INTEVAC INC

FORM 10-Q
(Quarterly Report)

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Address	3560 BASSETT STREET SANTA CLARA, CA, 95054
Telephone	4089869888
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Industry	Industrial Machinery & Equipment
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Table of Contents

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 March 29, 2003

or

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

For the transition period from to

Commission file number 0-26946

Intevac, Inc.
(Exact name of registrant as specified in its charter)

California	**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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

On March 29, 2003, 12,182,100 shares of the Registrant's Common Stock, no par value, were outstanding.

TABLE OF CONTENTS

INTEVAC, INC.

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INTEVAC, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 29, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,123	$28,457
Accounts receivable, net of allowances of $80 and $269 at March 29, 2003 and December 31, 2002.	5,934	4,991
Income taxes recoverable	214	214
Inventories	9,159	15,871
Prepaid expenses and other current assets	864	961
Total current assets	39,294	50,494
Property, plant and equipment, net	6,473	6,793
Investment in 601 California Avenue LLC	2,431	2,431
Debt issuance costs and other long-term assets	555	580
Total assets	$ 48,753	$60,298
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Convertible notes	$ 1,025	$ —
Accounts payable	2,174	1,739
Accrued payroll and related liabilities	1,361	1,379
Other accrued liabilities	2,914	3,723
Customer advances	5,053	12,344
Total current liabilities	12,527	19,185
Convertible notes	29,542	30,568
Shareholders' equity:		
Common stock, no par value	19,540	19,389
Accumulated other comprehensive income	183	189
Accumulated deficit	(13,039)	(9,033)
Total shareholders' equity	6,684	10,545
Total liabilities and shareholders' equity	$ 48,753	$60,298

See accompanying notes.

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except per share amounts)
(Unaudited)

	Three months ended	
	March 29, 2003	March 30, 2002
Net revenues:		
Systems and components	$10,564	$ 5,242
Technology development	1,451	1,428
Total net revenues	12,015	6,670
Cost of net revenues:		
Systems and components	9,321	4,253
Technology development	1,124	1,332
Inventory provisions	410	122
Total cost of net revenues	10,855	5,707
Gross profit	1,160	963
Operating expenses:		
Research and development	2,629	3,129
Selling, general and administrative	1,925	1,710
Total operating expenses	4,554	4,839
Operating loss	(3,394)	(3,876)
Interest expense	(517)	(667)
Interest income and other, net	(95)	187
Loss before income taxes	(4,006)	(4,356)
Benefit from income taxes	—	(2,214)
Net loss	$ (4,006)	$ (2,142)
Other comprehensive income:		
Foreign currency translation adjustment	(6)	11
Total comprehensive loss	$ (4,012)	$ (2,131)
Basic and diluted loss per share:		
Net loss	$ (0.33)	$ (0.18)
Shares used in per share amounts	12,164	12,041

See accompanying notes.

INTEVAC, INC.

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

	Three months ended	
	March 29, 2003	March 30, 2002
Operating activities		
Net loss	$ (4,006)	$ (2,142)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	431	841
Inventory provisions	410	122
Unrealized loss on disposal of equipment	297	—
Changes in assets and liabilities	(1,850)	(2,500)
Total adjustments	(712)	(1,537)
Net cash and cash equivalents used in operating activities	(4,718)	(3,679)
Investing activities		
Purchase of leasehold improvements and equipment	(768)	(169)
Net cash and cash equivalents used in investing activities	(768)	(169)
Financing activities		
Proceeds from issuance of common stock	150	144
Net cash and cash equivalents provided by financing activities	150	144
Effect of exchange rate changes on cash	2	11
Net decrease in cash and cash equivalents	(5,334)	(3,693)
Cash and cash equivalents at beginning of period	28,457	18,157
Cash and cash equivalents at end of period	$23,123	$14,464
Supplemental Schedule of Cash Flow Information		
Cash paid for:		
Interest	$ 993	$ 1,220

See accompanying notes.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business Activities and Basis of Presentation

Intevac, Inc.'s businesses are the design, manufacture and sale of complex capital equipment used to manufacture products such as thin-film disks and flat panel displays (the "Equipment Products Division"), the development of highly sensitive electro-optical devices and systems for the US military and its allies (the "Photonics Technology Division") and the design, manufacture and sale of commercial products based on technology developed by the Photonics Technology Division (the "Commercial Imaging Division").

Systems sold by the Equipment Products Division are used to deposit highly engineered thin-films of material on a substrate. These systems generally utilize proprietary manufacturing techniques and processes, operate under high levels of vacuum, are designed for high-volume continuous operation and use precision robotics, computerized controls and complex software programs to fully automate and control the production process. Products manufactured with these systems include disks for computer hard disk drives and flat panel displays for use in consumer electronics products.

The Photonics Technology Division ("PTD") is developing electro-optical sensors, cameras and systems that permit highly sensitive detection of photons in the visible and infrared portions of the spectrum. This development work is aimed at creating new products for both military and industrial applications. Products include Laser Illuminated Viewing and Ranging ("LIVAR®") systems for positive target identification at long range and low-cost extreme low light level cameras for use in military applications.

The Commercial Imaging Division was formed in July 2002 with the charter of developing products based on PTD technology for sale to commercial markets.

The financial information at March 29, 2003 and for the three-month periods ended March 29, 2003 and March 30, 2002 is unaudited, but includes all adjustments (consisting only of normal recurring accruals) that Intevac considers necessary for a fair presentation of the financial information set forth herein, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, it does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. For further information, refer to the Consolidated Financial Statements and footnotes thereto included in Intevac's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

On January 1, 2003, Intevac changed its revenue recognition policy for system orders received after December 31, 2002.

