the Company’s stock over a 30-day period (the “Company Stock Price Hurdle”) during a performance period commencing on the grant date and ending on May 31, 2025 (or earlier, upon a change in control, as defined in the Company’s 2022 Inducement Equity Incentive Plan or 2020 Equity Incentive Plan, as applicable) (the “2022-2025 Performance Period”). The 2022 PRSU Awards will vest, if at all, in five possible tranches. Each of the five tranches will vest only if the applicable Company Stock Price Hurdle is achieved within the 2022-2025 Performance Period, and each tranche may only be achieved once during the Performance Period. If a Company Stock Price Hurdle is not achieved within the 2022-2025 Performance Period, the corresponding 2022 PRSUs will not vest, and all unvested 2022 PRSUs at the end of the 2022-2025 Performance Period will immediately be forfeited. The fair value of each 2022 PRSU award was estimated on the date of grant using a Monte Carlo simulation.

Intevac estimated the weighted-average fair value of the 2022 PRSU Awards using the following weighted-average assumptions:

	Three Months Ended October 1, 2022	Nine Months Ended October 1, 2022
Weighted-average fair value of grants per share	$ 3.17	$ 3.63
Expected volatility	65.81%	55.34%
Risk-free interest rate	3.82%	2.90%
Dividend yield	None	None

6. Warranty

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

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

The following table displays the activity in the warranty provision account for the three and nine months ended September 30, 2023 and October 1, 2022:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
	(In thousands)			
Opening balance	$ 181	$ 214	$ 163	$ 346
Expenditures incurred under warranties	(36)	(60)	(201)	(286)
Accruals for product warranties issued during the reporting period	67	63	239	135
Adjustments to previously existing warranty accruals	(10)	9	1	31
Closing balance	$ 202	$ 226	$ 202	$ 226

The following table displays the balance sheet classification of the warranty provision account at September 30, 2023 and at December 31, 2022.

	September 30, 2023	December 31, 2022
	(In thousands)	
Other accrued liabilities	$ 173	$ 163
Other noncurrent liabilities	29	—
Total warranty provision	$ 202	$ 163

7. Guarantees

Officer and Director Indemnifications

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

Other Indemnifications

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

Letters of Credit

As of September 30, 2023, we had letters of credit and bank guarantees outstanding totaling $700,000 including the standby letter of credit outstanding under the Santa Clara, California facility lease and various other guarantees with our bank. These letters of credit and bank guarantees are collateralized by $700,000 of restricted cash.

INTEVAC, INC.

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

8. Cash, Cash Equivalents and Investments

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

	September 30, 2023			
	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
	(In thousands)			
Cash and cash equivalents:				
Cash	$ 14,236	$ —	$ —	$ 14,236
Money market funds	15,154	—	—	15,154
Commercial paper	14,436	—	4	14,432
Total cash and cash equivalents	$ 43,826	$ —	$ 4	$ 43,822
Short-term investments:				
Certificates of deposit	$ 1,400	—	$ —	$ 1,400
Commercial paper	1,445	—	1	1,444
Corporate bonds and medium-term notes	5,873	—	78	5,795
Municipal bonds	1,222	—	4	1,218
U.S. treasury securities	7,997	—	49	7,948
Total short-term investments	$ 17,937	$ —	$ 132	$ 17,805
Long-term investments:				
Asset-backed securities	$ 1,650	$ —	$ 13	$ 1,637
Corporate bonds and medium-term notes	2,230	—	12	2,218
Total long-term investments	$ 3,880	$ —	$ 25	$ 3,855
Total cash, cash equivalents, and investments	$ 65,643	$ —	$ 161	$ 65,482

	December 31, 2022			
	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
	(In thousands)			
Cash and cash equivalents:				
Cash	$ 26,465	$ —	$ —	$ 26,465
Money market funds	9,589	—	—	9,589
Commercial paper	32,856	—	6	32,850
Total cash and cash equivalents	$ 68,910	$ —	$ 6	$ 68,904
Short-term investments:				
Asset-backed securities	$ 2,012	$ —	$ 13	$ 1,999
Certificates of deposit	3,850	—	10	3,840
Commercial paper	9,443	—	28	9,415
Corporate bonds and medium-term notes	4,210	—	32	4,178
Municipal bonds	1,486	—	25	1,461
U.S. treasury securities	4,771	—	123	4,648
Total short-term investments	$ 25,772	$ —	$ 231	$ 25,541
Long-term investments:				
Asset-backed securities	$ 6,749	$ —	$ 85	$ 6,664
Corporate bonds and medium-term notes	5,366	—	102	5,264
Municipal bonds	224	—	6	218
U.S. treasury and agency securities	5,493	—	54	5,439
Total long-term investments	$ 17,832	$ —	$ 247	$ 17,585
Total cash, cash equivalents, and investments	$ 112,514	$ —	$ 484	$112,030

INTEVAC, INC.

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

The contractual maturities of investment securities at September 30, 2023 are presented in the following table.

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$ 47,527	$ 47,391
Due after one through five years	3,880	3,855
	$ 51,407	$ 51,246

We reassess our estimated credit losses on investments each reporting period. U.S. government securities and cash equivalents are under a "zero-loss exception" for credit losses, meaning no credit loss risk calculation is necessary on those instruments due to the exceptionally low rate of default, which continues to decrease as the securities approach maturity. We record changes in the allowance for credit losses for available-for-sale debt securities with a corresponding adjustment in credit loss expense on the consolidated statement of operations. No reversal of a previously recorded allowance for credit losses may be made to an amount below zero. The total allowance for credit losses was $0 at both September 30, 2023 and December 31, 2022.

Our investment portfolio includes both corporate and U.S. government securities that have a maximum maturity of three years. The longer the duration of these securities, the more susceptible they are to changes in market interest rates and bond yields. As yields increase, those securities with a lower yield-at-cost show a mark-to-market unrealized loss. Most of our unrealized losses are due to changes in market interest rates and bond yields. We believe that we have the ability to realize the full value of all these investments upon maturity. As of September 30, 2023, we had 71 investments in a gross unrealized loss position. The following table provides the fair market value of Intevac's investments with unrealized losses that are not deemed to be other-than temporarily impaired as of September 30, 2023.

	September 30, 2023			
	In Loss Position for Less than 12 Months		In Loss Position for Greater than 12 Months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)			
Asset-backed securities	$ —	$ —	$ 1,637	$ 13
Commercial paper	15,876	5	—	—
Corporate bonds and medium-term notes	1,989	14	5,309	76
Municipal bonds	—	—	218	4
U.S. treasury securities	3,500	1	4,448	48
	$ 21,365	$ 20	$ 11,612	$ 141

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

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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The following table represents the fair value hierarchy of Intevac's investment securities measured at fair value on a recurring basis as of September 30, 2023.

	Fair Value Measurements at September 30, 2023		
	Total	Level 1	Level 2
	(In thousands)		
Recurring fair value measurements:			
Investment securities			
Money market funds	$15,154	$15,154	$ —
U.S. treasury and agency securities	7,948	4,448	3,500
Asset-backed securities	1,637	—	1,637
Certificates of deposit	1,400	—	1,400
Commercial paper	15,876	—	15,876
Corporate bonds and medium-term notes	8,013	—	8,013
Municipal bonds	1,218	—	1,218
Total recurring fair value measurements	$51,246	$19,602	$31,644

9. Derivative Instruments

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

The following table summarizes the Company's outstanding derivative instruments on a gross basis as recorded in its condensed consolidated balance sheets as of September 30, 2023 and December 31, 2022:

Derivative Instrument	Notional Amounts September 30, 2023	Notional Amounts December 31, 2022	Derivative Assets September 30, 2023 Balance Sheet Line	Derivative Assets September 30, 2023 Fair Value	Derivative Assets December 31, 2022 Balance Sheet Line	Derivative Assets December 31, 2022 Fair Value
	(In thousands)					
Undesignated Hedges:						
Forward Foreign Currency Contracts	$ 1,099	2,240	a	$ 1	a	$ 4
Total Hedges	$ 1,099	2,240		$ 1		$ 4

a Other current assets

INTEVAC, INC.

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

10. Equity

Condensed Consolidated Statement of Changes in Equity

The changes in stockholders' equity by component for the three and nine months ended September 30, 2023 and October 1, 2022, are as follows (in thousands):

	Three Months Ended September 30, 2023				
	Common Stock and Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance at July 1, 2023	$208,698	$(29,551)	$ (190)	$ (61,954)	$ 117,003
Common stock issued under employee plans	527	—	—	—	527
Shares withheld for net share settlement of RSUs	(120)	—	—	—	(120)
Equity-based compensation expense	317	—	—	—	317
Net loss	—	—	—	(1,576)	(1,576)
Other comprehensive income	—	—	86	—	86
Balance at September 30, 2023	$209,422	$(29,551)	$ (104)	$ (63,530)	$ 116,237

	Nine Months Ended September 30, 2023				
	Common Stock and Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2022	$206,381	$(29,551)	$ (193)	$ (53,185)	$ 123,452
Common stock issued under employee plans	1,331	—	—	—	1,331
Shares withheld for net share settlement of RSUs	(1,683)	—	—	—	(1,683)
Equity-based compensation expense	3,393	—	—	—	3,393
Net loss	—	—	—	(10,345)	(10,345)
Other comprehensive income	—	—	89	—	89
Balance at September 30, 2023	$209,422	$(29,551)	$ (104)	$ (63,530)	$ 116,237

	Three Months Ended October 1, 2022				
	Common Stock and Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balance at July 2, 2022	$201,503	$(29,551)	$ (9)	$ (46,783)	$ 125,160
Common stock issued under employee plans	687	—	—	—	687
Shares withheld for net share settlement of RSUs	(63)	—	—	—	(63)
Equity-based compensation expense	2,209	—	—	—	2,209
Net loss	—	—	—	(3,236)	(3,236)
Other comprehensive loss	—	—	(458)	—	(458)
Balance at October 1, 2022	$204,336	$(29,551)	$ (467)	$ (50,019)	$ 124,299

INTEVAC, INC.

