UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2022

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)	**(I.R.S. 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)**

Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

As of July 2, 2022, the aggregate market value of voting and non-voting stock held by non-affiliates of the registrant was approximately $120,272,558 (based on the closing price for shares of the registrant's Common Stock as reported by the Nasdaq Stock Market for the last trading day prior to that date).

Shares of Common Stock held by each executive officer and director have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

On February 13, 2023, 25,798,071 shares of the registrant's Common Stock, $0.001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of the registrant's Proxy Statement for the 2023 Annual Meeting of Stockholders are incorporated by reference into Part III. Such proxy statement will be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

INTEVAC, Inc.

Index to the Form 10-K

For the Fiscal Year Ended December 31, 2022

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information in this Annual Report on Form 10-K ("Annual Report" or "Form 10-K") of Intevac, Inc. and its subsidiaries ("Intevac", "we" or the "Company"), including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, is forward-looking in nature. All statements in this Annual Report, including those made by the management of Intevac, other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding Intevac's future financial results, operating results, cash flows and cash deployment strategies, business strategies, costs, products, working capital, competitive positions, management's plans and objectives for future operations, research and development, acquisitions and joint ventures, growth opportunities, customer contracts, investments, liquidity, declaration of dividends, and legal proceedings, as well as market conditions and industry trends. These forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. Forward-looking statements may contain words such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" and "continue," the negative of these terms, or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in Item 1A, "Risk Factors," below and elsewhere in this Annual Report. Other risks and uncertainties may be disclosed in Intevac's prior Securities and Exchange Commission ("SEC") filings. These and many other factors could affect Intevac's future financial condition and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this Annual Report or elsewhere by Intevac or on its behalf. Intevac undertakes no obligation to revise or update any forward-looking statements.

The following information should be read in conjunction with the consolidated financial statements and the accompanying Notes to Consolidated Financial Statements included in this Annual Report.

PART I

Item 1. *Business*

Information about Discontinued Operations

On December 30, 2021, the Company entered into an asset purchase agreement (the "Purchase Agreement") with EOTECH, LLC, a Michigan limited liability company ("EOTECH"), governing the sale of the Company's Photonics business to EOTECH in exchange for (i) $70.0 million in cash consideration (as may be increased or decreased by certain closing net working capital adjustments), (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 has 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. The Company believes this disposition will allow it to benefit from a streamlined business model, simplified operating structure, and enhanced management focus.

As a result of this disposition, the results of operations from the Photonics reporting segment are reported as "net income (loss) from discontinued operations, net of taxes" in the consolidated financial statements in Item 8 of this Annual Report. The Company has recast prior period amounts presented within this Annual Report to provide visibility and comparability. 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 consolidated financial statements in Item 8 of this Annual Report.

Overview

Founded in 1991, Intevac is a leading provider of thin-film process technology and manufacturing platforms for high-volume manufacturing environments. As a long-time supplier to the hard disk drive ("HDD") industry, over the last 20 years we have delivered over 180 of our industry-leading 200 Lean® systems, which currently represent the majority of the world's capacity for HDD disk media production. Today, we believe that all of the technology upgrade initiatives for next-generation media for the HDD industry, along with planned media capacity additions over the next several years, are being deployed on our

200 Lean platform. With over 30 years of leadership in designing, developing, and manufacturing high-productivity, thin-film processing systems, we also are leveraging our technology and know-how for additional applications, such as protective coatings for the display cover panel ("DCP") glass market.

Intevac 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's management approved a restructuring plan to realign the Company's operational focus, scale the business and improve costs. The restructuring program includes (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.

HDD Equipment Market

Intevac designs, manufactures, markets and services complex capital equipment used to deposit thin films and lubricants onto substrates to produce magnetic disks that are used in HDDs. Disk and disk drive manufacturers produce magnetic disks in a sophisticated manufacturing process involving many steps, including plating, annealing, polishing, texturing, sputtering, etching, stripping and lubrication. Intevac believes its systems represent approximately 65% of the installed capacity for disk sputtering worldwide. Intevac's systems are used by manufacturers of magnetic media such as Seagate Technology, Western Digital Corporation and its wholly-owned subsidiary HGST.

HDDs are a primary storage medium for digital data in enterprise nearline "cloud" applications, enterprise performance and surveillance applications, and, to a lesser extent, in personal computers ("PCs"). Intevac believes that HDD media unit shipments will grow over time, driven by continued high growth rates in digitally-stored data, by the slowing of areal density improvements, by the increase in demand for nearline drives for cloud storage, by the continuing increases in the HDD tie ratio (the average number of disks per hard drive), and by new and emerging applications. The projected growth rates for digitally-stored data on HDDs exceed the rate of areal density improvements, at the same time as the tie ratio is increasing, which results in demand for magnetic disks outpacing HDD units.

In recent years HDD media units have been negatively impacted by an overall decline in desktop PC units, the adoption of solid state drives ("SSDs") in desktops, as well as laptops and other mobile devices, and the transition to centralized storage. Although the HDD industry continues to expect growth in the nearline data storage market segment, the transition to centralized storage combined with the negative growth in PC shipments has resulted in lower HDD shipments in recent years. However, Intevac continues to believe that long-term demand for hard disks required for high capacity HDDs will increase, driven by growth in demand for digital storage, a slowing growth rate in areal density improvements, and increased information technology spending to support the transition to cloud storage. The number of disk manufacturing systems needed to support this growth as well as future technology transitions and improvements is expected to vary from year to year depending on the factors noted above.

Intevac expects that HDD manufacturers will extend their utilization of planar perpendicular media with the introduction of new technologies such as Heat Assisted Magnetic Recording ("HAMR") and Energy Assisted Magnetic Recording ("EAMR"). Initial shipments of HAMR and EAMR-based HDDs began in 2020. Intevac believes that leading manufacturers of magnetic media that are using Intevac systems will continue to advance these new technologies, which we expect will create a significant market opportunity for Intevac to develop and install the HDD system upgrades that will be required by these new technologies.

For example, from late 2021 through the first half of 2022, Intevac received orders for approximately $70 million in 200 Lean HDD systems, which were intended to expand our customers' media manufacturing capacity. With the slowing of HDD unit demand that occurred beginning in mid-2022, our customers elected to accelerate deployment of HAMR system upgrades during this period of lower capacity utilization, and at the same time elected to spread their expected media capacity additions more ratably over the next two- to four-year period. Our HDD revenues through the 2023 timeframe are expected to consist primarily of HDD upgrades, spares and field service.

DCP Market

Intevac develops equipment to deposit optically transparent thin films onto DCPs typically found on consumer and automotive electronics products including smartphones, foldable devices, smartwatches, wearable devices, tablet PCs, gaming systems, digital cameras, automotive infotainment systems, point-of-sale devices, and digital signage. In 2022, approximately 1.2 billion smartphones, 516 million smart watches, and 457 million tablet PCs were shipped to consumers worldwide. For smartphones alone, it is forecasted that nearly 1.4 billion units will ship in 2026.

DCPs are typically made of tempered glass, such as soda-lime or aluminosilicate, or other materials such as sapphire, glass-ceramic and colorless polyimide. The primary function of the DCP is to provide a clear protective interface to the display it protects. In many cases, the DCP is treated with various coatings to enhance its protective performance as well as for clarity, readability and touch sensitivity. The types of coatings typically found on DCPs of electronic devices include: Scratch Protection ("SP") coatings, Anti-Reflection ("AR") coatings, Anti-Fingerprint ("AF") and Non-Conductive Vacuum Metallization ("NCVM") coatings.

SP coatings generally consist of hard thin films deposited onto the surface of the DCP. Their primary function is to provide enhanced protection against the incidence of scratch, but they can also provide greater breakage resistance. Intevac developed its own SP coating for DCP applications, utilizing its production-proven carbon film technology that is also used on HDD media. This coating provides a hard protective layer which significantly improves the DCP's resistance to scratches and breakage. Intevac expects that the adoption of AR and NCVM coatings on mobile devices will create an increased need for SP coatings and provide a significant demand opportunity for ultra-durable protective glass coatings.

AR coatings enable greater light transmission though the DCP by reducing the light reflected by the surface back to the user's eye. This allows the user to more easily read the display and reduces the required power needed to display the image which results in extending the battery life. A significant drawback to using AR coatings is their susceptibility to scratch. AR coatings are typically soft and must be applied to the outer surface of the DCP. These coatings generally scratch easily, and as such, smartphone manufacturers have been reluctant to implement AR coatings on their products. Intevac believes its DCP systems and applications of various protective thin film technologies to create ultra-durable AR coatings could represent a significant market opportunity.

AF coatings provide water and oil protection for the surface of the DCP. This coating, which prevents fingerprints, provides greater aesthetics as well as improving readability. AF coatings allow for greater visual acuity when fingerprints are not visible. The drawback to AF coatings is their relatively low resistance to wear. The coating is soft and usually wears off within a few months of product purchase.

In March 2022, as part of Intevac's restructuring program and realignment effort, the Company ceased pursuing several DCP projects and instead started a focused effort to develop a new, modular platform that can be configured to handle a variety of form factors, including two-dimensional ("2D") and three-dimensional ("3D") shapes and both small and large surface area substrates. This platform was introduced as TRIO™ in March 2022.

TRIO is a flexible, horizontal deposition tool platform that evolved from Intevac's decades of experience in delivering high-performance, cost-effective equipment for both the HDD and solar markets. TRIO leverages Intevac's materials science and coating equipment technology to deposit SP and AR coatings with enhanced durability for all types of mobile consumer devices, as well as auto display glass. The TRIO platform contains proprietary, patent-protected components and automation that allow fast, precise deposition of coatings with superior adhesion, hardness, strength, and optical properties.

In December 2022, the Company announced it had entered a joint development agreement with a major provider of glass and glass ceramic materials, which provides the glass manufacturer with exclusive access to TRIO for consumer device applications for a period of five years, provided it meets the minimum system purchase requirements of the agreement, which is estimated at a value of approximately $100 million. Intevac expects to continue to develop additional customer relationships for TRIO for other glass coating applications, such as in the automotive and point-of-sale display markets.

TFE Products

Intevac's TFE product portfolio addressing each of these markets is based around common core technologies and competencies. Intevac believes its TFE product portfolio can be extended to support adjacent markets. Based on its history and market and technology leadership in the HDD industry, Intevac offers superior high-productivity vacuum handling of small substrates at the lowest cost of ownership. Lowest cost of ownership includes various advantages such as high target utilization, high throughput, small footprint, double-sided coating, and reduced materials costs.

The following table presents a representative list of our TFE products.

TFE Products	Applications and Features
HDD Equipment Market	
200 Lean® Disk Sputtering System	• Uses physical vapor deposition (“PVD”) and chemical vapor deposition (“CVD”) technologies. • Deposits magnetic films, non-magnetic films and protective carbon-based overcoats. • Provides high-throughput for small-substrate processing. • Over 180 units installed.
Upgrades, spares, consumables and services (non-systems business)	• Upgrades to the installed base to support the continued growth in areal density or reduce the manufacturing cost per disk.
DCP Market	
TRIO	• Uses proprietary sputtering technology for multiple film types. • Allows for precise deposition of thin film layering to manage film stress. • Uses patented deposition systems and designs. • Modular design enables expandability. • Can operate at low vacuum pressure and temperature, allowing coating of a variety of substrate types. • Can coat both 2D and 3D substrates of different sizes with high precision control of resultant performance.

Recent Changes to Business Strategy

Prior to March 2022, Intevac designed, developed and marketed manufacturing equipment for the photovoltaic (“PV”) solar cell and advanced semiconductor packaging (“ASP”) industries, including PV solar cell ion implantation products and a specific type of deposition equipment for semiconductor fan-out packaging applications (INTEVAC MATRIX PVD).

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 includes (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 products Intevac ceased offering in March 2022 include the following:

TFE Products	Applications and Features
DCP Market	
INTEVAC VERTEX® System	• Utilizes vertical sputtering for multiple film types. • Provides high-throughput for small-substrate processing. • Uses patented carbon deposition source. • Modular design enables expandability. • Enables low-temperature processing.
INTEVAC VERTEX® Spectra System	• Extension of the VERTEX system. • Incorporates multiple source technologies in a single system. • Uses proprietary ion beam processing for deposition and etching. • Enables unique patterned NCVM and hard AR coatings
INTEVAC VERTEX® Marathon System	• Versatile platform for high volume manufacturing of multi-step, multi-layer optical coatings. • Enables diverse coatings - DiamondClad, patterned NCVM and AR films.
Solar PV Market	
ENERG*i*® Implant System	• Supports both phosphorus and boron dopant technologies. • Extendable to new advanced solar cell structures.

TFE Products	Applications and Features
ASP Market	
INTEVAC MATRIX PVD System	• Deposits barrier/seed layers for fan-out RDL. • Includes LSMA magnetron source, with industry-leading target utilization rate of over 65 percent. • Provides high-throughput and low cost of ownership for small-substrate or large panel processing. • Provides flexibility for handling round, square, or rectangular substrates for fan-out packaging.
Adjacent Markets	
INTEVAC MATRIX System	• Incorporates multiple thin-film deposition techniques such as PVD, CVD, Etch, Implant, heating and cooling. • Consists of high-speed linear transport. • Flexible design enables handling of various different small substrate sizes and shapes. • Performs double-sided coating within vacuum.

Customer Concentration

Historically, a significant portion of Intevac's revenue in any particular period has been attributable to sales to a limited number of customers.

The following customers accounted for at least 10 percent of Intevac's consolidated net revenues in fiscal 2022 and 2021.

	2022	2021
Seagate Technology	80%	60%
Western Digital Corporation	18%	25%
Amkor Technology, Inc.	*	10%

* Less than 10%

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.

Foreign sales accounted for 87% of revenue in fiscal 2022 and 90% of revenue in fiscal 2021. The majority of Intevac's foreign sales are to companies in Asia or to U.S. companies for use in their Asian manufacturing or development operations. Intevac anticipates that foreign sales will continue to be a significant portion of Intevac's revenues. Intevac's disk sputtering equipment customers include magnetic disk manufacturers, such as Showa Denko, and vertically integrated HDD manufacturers, such as Seagate Technology, Western Digital Corporation and HGST. Intevac's DCP equipment customers include DCP manufacturers, such as Truly Opto-electronics. In December 2022, the Company entered a joint development agreement with a major provider of glass and glass ceramic materials for our TRIO platform. Intevac's customers' manufacturing facilities are primarily located in California, China, Taiwan, Japan, Malaysia, Portugal and Singapore.