Intevac evaluates the collectibility of trade receivables on an ongoing basis and provides reserves against potential losses when appropriate.

The results for the three-month period ended March 29, 2003 are not considered indicative of the results to be expected for any future period or for the entire year.

2. Inventories

The components of inventory consist of the following:

	March 29, 2003	December 31, 2002
	(in thousands)	
Raw materials	$2,637	$ 3,329
Work-in-progress	3,338	2,628
Finished goods	3,184	9,914
	$9,159	$15,871

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

Inventory reserves included in the above numbers were $9.9 million and $9.6 million at March 29, 2003 and December 31, 2002, respectively. Each quarter, we analyze our inventory (raw materials, WIP and finished goods) against the forecast demand for the next 12 months. Parts with no forecast requirements in that period are considered excess and inventory provisions are established to write those parts down to zero net book value. During this process, some inventory is identified as having no future use or value to us and is disposed of against the reserves. During the three months ended March 29, 2003, $0.4 million was added to inventory reserves based on the quarterly analysis and $45,000 of inventory was disposed of and charged to the reserve.

3. Employee Stock Plans

At March 29, 2003, Intevac had two stock-based employee compensation plans. We account for those plans under the recognition and measurement principles of APB Opinion No. 25, “Accounting for Stock Issued to Employees”, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Intevac does not have any plans to adopt the fair value requirements of SFAS 123 for reporting purposes.

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

	Three months ended	
	March 29, 2003	March 30, 2002
	(in thousands)	
Net loss, as reported	$(4,006)	$(2,142)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(112)	247
Pro forma net loss	$(4,118)	$(1,895)
Basic and diluted earnings per share		
As reported	$ (0.33)	$ (0.18)
Pro forma	$ (0.34)	$ (0.16)

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Warranty

The following table displays the activity in the warranty provision account for the three month periods ending March 29, 2003 and March 30, 2002:

	Three months ended	
	March 29, 2003	March 30, 2002
	(in thousands)	
Beginning balance	$ 845	$ 906
Expenditures incurred under warranties	(561)	(258)
Accruals for product warranties issued during the reporting period	159	84
Adjustments to previously existing warranty accruals	201	73
Ending balance	$ 644	$ 805

5. Net Income (Loss) Per Share

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

	Three months ended	
	March 29, 2003	March 30, 2002
	(in thousands)	
Numerator:		
Numerator for basic earnings per share — loss available to common stockholders	$ (4,006)	$ (2,142)
Effect of dilutive securities:		
6 1/2% convertible notes(1)	—	—
Numerator for diluted earnings per share — loss available to common stockholders after assumed conversions	$ (4,006)	$ (2,142)
Denominator:		
Denominator for basic earnings per share — weighted-average shares	12,164	12,041
Effect of dilutive securities:		
Employee stock options(2)	—	—
6 1/2% convertible notes(1)	—	—
Dilutive potential common shares	—	—
Denominator for diluted earnings per share — adjusted weighted-average shares and assumed conversions	12,164	12,041

(1) Diluted EPS for the three-month periods ended March 29, 2003 and March 30, 2002 exclude “as converted” treatment of the convertible notes as their inclusion would be anti-dilutive. The number of “as converted” shares excluded for the three-month periods ended March 29, 2003 and March 30, 2002 was 4,269,983 and 1,820,364, respectively.

(2) Potentially dilutive securities, consisting of shares issuable upon exercise of employee stock options, are excluded from the calculation of diluted EPS as their effect would be anti-dilutive. The weighted average number of employee stock options excluded for the three-month periods ended March 29, 2003 and March 30, 2002 was 1,790,168 and 1,875,013, respectively.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. Segment Reporting

Segment Description

Intevac, Inc. has three reportable operating segments: Equipment Products, Photonics Technology and Commercial Imaging. Our Equipment Products Division sells complex capital equipment used in the manufacturing of thin-film disks and flat panel displays. Our Photonics Technology Division (“PTD”) is developing sensors and cameras that permit highly sensitive detection of photons in the visible and infrared portions of the spectrum. Our Commercial Imaging Division is developing commercial products based on technology developed by PTD.

Included in corporate activities are general corporate expenses less an allocation of corporate expenses to operating units equal to 3% and 1% of net revenues for the three months ended March 29, 2003 and March 30, 2002, respectively.

Business Segment Net Revenues

	Three months ended	
	March 29, 2003	March 30, 2002
	(in thousands)	
Equipment Products	$10,417	$4,935
Photonics Technology	1,597	1,735
Commercial Imaging	1	—
Total	$12,015	$6,670

Business Segment Profit & Loss

	Three months ended	
	March 29, 2003	March 30, 2002
	(in thousands)	
Equipment Products	$(1,220)	$(2,651)
Photonics Technology	(758)	(698)
Commercial Imaging	(869)	—
Corporate activities	(547)	(527)
Operating loss	(3,394)	(3,876)
Interest expense	(517)	(667)
Interest income	77	74
Other income and expense, net	(172)	113
Loss before income taxes	$(4,006)	$(4,356)

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Geographic Area Net Trade Revenues

	Three months ended	
	March 29, 2003	March 30, 2002
	(in thousands)	
United States	$ 2,087	$4,237
Far East	9,928	2,133
Europe	—	300
Total	$12,015	$6,670

7. Income Taxes

For the three months ended March 29, 2003, Intevac did not accrue a tax benefit due to the inability to realize additional refunds from loss carry-backs. Intevac accrued a $2.2 million tax benefit for the three-month period ended March 30, 2002, resulting from federal tax law changes that allowed losses incurred in 2001 and 2002 to be carried back 5 years. Intevac's $13.5 million deferred tax asset is fully offset by a $13.5 million valuation allowance, resulting in a net deferred tax asset of zero at March 29, 2003.