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

	Nine Months Ended October 1, 2022				
	Common Stock and Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance at January 1, 2022	$199,098	$(29,551)	$ 578	$ (36,110)	$ 134,015
Common stock issued under employee plans	2,898	—	—	—	2,898
Shares withheld for net share settlement of RSUs	(358)	—	—	—	(358)
Equity-based compensation expense	2,698	—	—	—	2,698
Net loss	—	—	—	(13,909)	(13,909)
Other comprehensive loss	—	—	(1,045)	—	(1,045)
Balance at October 1, 2022	$204,336	$(29,551)	$ (467)	$ (50,019)	$ 124,299

Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2023 and October 1, 2022, are as follows.

	Three Months Ended			Nine Months Ended		
	September 30, 2023					
	Foreign currency	Unrealized holding gains (losses) on available-for-sale investments	Total	Foreign currency	Unrealized holding gains (losses) on available-for-sale investments	Total
	(In thousands)					
Beginning balance	$ 72	$ (262)	$(190)	$ 291	$ (484)	$(193)
Other comprehensive income (loss) before reclassification	(15)	101	86	(234)	323	89
Amounts reclassified from other comprehensive income (loss)	—	—	—	—	—	—
Net current-period other comprehensive income (loss)	(15)	101	86	(234)	323	89
Ending balance	$ 57	$ (161)	$(104)	$ 57	$ (161)	$(104)

	Three Months Ended			Nine Months Ended		
	October 1, 2022					
	Foreign currency	Unrealized holding losses on available-for-sale investments	Total	Foreign currency	Unrealized holding losses on available-for-sale investments	Total
	(In thousands)					
Beginning balance	$ 356	$ (365)	$ (9)	$ 608	$ (30)	$ 578
Other comprehensive loss before reclassification	(247)	(225)	(472)	(499)	(560)	(1,059)
Amounts reclassified from other comprehensive loss	14	—	14	14	—	14
Net current-period other comprehensive loss	(233)	(225)	(458)	(485)	(560)	(1,045)
Ending balance	$ 123	$ (590)	$(467)	$ 123	$ (590)	$ (467)

Stock Repurchase Program

On November 21, 2013, Intevac announced that its Board of Directors approved a stock repurchase program authorizing up to $30.0 million in repurchases. On August 20, 2018, Intevac announced that its Board of Directors approved a $10.0 million increase to the original stock repurchase program for an aggregate authorized amount of up to $40.0 million. At September 30, 2023, $10.4 million remains available for future stock repurchases under the repurchase program. Intevac did not make any common stock repurchases during the three and nine months ended September 30, 2023 and October 1, 2022.

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

11. Net Loss Per Share

The following table sets forth the computation of basic and diluted net loss per share for the three and nine months ended September 30, 2023 and October 1, 2022:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
	(In thousands, except per share amounts)			
Net loss from continuing operations	$ (1,624)	$ (3,216)	$ (10,710)	$(13,515)
Net income (loss) from discontinued operations, net of taxes	48	(20)	365	(394)
Net loss	$ (1,576)	$ (3,236)	$ (10,345)	$(13,909)
Weighted-average shares – basic	26,287	25,370	26,033	25,104
Effect of dilutive potential common shares	—	—	—	—
Weighted-average shares – diluted	26,287	25,370	26,033	25,104
Basic and diluted net income (loss) per share:				
Continuing operations	$ (0.06)	$ (0.13)	$ (0.41)	$ (0.54)
Discontinued operations	$ 0.00	$ (0.00)	$ 0.01	$ (0.02)
Net loss per share	$ (0.06)	$ (0.13)	$ (0.40)	$ (0.55)

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

12. Income Taxes

Intevac recorded income tax provisions of $796,000 and $1.3 million for the three and nine months ended September 30, 2023, respectively, and income tax provisions of $467,000 and $992,000 for the three and nine months ended October 1, 2022, respectively. The income tax provisions (benefits) for the three and nine month periods are based upon estimates of annual income (loss), annual permanent differences and statutory tax rates in the various jurisdictions in which Intevac operates. For the three month period ended September 30, 2023 Intevac recorded a $505,000 income tax provision on income of its international subsidiaries and recorded $288,000 for withholding taxes on royalties paid to the United States from Intevac's Singapore subsidiary as a discrete item. For the nine month period ended September 30, 2023 Intevac recorded a $685,000 income tax provision on income of its international subsidiaries and recorded $608,000 for withholding taxes on royalties paid to the United States from Intevac's Singapore subsidiary as a discrete item. For the three and nine month periods ended October 1, 2022 Intevac recorded income tax provisions on income of its international subsidiaries of $392,000 and $756,000, respectively, and recorded $127,000 and $285,000, respectively, for withholding taxes on royalties paid into the United States from Intevac's Singapore subsidiary as discrete items. The tax provisions for the three and nine months ended October 1, 2022 are net of a tax benefit recorded for the partial release of the U.S. valuation allowance in the amount of $52,000 due to the acquired intangibles of Hia, Inc. ("Hia"). Intevac's tax rate differs from the applicable statutory rates due primarily to establishment of a valuation allowance, the utilization of deferred and current credits and the effect of permanent differences and adjustments of prior permanent differences. Intevac's future effective income tax rate depends on various factors, including the level of Intevac's projected earnings, the geographic composition of worldwide earnings, tax regulations governing each region, net operating loss carry-forwards, availability of tax credits and the effectiveness of Intevac's tax planning strategies. Management carefully monitors these factors and timely adjusts the effective income tax rate.

On August 16, 2022, the Inflation Reduction Act of 2022 ("IRA") was signed into U.S. law. The IRA includes a new Corporate Alternative Minimum Tax ("CAMT") that is effective for tax years beginning after December 31, 2022. The CAMT applies to corporations that report over $1.0 billion in profits to shareholders. The Company does not expect the provisions of the CAMT to have a material impact to the Company's consolidated financial statements.

13. Restructuring Charges

During the third quarter of fiscal 2023, Intevac substantially completed implementation of a cost reduction plan (the "2023 Cost Reduction Plan"), which is intended to reduce expenses by reducing our workforce by 23 percent including employees and contractors. Intevac incurred restructuring costs of $1.9 million in severance, $2,000 in stock-based compensation associated with the modification of certain stock-based awards and other employee-related expenses associated with the 2023 Cost Reduction Plan. Additionally, as part of the 2023 Cost Reduction Plan the Company incurred a benefit of $462,000 related to the stock-based compensation forfeitures related to the employees affected by the reduction in workforce. Substantially all cash outlays in connection with the 2023 Cost Reduction Plan occurred in the third quarter of fiscal 2023. Implementation of the 2023 Cost Reduction Plan is expected to reduce salary, wages and other employee-related expenses and contractor payments by approximately $4.6 million on an annual basis.

The changes in restructuring reserves, which resulted from cash-based severance payments and other employee-related costs, associated with the 2023 Cost Reduction Plan for the three and nine months ended September 30, 2023 were as follows.

	Employee Termination Costs
	(In thousands)
Balance at July 1, 2023	$ —
Provision for restructuring charges under the 2023 Cost Reduction Plan	1,950
Cash payments made	(1,948)
Non-cash utilization (a)	(2)
Balance at September 30, 2023	$ —

(a) Acceleration of equity awards.

During the first quarter of fiscal 2022, Intevac substantially completed implementation of the 2022 cost reduction plan (the "2022 Cost Reduction Plan"), which was intended to reduce our overall cost structure and optimize our operational design, inclusive of the stranded overhead associated with the divestiture of the Photonics business. The restructuring program includes management reorganization and the right sizing of certain technology development, marketing and administrative functions. We incurred restructuring costs of $1.2 million in estimated severance and the related modification of certain stock-based awards. Other costs incurred as part of the 2022 Cost Reduction Plan include: (i) a benefit of $1.3 million related to the stock-based compensation forfeitures related to the employees affected by the reduction in workforce, (ii) $1.5 million for fixed asset disposals and (iii) $755,000 for write-offs of excess inventory. The 2022 Cost Reduction Plan reduced Intevac's workforce by 6 percent. The cost of implementing the 2022 Cost Reduction Plan was reported under cost of net revenues and operating expenses in the condensed consolidated statements of operations. Implementation of the 2022 Cost Reduction Plan is expected to reduce salary, wages and other employee-related expenses by approximately $2.1 million on an annual basis.

The changes in restructuring reserves, which resulted from cash-based severance payments and other employee-related costs, associated with the 2022 Cost Reduction Plan for the three and nine months ended October 1, 2022 were as follows.

	Employee Termination Costs
	(In thousands)
Balance at January 1, 2022	$ —
Provision for restructuring charges under the 2022 Cost Reduction Plan	1,232
Cash payments made	(757)
Non-cash utilization (a)	37
Balance at April 2, 2022	$ 512
Cash payments made	(179)
Balance at July 2, 2022	$ 333
Cash payments made	(154)
Balance at October 1, 2022	$ 179

(a) Acceleration of equity awards.

During the fourth quarter of fiscal 2021, the Company recorded asset impairment and restructuring charges associated with the sale of the Photonics division including (i) $693,000 in severance and other employee-related costs related to the termination of the Photonics general manager, (ii) $1.2 million in asset impairment charges on the Company's ROU asset and (iii) $665,000 in accruals for common area charges associated with an unused space commitment to EOTECH. In consideration of EOTECH's assumption of certain lease obligations related to the Company's Santa Clara, California campus, which assumed lease obligations pertain in part to excess space beyond that required by EOTECH's currently anticipated operation of the Photonics division, the Company agreed to pay EOTECH the amount of $2.1 million, which is payable in (i) one initial installment of $308,000 on January 10, 2022 and (ii) seven equal quarterly installments of $259,000. The Company recorded an asset impairment charge against its ROU asset in the amount of $1.2 million associated with the excess space noted above. The Company recorded a liability to EOTECH in the amount of $665,000, the amount related to common area charges which are not included in the base rental payments or the lease liability on the Company's condensed consolidated balance sheet. During the first quarter of fiscal 2022, the Company recorded restructuring charges associated with the sale of the Photonics division including $37,000 in severance and other employee-related costs related to the termination of four Photonics employees and $75,000 in stock-based compensation associated with the modification of certain stock-based awards for eighty Photonics employees.