Competition

The principal competitive factors affecting the markets for Intevac's products include price, product performance and functionality, ease of integration, customer support and service, reputation and reliability. Intevac has one major competitor, Canon Anelva, in the HDD equipment market and has historically experienced intense worldwide competition for magnetic disk sputtering equipment. Intevac faces competition in the DCP market from optical coating equipment manufacturers such as Optorun, Shincron and Hongda, glass manufacturers that may develop scratch resistant glass, touchscreen manufacturers that may adopt harder substrate materials, or other equipment companies, chemical companies or the display cover plate manufacturers themselves that may offer competing protective coatings including DLC, NCVM and AR. These competitors generally have substantially greater financial, technical, marketing, manufacturing and other resources as compared to Intevac.

Furthermore, any of Intevac's competitors may develop enhancements to, or future generations of, competitive products that offer superior price or performance features. In addition, new competitors, with enhanced products may enter the markets that Intevac currently serves.

Prior to the implementation of its restructuring program in March 2022, Intevac also faced competition from large established global competitors in the PV equipment market including Centrotherm Photovoltaics, Jusung, Kingstone, Von Ardenne and Belight Technology and competitors for PVD processes in the fan-out packaging market such as SPTS Technologies (a KLA company), Evatec AG, ULVAC Technologies, Inc., Tango Systems, Inc. (an Applied Materials company) and ASM NEXX, Inc.

Marketing and Sales

Sales are made primarily through Intevac's direct sales force. Intevac also sells its products through distributors in Japan and China. The selling process for Intevac's products is multi-level and lengthy, involving individuals from marketing, engineering, operations, customer service and senior management.

Installing and integrating new equipment requires a substantial investment by a customer. Sales of Intevac's systems depend, in significant part, upon the decision of a prospective customer to replace obsolete equipment or to increase manufacturing capacity by upgrading or expanding existing manufacturing facilities or by constructing new manufacturing facilities, all of which typically involve a significant capital commitment. Intevac's systems have a lengthy sales cycle, during which Intevac may expend substantial funds and management time and effort with no assurance that a sale will result.

The production of large complex systems requires Intevac to make significant investments in inventory both to fulfill customer orders and to maintain adequate supplies of spare parts to service previously shipped systems. Intevac maintains inventories of spare parts in the United States, Singapore, Malaysia and China to support its customers. Intevac often requires its customers to pay for systems 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 and any sales tax due upon completion of installation and acceptance of the system at the customer's factory.

Intevac provides process and applications support, customer training, installation, start-up assistance and post-installation service support to Intevac's customers. Intevac supports U.S. customers from Intevac headquarters in Santa Clara, California, and has field offices in Singapore, China, and Malaysia to support customers in Asia.

Warranties for Intevac's products typically range between 12 and 24 months from customer acceptance. During the warranty period any necessary non-consumable parts are supplied and installed without charge.

Research and Development and Intellectual Property

Intevac's long-term growth strategy requires continued development of new products. Intevac works closely with Intevac's customers to design products that meet their planned technical and production requirements. Product development and engineering organizations are located primarily in the United States and Singapore.

Intevac's competitive position significantly depends on Intevac's research, development, engineering, manufacturing and marketing capabilities, and not just on Intevac's patent position. However, protection of Intevac's technological assets by obtaining and enforcing intellectual property rights, including patents, is important. Therefore, Intevac's practice is to file patent applications in the United States and other countries for inventions that Intevac considers important. Although Intevac does not consider Intevac's business materially dependent upon any one patent, the rights of Intevac and the products made and sold under Intevac's patents along with other intellectual property, including trademarks, know-how, trade secrets and copyrights, taken as a whole, are a significant element of Intevac's business.

Intevac enters into patent and technology licensing agreements with other companies when management determines that it is in Intevac's best interest to do so. Intevac pays royalties under existing patent license agreements for use of certain patented technologies in several of Intevac's products.

In the normal course of business, Intevac periodically receives and makes inquiries regarding possible patent infringements. In dealing with such inquiries, it may be necessary or useful for us to obtain or grant licenses or other rights.

However, there can be no assurance that such licenses or rights will be available to us on commercially reasonable terms, or at all. If Intevac is not able to resolve or settle claims, obtain necessary licenses and/or successfully prosecute or defend Intevac's position, Intevac's business, financial condition and results of operations could be materially and adversely affected.

Manufacturing

Intevac manufactures its products at its facilities in California and Singapore. Intevac's manufacturing operations include electromechanical assembly, vacuum processing, fabrication of sputter sources, and system assembly, alignment and testing.

Government Regulations

We are subject to various government regulations in the United States as well as various international locations where we operate. These regulations cover several diverse areas including environmental compliance, import and export controls, economic sanctions, data and privacy protection, transfer pricing rules, anti-bribery, anti-trafficking and anti-trust provisions. Our policies mandate compliance with applicable laws and regulations administered by various state, federal and international agencies. We instituted various training programs to educate our employees on compliance with governmental regulations, as well as applied legal and ethical practices in our everyday work. We are subject to international, federal, state, and local legislation, regulations, and other requirements relating to the use, storage, discharge, handling, emission, generation, manufacture, treatment and disposal of toxic or otherwise hazardous substances, chemicals, materials or waste; recycling and product packaging; worker health and safety; and other activities affecting the environment, our workforce, and the management of our manufacturing operations. We believe that our operations and facilities comply in all material respects with applicable environmental laws and worker health and safety laws. We treat the cost of complying with government regulations and operating a safe workplace as a normal cost of business and allocates the cost of these activities to all functions, except where the cost can be isolated and charged to a specific function. The environmental standards and regulations promulgated by government agencies in California and Singapore are particularly rigorous and set a high standard of compliance. 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. We believe our costs of compliance with these regulations and standards are comparable to other companies operating similar facilities in these jurisdictions. We are also subject to import/export controls, tariffs, and other trade-related regulations and restrictions in the countries in which we have operations or otherwise do business. These controls, tariffs, regulations, and restrictions (including those related to, or affected by, United States-China relations) have had, and we believe may continue to have, a material impact on our business, including our ability to sell products and to manufacture or source components. The development of additional statutes and regulations and interpretation of existing statutes and regulations with respect to our industry can be expected to evolve over time. As with any commercial enterprise, we cannot predict with certainty the nature or direction of the development of federal statutes and regulations that will affect our business operations.

Human Capital Resources

General Information About Our Human Capital Resources

As of December 31, 2022, we had 166 employees, including 12 contract employees. Approximately 52% of our employees are located in the United States and 48% are located in Asia. Of our total workforce, 43 employees are involved in research and development; 81 employees are involved in operations, manufacturing, service and quality assurance; and 42 employees are involved in sales, order administration, marketing, finance, information technology, general management and other administrative functions.

Core Principles

Our core values are integral to our Company culture. We pride ourselves in providing a safe and positive work environment where mutual respect and ethical conduct is a core value. We believe in continuous learning and professional development and provide employees with opportunities to grow.

Community Involvement

Our employees are committed to making a difference in the community by actively volunteering and fundraising for many charities, including the American Cancer Society, Second Harvest, Humane Society, Make-a-Wish Foundation, and Salvation Army.

Health and Safety

The health and safety of our employees is of utmost importance to us. We conduct regular self-assessments and audits to ensure compliance with our health and safety guidelines and regulatory requirements. Our ultimate goal is to achieve a level of work-related injuries as close to zero as possible through continuous investment in our safety programs. We provide protective gear (e.g. eye protection, masks and gloves) as required by applicable standards and as appropriate given employee job duties. Annual participation in trainings related to ethics, environment, health and safety, and emergency responses are at or near 100%.

Refer to “Impact of COVID-19” included in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for information on actions taken by the Company to support its employees in response to the COVID-19 pandemic.

Talent Management

We regularly monitor and review with management human capital metrics that are key to our business, including hiring statistics, promotion rates, turnover rates, career growth and development, and diversity and inclusion.

Hiring Practices

It is our policy to hire and promote the best-qualified person for the job and comply fully with all domestic, foreign and local laws relating to discrimination in the workplace. Our good faith outreach efforts are designed to ensure that there are no barriers for members of any group and to encourage interest by all qualified persons. We believe our actions enhance diversity, including recruiting at venues representing women, minorities and U.S. military veterans.

Turnover

We continually monitor employee turnover rates, both regionally and as a whole, as our success depends upon retaining our highly trained engineering, manufacturing and operating personnel. The average tenure of our employees is 10.0 years in the United States and 9.1 years in Asia.

Diversity and Inclusion

Recognizing and respecting our global presence, we strive to maintain a diverse and inclusive workforce everywhere we operate. We believe that a diverse and motivated workforce is vital to our success. We strive to advance diversity and inclusion through various talent acquisition programs to attract, retain and develop a diverse, highly-skilled work force. We conduct employee surveys to provide on-going feedback on how we are doing against our commitment to treat all employees fairly and provide equal opportunity in an environment free of discrimination. Our diversity and inclusion principles are also reflected in our employee training, in particular by educating employees about our policies against harassment and bullying and about the elimination of bias in the workplace.

Management Team

We believe our management team has the experience necessary to effectively execute our strategy and advance our product and technology leadership. Our chief executive officer has more than 25 years of industry experience. He is supported by an experienced and talented professional team.

Training and Talent Development

We are committed to the continued development of our employees. Strategic talent reviews and succession planning occur on a planned cadence annually – globally and across all business areas. We are committed to identifying and developing the talents of our next generation leaders. We have a robust talent and succession planning process and have established specialized programs to support the development of our talent pipeline for critical roles in management, engineering, and operations. We also provide technical, professional and leadership training to our employees. We recognize and support the growth and development of our employees and offer opportunities to participate in internal as well as external learning opportunities. In 2022, the Company initiated a leadership training program. Approximately 50 employees globally participated in the leadership training program at a cost of approximately $2,800 per employee. The Company plans to increase the number of employees participating in this program in 2023 by 50%.

Compensation and Benefits

We strive to offer employees regionally competitive compensation and benefits that are aligned to our values. All employees receive a base salary, incentive compensation and welfare benefits. Depending on the region, benefits may include medical, dental and vision coverage, short and long-term disability income protection, flexible spending plans (health, dependent and limited flexible spending) and basic and supplemental life insurance, accidental death and dismemberment insurance and retirement savings plan. Intevac pays the majority or all of the costs for these benefits.

We have various employee incentive plans. Our profit-sharing plan provides for the distribution of a percentage of pre-tax profits to substantially all of our employees not eligible for other performance-based incentive plans. Our executives and key contributors participate in bonus plans based on the achievement of profitability and other individual performance goals and objectives.

To foster a stronger sense of ownership and align the interests of employees with our stockholders we grant equity-based awards, including restricted stock units and performance-based restricted stock units to eligible employees. We also have an employee stock purchase plan, which provides employees with the opportunity to purchase Intevac common stock at a discount through payroll deductions. See Note 4 to the consolidated financial statements for a description of these plans.

Oversight and Management

As noted in its charter, our Compensation Committee is responsible for periodically reviewing our employee programs and initiatives, including healthcare and other benefits, as well as our management development and succession planning practices and strategies.

Information about our Executive Officers

Certain information about our executive officers and other key officers as of February 16, 2023 is listed below:

Name	Age	Position
Executive Officers:		
Nigel D. Hunton	60	President and Chief Executive Officer
James Moniz	64	Executive Vice President, Finance and Administration, Chief Financial Officer, Secretary and Treasurer
John Dickinson	55	Vice President of Operations
Other Key Officers:		
Samuel Harkness	57	Vice President of Product Development and Technology
Mark Popovich	60	Vice President of Business Development
Eva Valencia	59	Vice President of Sales

Mr. Hunton joined Intevac in January 2022 as President and Chief Executive Officer and a member of the Board of Directors. Prior to joining Intevac, Mr. Hunton served as President and Chief Executive Officer at Photon Control Inc., a fiber optics equipment manufacturing company, from May 2019 to July 2021. From July 2017 to May 2019, he was the President and Chief Executive Officer at Ferrotec (USA) Corporation, an electronics component manufacturing company. From April 2017 to July 2017, Mr. Hunton served as Special Projects Manager at Ferrotec GmbH. Mr. Hunton served as Managing Director at Hunton Associates Ltd, a management consulting company, from January 2016 to July 2017. From 2012 to 2015, Mr. Hunton served as Chief Executive Officer of MBA Polymers, Inc., a recycling company. From 1985 to 2012, Mr. Hunton served in various management roles at the Edwards Group, a global vacuum technology company. Mr. Hunton holds a BS in mechanical engineering from University of Manchester Institute of Science and Technology.

Mr. Moniz joined Intevac as Executive Vice President, Finance and Administration, Chief Financial Officer and Treasurer in November 2014. Mr. Moniz previously served as the Chief Financial Officer of Nanometrics, Inc. from 2009 until his retirement in 2011. During 2008, Mr. Moniz was the Chief Financial Officer at Photon Dynamics, Inc. From 2000 until 2008, Mr. Moniz served as the Chief Financial Officer at Nextest Systems Corporation. Prior to Nextest, Mr. Moniz held senior financial management positions at Millennia Vision Corporation, Lockheed Martin Corporation, Loral Corporation and Varian Associates. Mr. Moniz holds an MBA, a BS in accounting and a BS in marketing from San Jose State University.

Mr. Dickinson joined Intevac as Vice President of Operations in August 2022. Mr. Dickinson previously served as Director, Mechanical Engineer within the ICAPS group (encompassing chips for IoT, communications, automotive, power, and sensors) of Applied Materials, Inc. from April 2021 to August 2022. From January 2018 to April 2021, Mr. Dickinson served as Managing Director of the Livermore Business Unit of Ferrotec USA. From 2012 until April 2018, Mr. Dickinson served as Applications Engineering Director, Distinguished Member of the Technical Staff at Applied Materials, Inc. From 1995 to 2012, Mr. Dickinson held various management and engineering roles at the Edwards Group. Mr. Dickinson holds a MS in Mechanical Engineering and Materials from the University of London.

Dr. Harkness has served as Vice President of Product Development and Technology since May 2022. Dr. Harkness re-joined Intevac in October 2018 as a Senior Member of the Technical Staff and accepted increasing responsibility leadership positions to include his current role. From 2014 to 2018, Dr. Harkness served as Founder and President of HIA, Inc., a magnetron development company that was acquired by Intevac in August 2022. In 2013 to 2014, Dr. Harkness was a Technologist for Veeco Instruments, a global capital equipment company. From 2012 to 2013, Dr. Harkness was Device Physicist for Plextronics Inc., a start-up venture in OLED solution processing. From 1998 to 2009, Dr. Harkness held various technical leadership roles at Seagate Technology in the component development organization for hard disk drive products. From 2010 to 2012 and from 1996 to 1998, Dr. Harkness held various management and engineering roles at Intevac. Dr. Harkness holds a Ph.D. and a BS in material science and engineering from the University of Florida.