8. Capital Transactions

During the three-month period ending March 29, 2003, Intevac sold stock to its employees under Intevac's Stock Option and Employee Stock Purchase Plans. A total of 56,916 shares were issued for which Intevac received $150,000.

9. Financial Presentation

Certain prior year amounts in the Condensed Consolidated Financial Statements have been reclassified to conform to 2003 presentation.

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

This Quarterly Report on Form 10-Q contains forward-looking statements which involve risks and uncertainties. Words such as "believes," "expects," "anticipates" and the like indicate forward-looking statements. These forward looking statements include comments related to our projected orders, revenue, operating results and cash balances. 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 "Certain Factors Which May Affect Future Operating Results" and in other documents we file from time to time with the Securities and Exchange Commission, including Intevac's Annual Report on Form 10-K filed in March 2003, Form 10-Q's and Form 8-K's.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). We review the accounting policies we use in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, accounts receivable, inventories, income taxes, warranty obligations, long-lived assets, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. Results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. The Audit Committee and our auditors review significant estimates and judgements at the end of each quarter prior to the public release of our financial results.

Our significant accounting policies are described in Note 2 to the consolidated financial statements included in Item 8 of Intevac's Annual Report on Form 10-K. We believe the following critical accounting policies affect the more significant judgments and estimates made in the preparation of our consolidated financial statements.

Revenue Recognition — We recognize revenue using guidance from SEC Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements." Our policy allows revenue recognition when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, our price is fixed or determinable, and collectibility is reasonably assured. On January 1, 2003, Intevac changed its revenue recognition policy for system orders received after December 31, 2002.

System Revenue Recognition for Orders Received After 12/31/02

Certain of Intevac's product sales with customer acceptance provisions are accounted for as multiple-element arrangements. If we have previously met defined customer acceptance levels with the specific type of equipment, then Intevac recognizes revenue for the fair market value of the equipment upon shipment and transfer of title and recognizes revenue for the fair market value of installation and acceptance services when those services are completed. For products that have not been demonstrated to meet product specifications prior to shipment, revenue is recognized at customer acceptance. In the event that Intevac's customer chooses not to complete installation and acceptance, and Intevac's obligations under the contract to complete installation, acceptance or any other tasks (with the exception of warranty obligations) have been fully discharged, then Intevac recognizes any remainder revenue to the extent that collectibility under the contract is reasonably assured. For contracts with end user customer acceptance provisions established prior to 2003, Intevac has deferred all revenue recognition until completion of installation and customer acceptance. The revenue recognition policy outlined above and implemented for system orders received after December 31, 2002 was adopted to better conform Intevac's revenue recognition policies to industry accounting practice for companies selling similar equipment. The effect of adopting this policy in years prior to 2003 would have been no change in 2002 revenues, a decrease in 2001 revenues of $1.5 million and an increase of 2000 revenues of

$1.5 million. The effect on net income of adopting this policy in years prior to 2003 would have been no effect on 2002 net income, a decrease in 2001 net income of $33,000 and an increase in 2000 net income of $33,000. The adoption of this policy had no effect on revenue or net income in the period ended March 29, 2003.

System Revenue Recognition for Orders Received Before 12/31/02

Revenues for systems are recognized upon customer acceptance. For large deposition and rapid thermal processing systems shipped through a distributor, revenue is typically recognized after the distributor has accepted the system at our factory and the system has been shipped. For large deposition and RTP systems sold direct to end customers, revenue is recognized after installation and acceptance of the system at the customer site.

There is a written acceptance and test procedure (“ATP”) for each system, which is specified in the customer purchase order. The ATP includes a detailed set of criteria that are required as a condition of customer acceptance. The ATP is typically conducted over one or more days, during which the system is subjected to a number of tests to validate that the system is performing in a repeatable fashion, reliably and to specification. If material issues or problems are discovered during the ATP process, then they are corrected prior to customer acceptance.

In the case of a direct end user sale, there are typically two ATP’s performed. The first ATP is performed at Intevac’s factory and must be approved by the customer prior to shipment of the system. The second ATP is performed after the system has been installed at the customer’s factory, with the customer in attendance. Once the second ATP is approved by the customer, and the customer has accepted the system in writing and agreed to make any remaining payments due on the system, then the system is recognized as a sale and revenue for the entire system is recorded.

In the case of a shipment through a distributor, an ATP is performed at Intevac’s factory. Upon completion of the ATP, and after the distributor has accepted the system in writing and agreed to make any remaining payments due on the system, then the system is shipped and revenue for the entire system is recorded. The distributor then completes customer factory installation and the ATP at its cost. When we believe that there may be higher than normal end-user installation and acceptance issues for systems shipped through a distributor, such as when a major new version of a product is delivered for the first time, then the acceptance and revenue recognition process follows the model described above for a direct end user sale. The primary difference in this case is that revenue recognition is dependent on Intevac obtaining acceptance of the product by both our customer (the distributor) and our distributor’s customer (the end user).

During the period that a system is undergoing customer acceptance (either distributor or end user), the value of the system remains in inventory, and any payments received, or amounts invoiced, related to the system are included in customer advances. When revenue is recognized on the system, the inventory is charged to cost of net revenues, the customer advance is liquidated and the customer is billed for the unpaid balance of the system revenue.

As of March 29, 2003 Intevac reported $3.2 million of finished goods (see *Inventories*), which consisted of a FPD silicon deposition system undergoing final acceptance testing at the end user’s facility.