The changes in restructuring reserves, which resulted from cash-based severance payments and other employee-related costs and other exit costs associated with the Photonics divestiture for the three and nine months ended September 30, 2023 and October 1, 2022 were as follows.

	Other Exit Costs (In thousands)
Balance at December 31, 2022	$ 318
Provision for restructuring charges associated with Photonics divestiture (a)	3
Cash payments made	(81)
Balance at April 1, 2023	$ 240
Provision for restructuring charges associated with Photonics divestiture (a)	2
Cash payments made	(80)
Balance at July 1, 2023	$ 162
Provision for restructuring charges associated with Photonics divestiture (a)	2
Cash payments made	(80)
Balance at September 30, 2023	$ 84

	Employee Termination Costs	Other Exit Costs	Total
		(In thousands)	
Balance at January 1, 2022	$ 358	$ 665	$1,023
Provision for restructuring charges associated with Photonics divestiture (a)	112	2	114
Cash payments made	(137)	(128)	(265)
Non-cash utilization (b)	(75)	—	(75)
Balance at April 2, 2022	$ 258	$ 539	$ 797
Provision for restructuring charges associated with Photonics divestiture (a)	—	4	4
Cash payments made	(90)	(77)	(167)
Balance at July 2, 2022	$ 168	$ 466	$ 634
Provision for restructuring charges associated with Photonics divestiture (a)	—	5	5
Cash payments made	(77)	(77)	(154)
Balance at October 1, 2022	$ 91	$ 394	$ 485

(a) Included in loss from discontinued operations (See Note 2).
(b) Acceleration of equity awards.

14. Contingencies

From time to time, Intevac may have certain contingent liabilities that arise in the ordinary course of its business activities. Intevac accounts for contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Legal Matters

From time to time, Intevac receives notification from third parties, including customers and suppliers, seeking indemnification, litigation support, payment of money or other actions in connection with claims made against them. In addition, from time to time, Intevac receives notification from third parties claiming that Intevac may be or is infringing their intellectual property or other rights. Intevac also is subject to various other legal proceedings and claims, both asserted and unasserted, that arise in the ordinary course of business. Although the outcome of these claims and proceedings cannot be predicted with certainty, Intevac does not believe that any existing proceedings or claims will have a material adverse effect on its consolidated financial condition or results of operations.

In July 2020, Robin Quiusky, a former contract employee who worked for us via a staffing agency, filed an action against us under the Private Attorneys General Act ("PAGA") in California state court (Quiusky v. Intevac, Inc., et al) alleging that the Company failed to provide rest and meal breaks, pay overtime and reimburse business expenses for non-exempt California employees. The former employee subsequently added class action claims to his original complaint. The parties participated in a confidential mediation on February 1, 2022, and reached a settlement resolving the case. The court approved the settlement in November 2022 and payment on the claims was made on January 20, 2023. The settlement effectively extinguishes the Quiusky v. Intevac, Inc., et al lawsuit. The settlement includes the dismissal of all claims against the Company and related parties in the Quiusky lawsuit and claim under the PAGA, without any admission of liability or wrongdoing attributed to the Company. Because of the uncertainty surrounding this litigation, no litigation reserve had been previously established by the Company resulting in the full $1.0 million settlement expense being recognized in the fourth quarter of fiscal 2021.

15. Acquisition of Hia, Inc.

On August 26, 2022 (the "Closing Date"), the Company completed the acquisition of Hia, Inc., a supplier of magnetic bars, to bring the manufacturing of these magnetic bars in-house and to protect our technology and product quality while continuing to improve our products. Pursuant to the Stock Purchase Agreement, dated August 26, 2022, between the Company, Hia and the other parties thereto, the Company paid an aggregate purchase price of $700,000 to Hia's stockholders on the Closing Date. Further contingent consideration will consist of amounts payable upon achievement of certain development and commercialization milestones, which consideration is estimated to be up to $500,000. The first milestone was achieved and contingent consideration in the amount of $250,000 was paid on January 17, 2023 and was accrued in the fourth quarter of 2022. The Company is also obligated to pay a royalty of $1,500 for each magnetic bar sold through December 31, 2030. If at any time prior to December 31, 2030, the Company effects a change of control or a sale, license, transfer or other disposition to a third party (other than an affiliate of Intevac) of all or substantially all of the assets or rights associated with the magnetic bars, then, upon the closing of such transaction, a payment of $1.7 million (minus any royalty payments previously paid) will immediately become due and payable, which payment shall fulfill the Company's royalty obligations. Transaction costs incurred in connection with the Hia acquisition totaled $63,000, which are included as a component of the purchase price paid in connection with the Hia acquisition.

The Company determined this transaction represented an asset acquisition as substantially all of the value was in the technology intangible assets of Hia. Contingent consideration is not recorded in an asset acquisition until the contingency is resolved (when the contingent consideration is paid or becomes payable) or when probable and reasonably estimable. The first milestone was achieved and contingent consideration in the amount of $250,000 was paid on January 17, 2023. The technology intangible assets are being amortized on a straight-line basis over a period of 8.3 years. Total amortization expense during the three and nine months ended September 30, 2023 was $34,000 and $102,000, respectively. Annual amortization expense related to the acquired technology intangible assets in each of the succeeding years is estimated to be approximately $34,000 for the remainder of fiscal 2023 and approximately $136,000 per year from fiscal 2024 through fiscal 2030.

The following table represents the carrying amount of the Hia technology intangible assets at September 30, 2023 (in thousands):

Gross carrying amount at September 30, 2023	$1,132
Accumulated amortization	(144)
Net carrying amount at September 30, 2023	$ 988

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Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

This Quarterly Report on Form 10-Q contains forward-looking statements, which involve risks and uncertainties. Words such as "believes," "expects," "anticipates" and the like indicate forward-looking statements. These forward-looking statements include comments related to Intevac's shipments, projected revenue recognition, product costs, gross margin, operating expenses, interest income, income taxes, cash balances and financial results in 2023 and beyond; projected customer requirements for Intevac's new and existing products, and when, and if, Intevac's customers will place orders for these products; the timing of delivery and/or acceptance of the systems and products that comprise Intevac's backlog for revenue and the Company's ability to achieve cost savings. Intevac's actual results may differ materially from the results discussed in the forward-looking statements for a variety of reasons, including those set forth under "Risk Factors" and in other documents we file from time to time with the Securities and Exchange Commission, including our Annual Report on Form 10-K filed on February 16, 2023, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K.

Intevac's trademarks include the following: "200 Lean®," and "INTEVAC TRIO™."

Discontinued Operations

On December 30, 2021, the Company completed the sale of its Photonics business to EOTECH, LLC, a Michigan limited liability company ("EOTECH"). As a result of the disposition, the results of operations from the Photonics reporting segment are reported as "Net loss from discontinued operations, net of taxes" in the condensed consolidated financial statements. All discussion herein, unless otherwise noted, refers to Intevac's remaining operating segment after the disposition, the Thin Film Equipment ("TFE") business. See Note 2 "Divestiture and Discontinued Operations" to the condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q.

Overview

Intevac is a provider of vacuum deposition equipment for a wide variety of thin-film applications. The Company leverages its core capabilities in high-volume manufacturing of small substrates to provide process manufacturing equipment solutions to the hard disk drive ("HDD") and display cover panel ("DCP") industries. Intevac's customers include manufacturers of hard disk media and DCPs. Intevac operates in a single segment: TFE. Product development and manufacturing activities occur in North America and Asia. Intevac also has field offices in Asia to support its customers. Intevac's products are highly technical and are sold primarily through Intevac's direct sales force.

Intevac's results of operations are driven by a number of factors including success in its equipment growth initiatives in the DCP market and by worldwide demand for HDDs. Demand for HDDs depends on the growth in digital data creation and storage, the rate of areal density improvements, and the end-user demand for PCs, enterprise data storage, nearline "cloud" applications, video players and video game consoles that include such drives. Intevac continues to execute its strategy of diversification beyond the HDD industry by focusing on the Company's ability to provide proprietary tools to enhance scratch protection and durability for the DCP market and by working to develop the next generation of high volume DCP manufacturing equipment. Intevac believes that its renewed focus on the DCP market will result in incremental equipment revenues for Intevac and decrease Intevac's dependence on the HDD industry. Intevac's equipment business is subject to cyclical industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for HDDs and cell phones as well as other factors such as global economic conditions and technological advances in fabrication processes.

In March 2022, the Company approved and implemented a restructuring program to realign the Company's operational focus, scale the business and improve costs. The restructuring program included (i) reducing the Company's headcount and (ii) eliminating several research and development ("R&D") programs and product offerings. As part of this realignment effort, the Company ceased its efforts to develop and market several of its manufacturing platforms for the DCP, PV and ASP industries and ceased offering certain legacy products within these industries.