Mr. Popovich joined Intevac as Vice President of Business Development in October 2022. From February 2018 to November 2022 Mr. Popovich served as a director of Intevac. Beginning in March 2022, Mr. Popovich has served as an independent industry consultant to semiconductor and display-related companies, and from May 2022 to October 2022, provided professional services to Intevac related to business development activities in its equipment growth initiatives. From November 2017 to February 2022, Mr. Popovich served as the Chief Executive Officer of 3D Glass Solutions, a privately-held company producing glass-based system-on-chip and system-in-package. In 2017, Mr. Popovich was the Chief Strategy Officer of Semblant, Inc., a start-up specializing in waterproof nano-coatings for consumer electronics products. From 2013 until 2017, Mr. Popovich held corporate vice president positions at Henkel Corporation, a multi-national chemical and consumer goods company. From 2002 until 2013, Mr. Popovich served as general manager, vice president at Amkor Technology, an outsourced provider in the semiconductor assembly and packaging industry. From 1996 until 2002, Mr. Popovich served as a director at ChipPAC Inc, a semiconductor company. Mr. Popovich holds a BS in Ceramic Science & Engineering from Pennsylvania State University.

Ms. Valencia joined Intevac as Vice President of Sales in November 2022. From August 2021 to November 2022, Ms. Valencia served as Senior Director, Semiconductor Sales at MKS Corporation, a provider of semiconductor manufacturing, advanced electronics and specialty industrial application products. From July 2019 to August 2021, Ms. Valencia served as Vice President at Photon Control Inc., a provider of optical sensors and systems to the semiconductor equipment industry. From March 2013 to July 2019, Ms. Valencia was Sales Director at Ferrotec (USA) Corporation, an electronics component manufacturing company. From 2011 until 2013, Ms. Valencia was Western Regional Sales Manager at Maine Machine, a manufacturer of high tolerance precision machined components and assemblies. From 2008 until 2011, Ms. Valencia served as Key Account Manager at Entegris Corporation, a provider of advanced materials and materials handling solutions for semiconductor manufacturing processes. From 2006 until 2008, Ms. Valencia served as Western Regional Sales Manager at SUSS MicroTec Inc., a supplier of equipment and process solutions for the semiconductor industry and adjacent markets such as advanced packaging, microelectromechanical systems (MEMS) and light emitting diode (LED). Ms. Valencia holds a BS in Biology from Notre Dame de Namur University.

Available Information

Intevac's website is *http://www.intevac.com.* Intevac makes available free of charge, on or through its website, its annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with, or furnishing them to, the SEC. This website address is intended to be an inactive textual reference only and none of the information contained on Intevac's website is part of this report or is incorporated by reference herein.

Trademarks

Intevac's trademarks include the following: "200 Lean®," "DiamondClad®," "ENERG*i*®," "INTEVAC LSMA®," "INTEVAC MATRIX®," "oDLC®," and "INTEVAC TRIO™"

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 Annual Report on Form 10-K.

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 were down from the levels in 2018 as this customer took delivery of fewer or no (in the case of 2021 and 2022) systems. Intevac expects sales of systems and upgrades for magnetic disk production in 2023 will be at levels similar to 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, resulting from factors such as the COVID-19 pandemic, such as labor supply and shipping container shortages, 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.

The impact of the COVID-19 pandemic, or similar global health concerns, has negatively impacted and could continue to negatively impact our operations, supply chain and customer base.

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

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

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

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

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

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 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 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Intevac maintains its corporate headquarters in Santa Clara, California. The location, approximate size and type of facility of the principal properties are listed below. Intevac leases all of its properties and does not own any real estate.

Location	Square Footage	Principal Use
Santa Clara, California	169,583*	Corporate Headquarters; Marketing, Manufacturing, Engineering and Customer Support
Singapore	31,947	Manufacturing and Customer Support
Malaysia	1,291	Customer Support
Shenzhen, China	2,568	Customer Support

* In connection with the disposition of our Photonics business, we entered into a lease assignment agreement with EOTECH that assigns the lease obligation for two buildings in our California campus consisting of 94,890 square feet of rentable space to EOTECH. As part of the assignment, we agreed to subsidize a portion of EOTECH's lease payments through the remainder of the lease term which expires in March 2024.

Intevac considers these properties adequate to meet its current and future requirements. Intevac regularly assesses the size, capability and location of its global infrastructure and periodically makes adjustments based on these assessments.

Item 3. ***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. For a description of our material pending legal proceedings, see Note 12 "Commitments and Contingencies" to the consolidated financial statements in Part II, Item 8 of this Annual Report. See also "Risk Factors" in Part I, Item 1A of this Annual Report.

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

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

Intevac common stock is traded on The Nasdaq Stock Market (NASDAQ Global Select) under the symbol "IVAC." As of February 16, 2023, there were 73 holders of record.

Recent Sales of Unregistered Securities

None.

Dividend Policy

We currently anticipate that we will retain our earnings, if any, for use in the operation of our business and do not expect to pay cash dividends on our capital stock in the foreseeable future.

Repurchases of Intevac Common Stock

On November 21, 2013, Intevac's Board of Directors approved a stock repurchase program authorizing up to $30.0 million in repurchases. On August 15, 2018, Intevac's Board of Directors approved a $10.0 million increase to the original stock repurchase program authorizing up to $40.0 million. There is no expiration date on this authorization, and we may suspend, amend or discontinue the repurchase program at any time. Intevac did not make any common stock repurchases during the three months ended December 31, 2022. At December 31, 2022, $10.4 million remains available for future stock repurchases under the repurchase program.

Item 6. *[Reserved]*

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Management's Discussion and Analysis ("MD&A") is intended to facilitate an understanding of Intevac's business and results of operations. This MD&A should be read in conjunction with Intevac's Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included elsewhere in this Form 10- K. The following discussion contains forward-looking statements and should also be read in conjunction with the cautionary statement set forth at the beginning of this Form 10-K. MD&A includes the following sections:

- *Overview:* a summary of Intevac's business, measurements and opportunities.
- *Results of Operations:* a discussion of operating results.
- *Liquidity and Capital Resources:* an analysis of cash flows, sources and uses of cash, and financial position.
- *Critical Accounting Policies and Estimates:* a discussion of estimates that that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition or results of operations.

Discontinued Operations

On December 30, 2021, the Company completed the sale of its Photonics business to EOTECH. As a result of the disposition, the results of operations from the Photonics reporting segment are reported as "Net income from discontinued operations, net of taxes" in the consolidated financial statements in Item 8 of this Annual Report. The Company has recast prior period amounts presented within this Annual Report to provide visibility and comparability.

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: Thin-film Equipment ("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 includes (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.

Fiscal Year	**2022**	**2021**	**Change 2022 vs. 2021**
	(in thousands, except percentages and per share amounts)		
Net revenues	$ 35,761	$ 38,524	$ (2,763)
Gross profit	$ 15,086	$ 7,067	$ 8,019
Gross margin percent	42.2%	18.3%	23.9 points
Operating loss	$ (16,512)	$ (22,476)	$ 5,964
Net loss from continuing operations	$ (16,754)	$ (23,057)	$ 6,303
Net income (loss) from discontinued operations, net of tax	$ (321)	$ 49,677	$ (49,998)
Net income (loss)	$ (17,075)	$ 26,620	$ (43,695)
Net income (loss) per basic and diluted share	$ (0.68)	$ 1.09	$ (1.77)

Fiscal 2021 financial results reflected a challenging environment. In fiscal 2021, we recognized revenue on our first MATRIX PVD system for ASP and sold the Photonics division and recognized a gain of $54.3 million and received cash of $70 million upon the closing of the transaction. Fiscal 2021 financial results for our continuing operations reflected a challenging environment as we did not recognize revenue on any 200 Lean HDD systems. During fiscal 2021, we recorded an $8.4 million inventory valuation write-down primarily related to our solar and Vertex inventory due to business conditions and lack of demand. During fiscal 2021, we received $83,000 in government assistance related to COVID-19 from the government of Singapore, of which $56,000 was reported as a reduction of cost of net revenues, $10,000 was reported as a reduction of R&D expenses and $17,000 was reported as a reduction of selling, general and administrative expenses. During fiscal 2021, we did not recognize an income tax benefit on our U.S. net operating loss.

Fiscal 2022 financial results reflected a continued challenging environment as HDD equipment sales were at similar levels to fiscal 2021, and we did not recognize revenue on any 200 Lean HDD systems. Higher gross margin in fiscal 2022 reflects the higher-margin contribution from HDD upgrades, offset in part by $755,000 in charges for excess and obsolete inventory as part of the Company's realignment effort. R&D expenses for fiscal 2022 include $1.5 million in expenditures related to the disposal of certain lab equipment as part of the realignment effort. The cost of employee severance associated with the realignment effort of $1.2 million was offset in full by stock-based compensation forfeitures related to the employees affected by the reduction in workforce. TSA and shared service fees were $989,000 for fiscal 2022, of which $23,000 was reported as a reduction of cost of net revenues and $966,000 was reported as a reduction of selling, general and administrative expenses. The agreed-upon charges for such services are generally intended to allow the service provider to recover all costs and expenses of providing such services. The Company did not receive any government assistance related to COVID-19 from the government of Singapore in fiscal 2022. During fiscal 2022, we did not recognize an income tax benefit on our U.S. net operating loss.

We believe fiscal 2023 will continue to be a challenging year, and Intevac does not expect be profitable in fiscal 2023. Intevac expects that 2023 HDD equipment sales will be similar to 2022 levels. We believe there will be improvements to our HDD equipment sales in the future as we expect a customer to start taking deliveries from the eleven systems in backlog starting in fiscal 2023. In fiscal 2023, we expect to begin recognizing revenue from our TRIO platform as the product completes qualifications and follow on production shipments. However, 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. In addition, rising inflation and interest rates may impact demand for our products and services and our cost to provide products and services.

The Impact of COVID-19

The impact of COVID-19, including changes in consumer behavior, pandemic fears, and market downturns, as well as restrictions on business and individual activities, has created significant volatility in the global economy and led to reduced economic activity. Although COVID-19 vaccines are now broadly distributed and administered, there remains significant uncertainty concerning the magnitude of the impact and the duration of the COVID-19 pandemic. As new strains of COVID-19 develop, the continued impacts to our business could be material to our fiscal 2023 results. Further, the impacts of inflation and interest rate fluctuations on our business and the broader economy, which may continue to be exacerbated by the economic recovery from the COVID-19 pandemic, may also impact our financial condition and results of operations. Our customers may delay or cancel orders due to reduced demand, supply chain disruptions, and/or travel restrictions and border closures.

In Singapore, Intevac received government assistance under the Job Support Scheme ("JSS"). The purpose of the JSS was to provide wage support to employers to help them retain their local employees. Under the JSS, Intevac received $83,000 in JSS grants in fiscal 2021. Under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), we deferred the payment of the employer portion of payroll taxes in fiscal 2020 and received tax benefits from the employee retention tax credit. We repaid the first installment of the deferred payroll taxes at the end of fiscal 2021 and the second installment of the deferred payroll taxes at the end of fiscal 2022.

During both fiscal 2022 and fiscal 2021, the Company's expenses included approximately $67,000 and $159,000, respectively, due to costs related to actions taken in response to COVID-19.

Results of Operations

Net revenues

	Fiscal Year 2022	Fiscal Year 2021	Change 2022 vs. 2021
		(in thousands)	
Total net revenues	$35,761	$38,524	$ (2,763)

Net revenues consist primarily of sales of equipment used to manufacture thin-film disks, PV cells, DCPs, and advanced semiconductor packaging and related equipment.

The decrease in revenues in fiscal 2022 versus fiscal 2021 was due primarily to lower systems sales and lower service and spare parts sales, offset in part by higher technology upgrade sales. In fiscal 2022, we recognized revenue on technology upgrades, service and spare parts. In fiscal 2021, we recognized revenue on one MATRIX PVD system for ASP, technology upgrades, service and spare parts. Since implementing our restructuring program, we expect to see declining revenue from our PV cells, ASP products and equipment.

Backlog

	December 31, 2022	January 1, 2022
	(in thousands)	
Total backlog	$ 121,743	$ 24,725

Backlog at December 31, 2022 included eleven 200 Lean HDD systems. Backlog at January 1, 2022 included one 200 Lean HDD system. From late 2021 through the first half of 2022, Intevac received orders for approximately $70 million for eleven 200 Lean HDD systems, intended to expand our customers' media manufacturing capacity. With the slowing of HDD unit demand that occurred beginning in mid-2022, our customers elected to accelerate deployment of HAMR system upgrades during this period of lower capacity utilization, and at the same time elected to spread their expected media capacity additions more ratably over the next two- to four-year period. Our HDD revenues through the 2023 timeframe are expected to consist primarily of HDD upgrades, spares and field service. On December 31, 2022, we had $121.7 million of backlog and expect to recognize as revenue: 38% in 2023, 21% in 2024, 0% in 2025 and 41% in 2026.

Significant portions of Intevac's revenues in any particular period have been attributable to sales to a limited number of customers. The following customers accounted for at least 10 percent of Intevac's consolidated net revenues in fiscal 2022 and 2021.

	2022	2021
Seagate Technology	80%	60%
Western Digital Corporation	18%	25%
Amkor Technology, Inc.	*	10%

* Less than 10%

Revenue by geographic region

	Fiscal Year 2022	Fiscal Year 2021
	(in thousands)	
United States	$ 4,558	$ 3,670
Asia	31,103	31,004
Europe	100	3,850
Total net revenues	$35,761	$38,524

International sales include products shipped to overseas operations of U.S. companies. The increase in sales to the U.S. region in fiscal 2022 versus fiscal 2021, reflected higher HDD upgrade, spare parts and service sales. The increase in sales to the

Asia region in fiscal 2022 versus fiscal 2021, reflected higher HDD upgrade sales offset in part by lower spare parts and service sales. Sales to the Asia region in all periods presented did not include any systems. Sales to the Europe region in fiscal 2021 included one MATRIX PVD system for advanced semiconductor packaging.

Gross margin

	Fiscal Year		Change
	2022	2021	2022 vs. 2021
	(in thousands, except percentages)		
Total gross profit	$15,086	$7,067	$ 8,019
% of net revenues	42.2%	18.3%	

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

Gross margin was 42.2% in fiscal 2022 compared to 18.3% in fiscal 2021. Fiscal 2022 gross margins improved over fiscal 2021 primarily due to lower inventory write downs. The improvement in the gross margin percentage for fiscal 2022 was due primarily to the higher-margin contribution from HDD upgrades, offset in part by $755,000 in charges for excess and obsolete inventory as part of the Company's realignment effort. Fiscal 2021 gross margin reflected an $8.4 million inventory valuation write-down primarily related to our solar and Vertex inventory, as well as a lower margin on the first MATRIX PVD system for ASP. As part of the 2022 realignment effort, the Company no longer offers the MATRIX PVD system for ASP. Gross margins will continue to vary depending on a number of factors, including product mix, product cost, system configuration and pricing, factory utilization, and provisions for excess and obsolete inventory.