Other Systems and non-System Revenue Recognition

Revenues for systems without installation and acceptance provisions, technology upgrades, spare parts, consumables and prototype products built by PTD are generally recognized upon shipment. Service and maintenance contract revenue, which to date has been insignificant, is recognized ratably over applicable contract periods or as the service is performed.

Our shipping terms are customarily FOB shipping point. For systems sold directly to the end user, our obligations remaining after shipment typically include installation, end user factory acceptance and warranty. For systems sold to distributors, typically the distributor assumes responsibility for installation and end user customer acceptance. In some cases, the distributor will assume some or all of the warranty liability. For products other than systems and system upgrades, warranty is the only obligation we have after shipment.

Technology Development Revenue Recognition

We perform best efforts research and development work under various government-sponsored research contracts. Typically, for each contract, we commit to perform certain research and development efforts up to an agreed upon amount. In connection with these contracts, we receive funding on an incremental basis up to a ceiling. Some of these contracts are cost sharing in nature, where Intevac is reimbursed for a portion of the total costs expended. Revenue on these contracts is recognized in accordance with contract terms, typically as costs are incurred. In addition, we have, from time to time, negotiated with a third party to fund a portion of our costs in return for a joint interest in our technology rights developed pursuant to the contract. In the event that total cost incurred under a particular contract over-runs its agreed upon amount, we may be liable for the additional costs.

These contracts are accounted for under ARB No. 43, Chapter 11, Section A, which addresses Cost-Plus-Fixed-Fee Contracts. The contracts are all cost-type, with financial terms that are a mixture of fixed fee, incentive fee, no fee and cost-sharing. The deliverables under each contract range from providing reports to providing prototype hardware. In none of the contracts is there an obligation for either party to continue the program once the funds have been expended. The efforts can be terminated at any time for convenience, in which case we would be reimbursed for our actual incurred costs, plus fee, if applicable, for the completed effort. We own the entire right, title and interest to each invention discovered under the contract, unless we specifically give up that right. The US Government has a paid-up license to use any invention/intellectual property for government purposes only.

Inventories — We make provisions for potentially excess and obsolete inventory based on backlog and forecasted demand. However, order backlog is subject to revisions, cancellations, and rescheduling. Actual demand will inevitably differ from forecasted demand due to a number of factors. For example, the disk industry has suffered from over-capacity and poor financial results, which has led to industry consolidation. Consolidation can lead to the availability of used equipment that competes at very low prices with our products. Financial stress and consolidation in our customer base can also lead to the cancellation of orders for products after we have incurred substantial costs related to those orders. Such problems have resulted, and may continue to result, in excess and obsolete inventory, and the provision of related reserves.

Warranty — Intevac's standard warranty is twelve months from customer acceptance. During this warranty period any necessary non-consumable parts are supplied and installed. A provision for the estimated warranty cost is recorded at the time revenue is recognized.

Valuation of long-lived and intangible assets and goodwill — We assess the impairment of identifiable intangibles, long-lived assets and goodwill annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- significant under-performance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period; and
- our market capitalization relative to net book value.

When we determine that the carrying value of long-lived assets, intangibles or goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model.

Results of Operations

Three Months Ended March 29, 2003 and March 30, 2002.

Net revenues. Net revenues consist primarily of sales of equipment used to manufacture flat panel displays, equipment used to manufacture thin-film disks, related equipment and system components, and contract research and development related to the development of electro-optical devices and systems. Net revenues increased by 80% to $12.0 million for the three months ended March 29, 2003 from $6.7 million for the three months ended March 30, 2002.

Equipment Product Division ("EPD") revenues increased to $10.4 million for the three months ended March 29, 2003 from $4.9 million for the three months ended March 30, 2002. The increase in EPD revenue was the result of customer acceptance of $7.3 million of upgrades to flat panel display manufacturing systems that were shipped in early 2002 and to higher revenue from disk equipment technology upgrades and spare parts, partially offset by a decrease in sales of disk manufacturing systems. Photonics Technology Division ("PTD") net revenues decreased to $1.6 million for the three months ended March 29, 2003 from $1.7 million for the three months ended March 30, 2002. The decrease in PTD net revenues was the result of lower revenues from prototype products.

International sales increased by 308% to $9.9 million for the three months ended March 29, 2003 from $2.4 million for the three months ended March 30, 2002. The increase in international sales was due to the increase in net revenues from flat panel manufacturing equipment referred to above. International sales constituted 83% of net revenues for the three months ended March 29, 2003 and 37% of net revenues for the three months ended March 30, 2002.

Backlog. Intevac's backlog of orders for its products was $12.2 million at March 29, 2003 and $27.3 million at March 30, 2002. The reduction was due to revenue recognition of the flat panel system upgrades previously shipped, a reduction in the number of disk manufacturing systems on order and the sale of the rapid thermal processing product line in November 2002. We include in backlog the value of purchase orders for our products that have scheduled delivery dates.

Gross margin. Cost of net revenues consists primarily of purchased materials, fabrication, assembly, test and installation labor and overhead, customer-specific engineering costs, warranty costs, royalties, provisions for inventory reserves, scrap and costs attributable to contract research and development. Gross margin decreased to 9.7% for the three months ended March 29, 2003 from 14.4% for the three months ended March 30, 2002.

Gross margin in EPD decreased to 8.3% for the three-month period ended March 29, 2003 from 15.5% for the three-month period ended March 30, 2002. The decrease in EPD was primarily due to the flat panel system upgrade revenue contributing minimal gross margin and to the establishment of a $0.3 million cost to market reserve on the remaining MDP 250B disk manufacturing system in inventory. PTD gross margins increased to 18.7% during the three months ended March 29, 2003 from 11.3% during the three months ended March 30, 2002. PTD gross margins were favorably impacted by the mix of sales derived from fully funded research and development contracts versus cost-shared research and development contracts.