The following table presents certain significant measurements for the three and nine months ended September 30, 2023 and October 1, 2022:

	Three months ended			Nine months ended		
	September 30, 2023	October 1, 2022	Change over prior period	September 30, 2023	October 1, 2022	Change over prior period
	(In thousands, except percentages and per share amounts)					
Net revenues	$ 17,915	$ 10,750	$ 7,165	$ 39,758	$ 24,502	$ 15,256
Gross profit	$ 6,999	$ 4,890	$ 2,109	$ 14,287	$ 10,100	$ 4,187
Gross margin percent	39.1%	45.5%	(6.4) points	35.9%	41.2%	(5.3) points
Loss from operations	$ (1,428)	$ (3,162)	$ 1,734	$ (11,334)	$(13,246)	$ 1,912
Loss from continuing operations	$ (1,624)	$ (3,216)	$ 1,592	$ (10,710)	$(13,515)	$ 2,805
Income (loss) from discontinued operations	$ 48	$ (20)	$ 68	$ 365	$ (394)	$ 759
Net loss	$ (1,576)	$ (3,236)	$ 1,660	$ (10,345)	$(13,909)	$ 3,564
Net loss per diluted share	$ (0.06)	$ (0.13)	$ 0.07	$ (0.40)	$ (0.55)	$ 0.15

Net revenues increased during the third quarter of fiscal 2023 compared to the same period in the prior year primarily due to higher equipment sales to HDD manufacturers. We did not recognize revenue on any system sales in both the third quarter of fiscal 2023 and the third quarter of fiscal 2022. Lower gross margin percent in the third quarter of fiscal 2023 reflected higher excess and obsolete inventory charges due to the obsolescence of inventory resulting from engineering change orders to the TRIO bill of material and severance costs associated with our 2023 Cost Reduction Plan, offset in part by the higher-margin contribution from HDD upgrades. The cost of employee severance associated with our 2023 Cost Reduction Plan of $2.0 million was offset in part by $462,000 of stock-based compensation forfeitures related to the employees affected by the reduction in workforce. In September 2022, Intevac entered into a settlement agreement and agreed to refund to EOTECH $200,000 in TSA fees as well as cancel $46,000 in outstanding invoices related to disputed TSA fees. These fees were reported in general and administrative expenses for the three months ended October 1, 2022. The Company reported a smaller net loss for the third quarter of fiscal 2023 compared to the third quarter of fiscal 2022 due to higher revenues and higher gross profit, offset in part by higher operating costs primarily as a result of restructuring charges.

Net revenues increased during the nine months ended September 30, 2023 compared to the same period in the prior year primarily due to higher upgrade and systems sales. We recognized revenue on one 200 Lean HDD system and one refurbished 200 Lean HDD system in the first nine months of 2023. We did not recognize revenue on any system sales in the first nine months of fiscal 2022. Lower gross margin percent in the nine months ended September 30, 2023, versus the same period in the prior year, reflected higher inventory obsolescence charges, severance costs, the lower-margin contributions from the 200 Lean HDD system and the refurbished 200 Lean HDD system and lower factory utilization. Gross margins in the first nine months of fiscal 2022 reflected the impact of $755,000 in charges for excess and obsolete inventory as part of our 2022 Cost Reduction Plan. The cost of employee severance associated with our 2023 Cost Reduction Plan of $2.0 million was offset in part by $462,000 of stock-based compensation forfeitures related to the employees affected by the reduction in workforce. R&D expenses for the first nine months of fiscal 2022 include $1.5 million in expenditures related to the disposal of certain lab equipment as part of our 2022 Cost Reduction Plan. The cost of employee severance associated with our 2022 Cost Reduction Plan of $1.2 million was offset in full by stock-based compensation forfeitures related to the employees affected by the reduction in workforce. Fees earned pursuant to the TSA were $950,000 for the nine months ended October 1, 2022, of which $23,000 was reported as a reduction of cost of net revenues and $927,000 was reported as a reduction of selling, general and administrative expenses. The agreed-upon charges for such services were generally intended to allow the service provider to recover all costs and expenses of providing such services. The TSA concluded in June 2022, and the Company did not receive any TSA fees in the first nine months of fiscal 2023. The Company reported a smaller net loss for the nine months ended September 30, 2023 compared to same period in the prior year due to higher revenues and higher gross profit, offset in part by higher operating costs.

We believe fiscal 2023 will continue to be a challenging year, and Intevac does not expect to be profitable in fiscal 2023. While we expect that HDD equipment sales will be higher in 2023 than 2022 levels, we expect that HDD equipment sales in 2024 will be lower than 2023 levels. We expect to begin recognizing revenue from our TRIO platform in fiscal 2024. In May 2023, a customer cancelled an order for eight 200 Lean HDD systems and we recorded a backlog reduction of $54.6 million. Additionally, in the remainder of 2023 and throughout 2024, we expect to recognize cancellation charges associated with the cancelled order as the associated customer contract requires the customer to pay us a prorated price based upon the percentage of work completed on the order.

Our results of operations and growth prospects could be impacted by macroeconomic conditions such as a global economic slowdown, global economic instability and political conflicts, wars, and public health crises. Rising inflation and interest rates may impact demand for our products and services and our cost to provide products and services. Further, the impacts of inflation and interest rate fluctuations on our business and the broader economy may impact our financial condition and results of operations. Our customers may delay or cancel orders due to reduced demand and supply chain disruptions.

Results of Operations

Net revenues

	Three months ended			Nine months ended		
	September 30, 2023	October 1, 2022	Change over prior period	September 30, 2023	October 1, 2022	Change over prior period
	(In thousands)					
Net revenues	$ 17,915	$ 10,750	$ 7,165	$ 39,758	$ 24,502	$ 15,256

Revenue for the three months ended September 30, 2023 increased compared to the same period in the prior year as a result of higher sales of technology upgrades, offset in part by lower sales of spare parts and field service. Revenue for the nine months ended September 30, 2023 increased compared to the same period in the prior year as a result of higher sales of systems and technology upgrades, offset in part by lower sales of spare parts and field service. Revenue for the three and nine months ended September 30, 2023 includes $444,000 of cancellation fees, when the Company applied $444,000 of billings against customer advances in connection with inventory scrapped at the customer's direction associated with a cancelled order. We recognized revenue on one 200 Lean HDD system and one refurbished 200 Lean HDD system for the nine months ended September 30, 2023. Revenue for the three months ended September 30, 2023 and three and nine months ended October 1, 2022 did not include revenue recognized for any systems.

Backlog

	September 30, 2023	December 31, 2022	October 1, 2022
		(In thousands)	
Backlog	$ 46,497	$ 121,743	$110,397

Backlog at September 30, 2023 included 2 200 Lean HDD systems. Backlog at both December 31, 2022 and October 1, 2022 included eleven 200 Lean HDD systems. In May 2023, a customer cancelled an order for eight 200 Lean HDD systems and we recorded a backlog reduction of $54.6 million. Our HDD revenues through the remainder of 2023 are expected to consist primarily of HDD upgrade sales, spare parts sales and field service sales. On September 30, 2023, we had $46.5 million of backlog and expect to recognize as revenue: 25.3% in 2023, 50.2% in 2024 and 24.5% in 2025. However, our customers may cancel their contracts with us prior to contract completion. In the case of a termination for convenience, we would not receive anticipated future revenues, but would generally be permitted to recover all or a portion of our incurred costs and fees for work performed.

Revenue by geographic region

	Three months ended		Nine months ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
		(In thousands)		
United States	$ 784	$ 1,377	$ 3,060	$ 3,327
Asia	17,034	9,273	36,590	21,075
Europe	97	100	108	100
Total net revenues	$ 17,915	$ 10,750	$ 39,758	$ 24,502

International sales include products shipped to overseas operations of U.S. companies. The decrease in sales to the U.S. region in the three months ended September 30, 2023 versus the three months ended October 1, 2022, reflected lower HDD upgrade sales, lower spare parts and lower field service sales. The decrease in sales to the U.S. region in the nine months ended September 30, 2023 versus the nine months ended October 1, 2022, reflected lower spare parts and lower field service sales, offset in part by higher HDD upgrade sales. The increase in sales to the Asia region in the three months ended September 30, 2023 versus the three months ended October 1, 2022, reflected higher HDD upgrade sales, offset in part by lower spare parts and lower field service sales. The increase in sales to the Asia region in the nine months ended September 30, 2023 versus the nine months ended October 1, 2022, reflected higher HDD system and higher HDD upgrade sales, offset in part by lower spare parts and field service sales. Sales to the Asia region for the nine months ended September 30, 2023 included one 200 Lean HDD system and one refurbished 200 Lean HDD system. Sales to the Asia region for the three months ended September 30, 2023 and three and nine months ended October 1, 2022, did not include any systems.

Gross profit

	Three months ended			Nine months ended		
	September 30, 2023	October 1, 2022	Change over prior period	September 30, 2023	October 1, 2022	Change over prior period
			(In thousands, except percentages)			
Gross profit	$ 6,999	$ 4,890	$ 2,109	$ 14,287	$ 10,100	$ 4,187
% of net revenues	39.1%	45.5%		35.9%	41.2%	

Cost of net revenues consists primarily of purchased materials and also includes fabrication, assembly, test and installation labor and overhead, customer-specific engineering costs, warranty costs, royalties, provisions for inventory reserves and scrap.

Gross margin was 39.1% in the three months ended September 30, 2023 compared to 45.5% in the three months ended October 1, 2022 and was 35.9% in the nine months ended September 30, 2023 compared to 41.2% in the nine months ended October 1, 2022. The decrease in the gross margin percentage for the three months ended September 30, 2023 compared to the same period in the prior year was due primarily to inventory obsolescence charges, severance charges associated with the 2023 Cost Reduction Plan and lower factory utilization. The decrease in the gross margin percentage for the nine months ended September 30, 2023 compared to the same period in the prior year was due primarily to the inventory obsolescence charges, severance charges associated with the 2023 Cost Reduction Plan, lower-margin contributions from the 200 Lean HDD system and the refurbished 200 Lean HDD system, and lower factory utilization. Excess and obsolete inventory charges during the three and nine months ended September 30, 2023 included $1.4 million in expenditures primarily related to certain TRIO inventory that become obsolete resulting from engineering change orders. Gross margins will vary depending on a number of factors, including revenue levels, product mix, product cost, system configuration and pricing, factory utilization, and provisions for excess and obsolete inventory.