Research and development

	Fiscal Year		Change
	2022	2021	2022 vs. 2021
	(in thousands)		
Research and development expense	$13,722	$12,176	$ 1,546

Research and development expense consists primarily of salaries and related costs of employees engaged in, and prototype materials used in ongoing research, design and development activities for DCP manufacturing equipment, HDD disk sputtering equipment, PV cell manufacturing equipment and semiconductor Fan-out equipment. As part of this realignment effort, in March 2022, the Company ceased its efforts to develop and market several of its manufacturing platforms for the DCP, PV and ASP industries.

Research and development spending in fiscal 2022 increased compared to fiscal 2021 due to higher spending on DCP development, offset in part by lower spending on HDD, semiconductor Fan-out and PV development. R&D spending during fiscal 2022 includes $1.5 million in expenditures related to the disposal of certain lab equipment as part of the realignment effort.

Selling, general and administrative

	Fiscal Year		Change
	2022	2021	2022 vs. 2021
	(in thousands)		
Selling, general and administrative expense	$17,876	$17,367	$ 509

Selling, general and administrative expense consists primarily of selling, marketing, customer support, financial and management costs. All domestic sales and the majority of international sales of HDD disk sputtering products in Asia are made through Intevac's direct sales force. Intevac has offices in Singapore, Malaysia and China to support Intevac's customers in Asia.

Selling, general and administrative expenses increased in fiscal 2022 over the amount spent in fiscal 2021 due to higher variable compensation expenses, higher stock compensation expenses, higher consulting expenses, increased travel expenses and by one-time severance charges associated with the realignment effort, offset in part by lower legal expenses, cost savings as a result of the restructuring program implemented in the first quarter of fiscal 2022 and TSA reimbursements. Selling, general and administrative expense in fiscal 2022 is net of $966,000 in TSA and shared services fees earned since the Photonics divestiture. The agreed-upon charges for such services are generally intended to allow the service provider to recover all costs and expenses of providing such services. The TSA was substantially concluded in the second quarter of fiscal 2022. In August 2022, Intevac and EOTECH entered into a Shared Services Agreement to share certain building maintenance costs. Selling, general and administrative expenses in fiscal 2021 included the $1.0 million accrual for settlement of the PAGA lawsuit which was paid on January 20, 2023.

Cost reduction plans

During the first quarter of 2022, the Company implemented a restructuring program (the “2022 Cost Reduction Plan”) to realign the Company’s operational focus, scale the business and improve costs. The restructuring program includes (i) reducing the Company’s headcount and (ii) eliminating several 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. 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 consolidated statements of operations. Substantially all cash outlays in connection with the 2022 Cost Reduction Plan were completed in the fourth quarter of fiscal 2022. 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.

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

Interest income and other income (expense), net

	Fiscal Year		Change
	2022	2021	2022 vs. 2021
	(in thousands)		
Interest income and other income (expense), net	$1,085	$ (6)	$ 1,091

Interest income and other income (expense), net in fiscal 2022 included $1.2 million of interest income on investments, other income of $31,000 offset in part by $186,000 of foreign currency losses. Interest income and other income (expense), net in fiscal 2021 included $29,000 of interest income on investments, other income of $30,000 offset in part by $65,000 of foreign currency losses. The increase in interest income in 2022 over 2021 reflected higher invested balances and higher interest rates on Intevac’s investments.

Provision for income taxes

	Fiscal Year		Change
	2022	2021	2022 vs. 2021
	(in thousands)		
Provision for income taxes	$1,327	$575	$ 752

Intevac’s effective tax rate from continuing operations was (8.6%) for fiscal 2022 and (2.6%) for fiscal 2021 and we recorded income tax expense of $1.3 million in fiscal 2022 and $575,000 in fiscal 2021. 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 carryforwards and certain domestic tax credits. Intevac’s effective tax rate differs from the U.S. statutory rate in both fiscal 2022 and fiscal 2021 primarily due to the Company not recognizing an income tax benefit on the domestic loss.

In fiscal 2021, we did not recognize income tax expense on the gain from the sale of Photonics. The gain for federal purposes was offset by net operating losses. In California, we used tax credits to offset the tax due on the gain.

We assess the likelihood that our deferred tax assets will be recovered based upon our consideration of many factors, including the current economic climate, our expectations of future taxable income, and our ability to project such income. We maintain a full valuation allowance for our U.S. deferred tax assets due to uncertainty regarding their realization as of December 31, 2022.

Discontinued operations

	Fiscal Year		Change
	2022	2021	2022 vs. 2021
	(in thousands)		
Income (loss) from discontinued operations, net of tax	$(321)	$49,677	$ (49,998)

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. The loss from discontinued operations in fiscal 2022 decreased to a net loss of $321,000 as compared to income of $49.7 million in fiscal 2021. The loss from discontinued operations for fiscal 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, contract termination costs associated with software maintenance agreements, settlement of the net working capital adjustment and incremental legal expenses associated with the divestiture, offset in part by a stock-based compensation divestiture-related forfeiture benefit. Discontinued operations in fiscal 2021 included the gain on the sale of the Photonics business of $54.3 million, partially offset by the loss from the Photonics division, net of tax, which included $2.6 million of asset impairment and restructuring charges related to impairment on the right-of-use ("ROU") asset, lease exit costs associated with a rent subsidy provided to EOTECH and employee termination costs.

Upon the closing of the sale of the Photonics business on December 30, 2021, we received initial gross proceeds of $70.0 million. In January 2022, we delivered to EOTECH a draft closing statement that would reduce the working capital portion of the purchase price by $74,000. As a result, we have recognized a gain on the sale of $54.3 million computed as $70 million initial gross proceeds less (i) the potential $74,000 post closing adjustment, (ii) the carrying value of the assets and liabilities of $12.4 million transferred in the transaction and (iii) $3.2 million in transaction-related costs.

Liquidity and Capital Resources

At December 31, 2022, Intevac had $112.8 million in cash, cash equivalents, restricted cash and investments compared to $121.2 million at January 1, 2022. During fiscal 2022, cash, cash equivalents, restricted cash and investments decreased by $8.3 million due primarily to cash used by operating activities, purchases of fixed assets, the acquisition of Hia, Inc. and tax payments related to the net share settlement of restricted stock units 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:

	December 31, 2022	January 1, 2022
	(in thousands)	
Cash and cash equivalents	$ 68,904	$ 102,728
Restricted cash	786	786
Short-term investments	25,541	10,221
Long-term investments	17,585	7,427
Total cash, cash-equivalents, restricted cash and investments	$ 112,816	$ 121,162

Cash used by operating activities totaled $7.4 million in fiscal 2022 compared to cash generated by operating activities of $278,000 in fiscal 2021. Lower operating cash flow in fiscal 2021 was a result of a larger loss recognized from continuing operations.

Accounts receivable totaled $15.8 million at December 31, 2022 and $14.3 million at January 1, 2022. The number of days outstanding for Intevac's accounts receivable was 123 at December 31, 2022 compared to 90 at January 1, 2022. Net inventories totaled $30.0 million at December 31, 2022 compared to $5.8 million at January 1, 2022. Inventory turns were 1.1 in fiscal 2022 and were 0.8 in fiscal 2021. Accounts payable increased to $11.6 million at December 31, 2022 compared $5.3 million at January 1, 2022 primarily related to increased purchases of inventory. Accounts payable at January 1, 2022 included a payable of $2.0 million as a commission to the investment banker for the Photonics sale. Other accrued liabilities were $5.4 million at December 31, 2022 and $3.7 million at January 1, 2022. Other accrued liabilities at December 31, 2022 and January 1, 2022 included a $1.0 million accrual for the settlement of the PAGA lawsuit which was paid on January 20, 2023. Accrued payroll and related liabilities decreased to $3.1 million at December 31, 2022 compared to $5.5 million at January 1, 2022 as a result of lower variable compensation accruals. Customer advances increased from $2.1 million at January 1, 2022 to $24.7 million at December 31, 2022 as a result of recognition of new orders. Customer advances for orders with deliveries beyond one year are included in long term liabilities.

Investing activities used cash of $28.4 million in fiscal 2022 and generated cash of $71.2 million in fiscal 2021. Proceeds from the sale of the assets that comprised the Photonics business totaled $70.0 million in fiscal 2021. Purchases of investments, net of proceeds from sales and maturities of investments, totaled $25.7 million in fiscal 2022. Proceeds from sales and maturities of investments, net of purchases of investments, totaled $2.4 million in fiscal 2021. Capital expenditures were $1.9 million in fiscal 2022, and $1.2 million in fiscal 2021.

During fiscal 2022, the Company acquired the outstanding shares 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. The Company paid $700,000 on the closing date of the acquisition. Further contingent consideration will consist of amounts payable upon achievement of certain development and commercialization milestones, which is estimated to be up to $500,000, and a royalty arrangement. 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 and was accrued in the fourth quarter of 2022. Transaction costs incurred in connection with the Hia acquisition totaled $63,000.

Financing activities generated cash of $2.4 million in fiscal 2022 and $1.9 million in fiscal 2021. The sale of Intevac common stock to Intevac's employees through Intevac's employee benefit plans provided $3.1 million in fiscal 2022 and $2.6 million in fiscal 2021. Tax payments related to the net share settlement of restricted stock units were $724,000 in fiscal 2022 and $734,000 in fiscal 2021. In November 2013, Intevac's Board of Directors approved a stock repurchase program authorizing up to $30 million in repurchases. On August 15, 2018, Intevac's Board of Directors approved a $10.0 million increase to the original stock repurchase program authorizing up to $40.0 million in repurchases. There were no repurchases of common stock in fiscal 2022 and fiscal 2021, respectively.

Intevac's investment portfolio consists principally of investment grade money market mutual funds, U.S. treasury and agency securities, asset backed securities, certificates of deposit, commercial paper, 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 December 31, 2022, approximately $39.9 million of cash and cash equivalents and $3.2 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, settlement of the PAGA litigation and variable compensation. We have flexibility over some of these uses of cash, including capital expenditures and discretionary operating expenses, to preserve our liquidity position. Capital expenditures for fiscal 2023 are projected to be approximately $4.0 million related to network infrastructure and security, and laboratory and test equipment to support our R&D programs.

Off-Balance Sheet Arrangements

Off-balance sheet firm commitments relating to outstanding letters of credit amounted to approximately $786,000 as of December 31, 2022. These letters of credit and bank guarantees are collateralized by $786,000 of restricted cash. We do not maintain any other off-balance sheet arrangements, transactions, obligations, or other relationships that would be expected to have a material current or future effect on the consolidated financial statements.

Climate Change

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

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported. Note 1 of Notes to Consolidated Financial Statements describes the significant accounting policies used in the preparation of the consolidated financial statements. Certain of these significant accounting policies are considered to be critical accounting policies. Note that these critical accounting policies and estimates relate solely to our continuing operations. The accounting policies related to our discontinued operations are discussed in Note 2, "Divestiture and Discontinued Operations," to our consolidated financial statements.

A critical accounting policy is defined as one that is both material to the presentation of Intevac's consolidated financial statements and requires management to make difficult, subjective or complex judgments that could have a material effect on Intevac's financial condition or results of operations. Specifically, these policies 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 became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. These uncertainties are discussed in the section above entitled "Risk Factors." Based on a critical assessment of its 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 accounting principles generally accepted in the United States of America and provide a meaningful presentation of Intevac's financial condition and results of operations.

Management believes that the following are critical accounting policies:

Revenue Recognition

A majority of our equipment sales revenue, which includes systems, technology upgrades, service and spare parts is recognized when products are shipped from our manufacturing facilities. We recognize revenue for equipment sales at a point in time following the transfer of control of such products to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying contracts. Intevac recognizes revenue in certain circumstances before delivery has occurred (commonly referred to as bill and hold transactions). In such circumstances, among other things, risk of ownership has passed to the customer, the customer has made a written fixed commitment to purchase the finished goods, the customer has requested the finished goods be held for future delivery as scheduled and designated by them, and no additional performance obligations exist by Intevac. For these transactions, the finished goods are segregated from inventory and normal billing and credit terms granted. Our contracts with customers may include multiple performance obligations. Under the revenue standard we allocate revenue for such arrangements to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers or by using expected cost plus margin. The expected costs associated with our base warranties are recognized as expense when the equipment is sold.

Inventories

Inventories are valued using average actual costs and are stated at the lower of cost or net realizable value. The carrying value of inventory is reduced for estimated obsolescence by the difference between its cost and the net realizable value based upon assumptions about future demand. Intevac evaluates the inventory carrying value for potential excess and obsolete inventory exposures by analyzing historical and anticipated demand. In addition, inventories are evaluated for potential obsolescence due to the effect of known and anticipated engineering change orders and new products. If actual demand were to be substantially lower than estimated, additional inventory adjustments for excess or obsolete inventory might be required, which could have a material adverse effect on Intevac's business, financial condition and results of operations.

Warranty

Intevac estimates the costs that may be incurred under the warranty it provides and records a liability in the amount of such costs at the time the related revenue is recognized. Estimated warranty costs are determined by analyzing specific product and historical configuration statistics and regional warranty support costs. Intevac's warranty obligation is affected by product failure rates, material usage, and labor costs incurred in correcting product failures during the warranty period. As Intevac's customer service engineers and process support engineers are highly trained and deployed globally, labor availability is a significant factor in determining labor costs. The quantity and availability of critical replacement parts is another significant factor in estimating warranty costs. Unforeseen component failures or exceptional component performance can also result in changes to warranty costs. If actual warranty costs differ substantially from our estimates, revisions to the estimated warranty liability would be required.

Income Taxes

Intevac accounts for income taxes by recognizing deferred tax assets and liabilities using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities, net operating losses and tax credit carryforwards. Deferred tax assets are also reduced by a valuation allowance if it is more likely than not that a portion of the deferred tax asset will not be realized. Management has determined that it is more likely than not that its future taxable income will not be sufficient to realize its entire deferred tax assets.

In determining whether to establish or maintain a valuation allowance against a deferred tax asset, the Company reviews available evidence to determine whether it is more likely than not that all or a portion of the Company's net deferred tax assets will be realized in future periods. Consideration is given to various positive and negative factors that could affect the realization of the net deferred tax assets. In making such a determination, the Company considers, among other things, future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, historical financial performance, the length of statutory carry forward periods, experience with operating loss and tax credit carry forwards not expiring unused. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The effective tax rate is highly dependent upon the geographic composition of worldwide earnings, tax regulations governing each region, non-tax deductible expenses and availability of tax credits. Management carefully monitors the changes in many factors and adjusts the effective income tax rate as required. If actual results differ from these estimates, Intevac could be required to record additional valuation allowances on deferred tax assets or adjust its effective income tax rate, which could have a material adverse effect on Intevac's business, financial condition and results of operations.

The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with Intevac's expectations could have a material impact on Intevac's results of operations and financial condition.