Research and development. Research and development expense consists primarily of prototype materials, salaries and related costs of employees engaged in ongoing research, design and development activities for disk manufacturing equipment, flat panel manufacturing equipment, imaging products and company funded research performed by PTD. Research and development expense decreased to $2.6 million for the three months ended March 29, 2003 from $3.1 million for the three months ended March 30, 2002, representing 21.9% and 46.9%, respectively, of net revenue. This decrease was primarily the result of reduced spending for development of flat panel manufacturing equipment, partially offset by spending for the development of commercial imaging products.

Research and development expenses do not include costs of $1.1 million and $1.3 million, respectively, for the three-month periods ended March 29, 2003 and March 30, 2002 related to contract research and development performed by PTD. These expenses are included in cost of net revenues. Research and development expenses also do not include costs of $0.1 million in the three-month period ended March 30, 2002, reimbursed under the terms of various research and development cost sharing agreements.

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

Selling, general and administrative expense increased to $1.9 million for the three months ended March 29, 2003 from $1.7 million for the three months ended March 30, 2002, representing 16.0% and 25.6%, respectively, of net revenue. The increase was the result of $0.3 million of surplus facility costs being recorded in selling, general and administrative expense and an increase in the cost of director's and officer's insurance, partially offset by a reduction in the provision for bad debts.

Interest expense. Interest expense consists primarily of interest on Intevac's convertible notes. Interest expense decreased to $0.5 million in the three months ended March 29, 2003 from $0.7 million in the three months ended March 30, 2002. The decrease in interest expense was due to a reduction in convertible notes outstanding as a result of the exchange offer completed by Intevac in July 2002.

Interest income and other, net. Interest income and other, net totaled ($0.1) million and $0.2 million for the three months ended March 29, 2003 and March 30, 2002, respectively. Interest income and other, net in 2003 consisted of $0.2 million of interest and dividend income on investments offset by the establishment of a $0.3 million reserve for the disposition of a fixed asset that is no longer in use. Interest income and other, net in 2002 consisted of $0.2 million of interest and dividend income on investments.

Provision for (benefit from) income taxes. For the three months ended March 29, 2003, Intevac did not accrue a tax benefit due to the inability to realize additional refunds from loss carry-backs. We accrued a $2.2 million tax benefit for the three-month period ended March 30, 2002. This resulted from federal tax law changes that allow losses incurred in 2001 and 2002 to be carried back 5 years. Intevac paid federal income taxes of approximately $5.1 million for 1996 and $0.9 million for 1997. Our federal tax returns, and any refunds resulting from them, are subject to audit for 3 years from the date filed. Intevac's $13.5 million deferred tax asset is fully offset by a $13.5 million valuation allowance, resulting in a net deferred tax asset of zero at March 29, 2003.

Liquidity and Capital Resources

Intevac's operating activities used cash of $4.7 million during the three months ended March 29, 2003. The cash used was due primarily to the net loss incurred and the semi-annual interest payment on our convertible notes. In the three months ended March 30, 2002, our operating activities used cash of $3.7 million due primarily to the net loss incurred, the semi-annual interest payment on our convertible notes and increases in receivables and inventory, which were partially offset by increased customer advances and depreciation and amortization.

Intevac's investing activities used cash of $0.8 million and $0.2 million in the three months ended March 29, 2003 and March 30, 2002, respectively, for the purchase of fixed assets.

Intevac's financing activities provided cash of $0.2 million and $0.1 million in the three-month periods ended March 29, 2003 and March 30, 2002, respectively, as the result of the sale of Intevac stock to our employees through Intevac's employee benefit plans.

At March 29, 2003, Intevac had $23.1 million of cash and cash equivalents. Intevac intends to undertake approximately $2 million in capital expenditures during the next 9 months and believes the existing cash and cash equivalent balances will be sufficient to meet its cash requirements for the balance of 2003.

Intevac has incurred operating losses each year since 1998 and cannot predict with certainty when it will return to operating profitability. 2003 operating results and cash flow are contingent upon a number of factors, but in particular on the receipt by the Equipment Products Division of large multi-system disk manufacturing equipment orders. While Intevac is forecasting the receipt of these orders in 2003, it is not able to accurately predict when, or if, its Equipment Products Division will actually receive these orders, or the timing of the resulting revenue. Without the receipt of substantial equipment orders deliverable for revenue during 2003, Intevac is likely to incur an operating loss and consume a significant portion of its cash during 2003.

Certain Factors Which May Affect Future Operating Results

Revenue generated by our businesses during 2003 may not provide sufficient gross profit to cover operating and interest expenses.

A significant increase in the sales of disk manufacturing equipment and/or deposition equipment for the manufacture of flat panel displays and/or photonics-based revenues will be necessary for Intevac to be able to generate sufficient gross profit to offset expected operating and net interest expenses during 2003. The majority of our revenues and gross profit have historically been derived from sales of disk manufacturing equipment and deposition and rapid thermal processing equipment for the manufacture of flat panel displays. Our sales of disk manufacturing equipment have been severely depressed since the middle of 1998. While we believe that the disk manufacturing industry will need to make substantial investments to upgrade its productive capacity, the timing of this investment is uncertain and there can be no assurance that it will happen, or that we will be selected to provide these upgrades. We sold our rapid thermal processing product line to Photon Dynamics in November 2002, a product line which accounted for $7.1 million of our net revenues during 2002. Additionally, other than for products that are already shipped and undergoing installation and acceptance testing, we have no current backlog of orders for deposition products for the manufacture of flat panel displays. PTD has yet to earn an annual profit. Failure to generate sufficient net revenues and gross profit in 2003 to offset operating and interest expenses would have an adverse effect on our business, net worth and cash.