Research and development expense

	Three months ended			Nine months ended		
	September 30, 2023	October 1, 2022	Change over prior period	September 30, 2023	October 1, 2022	Change over prior period
	(In thousands)					
Research and development expense	$ 3,720	$ 3,311	$ 409	$ 11,340	$ 10,339	$ 1,001

Research and development spending during the three months ended September 30, 2023 increased compared to the same period in the prior year primarily due to higher spending on TRIO, offset in part by lower spending on HDD R&D programs. R&D spending during the nine months ended September 30, 2023 increased compared to the same period in the prior year primarily due to higher spending on TRIO and HDD R&D programs. R&D spending during the nine months ended October 1, 2022 included $1.5 million in expenditures related to the disposal of certain lab equipment as part of the 2022 Cost Reduction Plan.

Selling, general and administrative expense

	Three months ended			Nine months ended		
	September 30, 2023	October 1, 2022	Change over prior period	September 30, 2023	October 1, 2022	Change over prior period
	(In thousands)					
Selling, general and administrative expense	$ 4,707	$ 4,741	$ (34)	$ 14,281	$ 13,007	$ 1,274

Selling, general and administrative expense consists primarily of selling, marketing, customer support, financial and management costs. Selling, general and administrative expense for the three months ended September 30, 2023 decreased compared to the same period in the prior year as lower stock compensation and lower variable compensation expenses were offset in part by severance charges associated with the 2023 Cost Reduction Plan, higher legal fees, higher consulting fees and higher travel expenses. Selling, general and administrative expense for the three months ended October 1, 2022 included a $200,000 refund to EOTECH in TSA fees as well the cancelation in $46,000 in outstanding invoices related to disputed TSA fees. Selling, general and administrative expense for the nine months ended September, 2023 increased compared to the same period in the prior year as higher severance charges, higher stock compensation expenses, higher variable compensation expenses, higher consulting fees, higher training expenses and higher travel expenses were offset in part by lower legal fees. Selling, general and administrative expense for the nine months ended October 1, 2022 included severance charges associated with the 2022 Cost Reduction Plan. Selling, general and administrative expense for the nine months ended October 1, 2022, is net of $950,000 in TSA fees earned since the Photonics divestiture. The agreed-upon charges for such services were generally intended to allow the service provider to recover all costs and expenses of providing such services.

Cost reduction plans

During the third quarter of fiscal 2023, Intevac substantially completed implementation of the 2023 Cost Reduction Plan, which is intended to reduce expenses by reducing our workforce by 23 percent including employees and contractors. Intevac incurred restructuring costs of $1.9 million in severance, $2,000 in stock-based compensation associated with the modification of certain stock-based awards and other employee-related expenses associated with the 2023 Cost Reduction Plan. Additionally as part of the 2023 Cost Reduction Plan the Company incurred a benefit of $462,000 related to the stock-based compensation forfeitures related to the employees affected by the reduction in workforce. Substantially all cash outlays in connection with the 2023 Cost Reduction Plan occurred in the third quarter of fiscal 2023. The cost of implementing the 2023 Cost Reduction Plan was reported under cost of net revenues ($490,000) and operating expenses ($1.3 million in selling, general and administrative expense and $117,000 in R&D expense) in the condensed consolidated statements of operations. Implementation of the 2023 Cost Reduction Plan is expected to reduce salary, wages and other employee-related expenses and contractor payments by approximately $4.6 million on an annual basis.

In March 2022, the Company's management approved 2022 Cost Reduction Plan, which reduced the Company's headcount and eliminated several R&D programs and product offerings. As part of this re-alignment effort, the Company will no longer be pursuing several DCP projects including the coating of the backside covers of smartphones, solar ion implantation (also known as ENERGi®), and advanced packaging for semiconductor manufacturing. We incurred restructuring costs of $1.2 million for estimated severance and the related modification of certain stock-based awards. Other costs incurred as part of the 2022 Cost Reduction Plan include: (i) a benefit of $1.3 million related to the stock-based compensation forfeitures related to the employees affected by the reduction in workforce, (ii) $1.5 million for fixed asset disposals and (iii) $755,000 for write-offs of excess inventory. The 2022 Cost Reduction Plan reduced the workforce by 6 percent. The cost of implementing the 2022 Cost Reduction Plan was reported under cost of net revenues and operating expenses in the condensed consolidated statements of operations. Implementation of the 2022 Cost Reduction Plan is expected to reduce salary, wages and other employee-related expenses by approximately $2.1 million on an annual basis and reduce depreciation expense by $720,000 on an annual basis.

Interest income and other income (expense), net

	Three months ended			Nine months ended		
	September 30, 2023	October 1, 2022	Change over prior period	September 30, 2023	October 1, 2022	Change over prior period
	(In thousands)					
Interest income and other income (expense), net	$ 600	$ 413	$ 187	$ 1,922	$ 723	$ 1,199

Interest income and other income (expense), net is comprised of interest income, foreign currency gains and losses, and other income and expense.

Interest income and other income (expense), net in the three months ended September 30, 2023 included $600,000 of interest income on investments, various other income of $51,000, offset in part by $51,000 of foreign currency losses. Interest income and other income (expense), net in the nine months ended September 30, 2023 included $1.9 million of interest income on investments, various other income of $115,000 offset in part by $70,000 of foreign currency losses. Interest income and other income (expense), net in the three months ended October 1, 2022 included $398,000 of interest income on investments, various other income of $2,000, and $13,000 of foreign currency gains. Interest income and other income (expense), net in the nine months ended October 1, 2022 included $573,000 of interest income on investments, various other income of $30,000 and $120,000 of foreign currency gains. The increase in interest income in the three and nine months ended September 30, 2023 compared to the same periods in the prior year resulted from higher interest rates, offset in part by lower invested balances.

Provision for income taxes

	Three months ended			Nine months ended		
	September 30, 2023	October 1, 2022	Change over prior period	September 30, 2023	October 1, 2022	Change over prior period
	(In thousands)					
Provision for income taxes	$ 796	$ 467	$ 329	$ 1,298	$ 992	$ 306

Intevac recorded income tax provisions of $796,000 and $1.3 million for the three and nine months ended September 30, 2023, respectively, and income tax provisions of $467,000 and $992,000 for the three and nine months ended October 1, 2022, respectively. The income tax provisions for these three and nine month periods are based upon estimates of annual income (loss), annual permanent differences and statutory tax rates in the various jurisdictions in which Intevac operates. For the three and nine months ended September 30, 2023, Intevac recorded an income tax provision on earnings of $505,000 and $685,000, respectively, of its international subsidiaries. For the three and nine months ended September 30, 2023, Intevac recorded $288,000 and $608,000, respectively, for withholding taxes on royalties paid into the United States from Intevac's Singapore subsidiary as discrete items.

For the three and nine months ended October 1, 2022 Intevac recorded an income tax provision on earnings of $392,000 and $756,000, respectively, of its international subsidiaries. The tax provisions for the three and nine months ended October 1, 2022 are net of a tax benefit recorded for the partial release of the U.S. valuation allowance in the amount of $52,000 due to the acquired intangibles of Hia. The decrease in the valuation allowance, which was recorded as a discrete income tax benefit, was due to such acquired intangible assets having no tax basis. This required the Company to record a deferred tax liability, which served as a source of taxable income to realize the existing deferred tax assets of the Company. For the three and nine months ended October 1, 2022, Intevac recorded $127,000 and $285,000, respectively, for withholding taxes on royalties paid into the United States from Intevac's Singapore subsidiary as discrete items. For all periods presented, Intevac utilized net operating loss carry-forwards to offset the impact of the global intangible low-taxed income. Intevac's tax rate differs from the applicable statutory rates due primarily to establishment of a valuation allowance, utilization of deferred and current credits and the effect of permanent differences and adjustments of prior permanent differences. Intevac's future effective income tax rate depends on various factors, including the level of Intevac's projected earnings, the geographic composition of worldwide earnings, tax regulations governing each region, net operating loss carry-forwards, availability of tax credits and the effectiveness of Intevac's tax planning strategies. Management carefully monitors these factors and timely adjusts the effective income tax rate.

The income tax expense consists primarily of income taxes in foreign jurisdictions in which we conduct business and foreign withholding taxes. We maintain a full valuation allowance for domestic deferred tax assets, including net operating loss carry-forwards and certain domestic tax credits. Intevac's effective tax rate differs from the U.S. statutory rate in both fiscal 2023 and fiscal 2022 primarily due to the Company not recognizing an income tax benefit on the domestic loss.

Income (loss) from discontinued operations, net of taxes

	Three months ended			Nine months ended		
	September 30, 2023	October 1, 2022	Change over prior period	September 30, 2023	October 1, 2022	Change over prior period
	(In thousands)					
Income (loss) from discontinued operations, net of taxes	$ 48	$ (20)	$ 68	$ 365	$ (394)	$ 759

The income (loss) from discontinued operations consists primarily of the results of operations of the Photonics business which was sold to EOTECH on December 30, 2021. Income from discontinued operations for the three months ended September 30, 2023 is comprised primarily of accretion on the lease liability that was assigned to EOTECH. Income from discontinued operations for the nine months ended September 30, 2023 is comprised primarily of a stock based compensation forfeiture benefit recognized upon the termination of certain mutual employees of both the Company and EOTECH that were terminated by the Company upon the completion of the assignment and novation of all government contracts to EOTECH in the first quarter of fiscal 2023. Loss from discontinued operations for the three and nine months ended October 1, 2022 includes salaries and wages and employee benefits up to and including January, 4, 2022, the date when employees were conveyed to EOTECH, severance for several employees that were not hired by EOTECH, stock based compensation expense associated with the acceleration of stock awards and incremental legal expenses associated with the divestiture, offset in part by a stock based compensation divestiture-related forfeiture benefit.

Liquidity and Capital Resources

At September 30, 2023, Intevac had $66.2 million in cash, cash equivalents, restricted cash and investments compared to $112.8 million at December 31, 2022. During the first nine months of fiscal 2023, cash, cash equivalents, restricted cash and investments decreased by $46.6 million due primarily to cash used by operating activities, purchases of leasehold improvements and equipment, payment of contingent consideration and tax payments on net share settlements offset in part by cash received from the sale of Intevac common stock to Intevac's employees through Intevac's employee benefit plans.