Equity-Based Compensation

Restricted stock units ("RSUs") granted to employees and directors are measured at their fair value on the grant date. All RSUs granted in fiscal years 2022 and 2021 were granted for no consideration; therefore, their fair value was equal to the share price at the date of grant. The fair value of performance-based restricted stock units ("PRSUs") granted in fiscal years 2022 and 2021 with market-based conditions was calculated using the Monte Carlo model. This model requires Intevac to estimate the expected volatility of the price of Intevac's common stock and the expected life of the equity-based awards. Estimating volatility and expected life requires significant judgment and an analysis of historical data. Intevac accounts for forfeitures as they occur rather than estimating expected forfeitures. Intevac may have to increase or decrease compensation expense for equity-based awards if actual results differ significantly from Intevac's estimates.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Not applicable for smaller reporting companies.

Item 8. ***Financial Statements and Supplementary Data***

INTEVAC, INC.

CONSOLIDATED FINANCIAL STATEMENTS

Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of
Intevac, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Intevac, Inc. (a Delaware corporation) and its subsidiaries (the "Company") as of December 31, 2022 and January 1, 2022, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and January 1, 2022, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Inventory Valuation—Adjustments for Excess or Obsolete Inventories

As described in Notes 1 and 7 to the consolidated financial statements, the Company's consolidated inventories balance was $30.0 million as of December 31, 2022. The Company's inventories are valued using average actual costs and are stated at the lower of cost or net realizable value. The Company adjusts the carrying value of inventories for estimated excess quantities and obsolescence equal to the difference between the costs of inventories and the net realizable value based upon assumptions about future demand, market conditions and product life expectancy. If actual demand were to be substantially lower than estimated, there could be a significant adverse impact on the carrying value of inventories and results of operations.

The principal considerations for our determination that performing procedures relating to net realizable value adjustments to inventories is a critical audit matter are the significant amount of judgement by management in developing the assumptions of the forecasted product demand, which in turn led to significant auditor judgement, subjectivity, and effort in performing audit procedures and evaluating audit evidence relating to the forecasted product demand. Additionally, for certain new product launches there may be limited historical data with which to evaluate forecasts.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of internal controls relating to management's adjustments for excess or obsolete inventories, including internal controls over the development of assumptions related to forecasted product demand. The procedures also included, among others, testing management's process for developing the estimate of the adjustments for excess or obsolete inventories, testing the completeness and accuracy of the underlying data used in the estimate, and evaluating management's assumptions of forecasted product demand. Evaluating management's demand forecast for reasonableness involved considering historical sales by product, and determining whether the demand forecast used was consistent with evidence obtained in other areas of the audit.

/s/ BPM LLP

We have served as the Company's auditor since 2015.

San Jose, California
February 16, 2023

INTEVAC, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2022	January 1, 2022
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 68,904	$102,728
Short-term investments	25,541	10,221
Trade and other accounts receivable, net of allowances of $0 at both December 31, 2022 and January 1, 2022	15,823	14,261
Inventories	30,003	5,791
Prepaid expenses and other current assets	1,898	1,827
Total current assets	142,169	134,828
Property, plant and equipment, net	3,658	4,759
Operating lease right-of-use assets	3,390	4,520
Long-term investments	17,585	7,427
Restricted cash	786	786
Intangible assets, net of amortization of $42,000 at December 31, 2022	1,090	—
Deferred income taxes and other long-term assets	4,381	5,449
Total assets	$ 173,059	$157,769
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current operating lease liabilities	$ 3,404	$ 3,119
Accounts payable	11,610	5,320
Accrued payroll and related liabilities	3,087	5,505
Other accrued liabilities	5,430	3,665
Customer advances	2,444	2,107
Total current liabilities	25,975	19,716
Noncurrent liabilities:		
Noncurrent operating lease liabilities	1,417	3,675
Customer advances	22,215	—
Other long-term liabilities	—	363
Total noncurrent liabilities	23,632	4,038
Commitments and contingencies		
Stockholders' equity:		
Undesignated preferred stock, $0.001 par value, 10,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.001 par value :		
Authorized shares — 50,000 issued and outstanding shares — 25,548 and 24,636 at December 31, 2022 and January 1, 2022, respectively	26	25
Additional paid-in capital	206,355	199,073
Treasury stock, 5,087 shares at both December 31, 2022 and January 1, 2022	(29,551)	(29,551)
Accumulated other comprehensive income (loss)	(193)	578
Accumulated deficit	(53,185)	(36,110)
Total stockholders' equity	123,452	134,015
Total liabilities and stockholders' equity	$ 173,059	$157,769

See accompanying notes.

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INTEVAC, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended,	
	December 31, 2022	January 1, 2022
	(In thousands, except per share amounts)	
Net revenues	$ 35,761	$ 38,524
Cost of net revenues	20,675	31,457
Gross profit	15,086	7,067
Operating expenses:		
Research and development	13,722	12,176
Selling, general and administrative	17,876	17,367
Total operating expenses	31,598	29,543
Operating loss	(16,512)	(22,476)
Interest income	1,240	29
Other income (expense), net	(155)	(35)
Loss from continuing operations before provision for income taxes	(15,427)	(22,482)
Provision for income taxes	1,327	575
Net loss from continuing operations	(16,754)	(23,057)
Income (loss) from discontinued operations:		
Loss from Photonics division, net of tax	(321)	(4,664)
Gain on sale of Photonics division, net of tax	—	54,341
Total income (loss) from discontinued operations, net of tax	(321)	49,677
Net income (loss)	$ (17,075)	$ 26,620
Net income (loss) per share:		
Basic and diluted—continuing operations	$ (0.67)	$ (0.95)
Basic and diluted—discontinued operations	$ (0.01)	$ 2.04
Basic and diluted—net income (loss)	$ (0.68)	$ 1.09
Weighted average shares outstanding:		
Basic and diluted	25,192	24,348

See accompanying notes.

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INTEVAC, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended,	
	December 31, 2022	January 1, 2022
	(In thousands)	
Net income (loss)	$ (17,075)	$ 26,620
Other comprehensive income (loss), before tax		
Change in unrealized net loss on available-for-sale investments	(454)	(68)
Foreign currency translation gains (losses)	(317)	6
Other comprehensive loss, before tax	(771)	(62)
Income tax expense related to items in other comprehensive loss	—	—
Other comprehensive loss, net of tax	(771)	(62)
Comprehensive income (loss)	$ (17,846)	$ 26,558

See accompanying notes.

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INTEVAC, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (Loss)		Accumulated Deficit		Total Stockholders' Equity
	Shares	Amount		Shares	Amount					
Balance at January 2, 2021	23,874	$ 24	$193,173	5,087	$(29,551)	$	640	$	(62,730)	$ 101,556
Shares issued in connection with:										
Exercise of stock options	76	—	440	—	—		—		—	440
Settlement of RSUs	383	—	—	—	—		—		—	—
Employee stock purchase plan	435	1	2,191	—	—		—		—	2,192
Shares withheld in connection with net share settlement of RSUs	(132)	—	(734)	—	—		—		—	(734)
Equity-based compensation expense	—	—	4,003	—	—		—		—	4,003
Net income	—	—	—	—	—		—		26,620	26,620
Other comprehensive loss	—	—	—	—	—		(62)		—	(62)
Balance at January 1 2022	24,636	$ 25	$199,073	5,087	$(29,551)	$	578	$	(36,110)	$ 134,015
Shares issued in connection with:										
Exercise of stock options	388	1	1,872	—	—		—		—	1,873
Settlement of RSUs	371	—	—	—	—		—		—	—
Employee stock purchase plan	279	—	1,244	—	—		—		—	1,244
Shares withheld in connection with net share settlement of RSUs	(126)	—	(724)	—	—		—		—	(724)
Equity-based compensation expense	—	—	4,890	—	—		—		—	4,890
Net loss	—	—	—	—	—		—		(17,075)	(17,075)
Other comprehensive loss	—	—	—	—	—		(771)		—	(771)
Balance at December 31, 2022	25,548	$ 26	$206,355	5,087	$(29,551)	$	(193)	$	(53,185)	$ 123,452

See accompanying notes.

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INTEVAC, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2022	Year Ended January 1, 2022
	(In thousands)	
Operating activities		
Net income (loss)	$ (17,075)	$ 26,620
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	1,446	3,456
Net amortization (accretion) of investment premiums and discounts	(196)	109
Amortization of intangible assets	42	—
Gain on sale of Photonics division	—	(54,341)
Asset impairment charges	—	1,246
Equity-based compensation	4,890	4,003
Straight-line rent adjustment and amortization of lease incentives	(843)	(463)
Foreign currency loss on liquidation of entity	14	—
Loss on disposal of fixed assets	1,467	—
Deferred income taxes	836	25
Changes in assets and liabilities:		
Accounts receivable	(1,528)	10,850
Inventories	(24,105)	9,597
Prepaid expenses and other assets	42	6
Accounts payable	6,290	(932)
Accrued payroll and other accrued liabilities	(1,266)	(1,972)
Customer advances	22,552	2,074
Total adjustments	9,641	(26,342)
Net cash and cash equivalents provided by (used in) operating activities	(7,434)	278
Investing activities		
Purchase of investments	(52,385)	(17,148)
Proceeds from sales and maturities of investments	26,649	19,550
Purchase of Hia, Inc., net of cash acquired	(763)	—
Proceeds from sale of Photonics division	—	70,000
Purchase of leasehold improvements and equipment	(1,919)	(1,198)
Net cash and cash equivalents provided by (used in) investing activities	(28,418)	71,204
Financing activities		
Proceeds from issuance of common stock	3,083	2,632
Taxes paid related to net share settlement	(724)	(734)
Net cash and cash equivalents provided by financing activities	2,359	1,898
Effect of exchange rate changes on cash	(331)	6
Net increase (decrease) in cash, cash equivalents and restricted cash	(33,824)	73,386
Cash, cash equivalents and restricted cash at beginning of period	103,514	30,128
Cash, cash equivalents and restricted cash at end of period	$ 69,690	$103,514
Cash paid (received) for:		
Income taxes	$ 569	$ 559
Income tax refund	$ —	$ (18)

See accompanying notes.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

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

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.

Fiscal Year End Date

Intevac operates under a 52-53 week fiscal year ending on the Saturday nearest to December 31 of each year in order to improve the alignment of financial and business processes and to streamline financial reporting. Each fiscal quarter consists of 13 weeks, with an occasional fourth quarter extending to 14 weeks, if necessary, for the fiscal year to end on the Saturday nearest to December 31. The Company's fiscal 2022 and fiscal 2021 years ended on December 31, 2022 and January 1, 2022, respectively.

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 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 includes (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.

Reclassification of Prior Periods

On December 30, 2021, the Company completed the sale of its Photonics business to EOTECH, LLC, a Michigan limited liability company ("EOTECH"), in exchange for (i) $70.0 million in cash consideration (as may be increased or decreased by certain closing net working capital adjustments), (ii) up to $30.0 million in earnout payments and (iii) the assumption by EOTECH of certain liabilities of the Photonics business.

Due to the sale of the Photonics business during the fourth quarter of 2021, we have classified the results of the Photonics business as discontinued operations in our consolidated statements of operations for all periods presented. All amounts included in the Notes to Consolidated Financial Statements relate to continuing operations unless otherwise noted.

Cash, Cash Equivalents and Investments

Intevac considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Available-for-sale securities, comprised of certificates of deposit, commercial paper, obligations of the U.S. government and its agencies, corporate debt securities, asset backed securities and municipal bonds, are carried at fair value, with unrealized gains and losses recorded within other comprehensive income (loss) as a separate component of stockholders' equity. Realized gains and losses and declines in value judged to be other than temporary, if any, on available-for-sale securities are included in earnings. Purchases and sales of investment securities are recognized on a trade date basis. The cost of investment securities sold is determined by the specific identification method.

Restricted Cash

Restricted cash of $600,000 as of December 31, 2022 secures a standby letter of credit obligation associated with a lease obligation and the restriction on the cash will be removed when the letter of credit expires. In addition, Intevac pledged $186,000 as collateral for various guarantees with its bank.

Derivative Instruments and Hedging Arrangements

Foreign Exchange Exposure Management — Intevac enters into forward foreign currency contracts that economically hedge the gains and losses generated by the re-measurement of certain recorded assets and liabilities in a non-functional currency and to offset certain operational exposures from the impact of changes in foreign currency exchange rates. Such exposures result from the portion of the Company's operations, assets and liabilities that are denominated in currencies other than the U.S. dollar, primarily the Singapore dollar. These foreign currency exchange contracts are entered into to support transactions made in the normal course of business, and accordingly, are not speculative in nature. The contracts are for periods consistent with the terms of the underlying transactions, generally one year or less. Changes in the fair value of these undesignated hedges are recognized in other income (expense), net immediately as an offset to the changes in the fair value of the asset or liability being hedged.

Fair Value Measurement—Definition and Hierarchy

Intevac reports certain financial assets and liabilities at fair value. Intevac defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurements are classified and disclosed in one of the following three categories:

Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities.

Level 2—Valuations based on other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Valuations based on inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

Trade Accounts Receivables and Doubtful Accounts

Intevac evaluates the collectibility of trade accounts receivable on an ongoing basis and provides reserves against potential losses when appropriate. Management analyzes historical bad debts, customer concentrations, customer creditworthiness, changes in customer payment tendencies and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. Customer accounts are written off against the allowance when the amount is deemed uncollectible.

Inventories

Inventories are generally stated at the lower of cost or net realizable value, with cost determined on an average cost basis.

Property, Plant and Equipment

Equipment and leasehold improvements are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows: computers and software, 3 years; machinery and equipment, 5 years; furniture, 7 years; vehicles, 4 years; and leasehold improvements, remaining lease term.

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable finite-lived intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability of long-lived assets is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value.

Acquisitions

Acquisition Method. Acquisitions that meet the definition of a business under *Accounting Standards Codification (“ASC”) 805,* “*Business Combinations*,” (“ASC *805”*) are accounted for using the acquisition method of accounting. Under the acquisition method of accounting, assets acquired, liabilities assumed, contractual contingencies, and contingent consideration, when applicable, are recorded at fair value at the acquisition date. Any excess of the purchase price over the fair value of the net assets acquired is recorded as goodwill. The application of the acquisition method of accounting requires management to make significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in connection with the allocation of the purchase price consideration to the assets acquired and liabilities assumed. Transaction costs associated with business combinations are expensed as incurred and are included in general and administrative expense in the consolidated statements of operations. Contingent consideration, if any, is recognized and measured at fair value as of the acquisition date.