We sell our Equipment Products to a small number of large customers. Competition is intense and loss of one of those customers would significantly reduce potential future revenues.

We experience intense competition in EPD. For example, our disk and flat panel products experience competition worldwide from competitors including Anelva Corporation, Ulvac Japan, Ltd. and Unaxis Holdings, Ltd., each of which has sold substantial numbers of systems worldwide. Anelva, Ulvac and Unaxis all have substantially greater financial, technical, marketing, manufacturing and other resources than we do. There can be no assurance that our competitors will not develop enhancements to, or future generations of, competitive products that will offer superior price or performance features or that new competitors will not enter our markets and develop such enhanced products. Accordingly, competition for our customers is intense, and suppliers of equipment may offer substantial pricing concessions and incentives to attract our customers or retain existing customers. The loss of any one of our large customers would significantly reduce potential future revenues.

We may not have the financial resources to repurchase our convertible notes if one of the events giving holders the right to require us to repurchase their notes occurs.

Certain events give holders of our convertible notes, including both our convertible notes due 2004 (“2004 Notes”) and convertible notes due 2009 (“2009 Notes”), the right to require us to repurchase their notes. These events include the termination of trading of our common stock or a transaction that results in a change in control (which includes a person acquiring beneficial ownership of greater than 50% of our shares, a merger or consolidation, the sale of all or substantially all of our assets, or a change in the majority of our directors). In the case of the 2009 Notes only, a distribution to our common stock holders of all the capital stock of a subsidiary that at the time constitutes our Photonics business will also give the holders of the 2009 Notes the right to require us to repurchase their 2009 Notes. If one of these designated events were to occur, we may not have enough funds to pay the repurchase price for all notes for which repurchase is requested. Moreover, any future credit agreements or other debt agreements may prohibit such a repurchase, or may provide that such a repurchase constitutes an event of default under that debt agreement. If we are put in a position where one of these designated events has occurred but we are prohibited from repurchasing the notes, we could seek the consent of our lenders to repurchase the notes in question, or could attempt to refinance the debt agreements. If we do not obtain the lenders consent, we could not repurchase the notes, which would constitute an event of default under the particular indenture governing those notes, which might in turn also constitute an event of default under the terms of our other debt.

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

We have invested heavily, and continue to invest, in the development of new products. PTD's LIVAR® target identification and low light level camera technologies are designed to offer significantly improved capability to military customers. EPD's D-STAR® deposition tool for flat panel display manufacturing is intended to displace products offered by competing manufacturers. EPD continues to invest heavily to develop products for the thin-film disk manufacturing industry. CID is developing commercial products based on the technology developed by PTD. These businesses will require substantial further investment in sales and marketing, in product development and in additional production facilities. There can be no assurance that we will succeed in these activities and generate significant sales of products. Failure of any of these products to perform as intended, to penetrate their markets and develop into profitable product lines would have an adverse effect on our business.

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

EPD sells equipment to capital intensive industries, which sell commodity products such as disk drives and flat panel displays. These industries operate with high fixed costs. When demand for these commodity products exceeds capacity, demand for new capital equipment such as ours tends to be amplified. When supply of these commodity products exceeds demand, the demand for new capital equipment such as ours tends to be depressed. The cyclical nature of the capital equipment industry means that in some years sales of new systems by us will be unusually high, and that in other years sales of new systems by us will be severely depressed. Sales of systems for thin-film disk production have been severely depressed since the middle of 1998, and continue to be depressed. Failure to anticipate or respond quickly to the industry business cycle could have an adverse effect on our business.

Our significant amount of debt could have a negative effect on us and on our security holders.

We have $1.0 million of convertible notes due in 2004 and $29.6 million of convertible notes due in 2009 outstanding. The aggregate $30.6 million of convertible notes commits us to substantial principal and interest obligations. Our significant amount of debt could harm Intevac and holders of our common stock and convertible notes in many ways, including:

- reducing the funds available to finance our business operations and for other corporate purposes because a portion of our cash flow from operations must be dedicated to the payment of principal and interest on our debt;
- impairing our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes;
- placing us at a competitive disadvantage because we are substantially more leveraged than certain of our competitors;
- hindering our ability to adjust rapidly to changing market conditions; and
- making us more vulnerable financially in the event of a further downturn in general economic conditions or in our business.

Our ability to meet our debt service obligations will depend on our future operating performance and cash flow. Our operating performance and cash flow, in part, are subject to business, financial and economic factors beyond our control.

We may undertake significant additional financing transactions in order to maintain sufficient cash to conduct our operations.

We may need to obtain additional financing to fund our future operations, and we may seek to raise additional funds through a variety of alternative sources, including the sale of additional securities or from other financing arrangements or asset sales. Our board of directors has from time to time considered a number of possible transactions. Such transactions might include:

- selling off a portion of our assets to raise additional capital;
- undertaking a rights offering to obtain financing from our existing shareholders;
- attempting to raise additional equity through public or private offerings;
- attempting to raise additional debt financing; or
- obtaining a line of credit.

We may undertake one or more of these transactions. We do not know whether we will be able to complete any of these transactions on a timely basis, on terms satisfactory to us, or at all. For example, we may not have access to new capital in the public or private markets until our results of operations improve, if at all. In addition, some of these transactions may result in significant dilution to our existing security holders or impairment of their rights. Nonetheless, if we are unable to complete one or more of these transactions, our ability to maintain our ongoing operations, and to pay principal and interest in cash on our outstanding notes when due, may be jeopardized.

Our business is subject to rapid technical change, which requires us to continually develop new products in order to sustain and grow our revenue.