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

	September 30, 2023	December 31, 2022
	(In thousands)	
Cash and cash equivalents	$ 43,822	$ 68,904
Restricted cash	700	786
Short-term investments	17,805	25,541
Long-term investments	3,855	17,585
Total cash, cash equivalents, restricted cash and investments	$ 66,182	$ 112,816

Operating activities used cash of $40.9 million during the first nine months of fiscal 2023 and generated cash of $3.8 million during the first nine months of fiscal 2022.

Accounts receivable increased to $28.0 million at September 30, 2023 compared to $15.8 million at December 31, 2022 as a result of sales from the first nine months of 2023 as well as the impact of offering our customers in good standing extended payment terms on a portion of the sales on selected products in the fourth quarter of 2022 and the first nine months of 2023. Net inventories increased to $42.8 million at September 30, 2023 compared to $30.0 million at December 31, 2022 due to purchases of inventory to support our investments in TRIO inventory and the build out of our HDD backlog. In the fourth quarter of 2023 and throughout 2024, as part of the cancellation of an order for eight 200 Lean HDD systems, the customer is expected to take delivery of $12.7 million of inventory on hand at September 30, 2023 and $6.8 million of inventory on order, plus reimburse us for any supplier cancellation charges. Accounts payable decreased to $5.5 million at September 30, 2023 from $11.6 million at December 31, 2022 as a result of decreased inventory purchases, offset in part by changing our standard payment terms from 30 days to 60 days. Accrued payroll and related liabilities increased to $3.2 million at September 30, 2023 compared to $3.1 million at December 31, 2022. Other accrued liabilities decreased to $2.7 million at September 30, 2023 compared to $5.4 million at December 31, 2022 primarily due to the recognition of revenue on a 200 Lean HDD refurbished tool in deferred revenue as well as the settlement of the PAGA lawsuit which was paid on January 20, 2023. Customer advances decreased from $24.7 million at December 31, 2022 to $23.0 million at September 30, 2023 primarily as a result of recognition of revenue, offset in part by the recognition of new orders.

Investing activities generated cash of $16.6 million during the first nine months of fiscal 2023. Proceeds from sales and maturities of investments, net of purchases totaled $21.4 million as the Company liquidated investments from its investment portfolio to fund operating costs and inventory purchases. Capital expenditures for the nine months ended September 30, 2023 were $4.9 million.

Financing activities used cash of $568,000 in the first nine months of fiscal 2023. Cash generated from the sale of Intevac common stock to Intevac's employees through Intevac's employee benefit plans was $1.4 million. Tax payments related to the net share settlement of restricted stock units was $1.7 million.

In connection with the acquisition of Hia Inc., Intevac agreed to make contingent consideration payments to the selling shareholders upon achievement of certain development and commercialization milestones, which consideration is estimated to be up to $500,000. The first milestone was achieved and contingent consideration in the amount of $250,000 was paid on January 17, 2023. The Company is also obligated to pay a royalty of $1,500 for each magnetic bar sold through December 31, 2030. If at any time prior to December 31, 2030, the Company effects a change of control or a sale, license, transfer or other disposition to a third party (other than an affiliate of Intevac) of all or substantially all of the assets or rights associated with the magnetic bars, then, upon the closing of such transaction, a payment of $1.7 million (minus any royalty payments previously paid) will immediately become due and payable, which payment shall fulfill the Company's royalty obligations. As of September 30, 2023, no royalty payments have been earned or paid.

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

As of September 30, 2023, approximately $22.4 million of cash and cash equivalents and $3.0 million of investments were domiciled in foreign tax jurisdictions. Intevac expects a significant portion of these funds to remain offshore in the short term. If the Company chose to repatriate these funds to the United States, it would be required to accrue and pay additional taxes on any portion of the repatriation subject to foreign withholding taxes.

We believe that our existing cash, cash equivalents and investments and cash flows from operating activities will be adequate to meet our liquidity needs for the next twelve months and for the foreseeable future beyond the next twelve months. Our significant funding requirements include procurement of manufacturing inventories, operating expenses, non-cancelable operating lease obligations, capital expenditures, contingent consideration payments, and variable compensation. We have flexibility over some of these uses of cash, including capital expenditures and discretionary operating expenses, to preserve our liquidity position. Capital expenditures for the remainder of fiscal 2023 are projected to be approximately $1.0 million related to network infrastructure and security, furniture and laboratory and test equipment to support our R&D programs.

Off-Balance Sheet Arrangements

Off-balance sheet firm commitments relating to outstanding letters of credit amounted to approximately $700,000 as of September 30, 2023. These letters of credit and bank guarantees are collateralized by $700,000 of restricted cash. We do not maintain any other off-balance sheet arrangements, transactions, obligations, or other relationships that would be expected to have a material current or future effect on the consolidated financial statements.

Climate Change

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

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make judgments, assumptions and estimates that affect the amounts reported. Intevac's significant accounting policies are described in Note 1 to the consolidated financial statements included in Item 8 of Intevac's Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on February 16, 2023. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

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

Estimates and assumptions about future events and their effects cannot be determined with certainty. Intevac bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as Intevac's operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they become known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. Many of these uncertainties are discussed in the section below entitled "Risk Factors." Based on a critical assessment of Intevac's accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that Intevac's consolidated financial statements are fairly stated in accordance with US GAAP, and provide a meaningful presentation of Intevac's financial condition and results of operations.

Beginning January 1, 2023, we implemented ASC 326, Financial Instruments - Credit Losses. For a description of our critical accounting policies and estimates affecting accounting for credit losses, see Note 1. "Description of Business, Basis of Presentation and Significant Accounting Policy" to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. With the exception of the changes to our credit loss recognition policies referenced above, there have been no material changes to our critical accounting policies during the nine months ended September 30, 2023.

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

Not applicable to smaller reporting companies.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Intevac maintains a set of disclosure controls and procedures that are designed to ensure that information relating to Intevac required to be disclosed in periodic filings under the Securities Exchange Act of 1934, or Exchange Act, is recorded, processed, summarized and reported in a timely manner under the Exchange Act. In connection with the filing of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, as required under Rule 13a-15(e) of the Exchange Act, an evaluation was carried out under the supervision and with the participation of management, including the Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), of the effectiveness of Intevac's disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation, Intevac's CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2023.

Attached as exhibits to this Quarterly Report on Form 10-Q are certifications of the CEO and the CFO, which are required in accordance with Rule 13a-14 of the Exchange Act. This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Definition of Disclosure Controls

Disclosure controls are controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls are also designed to ensure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls include components of our internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the U.S. To the extent that components of our internal control over financial reporting are included within our disclosure controls, they are included in the scope of our quarterly controls evaluation.

Limitations on the Effectiveness of Controls

Intevac's management, including the CEO and CFO, does not expect that Intevac's disclosure controls or Intevac's internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Intevac have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting

Beginning January 1, 2023, we implemented ASC 326, Financial Instruments - Credit Losses. Although the new standard is expected to have an immaterial impact on our ongoing net income, we did implement changes to our processes related to the assessment of credit losses, including the utilization of an expected credit loss model, which requires consideration of a broader range of information to estimate expected credit losses over the entire lifetime of the asset, including losses where probability is considered remote, reporting of credit losses and the control activities within them. There were no other changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, Intevac's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

From time to time, Intevac is involved in claims and legal proceedings that arise in the ordinary course of business. Intevac expects that the number and significance of these matters will increase as Intevac's business expands. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources, or require us to enter into royalty or licensing agreements which, if required, may not be available on terms favorable to us or at all. Intevac is not presently a party to any lawsuit or proceeding that, in Intevac's opinion, is likely to seriously harm Intevac's business. See "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Item 1A. *Risk Factors*

The following factors could materially affect Intevac's business, financial condition or results of operations and should be carefully considered in evaluating the Company and its business, in addition to other information presented elsewhere in this report.

Risks Related to Our Business

The industries we serve are cyclical, volatile and unpredictable.

A significant portion of our revenue is derived from the sale of equipment used to manufacture commodity technology products such as disk drives and cell phones. This subjects us to business cycles, the timing, length and volatility of which can be difficult to predict. When demand for commodity technology products exceeds production capacity, then demand for new capital equipment such as ours tends to be amplified. Conversely, when supply of commodity technology products exceeds demand, then demand for new capital equipment such as ours tends to be depressed. We cannot predict with any certainty when these cycles will begin or end. For example, our sales of systems for magnetic disk production increased in 2016 as a customer began upgrading the technology level of its manufacturing capacity. Sales of systems and upgrades for magnetic disk production in 2017 and 2018 were higher than in 2016 as this customer's technology upgrade continued. However, sales of systems and upgrades for magnetic disk production in 2019, 2020 and 2021 and 2022 were down from the levels in 2018 as this customer took delivery of fewer or no (in the case of 2021 and 2022) systems. In May 2023, this customer cancelled an order for eight 200 Lean HDD systems due to the customer postponing previously planned media capacity additions, and we recorded a backlog reduction of $54.6 million. Intevac expects sales of systems and upgrades for magnetic disk production in 2023 will be at levels higher than the levels in 2022.

Our equipment represents only a portion of the capital expenditure that our customers incur when they upgrade or add production capacity. Accordingly, our customers generally commit to making large capital expenditures far in excess of the cost of our systems alone when they decide to purchase our systems. The magnitude of these capital expenditures requires our customers to have access to large amounts of capital. Our customers generally reduce their level of capital investment during downturns in the overall economy or during a downturn in their industries. Reductions in capital investment could be particularly pronounced as the cost of obtaining capital increases during periods of rapidly rising interest rates.