Cost Accumulation Model. Acquisitions that do not meet the definition of a business under ASC 805 are accounted for as an asset acquisition, utilizing a cost accumulation model. Assets acquired and liabilities assumed are recognized at cost, which is the consideration the acquirer transfers to the seller, including direct transaction costs, on the acquisition date. The cost of the acquisition is then allocated to the assets acquired based on their relative fair values. Goodwill is not recognized in an asset acquisition. Direct transaction costs include those third-party costs that can be directly attributable to the asset acquisition and would not have been incurred absent the acquisition transaction.

Contingent consideration, representing an obligation of the acquirer to transfer additional assets or equity interests to the seller if future events occur or conditions are met, is recognized when probable and reasonably estimable. Contingent consideration recognized is included in the initial cost of the assets acquired, with subsequent changes in the recorded amount of contingent consideration recognized as an adjustment to the cost basis of the acquired assets. Subsequent changes are allocated to the acquired assets based on their relative fair value.

Income Taxes

Intevac accounts for income taxes by recognizing deferred tax assets and liabilities using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Deferred tax assets and liabilities are recognized using enacted tax rates for the effect of temporary differences between book and tax bases of recorded assets and liabilities. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that a portion of the deferred tax asset will not be realized.

In determining whether to establish or maintain a valuation allowance against a deferred tax asset, the Company reviews available evidence to determine whether it is more likely than not that all or a portion of the Company’s net deferred tax assets will be realized in future periods. Consideration is given to various positive and negative factors that could affect the realization of the net deferred tax assets. In making such a determination, the Company considers, among other things, future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, historical financial performance, the length of statutory carry forward periods, experience with operating loss and tax credit carry forwards not expiring unused. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The effective tax rate is highly dependent upon the level of Intevac's projected earnings, the geographic composition of worldwide earnings, tax regulations governing each region, net operating loss carryforwards, availability of tax credits and the effectiveness of Intevac's tax planning strategies. Intevac carefully monitors the changes in many factors and adjust its effective income tax rate on a timely basis. If actual results differ from the estimates, this could have a material effect on Intevac's business, financial condition and results of operations.

The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with Intevac's expectations could have a material effect on Intevac's business, financial condition and results of operations.

Intevac recognizes accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes.

Sales and Value Added Taxes

Taxes collected from customers and remitted to governmental authorities are presented on a net basis in the accompanying consolidated statements of operations.

Revenue Recognition

A majority of our equipment sales revenue, which includes systems, technology upgrades, service and spare parts is recognized when products are shipped from our manufacturing facilities. We recognize revenue for equipment sales at a point in time following the transfer of control of such products to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying contracts. Intevac recognizes revenue in certain circumstances before delivery has occurred (commonly referred to as bill and hold transactions). In such circumstances, among other things, risk of ownership has passed to the customer, the customer has made a written fixed commitment to purchase the finished goods, the customer has requested the finished goods be held for future delivery as scheduled and designated by them, and no additional performance obligations exist by Intevac. For these transactions, the finished goods are segregated from inventory and normal billing and credit terms granted. Our contracts with customers may include multiple performance obligations. For such arrangements, under the revenue standard we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers or by using expected cost plus margin. Under the revenue standard, the expected costs associated with our base warranties are recognized as expense when the equipment is sold.

Government Grants and Credits

The Company generally records grants from governmental agencies related to income as a reduction in operating expense. Grants are recognized when there is reasonable assurance that the Company will comply with the conditions attached to the grant arrangement and the grant will be received. Reimbursements of eligible expenditures pursuant to government assistance programs are recorded as reductions of operating costs when the related costs have been incurred and there is reasonable assurance regarding collection of the claim. Grant claims not settled by the balance sheet date are recorded as receivables, provided their receipt is reasonably assured. The determination of the amount of the claim, and accordingly the receivable amount, requires management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the programs. The reimbursement claims submitted by the Company are subject to review by the relevant government agencies. In Singapore, Intevac receives government assistance under the Job Support Scheme ("JSS"). During fiscal 2021, the Company received $83,000 in JSS grants, of which $56,000 is reported as a reduction of cost of net revenues, $10,000 is reported as a reduction of research and development ("R&D") expenses and $17,000 is reported as a reduction of selling, general and administrative expenses on the consolidated statements of operations.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were not material for all periods presented.

Foreign Currency Translation

The functional currency of Intevac's foreign subsidiaries in Singapore and Hong Kong and the Taiwan branch is the U.S. dollar. The functional currency of Intevac's foreign subsidiaries in China and Malaysia is the local currency of the country in which the respective subsidiary operates. Assets and liabilities recorded in foreign currencies are translated at year-end exchange rates; revenues and expenses are translated at average exchange rates during the year. The effects of foreign currency translation adjustments are included in stockholders' equity as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets. The effects of foreign currency transactions are included in other income (expense), net in the determination of net income. Losses from foreign currency transactions were $186,000 and $65,000 in 2022 and 2021, respectively.

Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component, were as follows for the years ended December 31, 2022 and January 1, 2022:

	Foreign currency	Unrealized holding gains (losses) on available-for-sale investments	Total
		(in thousands)	
Balance at January 2, 2021	$ 602	$ 38	$ 640
Other comprehensive income (loss) before reclassification	6	(68)	(62)
Amounts reclassified from other comprehensive income (loss)	—	—	—
Net current-period other comprehensive income (loss)	6	(68)	(62)
Balance at January 1, 2022	608	(30)	578
Other comprehensive loss before reclassification	(331)	(454)	(785)
Amounts reclassified from other comprehensive income (loss)	14	—	14
Net current-period other comprehensive loss	(317)	(454)	(771)
Balance at December 31, 2022	$ 291	$ (484)	$ (193)

Employee Stock Plans

Intevac has equity-based compensation plans that provide for the grant to employees of equity-based awards, including 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. In addition, these plans provide for the grant of non-statutory stock options and RSUs to non-employee directors and consultants. Intevac also has an employee stock purchase plan, which provides Intevac's employees with the opportunity to purchase Intevac common stock at a discount through payroll deductions. See Note 4 for a complete description of these plans and their accounting treatment.

Recent Accounting Pronouncements Not Yet Adopted

In November 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2021-10, *Disclosures by Business Entities about Government Assistance*, which requires business entities to disclose information about certain government assistance they receive. Such disclosure requirements include the nature of the transactions and the related accounting policy used, the line items on the balance sheet and income statement that are affected and the amounts applicable to each financial statement line item and significant terms and conditions of the transactions. This update becomes effective in the first quarter of fiscal 2023. Early adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which requires an acquirer in a business combination to recognize and measure contract assets and contract liabilities in accordance with Accounting Standards Codification Topic 606. This update becomes effective in the first quarter of fiscal 2023. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*. This ASU provides optional expedients and exceptions for applying U.S. generally accepted accounting principles to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. Adoption of the expedients and exceptions is permitted upon issuance of this update through December 31, 2022. The FASB also issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope* in January 2021. It clarifies that certain optional expedients and exceptions in Topic 848 apply to derivatives that are affected by the discounting transition. The amendments in this ASU affect the guidance in ASU 2020-04 and are effective in the same timeframe as ASU 2020-04. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. This ASU amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more-timely recognition of losses. This update becomes effective and will be adopted by Intevac in the first quarter of fiscal 2023. We are currently assessing how the adoption of this standard will impact our consolidated financial statements.

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, 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 has 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. 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 this disposition 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 have entered into a Transition Service Agreement ("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 the 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 to share certain building maintenance costs.

TSA and shared service fees earned since the divestiture were $989,000 in fiscal 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 and shared service fees were included in selling, general and administrative expenses and cost of sales, respectively, in the Company's consolidated statement of operations. Additionally, during fiscal 2022, the Company sold inventory in the amount of $148,000 to EOTECH. As of December 31, 2022, accounts receivable from EOTECH of $49,000 were included in trade and other accounts receivable in the Company's consolidated balance sheets.

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The following table summarizes the components of the gain on sale of the Photonics segment (in thousands):

Cash proceeds	$70,000
Working capital adjustment	(74)
	69,926
Assets sold:	
Accounts receivable	3,535
Inventories	6,301
Other current assets	72
Property, plant and equipment	3,987
Total assets sold	13,895
Liabilities divested:	
Accounts payable	888
Other accrued expenses	594
Total liabilities divested	1,482
Transaction and other costs	(3,172)
Gain on sale	$54,341

Discontinued operations

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 consolidated statements of operations for the years ended December 31, 2022 and January 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 (in thousands):

	Year Ended, December 31, 2022	Year Ended, January 1, 2022
	(In thousands, except per share amounts)	
Net revenues:		
Systems and components	$ —	$ 15,932
Technology development	—	11,735
Total net revenues	—	27,667
Cost of net revenues:		
Systems and components	—	12,252
Technology development	—	8,885
Total cost of net revenues	—	21,137
Gross profit	—	6,530
Operating expenses:		
Research and development	—	2,653
Selling, general and administrative	321	5,937
Asset impairment and restructuring charges	—	2,604
Total operating expenses	321	11,194

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Year Ended,	
	December 31, 2022	January 1, 2022
	(In thousands, except per share amounts)	
Operating income (loss)—discontinued operations	(321)	(4,664)
Other income (expense)—discontinued operations	—	—
Income (loss) discontinued operations before provision for (benefit from) income taxes	(321)	(4,664)
Gain on disposal of discontinued operations before income taxes	—	54,341
Total income (loss) from discontinued operations, before tax	(321)	49,677
Provision for (benefit from) income taxes	—	—
Net income (loss) discontinued operations net of tax	$ (321)	$ 49,677

The cash flows related to discontinued operations have not been segregated and are included in the consolidated statements of cash flows. The following table presents cash flow and non-cash information related to discontinued operations for the years ended December 31, 2022 and January 1, 2022, respectively (in thousands):

	2022	2021
	(in thousands)	
Depreciation and amortization	$ —	$ 1,366
Asset impairment charges	$ —	$ 1,246
Equity-based compensation	$ (229)	$ 1,167
Purchase of leasehold improvements and equipment	$ —	$ 429

Revenue recognition

The Photonics segment recognized revenues for cost plus fixed fee ("CPFF") and firm fixed price ("FFP") government contracts over time under the cost-to-cost method for the majority of government contracts. Revenue on the majority of government contracts was recognized over time because of the continuous transfer of control to the customer. For U.S. government contracts, this continuous transfer of control to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit and take control of any work in process. Similarly, for non-U.S. government contracts, the customer typically controls the work in process as evidenced either by contractual termination clauses or by the rights to payment for work performed to date to deliver products or services that do not have an alternative use to the Company. The cost-to-cost measure of progress best depicts the transfer of control of assets to the customer, which occurs as costs are incurred.

The majority of the contracts in the Photonics segment had a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. Some of the contracts have multiple performance obligations, most commonly due to the contract covering multiple phases of the product lifecycle (development and production). For contracts with multiple performance obligations, the contract's transaction price was allocated to each performance obligation using the best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which the expected costs of satisfying a performance obligation is forecasted and then an appropriate margin is added for that distinct good or service.

In the Photonics segment, revenue for homogenous manufactured military products sold to the U.S. government and its contractors was recognized over time under the units-of-delivery method because of the continuous transfer of control to the customer. The units-of-delivery method measures progress for the manufactured units as an equal amount of value is individually transferred to the customer upon delivery.

The nature of the contracts in the Photonics segment gave rise to several types of variable consideration including tiered pricing. Allocation of contract revenues among Photonics military products, and the timing of the recognition of those revenues, was impacted by agreements with tiered pricing or variable rate structures. Variable consideration was included in the estimated

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transaction price when there was a basis to reasonably estimate the amount of the consideration. These estimates were based on historical experience, anticipated performance and our best judgment at the time. Because of the certainty in estimating these amounts, they were included in the transaction price of our contracts and the associated remaining performance obligations.

Accounting for CPFF and FFP contracts and programs involves the use of various techniques to estimate total contract revenue and costs. For these contracts, the profit on a contract was estimated as the difference between the total estimated revenue and expected costs to complete a contract and recognize that profit over the life of the contract. Contract estimates were based on various assumptions to project the outcome of future events. These assumptions included the complexity of the work to be performed; the cost and availability of materials; the performance of subcontractors; and the availability and timing of funding from the customer.

As a significant change in one or more of these estimates could affect the profitability of the contracts, the contract-related estimates were reviewed and updated regularly. Adjustments in estimated profit on contracts were recognized under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date on a contract was recognized in the period the adjustment was identified. Revenue and profit in future periods of contract performance was recognized using the adjusted estimate. If at any time the estimate of contract profitability indicated an anticipated loss on the contract, the total loss was recognized in the quarter it was identified.

Accounts receivable, unbilled in our Photonics segment represented a contract asset for revenue that had been recognized in advance of billing the customer, which is common for contracts in the defense industry. In the Photonics segment, amounts were billed as work progressed in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., monthly) or upon achievement of contractual milestones. Generally, billing occurred subsequent to revenue recognition, resulting in contract assets. These contracts with the U.S. government also contained retainage provisions. Retainage represents a contract asset for the portion of the contract price earned for work performed but held for payment by the U.S. government as a form of security until satisfactory completion of the contract. The retainage was billable upon completion of the contract performance and approval of final indirect expense rates by the government.

Deferred revenue in the Photonics segment generally represented a contract liability for amounts billed to the customer upon achievement of contractual milestones. These amounts are liquidated when revenue was recognized.

Impairment of Long-Lived Assets

In the fourth fiscal quarter of 2021, as a result of and in consideration of the Photonics sale, the assignment of leased space to EOTECH and the agreement to subsidize EOTECH for spaces that will no longer be utilized, the Company evaluated its lease right-of-use asset ("ROU") related to the unused space for impairment. As a result of the analysis, the Company recognized an impairment loss during the fourth quarter of fiscal 2021 of $1.2 million.

3. Revenue

The following tables represent a disaggregation of revenue from contracts with customers for fiscal 2022 and 2021.

Major Products and Service Lines

	2022					2021				
	(in thousands)									
	HDD	DCP	PV	ASP	Total	HDD	DCP	PV	ASP	Total
Systems, upgrades and spare parts	$29,507	$ 1	$273	$100	$29,881	$28,300	$ 3	$258	$3,850	$32,411
Field service	5,647	43	190	—	5,880	6,031	14	68	—	6,113
Total net revenues	$35,154	$44	$463	$100	$35,761	$34,331	$17	$326	$3,850	$38,524

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Primary Geography Markets

	2022	2021
	(in thousands)	
United States	$ 4,558	$ 3,670
Asia	31,103	31,004
Europe	100	3,850
Total net revenues	$35,761	$38,524

Timing of Revenue Recognition

	2022	2021
	(in thousands)	
Products transferred at a point in time	$35,761	$38,524
Products and services transferred over time	—	—
Total net revenues	$35,761	$38,524

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 fiscal 2022:

	December 31, 2022	January 1, 2022	Change
		(In thousands)	
Contract assets:			
Accounts receivable, unbilled	$ 424	$ 99	$ 325
Contract liabilities:			
Deferred revenue	$ 2,446	$ 65	$ 2,381
Customer advances	24,659	2,107	22,552
	$ 27,105	$ 2,172	$24,933

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 fiscal 2022, contract assets increased by $325,000 primarily due to the accrual of revenue for an upgrade delivered in the year that was pending acceptance at December 31, 2022 and the billing of accrued revenue related to spare parts sold to a customer as of December 31, 2022.