Our ability to remain competitive requires substantial investments in research and development. The failure to develop, manufacture and market new systems, or to enhance existing systems, would have an adverse effect on our business. From time to time, we have experienced delays in the introduction of, and technical difficulties with, some of our systems and enhancements. Our future success in developing and selling equipment will depend upon a variety of factors, including our ability to accurately predict future customer requirements, technological advances, cost of ownership, our introduction of new products on schedule, cost-effective manufacturing and product performance in the field. Our new product decisions and development commitments must anticipate continuously evolving industry requirements significantly in advance of sales. Any failure to accurately predict customer requirements and to develop new generations of products to meet those requirements would have an adverse effect on our business.

Our products are complex, constantly evolving and are often designed and manufactured to individual customer requirements that require additional engineering.

EPD systems have a large number of components and are highly complex. We may experience delays and technical and manufacturing difficulties in future introductions or volume production of new systems or enhancements. In addition, some of the systems that we manufacture must be customized to meet individual customer site or operating requirements. We have limited manufacturing capacity and engineering resources and may be unable to complete the development, manufacture and shipment of these products, or to meet the required technical specifications for these products, in a timely manner. Such delays could lead to rescheduling of orders in backlog or, in extreme situations, to cancellation of orders. In addition, we may incur substantial unanticipated costs early in a product’s life cycle, such as increased engineering, manufacturing, installation and support costs, that we may be unable to pass on to the customer. In some instances, we depend upon a sole supplier or a limited number of suppliers for complex components or sub-assemblies utilized in our products. Any of these factors could adversely affect our business.

The sales of our disk and flat panel products are dependent on substantial capital investment by our customers, far in excess of the cost of our products.

The purchase of our systems, and the purchase of other related equipment and facilities, requires extremely large capital expenditures by our customers. These costs are far in excess of the cost of our systems alone. The magnitude of such capital expenditures requires that our customers have access to large amounts of capital and that they be willing to invest that capital over long periods of time to be able to purchase our equipment. Some of our potential customers, particularly those that would otherwise purchase our disk manufacturing products, may not be willing, or able, to make the magnitude of capital investment required.

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

There can be no assurance that:

- any of our pending or future patent applications will be allowed or that any of the allowed applications will be issued as patents;
- any of our patents will not be invalidated, deemed unenforceable, circumvented or challenged;
- the rights granted under our patents will provide competitive advantages to us;
- any of our pending or future patent applications will issue with claims of the scope sought by us, if at all;
- others will not develop similar products, duplicate our products or design around our patents; or
- patent rights, intellectual property laws or our agreements will adequately protect our intellectual property rights.

Failure to adequately protect our intellectual property rights could have an adverse effect upon our business.

From time to time, we have received claims that we are infringing third parties' intellectual property rights. There can be no assurance that third parties will not in the future claim infringement by us with respect to current or future patents, trademarks, or other proprietary rights relating to our products. Any present or future 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, or at all. Any of the foregoing could have an adverse effect upon our business.

Our operating results fluctuate significantly.

Over the last nine quarters our operating loss as a percentage of net revenues has fluctuated between approximately 59% and 1% of net revenues. Over the same period our sales per quarter have fluctuated between $23.6 million and $6.7 million. We anticipate that our sales and operating margins will continue to fluctuate. As a result, period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

Operating costs in northern California are high.

Our operations are located in Santa Clara, California. The cost of living in northern California is extremely high, which increases both the cost of doing business and the cost and difficulty of recruiting new employees. Our operating results depend in significant part upon our ability to effectively manage costs and to retain and attract qualified management, engineering, marketing, manufacturing, customer support, sales and administrative personnel. The failure to control costs and to attract and retain qualified personnel could have an adverse effect on our business.

Business interruptions could adversely affect our business.

Our operations are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure and other events beyond our control.

A significant portion of our sales are made to international customers.

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

We generally quote and sell our products in US dollars. However, for some Japanese customers, we have quoted and sold our products in Japanese Yen. From time to time, we have entered into foreign currency contracts in an effort to reduce the overall risk of currency fluctuations to our business. However, there can be no assurance that the offer and sale of products denominated in foreign currencies, and the related foreign currency hedging activities will not adversely affect our business.

Our two principal competitors for disk deposition equipment are based in foreign countries and have cost structures based on foreign currencies. Accordingly, currency fluctuations could cause the price of our products to be more, or less, competitive than these competitors' products. Currency fluctuations will decrease, or increase, Intevac's cost structure relative to those of our competitors, which could impact our competitive position.

We expect the market price of our common stock and convertible notes to be volatile.

The market price of our common stock has experienced both significant increases in valuation and significant decreases in valuation, over short periods of time. We believe that factors such as announcements of developments related to our business, fluctuations in our operating results, failure to meet securities analysts' expectations, general conditions in the disk drive and thin-film media manufacturing industries and the worldwide economy, announcements of technological innovations, new systems or product enhancements by us or our competitors, fluctuations in the level of cooperative development funding, acquisitions, changes in governmental regulations, developments in patents or other intellectual property rights and changes in our relationships with customers and suppliers could cause the price of our common stock to continue to fluctuate substantially. In addition, in recent years the stock market in general, and the market for small capitalization and high technology stocks in particular, have experienced extreme price fluctuations that have often been unrelated to the operating performance of affected companies. Any of these factors could adversely affect the market price of our common stock and convertible notes. Our common stock is not heavily traded in the market, with daily volume averaging approximately 8,000 shares in 2002. As a result, any attempt by a shareholder to either acquire or dispose of a significant position in our stock could cause significant fluctuations in the price of the shares.

We routinely evaluate acquisition candidates and other diversification strategies.