We must effectively manage our resources and production capacity to meet rapidly changing demand. Our business experiences rapid growth and contraction, which stresses our infrastructure, internal systems and managerial resources. During periods of increasing demand for our products, we must have sufficient manufacturing capacity and inventory to meet customer demand; attract, retain and motivate a sufficient number of qualified individuals; and effectively manage our supply chain. During periods of decreasing demand for our products, we must be able to align our cost structure with prevailing market conditions; motivate and retain key employees and effectively manage our supply chain.

Supply chain and shipping disruptions could result in shipping delays, and increased product costs which may have a material adverse effect on our business, financial condition and results of operations.

Supply chain disruptions have impacted, and may continue to impact, us and our suppliers. These disruptions have resulted in longer lead times and increased product costs and shipping expenses. While we have taken steps to minimize the impact of these increased costs by working closely with our suppliers and customers, there can be no assurances that unforeseen events impacting the supply chain will not have a material adverse effect on our business, financial condition and results of operations in the future. Additionally, the impacts supply chain disruptions have on our suppliers are not within our control. It is not currently possible to predict how long it will take for these supply chain disruptions to cease. Prolonged supply chain disruptions impacting us and our suppliers could interrupt product manufacturing, increase lead times, increase product costs and continue to increase shipping costs, all of which may have a material adverse effect on our business, financial condition and results of operations.

We are dependent on certain suppliers for parts used in our products.

We are a manufacturing business. Purchased parts constitute the largest component of our product cost. Our ability to manufacture depends on the timely delivery of parts, components and subassemblies from suppliers. We obtain some of the key components and subassemblies used in our products from a single supplier or a limited group of suppliers. If any of our suppliers fail to deliver quality parts on a timely basis, we may experience delays in manufacturing, which could result in delayed product deliveries, increased costs to expedite deliveries or develop alternative suppliers, or require redesign of our products to accommodate alternative suppliers. Some of our suppliers are thinly capitalized and may be vulnerable to failure, particularly during economic downturns and periods of rapidly rising interest rates and inflation.

Global economic conditions may harm our industry, business and results of operations.

We operate globally and as a result our business, revenues and profitability are impacted by global macroeconomic conditions. The success of our activities is affected by general economic and market conditions, including, among others, inflation rate fluctuations, interest rates, tax rates, economic uncertainty, political instability, changes in laws, and trade barriers and sanctions. Recently, inflation rates in the U.S. have increased to levels not seen in several years. Such economic volatility could adversely affect our business, financial condition, results of operations and cash flows, and future market disruptions could negatively impact us. Geopolitical destabilization could continue to impact global currency exchange rates, commodity prices, trade and movement of resources, which may adversely affect the ability of our customers and potential customers to incur the capital expenditures necessary to purchase our products and services.

Sales of our equipment are primarily dependent on our customers’ upgrade and capacity expansion plans and whether our customers select our equipment.

We have no control over our customers’ upgrade and capacity expansion plans, and we cannot be sure they will select, or continue to select, our equipment when they upgrade or expand their capacity. The sales cycle for our equipment systems can be a year or longer, involving individuals from many different areas of Intevac and numerous product presentations and demonstrations for our prospective customers. Our sales process also commonly includes production of samples and customization of our products. We do not typically enter into long-term contracts with our customers, and until an order is actually submitted by a customer there is no binding commitment to purchase our systems. In some cases, orders are also subject to customer acceptance or other criteria even in the case of a binding agreement.

As of September 30, 2023, our total backlog was $46.5 million, which was primarily attributable to two customers. Our backlog includes orders under contracts that can extend for several years. Our backlog can be significantly affected by the timing of large orders. We may not realize all of the revenue included in our total backlog in the future. For example, in May 2023, we removed $54.6 million from backlog upon receiving notice from a customer of the cancellation of an order for eight 200 Lean HDD systems due to the customer postponing previously planned media capacity additions. There can also be no assurance that our backlog will result in revenue in any particular period because the actual receipt, timing and amount of revenue under contracts included in backlog are subject to various contingencies, many of which are beyond our control. If our customers terminate, reduce or defer orders, we may be protected from certain costs and losses, but our sales will nevertheless be adversely affected, and we may not generate the revenue we expect.

Sales of new manufacturing systems are also dependent on obsolescence and replacement of the installed base of our customers’ existing equipment with newer, more capable equipment. If upgrades are developed that extend the useful life of the installed base of systems, then we tend to sell more upgrade products and fewer new systems, which can significantly reduce total revenue.

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

Our results of operations could be materially harmed if we are unable to accurately forecast demand for our products and manage product inventory in an effective and efficient manner.

To ensure adequate inventory supply, we must forecast inventory needs and place orders with our suppliers before orders are placed by our customers. If we fail to accurately forecast customer demand, we may experience excess inventory levels or a shortage of product to deliver to our customers. Factors that could affect our ability to accurately forecast demand for our products include: (1) an increase or decrease in customer demand for our products; (2) a failure to accurately forecast consumer acceptance for our new products such as the TRIO platform; (3) product introductions by competitors; (4) unanticipated changes in general market conditions or other factors (for example, because of effects on inventory supply and consumer demand caused by high inflation rates or other adverse macroeconomic conditions); (5) the uncertainties and logistical challenges that accompany operations on a global scale; and (6) terrorism or acts of war, or the threat thereof, or political or labor instability or unrest, civil unrest, riots or insurrections, public health crises such as the COVID-19 pandemic (or other future pandemics or epidemics), including the severity and transmission rates of new variants, which could adversely affect customer confidence and spending or interrupt production and distribution of product and raw materials.

Inventory levels in excess of customer demand may result in inventory write-downs or write-offs, and the sale of excess inventory at discounted prices, which could harm our gross margin. In addition, if we underestimate the demand for our products, we may not be able to produce products to meet our customer requirements, and this could result in delays in the shipment of our products, therefore impacting our ability to recognize revenue, generate lost sales, and cause damage to our reputation and relationships with our customers. Inaccurate forecasts may also adversely impact our ability to prepare forward-looking statements and meet investor expectations.

Challenges in forecasting demand can also make it difficult to estimate future results of operations and financial condition from period to period. A failure to accurately predict the level of demand for our products or manage product inventory in an effective and efficient manner could adversely impact our results of operations and cause us not to achieve our expected financial results.

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

In the market for our disk sputtering systems, we experience competition primarily from Canon Anelva, which has sold a substantial number of systems worldwide. Some of our competitors have substantially greater financial, technical, marketing, manufacturing and other resources than we do, especially in the DCP equipment market. Our competitors may develop enhancements to, or future generations of, competitive products that offer superior price or performance features, and new competitors may enter our markets and develop such enhanced products. Moreover, competition for our customers is intense, and our competitors have historically offered substantial pricing concessions and incentives to attract our customers or retain their existing customers.

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

Historically, a significant portion of our revenue in any particular period has been attributable to sales of our disk sputtering systems to a limited number of customers. Our reliance on sales to relatively few customers has increased with the disposition of our Photonics business, and we expect that sales of our products to relatively few customers will continue to account for a high percentage of our revenues in the foreseeable future, particularly as we realign our operations to focus on the HDD and DCP markets. This concentration of customers, when combined with changes in the customers' specific capacity plans and market share shifts can lead to extreme variability in our revenue and financial results from period to period.

The concentration of our customer base may enable our customers to demand pricing and other terms unfavorable to Intevac and makes us more vulnerable to changes in demand by or issues with a given customer. Orders from a relatively limited number of manufacturers have accounted for, and will likely continue to account for, a substantial portion of our revenues. The loss of one of these large customers, or delays in purchasing by them, would have a material and adverse effect on our revenues.

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

Our quarterly revenues and common stock price have fluctuated significantly. We anticipate that our revenues, operating margins and common stock price will continue to fluctuate for a variety of reasons, including: (1) changes in the demand, due to seasonality, cyclicality and other factors in the markets for computer systems, storage subsystems and consumer electronics containing disks as well as cell phones our customers produce with our systems; (2) delays or problems in the introduction and acceptance of our new products, or delivery of existing products; (3) timing of orders, acceptance of new systems by our customers or cancellation or delay of those orders; (4) new products, services or technological innovations by our competitors or us; (5) changes in our manufacturing costs and operating expense; (6) changes in general economic, political, stock market and industry conditions; and (7) any failure of our operating results to meet the expectations of investment research analysts or investors.

Any of these, or other factors, could lead to volatility and/or a rapid change in the trading price of our common shares. In the past, securities class action litigation has been instituted against companies following periods of volatility in the market price of their securities. Any such litigation, if instituted against Intevac, could result in substantial costs and diversion of management time and attention.

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

In previous years, the majority of our revenues have come from regions outside the United States. Most of our international sales are to customers in Asia, which includes products shipped to overseas operations of U.S. companies. We currently have manufacturing facilities in California and Singapore and international customer support offices in Singapore, China, and Malaysia. We expect that international sales will continue to account for a significant portion of our total revenue in future years. Certain of our suppliers are also located outside the United States.

Managing our global operations presents challenges including, but not limited to, those arising from: (1) global trade issues; (2) variations in protection of intellectual property and other legal rights in different countries; (3) concerns of U.S. governmental agencies regarding possible national commercial and/or security issues posed by growing manufacturing business in Asia; (4) fluctuation of interest rates, raw material costs, labor and operating costs, and exchange rates; (5) variations in the ability to develop relationships with suppliers and other local businesses; (6) changes in the laws and regulations of the United States, including export restrictions, and other countries, as well as their interpretation and application; (7) the need to provide technical and spare parts support in different locations; (8) political and economic instability; (9) cultural differences; (10) varying government incentives to promote development; (11) shipping costs and delays; (12) adverse conditions in credit markets; (13) variations in tariffs, quotas, tax codes and other market barriers; and (14) barriers to movement of cash.

We must regularly assess the size, capability and location of our global infrastructure and make appropriate changes to address these issues.

Our success is dependent on recruiting and retaining a highly talented work force.

Our employees are vital to our success, and our key management, engineering and other employees are difficult to replace. We do not maintain key person life insurance on any of our employees. The expansion of high technology companies worldwide has increased demand and competition for qualified personnel and has made companies increasingly protective of prior employees. It may be difficult for us to locate employees who are not subject to non-competition agreements and other restrictions.