Customer advances generally represent amounts billed to the customer prior to transferring goods which represents a contract liability. The Company has elected to use the practical expedient to disregard the effect of the time value of money in a significant financing component when its payment terms are less than one year. These contract advances are liquidated when revenue is recognized. Customer advances with deliveries beyond one year are included in long term liabilities. Deferred revenue generally represents 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 and represents a contract liability. During fiscal 2022, we recognized revenue of $386,000 and $39,000 that was included in customer advances and deferred revenue, respectively, at the beginning of the period. Customer advances included in accounts receivable were $2.2 million at December 31, 2022.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

On December 31, 2022, we had $121.7 million of remaining performance obligations, which we also refer to as backlog and expect to recognize as revenue: 38% in 2023, 21% in 2024, 0% in 2025 and 41% in 2026.

4. Equity-Based Compensation

Intevac accounts for share-based awards in accordance with the provisions of the accounting guidance which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees, consultants and directors based upon the grant-date fair value of those awards. The estimated fair value of Intevac's equity-based awards is amortized over the awards' service periods using the graded vesting attribution method.

Descriptions of Plans

Equity Incentive Plans

At December 31, 2022, Intevac had equity-based awards outstanding under the 2020 Equity Incentive Plan and the 2012 Equity Incentive Plan (the "Plans") and the 2003 Employee Stock Purchase Plan (the "ESPP"). Intevac's stockholders approved all of these plans.

The Plans are a broad-based, long-term retention program intended to attract and retain qualified management and employees, and align stockholder and employee interests. 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. Option price, vesting period, and other terms are determined by the administrator of the Plans, but the option price shall generally not be less than 100% of the fair market value per share on the date of grant. As of December 31, 2022, 3.8 million shares of common stock were authorized for future issuance under the Plans. The 2020 Equity Incentive Plan expires no later than May 13, 2030.

On January 19, 2022, the Board of Directors adopted the 2022 Inducement Equity Incentive Plan (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.

2003 Employee Stock Purchase Plan

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). As of December 31, 2022, 450,000 shares remained available for issuance under the ESPP.

The effect of recording equity-based compensation for fiscal 2022 and 2021 was as follows (in thousands):

	2022	2021
Equity-based compensation by type of award:		
Stock options	$(156)	$198
RSUs	2,184	2,341
PRSUs	2,379	478
Employee stock purchase plan	483	986
Total equity-based compensation	$4,890	$4,003

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Included in the table above:

(a) A reversal of $1.3 million in equity-based compensation expense related to forfeitures of awards due to our reduction in workforce and a $37,000 benefit related to the modification of certain stock-based awards for fiscal year 2022. (See Note 13. Restructuring and Other Costs, Net); and

(b) Equity based compensation reported in discontinued operations of $ (229,000) and $1.2 million for fiscal years 2022 and 2021, respectively. Equity-based compensation expense allocated to discontinued operations for fiscal year 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. (See Note 2. Divestiture and Discontinued Operations.)

Equity-based compensation expense is based on awards which vest. Intevac accounts for forfeitures as they occur, rather than estimating expected forfeitures.

Stock Options

The exercise price of each stock option equals the market price of Intevac's stock on the date of grant. Most options are scheduled to vest over three and/or four years and expire no later than ten years after the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. This model was developed for use in estimating the value of publicly traded options that have no vesting restrictions and are fully transferable. Intevac's employee stock options have characteristics significantly different from those of publicly traded options.

The computation of the expected volatility assumption used in the Black-Scholes calculations for new grants is based on historical volatility of Intevac's stock price. The risk-free interest rate is based on the yield available on U.S. Treasury Strips with an equivalent remaining term. The expected life of employee stock options represents the weighted-average period that the stock options are expected to remain outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards and vesting schedules. The dividend yield assumption is based on Intevac's history of not paying dividends and the assumption of not paying dividends in the future. The Company did not grant any stock options in fiscal 2022 and fiscal 2021.

A summary of the stock option activity is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Options exercisable at January 1, 2022	1,457,587	$ 6.55	2.31	$ 7,622
Options cancelled and forfeited	(686,144)	$ 7.24		
Options exercised	(388,344)	$ 4.82		
Options outstanding at December 31, 2022	383,099	$ 7.07	2.40	$327,711
Options exercisable at December 31, 2022	357,915	$ 7.17	2.33	$306,868

The total intrinsic value of options exercised during fiscal years 2022 and 2021 was $206,000 and $101,000, respectively. At December 31, 2022, Intevac had $6,000 of total unrecognized compensation expense related to stock options that will be recognized over the weighted-average period of 0.41 years.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

RSUs

A summary of the RSU activity is as follows:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Non-vested RSUs at January 1, 2022	843,578	$ 5.51	1.39	$3,973,252
Granted	1,128,649	$ 5.06		
Vested	(248,355)	$ 5.55		
Cancelled	(414,080)	$ 5.46		
Non-vested RSUs at December 31, 2022	1,309,792	$ 5.14	1.21	$8,474,354

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 and/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. At December 31, 2022, Intevac had $3.6 million of total unrecognized compensation expense related to RSUs that will be recognized over the weighted-average period of 1.21 years.

A summary of the PRSU activity is as follows:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Non-vested PRSUs at January 1, 2022	189,858	$ 5.95	1.38	$ 894,231
Granted	1,183,400	$ 3.58		
Vested	(122,655)	$ 4.44		
Cancelled	(161,264)	$ 6.01		
Non-vested PRSUs at December 31, 2022	1,089,339	$ 3.54	0.49	$7,048,023

At December 31, 2022, Intevac had $1.6 million of total unrecognized compensation expense related to PRSUs that will be recognized over the weighted-average period of 0.49 years.

In fiscal 2022, we granted to members of our senior management awards of PRSUs covering an aggregate of 1.2 million shares, respectively, of Intevac common stock (at maximum performance). The PRSUs 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 "Performance Period"). The PRSUs 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 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 Performance Period, the corresponding PRSUs will not vest, and all unvested PRSUs at the end of the Performance Period will immediately be forfeited. The fair value of each PRSU award was estimated on the date of grant using a Monte Carlo simulation.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	2022
Weighted-average fair value of grants per share	$ 3.58
Expected volatility	56.70%
Risk-free interest rate	3.11%
Dividend yield	None

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

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

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

ESPP

The fair value of the employee stock purchase right is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2022	2021
Stock Purchase Rights:		
Weighted-average fair value of grants per share	$ 1.26	$ 2.59
Expected volatility	52.57%	60.88%
Risk free interest rate	1.94%	0.08%
Expected term of purchase rights (in years)	1.24	0.91
Dividend yield	None	None

The expected life of purchase rights is the period of time remaining in the current offering period.

The ESPP activity during fiscal 2022 and 2021 is as follows:

	2022	2021
	(in thousands, except per share amounts)	
Shares purchased	279	435
Weighted-average purchase price per share	$ 4.46	$ 5.05
Aggregate intrinsic value of purchase rights exercised	$ 220	$ 671

As of December 31, 2022, Intevac had $582,000 of total unrecognized compensation expense related to purchase rights that will be recognized over the weighted-average period of 1.11 years.

5. Earnings Per Share

Intevac calculates basic earnings per share (“EPS”) using net income (loss) and the weighted-average number of shares outstanding during the reporting period. Diluted EPS includes the effect from potential issuance of common stock pursuant to the exercise of employee stock options and vesting of RSUs.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	2022	2021
	(in thousands, except per share amounts)	
Net loss from continuing operations	$ (16,754)	$ (23,057)
Net income (loss) from discontinued operations, net of tax	(321)	49,677
Net income (loss)	$ (17,075)	$ 26,620
Weighted-average shares – basic	25,192	24,348
Effect of dilutive potential common shares	—	—
Weighted-average shares – diluted	25,192	24,348
Basic and diluted net income (loss) per share:		
Continuing operations	$ (0.67)	$ (0.95)
Discontinued operations	$ (0.01)	$ 2.04
Net income (loss) per share	$ (0.68)	$ 1.09

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

6. Concentrations

Credit Risk and Significant Customers

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash equivalents, short- and long-term investments, restricted cash, and accounts receivable. Intevac generally invests its excess cash in money market funds, certificates of deposit, commercial paper, obligations of the U.S. government and its agencies, corporate debt securities, asset backed securities and municipal bonds. The Company has adopted an investment policy and established guidelines relating to credit quality, diversification and maturities of its investments in order to preserve principal and maintain liquidity. All investment securities in Intevac's portfolio have an investment grade credit rating.

Intevac's accounts receivable tend to be concentrated in a limited number of customers. The following customers accounted for at least 10 percent of Intevac's accounts receivable at December 31, 2022 and January 1, 2022.

	2022	2021
Seagate Technology	88%	47%
Western Digital Corporation	*	30%
Amkor Technology, Inc.	*	22%

* Less than 10%

Intevac's largest customers tend to change from period to period. Historically, a significant portion of Intevac's revenues in any particular period have been attributable to sales to a limited number of customers. Intevac performs credit evaluations of its customers' financial condition and generally requires deposits on system orders but does not generally require collateral or other security to support customer receivables.

The following customers accounted for at least 10 percent of Intevac's consolidated net revenues in fiscal 2022 and/or 2021.

	2022	2021
Seagate Technology	80%	60%
Western Digital Corporation	18%	25%
Amkor Technology, Inc.	*	10%

* Less than 10%

Products

Disk manufacturing products contributed a significant portion of Intevac's revenues in fiscal 2022 and 2021. Intevac expects that the ability to maintain or expand its current levels of revenues in the future will depend upon continuing market demand for its products; its success in enhancing its existing systems and developing and manufacturing competitive disk manufacturing equipment, such as the 200 Lean; its success in utilizing Intevac's expertise in complex manufacturing equipment to develop and sell new manufacturing equipment products for DCP.

7. Balance Sheet Details

Balance sheet details were as follows as of December 31, 2022 and January 1, 2022:

Trade and Other Accounts Receivable, Net

	December 31, 2022	January 1, 2022
	(in thousands)	
Trade receivables and other	$ 15,399	$ 14,162
Unbilled costs and accrued profits	424	99
Less: allowance for doubtful accounts	—	—
	$ 15,823	$ 14,261

Inventories

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

	December 31, 2022	January 1, 2022
	(in thousands)	
Raw materials	$ 19,116	$ 5,323
Work-in-progress	9,499	468
Finished goods	1,388	—
	$ 30,003	$ 5,791

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 as set forth in Note 1.

Property, Plant and Equipment, Net

	December 31, 2022	January 1, 2022
	(in thousands)	
Leasehold improvements	$ 9,567	$ 9,847
Machinery and equipment	19,016	23,818
	28,583	33,665
Less accumulated depreciation and amortization	24,925	28,906
Total property, plant and equipment, net	$ 3,658	$ 4,759

Net property, plant and equipment by geographic region at December 31, 2022 and January 1, 2022 was as follows:

	December 31, 2022	January 1, 2022
	(in thousands)	
United States	$ 3,143	$ 4,385
Asia	515	374
Net property, plant & equipment	$ 3,658	$ 4,759

Deferred Income Taxes and Other Long-Term Assets

	December 31, 2022	January 1, 2022
	(in thousands)	
Deferred income taxes	$ 4,356	$ 5,310
Prepaid expenses	25	139
	$ 4,381	$ 5,449

Accounts Payable

Included in accounts payable is $99,000 and $109,000 of book overdraft at December 31, 2022 and January 1, 2022, respectively.

Other Accrued Liabilities

	December 31, 2022	January 1, 2022
	(in thousands)	
Deferred revenue	$ 2,446	$ 65
Litigation settlement	1,012	1,000
Other taxes payable	838	1,318
Restructuring	318	347
Acquisition–related contingent consideration payable (See Note 15. Acquisition of Hia, Inc.)	250	—
Income taxes payable	187	370
Accrued product warranties	163	301
Other	216	264
Total other accrued liabilities	$ 5,430	$ 3,665

Other Long-Term Liabilities

	December 31, 2022	January 1, 2022
	(in thousands)	
Restructuring	$ —	$ 318
Accrued product warranties	—	45
Total other long-term liabilities	$ —	$ 363

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

8. Financial Instruments

Cash, Cash Equivalents and Investments

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

	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

	January 1, 2022			
	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
	(in thousands)			
Cash and cash equivalents:				
Cash	$102,494	$ —	$ —	$102,494
Money market funds	234	—	—	234
Total cash and cash equivalents	$102,728	$ —	$ —	$102,728
Short-term investments:				
Certificates of deposit	$ 4,300	$ —	$ —	$ 4,300
Commercial paper	400	—	—	400
Corporate bonds and medium-term notes	2,916	—	3	2,913
Municipal bonds	700	—	—	700
U.S. treasury securities	1,910	—	2	1,908
Total short-term investments	$ 10,226	$ —	$ 5	$ 10,221
Long-term investments:				
Asset backed securities	$ 2,040	$ —	$ 3	$ 2,037
Certificates of deposit	500	—	3	497
Corporate bonds and medium-term notes	1,521	—	6	1,515
Municipal bonds	145	—	1	144
U.S. treasury securities	3,246	—	12	3,234
Total long-term investments	$ 7,452	$ —	$ 25	$ 7,427
Total cash, cash equivalents, and investments	$120,406	$ —	$ 30	$120,376

The contractual maturities of investment securities at December 31, 2022 are presented in the following table.

	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 68,217	$ 67,981
Due after one through five years	17,832	17,584
	$ 86,049	$ 85,565

Our investment portfolio includes both corporate and 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 December 31, 2022, we had 114 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 December 31, 2022.

	December 31, 2022			
	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	$ 7,917	$ 90	$ 746	$ 8
Certificates of deposit	1,992	8	498	2
Commercial paper	37,887	34	—	—
Corporate bonds and medium-term notes	7,955	124	1,486	10
Municipal bond	1,535	30	144	1
U.S. treasury and agency securities	6,917	97	3,170	80
	$64,203	$ 383	$ 6,044	$ 101

All prices for the fixed maturity securities including U.S. treasury and agency securities, asset backed securities, certificates of deposit, commercial paper, corporate bonds, and municipal bonds are received from independent pricing services utilized by Intevac's outside investment manager. This investment manager performs a review of the pricing methodologies and inputs utilized by the independent pricing services for each asset type priced by the vendor. In addition, on at least an annual basis, the investment manager conducts due diligence visits and interviews with each pricing vendor to verify the inputs utilized for each asset class. The due diligence visits include a review of the procedures performed by each vendor to ensure that pricing evaluations are representative of the price that would be received to sell a security 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.