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

We use hazardous materials.

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. Any failure to comply with current or future regulations could result in substantial civil penalties or criminal fines being imposed on us or our officers, directors or employees, suspension of production, alteration of our manufacturing process or cessation of operations. Such regulations could require us to acquire expensive remediation or abatement equipment or to incur substantial expenses to comply with environmental regulations. Any failure by us to properly manage the use, disposal or storage of, or adequately restrict the release of, hazardous or toxic substances could subject us to significant liabilities.

Our directors and executive officers control a majority of our outstanding common stock.

Based on the shares outstanding on March 29, 2003, our current directors and their affiliates and our executive officers, in the aggregate, beneficially own a majority of the outstanding shares of common stock. These shareholders, acting together, are able to effectively control all matters requiring approval by our shareholders, including the election of a majority of the directors and approval of significant corporate transactions. Two of our directors also hold in aggregate 7% of the outstanding convertible notes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk. The table below presents principal amounts and related weighted-average interest rates by year of maturity for Intevac's debt obligations.

	2003	2004	2005	2006	2007	Beyond	Total	Fair Value
					(in thousands)			
Long-term debt								
Fixed rate	—	$1,025	—	—	—	$29,542	$30,567	$24,925
Average rate	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%		

Foreign exchange risk. From time to time, Intevac enters into foreign currency forward exchange contracts to economically hedge certain of its anticipated foreign currency transaction, translation and re-measurement exposures. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on our operating results. At March 29, 2003, Intevac did not have foreign currency forward exchange contracts.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. Within 90 days prior to the filing date of this Quarterly Report on Form 10-Q (the "Evaluation Date"), we evaluated, under the supervision of our chief executive officer and our chief financial officer, the effectiveness of our disclosure controls and procedures. Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in internal controls. Subsequent to the Evaluation Date, there were no significant changes in our internal controls or in other factors that could significantly affect such controls, including any corrective actions with regards to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On June 12, 1996 two Australian Army Black Hawk Helicopters collided in midair during nighttime maneuvers. Eighteen Australian servicemen perished and twelve were injured. Intevac was named as a defendant in a lawsuit related to this crash. The lawsuit was filed in Stamford, Connecticut Superior Court on June 10, 1999 by Mark Durkin, the administrator of the estates of the deceased crewmembers, the injured crewmembers and the spouses of the deceased and/or injured crewmembers. Included in the suit's allegations were assertions that the crash was caused by defective night vision goggles. The suit named three US manufacturers of military night vision goggles, of which Intevac was one. The suit also named the manufacturer of the pilot's helmets, two manufacturers of night vision system test equipment and the manufacturer of the helicopters. The suit claimed damages for 13 personnel killed in the crash, 5 personnel injured in the crash and spouses of those killed or injured. It is known that the Australian Army established a Board of Inquiry to investigate the accident and that one of the conclusions of the Board of Inquiry was that the accident was not caused by defective night vision goggles.

On July 27, 2000 the Connecticut Superior Court disallowed the defendants' motion to dismiss the lawsuit. On October 30, 2001 the Connecticut Supreme Court reversed the Superior Court's decision and remanded the case to the trial court with the direction to grant the defendants' motion to dismiss the suit subject to conditions already agreed to by the defendants. These conditions agreed to by the defendants include (1) consenting to jurisdiction in Australia; (2) accepting service of process in connection with an action in Australia; (3) making their personnel and records available for litigation in Australia; (4) waiving any applicable statutes of limitation in Australia up to six months from April 26, 2002, the date of dismissal of this action or for such other reasonable time as may be required as a condition of dismissing this action; (5) satisfying any judgement that may be entered against them in Australia; and (6) consenting to the reopening of the action in Connecticut in the event the above conditions are not met as to any proper defendant in the action.

On October 21, 2002 a lawsuit was filed in Queensland, Australia by Gerard Bampton, a member of the Australian Special Air Services Regiment who was injured in the 1996 crash. Included in the suit's allegations are assertions that the crash was caused by defective night vision goggles. The suit names three US manufacturers of military night vision goggles, of which Intevac was one. The suit also names the manufacturer of the helicopters. Investigations made at the time of the original Durkin lawsuit lead us to believe that we have meritorious defenses against the new lawsuit. However, there can be no assurance that the resolution of the suit will not have a material adverse effect on our business, operating results and financial condition.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are filed herewith:

Number	Exhibit Description
99.1	Certification Pursuant to 18 U.S.C. Section 1350

(b) Reports on Form 8-K:

On March 6, 2003, the registrant filed a report on Form 8-K regarding a business presentation provided to investors.

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: May 5, 2003

By: /s/ KEVIN FAIRBAIRN

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

Date: May 5, 2003

By: /s/ CHARLES B. EDDY III

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

I, Kevin Fairbairn certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 5, 2003

/s/ KEVIN FAIRBAIRN

Kevin Fairbairn
President, Chief Executive Officer and Director

I, Charles B. Eddy certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 5, 2003

/s/ CHARLES B. EDDY III

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

Table of Contents

EXHIBIT INDEX

Exhibit Number	Exhibit Description
99.1	Certification Pursuant to 18 U.S.C. Section 1350

Exhibit 99.1

**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, Kevin Fairbairn, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Intevac, Inc. on Form 10-Q for the quarterly period ended March 29, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Intevac, Inc.

By: /s/ KEVIN FAIRBAIRN

Name: Kevin Fairbairn
Title: President, Chief Executive Officer and Director

I, Charles B. Eddy III, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Intevac, Inc. on Form 10-Q for the quarterly period ended March 29, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Intevac, Inc.

By: /s/ CHARLES B. EDDY III

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

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