The majority of our U.S. operations are located in California where the cost of living and of recruiting employees is high. Our operating results depend, in large part, upon our ability to retain and attract qualified management, engineering, marketing, manufacturing, customer support, sales and administrative personnel. Furthermore, we compete with industries such as the hard disk drive, semiconductor, and solar industries for skilled employees. Failure to retain existing key personnel, or to attract, assimilate or retain additional highly qualified employees to meet our needs in the future, could have a material and adverse effect on our business, financial condition and results of operations.

Risks Related to Our Intellectual Property

Our growth depends on development of technically advanced new products and processes.

We have invested heavily, and continue to invest, in the development of new products, such as our 200 Lean HDD and our TRIO coating platform for DCP. Our success in developing and selling new products depends upon a variety of factors, including our ability to: predict future customer requirements; make technological advances; achieve a low total cost of ownership for our products; introduce new products on schedule; manufacture products cost-effectively including transitioning production to volume manufacturing; commercialize and attain customer acceptance of our products; and achieve acceptable and reliable performance of our new products in the field. Our new product decisions and development commitments must anticipate continuously evolving industry requirements significantly in advance of sales. In addition, we are attempting to expand into new or related markets, including the display cover glass market. Our expansion into the cover glass market is dependent upon the success of our customers' development plans. To date we have not recognized material revenue from such products. Failure to correctly assess the size of the market, to successfully develop products on a timely basis, to successfully develop cost effective products to address the market or to establish effective sales and support of the new products would have a material adverse effect on future revenues and profits. In addition, if we invest in products for which the market does not develop as anticipated, we may incur significant charges related to such investments.

Rapid technological change in our served markets requires us to rapidly develop new technically advanced products. Our future success depends in part on our ability to develop and offer new products with improved capabilities and to continue to enhance our existing products. If new products have reliability or quality problems, our performance may be impacted by reduced orders, higher manufacturing costs, delays in acceptance and payment for new products and additional service and warranty expenses.

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

The success of our business depends upon the integrity of our intellectual property rights, and we cannot ensure that: (1) any of our pending or future patent applications will be allowed or that any of the allowed applications will be issued as patents or will issue with claims of the scope we sought; (2) any of our patents will not be invalidated, deemed unenforceable, circumvented or challenged; (3) the rights granted under our patents will provide competitive advantages to us; (4) other parties will not develop similar products, duplicate our products or design around our patents; or (5) our patent rights, intellectual property laws or our agreements will adequately protect our intellectual property or competitive position.

From time to time, we have received claims that we are infringing third parties' intellectual property rights or seeking to invalidate our rights. We cannot ensure that third parties will not in the future claim that we have infringed current or future patents, trademarks or other proprietary rights relating to our products. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us.

Risks Related to Government Regulation

We may not be able to obtain export licenses from the U.S. government permitting delivery of our products to international customers.

Many of our products, require export licenses from U.S. government agencies under the Export Administration Act. These regulations limit the potential market for some of our products. We can give no assurance that we will be successful in obtaining all the licenses necessary to export our products. Heightened government scrutiny of export licenses for defense related products has resulted in lengthened review periods for our license applications. Failure to comply with export control laws, including identification and reporting of all exports and re-exports of controlled technology or exports made without correct license approval or improper license use could result in severe penalties and revocation of licenses. Failure to obtain export licenses, delays in obtaining licenses, or revocation of previously issued licenses would prevent us from selling the affected products outside the United States and could negatively impact our results of operations.

We are subject to risks of non-compliance with environmental and other governmental regulations.

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

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

General Risk Factors

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

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

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

As a global company, we are subject to taxation in the United States, Singapore and various other countries. Significant judgment is required to determine and estimate worldwide tax liabilities. Our future effective tax rate could be affected by: (1) changes in tax laws; (2) the allocation of earnings to countries with differing tax rates; (3) changes in worldwide projected annual earnings in current and future years: (4) accounting pronouncements; or (5) changes in the valuation of our deferred tax assets and liabilities. Although we believe our tax estimates are reasonable, there can be no assurance that any final determination will not be different from the treatment reflected in our historical income tax provisions and accruals, which could result in additional payments by Intevac.

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

We have completed a number of acquisitions and dispositions during our operating history. We have spent and may continue to spend significant resources identifying and pursuing future acquisition opportunities. Acquisitions involve numerous risks including: (1) difficulties in integrating the operations, technologies and products of the acquired companies; (2) the diversion of our management's attention from other business concerns; and (3) the potential loss of key employees of the acquired companies. Failure to achieve the anticipated benefits of the prior and any future acquisitions or to successfully integrate the operations of the companies we acquire could have a material and adverse effect on our business, financial condition and results of operations. Any future acquisitions could also result in potentially dilutive issuance of equity securities, acquisition or divestiture-related write-offs or the assumption of debt and contingent liabilities. In addition, we have made and will continue to consider making strategic divestitures, such as the disposition of our Photonics business. With any divestiture, there are risks that future operating results could be unfavorably impacted if targeted objectives, such as cost savings or earnout payments associated with the financial performance of the divested business, are not achieved or if other business disruptions occur as a result of the divestiture or activities related to the divestiture.

We could be involved in litigation.

From time to time, we may be involved in litigation of various types, including litigation alleging infringement of intellectual property rights and other claims and customer disputes. For example, we recently settled an action against us under the Private Attorneys General Act ("PAGA") for $1.0 million. Litigation is expensive, subjects us to the risk of significant damages and requires significant management time and attention and could have a material and adverse effect on our business, financial condition and results of operations.

Business interruptions could adversely affect our operations.

Our operations are vulnerable to interruption by fire, earthquake, floods or other natural disaster, quarantines or other disruptions associated with infectious diseases, national catastrophe, terrorist activities, war, disruptions in our computing and communications infrastructure due to power loss, telecommunications failure, human error, physical or electronic security breaches and computer viruses, and other events beyond our control. We do not have a detailed disaster recovery plan. Despite our implementation of network security measures, our tools and servers may be vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems and tools located at customer sites. Political instability could cause us to incur increased costs in transportation, make such transportation unreliable, increase our insurance costs or cause international currency markets to fluctuate. All these unforeseen disruptions and instabilities could have the same effects on our suppliers and their ability to timely deliver their products. In addition, we do not carry sufficient business interruption insurance to compensate us for all losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business and results of operations. For example, we self-insure earthquake risks because we believe this is the prudent financial decision based on the high cost of the limited coverage available in the earthquake insurance market. An earthquake could significantly disrupt our operations, most of which are conducted in California. It could also significantly delay our research and engineering effort on new products, most of which is also conducted in California. We take steps to minimize the damage that would be caused by business interruptions, but there is no certainty that our efforts will prove successful.

We could be negatively affected as a result of a proxy contest and the actions of activist stockholders.

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

We are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, our management must perform evaluations of our internal control over financial reporting. Although our assessment, testing, and evaluation resulted in our conclusion that as of December 31, 2022, our internal control over financial reporting was effective, we cannot predict the outcome of our testing in future periods. Ongoing compliance with this requirement is complex, costly and time-consuming. If Intevac fails to maintain effective internal control over financial reporting; or our management does not timely assess the adequacy of such internal control, then we could be subject to restatement of previously reported financial results, regulatory sanctions and a decline in the public's perception of Intevac, which could have a material and adverse effect on our business, financial condition and results of operations.

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

On November 21, 2013, Intevac announced that its Board of Directors approved a stock repurchase program authorizing up to $30.0 million in repurchases. On August 20, 2018, Intevac announced that its Board of Directors approved a $10.0 million increase to the original stock repurchase program for an aggregate authorized amount of $40.0 million. At September 30, 2023, $10.4 million remains available for future stock repurchases under the repurchase program. Intevac did not make any common stock repurchases during the three months ended September 30, 2023.

Item 3. ***Defaults upon Senior Securities***

None.

Item 4. ***Mine Safety Disclosures***

Not applicable.

Item 5. ***Other Information***

Securities Trading Plans of Directors and Executive Officers

During our last fiscal quarter, no director or officer, as defined in Rule 16a-1(f), adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement," each as defined in Regulation S-K Item 408.

Item 6. ***Exhibits***

The following exhibits are filed herewith:

Exhibit Number	Description
31.1	Certification of President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Interim Chief Financial Officer and Treasurer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications Pursuant to U.S.C. 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.INS	XBRL Instance Document—the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Schema Document
101.CAL	Inline XBRL Calculation Linkbase Document
101.DEF	Inline XBRL Definition Linkbase Document
101.LAB	Inline XBRL Label Linkbase Document
101.PRE	Inline XBRL Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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

SIGNATURES

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

		INTEVAC, INC.
Date: November 2, 2023	By:	/s/ NIGEL HUNTON
		Nigel Hunton President, Chief Executive Officer and Director (Principal Executive Officer)
Date: November 2, 2023	By:	/s/ KEVIN SOULSBY
		Kevin Soulsby Interim Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

Exhibit 31.1

I, Nigel Hunton certify that:

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2023

/s/ NIGEL HUNTON

Nigel Hunton
President, Chief Executive Officer and Director

Exhibit 31.2

I, Kevin Soulsby certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Intevac, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2023

/s/ KEVIN SOULSBY

Kevin Soulsby
Interim Chief Financial Officer and Treasurer

Exhibit 32.1

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

I, Nigel Hunton, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Intevac, Inc. on Form 10-Q for the quarterly period ended September 30, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Intevac, Inc.

Date: November 2, 2023

/s/ NIGEL HUNTON

Nigel Hunton
President, Chief Executive Officer and Director

I, Kevin Soulsby, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Intevac, Inc. on Form 10-Q for the quarterly period ended September 30, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Intevac, Inc.

Date: November 2, 2023

/s/ KEVIN SOULSBY

Kevin Soulsby
Interim Chief Financial Officer and Treasurer

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

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