The following table represents the fair value hierarchy of Intevac's investment securities measured at fair value on a recurring basis as of December 31, 2022.

	Fair Value Measurements at December 31, 2022		
	Total	Level 1	Level 2
		(in thousands)	
Recurring fair value measurements:			
Money market funds	$ 9,589	$ 9,589	$ —
U.S. treasury and agency securities	10,087	6,592	3,495
Asset backed securities	8,663	—	8,663
Certificates of deposit	3,840	—	3,840
Commercial paper	42,265	—	42,265
Corporate bonds and medium-term notes	9,442	—	9,442
Municipal bonds	1,679	—	1,679
Total recurring fair value measurements	$85,565	$16,181	$69,384

Derivatives

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, net in the 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 maturities of approximately 30 days.

The following table summarizes the Company's outstanding derivative instruments on a gross basis as recorded in its consolidated balance sheets as of December 31, 2022 and January 1, 2022:

Derivative Instrument	Notional Amounts December 31, 2022	Notional Amounts January 1, 2022	Derivative Assets December 31, 2022 Balance Sheet Line	Derivative Assets December 31, 2022 Fair Value	Derivative Assets January 1, 2022 Balance Sheet Line	Derivative Assets January 1, 2022 Fair Value
	(in thousands)					
Undesignated Hedges:						
Forward Foreign Currency Contracts	$ 2,240	815	(a)	$ 4	(a)	$ 14
Total Hedges	$ 2,240	815		$ 4		$ 14

(a) Other current assets

9. Equity

Stock Repurchase Program

On November 21, 2013, Intevac's Board of Directors approved a stock repurchase program authorizing up to $30.0 million in repurchases. On August 15, 2018, Intevac's Board of Directors approved a $10.0 million increase to the original stock repurchase program authorizing up to $40.0 million. Under this authorization, Intevac purchases shares of its common stock under a systematic stock repurchase program and may also make supplemental stock repurchases from time to time, depending on market conditions, stock price and other factors. At December 31, 2022, $10.4 million remains available for future stock repurchases under the repurchase program. The Company did not make any stock repurchases in fiscal 2022 and 2021.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

10. Income Taxes

The provision for income taxes on income from operations for fiscal 2022 and 2021 consists of the following (in thousands):

	2022	2021
Federal:		
Current	$ —	$—
Deferred	(121)	—
	(121)	—
State:		
Current	4	4
Deferred	—	—
	4	4
Foreign:		
Current	490	546
Deferred	954	25
	1,444	571
Total	$1,327	$575
Income taxes on discontinued operations	$ —	$—
Income taxes on continuing operations	$1,327	$575

Income (loss) before income taxes for fiscal 2022 and 2021 consisted of the following (in thousands):

	2022	2021
U.S	$(20,570)	$(22,694)
Foreign	5,143	212
	$(15,427)	$(22,482)
Effective tax rate	(8.6%)	(2.6%)

As a result of the adoption of ASU 2019-12 and the full net valuation allowance position, the Company did not recognize any U.S. federal income tax expense or tax benefit on any components of continuing or discontinued operations. In fiscal 2021, we did not recognize income tax expense on the gain from the sale of Photonics. The gain for federal income tax purposes was offset by net operating losses. In California we used tax credits to offset the tax due on the gain.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of deferred tax assets are as follows (in thousands):

	December 31, 2022	January 1, 2022
Deferred tax assets:		
Vacation, warranty and other accruals	$ 525	$ 627
Intangible amortization	—	282
Depreciation and amortization	229	—
Purchased technology	14	17
Inventory valuation	1,116	1,653
Equity-based compensation	841	1,343
Lease liability	898	1,659
Section 174 R&D adjustment	2,440	—
Net operating loss, research and other tax credit carryforwards	56,310	53,684
Other	7	22
	62,380	59,287
Valuation allowance for deferred tax assets	(57,310)	(52,703)
Total deferred tax assets	5,070	6,584
Deferred tax liabilities:		
Intangible amortization	(160)	—
Depreciation and amortization	—	(201)
ROU asset	(554)	(1,073)
Total deferred tax liabilities	(714)	(1,274)
Net deferred tax assets	$ 4,356	$ 5,310
As reported on the consolidated balance sheets:		
Non-current deferred tax assets	$ 4,356	$ 5,310

Intevac accounts for income taxes in accordance with ASC 740, *Income Taxes*, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the financial reporting and tax bases of recorded assets and liabilities.

Accounting standards also require that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion of or all of the deferred tax assets will not be realized. Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. In fiscal 2014, a valuation allowance of $9.4 million was established to record the portion of the Singapore deferred tax assets that more likely than not will not be realized. The Company concluded that, as of December 29, 2018, it is more likely than not that the Company will generate sufficient taxable income in Singapore to realize its deferred tax assets and reversed the valuation allowance during the fourth quarter of 2018. This reversal resulted in the recognition of a non-cash income tax benefit of $7.9 million for fiscal 2018. The Company has considered all positive and negative evidence regarding the ability to fully realize the deferred tax assets, including past operating results and the forecast of future taxable income. This conclusion, and the resulting reversal of the deferred tax asset valuation allowance, was based upon consideration of a number of factors, including the Company's completion of 7 consecutive quarters of profitability and its forecast of future profitability under multiple scenarios that support the utilization of net operating loss carryforwards. After recognizing the reversal, the Company does not have a remaining valuation allowance against the deferred tax assets in Singapore at December 31, 2022.

In fiscal 2012, a valuation allowance of $23.4 million was established to record the portion of the U.S. federal deferred tax asset that more likely than not will not be realized. For fiscal 2022 a valuation allowance increase of $3.1 million and for fiscal 2021 a valuation allowance increase of $1.1 million were recorded for the U.S. federal deferred tax assets. A valuation allowance is recorded against the entire state deferred tax assets, which consists of state income tax temporary differences and deferred research and other tax credits that are not realizable in the foreseeable future.

As of December 31, 2022, our federal, foreign and state net operating loss carryforwards for income tax purposes were approximately $35.7 million, $24.6 million and $80.8 million, respectively. The federal and state net operating loss carryforwards are subject to various limitations under Section 382 of the Internal Revenue Code and applicable state tax laws. If not utilized, the federal net operating loss carryforwards and the state net operating loss carryforwards will begin to expire in 2034 and 2028, respectively. The foreign net operating loss carryforwards do not expire. As of December 31, 2022, our federal and state tax credit carryforwards for income tax purposes were approximately $20.9 million and $16.9 million, respectively. If not utilized, the federal tax credit carryforwards will begin to expire in 2023 and the state tax credits carry forward indefinitely.

We account for Global Intangible Low-Taxed Income ("GILTI") earned by certain foreign subsidiaries in the year the tax is incurred.

On August 16, 2022, the Inflation Reduction Act of 2022 ("IRA") was signed into U.S. law. The IRA includes implementation of a new alternative minimum tax, an excise tax on stock buybacks, and significant tax incentives for energy and climate initiatives, among other provisions. The Company is evaluating the provisions included under the IRA and does not expect the provisions to have a material impact to the Company's consolidated financial statements.

A provision of the Tax Cuts and Jobs Act ("TCJA") took effect on January 1, 2022 that amended Section 174 to require capitalization and amortization of research and experimental ("R&E") expenditures and software development costs. The capitalized R&E and software development costs associated with research conducted in the United States is amortized ratably over a 5-year period (15-year period for research conducted outside of the United States), beginning with the midpoint of the taxable year in which such expenditures are paid or incurred. This new provision of the TCJA will increase the Company's annual taxable income.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted on March 27, 2020 in the United States. The CARES Act includes several significant provisions for corporations, including the usage of net operating losses and payroll benefits. Several foreign (non-U.S.) jurisdictions in which we operate have taken similar economic stimulus measures. The Company evaluated the provisions of the CARES Act and other non-U.S. economic measures and determined the impact on our financial position at December 31, 2022 and on the results of operations and cash flows for fiscal 2022 and fiscal 2021 to be as follows.

Under the CARES Act, we elected to defer payment, on an interest-free basis, of the employer portion of social security payroll taxes incurred from March 27, 2020 to December 31, 2020. One-half of such deferral amount became due on each of December 31, 2021 and December 31, 2022. We elected to utilize this deferral program to delay payment of approximately $764,000 of the employer portion of payroll taxes which were incurred between March 27, 2020 and December 31, 2020. The Company also utilized the employee retention tax credit under the CARES Act for certain qualifying employee salary and wage expenditures. Tax benefits under the employee retention tax credit are not significant.

In Singapore, Intevac receives government assistance under the Job Support Scheme ("JSS"). The purpose of the JSS is to provide wage support to employers to help them retain their local employees. During fiscal 2021, the Company received $83,000 in JSS grants, of which $56,000 is reported as a reduction of cost of net revenues, $10,000 is reported as a reduction of R&D expenses and $17,000 is reported as a reduction of selling, general and administrative expenses on the consolidated statements of operations.

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The difference between the tax provision at the statutory federal income tax rate and the tax provision for fiscal 2022 and 2021 on continuing operations was as follows (in thousands):

	2022	2021
Income tax at the federal statutory rate	$(3,240)	$(4,721)
State income taxes, net of federal benefit	4	4
Change in valuation allowance:		
U.S	3,129	94
Foreign	—	—
Effect of foreign operations taxed at various rates	(219)	48
Research tax credits	(788)	(1,135)
Effect of tax rate changes, permanent differences and adjustments of prior deferrals	2,441	6,285
Unrecognized tax benefits	—	—
Total provision for income taxes on continuing operations	$ 1,327	$ 575

Intevac has not provided for foreign withholding taxes on approximately $1.7 million of undistributed earnings from non-U.S. operations as of December 31, 2022 because Intevac intends to reinvest such earnings indefinitely outside of the United States. If Intevac were to distribute these earnings, foreign withholding tax would be payable. For all other undistributed foreign earnings, Intevac also intends to reinvest such earnings indefinitely outside of the United States.

The total amount of gross unrecognized tax benefits was $730,000 as of December 31, 2022, none of which would affect Intevac's effective tax rate if realized. The aggregate changes in the balance of gross unrecognized tax benefits were as follows for fiscal 2022 and 2021:

	2022	2021
Beginning balance	$718	$ 7,327
Additions based on tax positions related to the current year	12	24
Decreases for tax positions of prior years	—	(6,622)
Lapse of statute of limitations	—	(11)
Ending balance	$730	$ 718

The Company does not anticipate any changes in the amount of unrecognized tax benefits in the next twelve months. It is Intevac's policy to include interest and penalties related to unrecognized tax benefits in the provision for income taxes on the consolidated statements of operations. During fiscal 2022 and 2021, Intevac recognized a net tax expense (benefit) of $0. As of December 31, 2022, Intevac did not have any accrued interest related to unrecognized tax benefits. Intevac did not accrue any penalties related to these unrecognized tax benefits because Intevac has other tax attributes which would offset any potential taxes due.

Intevac is subject to income taxes in the U.S. federal jurisdiction, and various state and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. As of December 31, 2022, all of the tax years remained open to examination by the federal and state taxing authorities, for three or four years from the tax year in which net operating losses or tax credits are utilized completely. Singapore is open to examination from 2017 forward.

The Inland Revenue Authority of Singapore ("IRAS") is currently conducting a review of the fiscal 2017 through 2019 tax returns of the Company's wholly-owned subsidiary, Intevac Asia Pte. Ltd. IRAS has challenged the Company's tax position with respect to certain aspects of the Company's transfer pricing. The ultimate outcome of this examination is subject to uncertainty. The Company's management and its advisors believe that the Company is "more likely than not" to successfully defend that the tax treatment was proper and in accordance with Singapore tax regulations. Presently, there are no other active income tax examinations in the jurisdictions where Intevac operates.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

11. Employee Benefit Plans

Employee Savings and Retirement Plan

In 1991, Intevac established a defined contribution retirement plan with 401(k) plan features. The plan covers all United States employees eighteen years and older. Employees may make contributions by a percentage reduction in their salaries, not to exceed the statutorily prescribed annual limit. Intevac made cash contributions of $151,000 for fiscal 2022 and $188,000 for fiscal 2021. Employees may choose among several investment options for their contributions and their share of Intevac's contributions, and they are able to move funds between investment options at any time. Intevac's common stock is not one of the investment options. Administrative expenses relating to the plan are insignificant.

Employee Bonus Plans

Intevac has various employee bonus plans. A profit-sharing plan provides for the distribution of a percentage of pre-tax profits to substantially all of Intevac's employees not eligible for other performance-based incentive plans, up to a maximum percentage of compensation. Other plans award annual cash bonuses to Intevac's executives and key contributors based on the achievement of profitability and other specific performance criteria. Charges to expense under these plans were $1.2 million, and $901,000, respectively, for fiscal 2022 and 2021.

12. Commitments and Contingencies

Leases

Intevac leases certain manufacturing facilities, warehouses, office space, and equipment under non-cancelable operating leases that expire at various times up to March 2024 and has options to renew most leases, with rentals to be negotiated. Certain of Intevac's leases contain provisions for rental adjustments. Operating lease rentals are expensed on a straight-line basis over the life of the lease beginning on the date we take possession of the property. At lease inception, we determine the lease term by assuming the exercise of those renewal options that are reasonably assured. The exercise of lease renewal options is at our sole discretion. The lease term is used to determine whether a lease is financing or operating and is used to calculate straight-line rent expense. Additionally, the depreciable life of leasehold improvements is limited by the expected lease term. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

The Company and EOTECH have entered into a Lease Assignment Agreement that assigns a portion of the Company's lease obligation regarding its Santa Clara, California campus to EOTECH. The Company is contingently liable should EOTECH default on future lease obligations through the lease termination date of March 2024. The aggregate amount of the future lease obligations under this arrangement is $2.0 million as of December 31, 2022. As the Company is not being released as the primary obligor under the original lease, the lease assignment has been accounted for as a sublease.

In consideration of EOTECH's assumption of the above-mentioned lease obligations, which assumed lease obligations pertain in part to excess space beyond that required for EOTECH's currently anticipated operation of the Photonics business, the Company agreed to pay to EOTECH the amount of $2.1 million (the "Unused Space Amount"), which Unused Space Amount is payable in (i) one initial installment of $308,000 on January 10, 2022 and (ii) seven (7) equal quarterly installments of $259,000.

The following table reflects our lease assets and our lease liabilities at December 31, 2022 and January 1, 2022.

	December 31, 2022	January 1, 2022
	(in thousands)	
Assets:		
Operating lease ROU assets	$ 3,390	$ 4,520
Liabilities:		
Current operating lease liabilities	$ 3,404	$ 3,119
Noncurrent operating lease liabilities	1,417	3,675
	$ 4,821	$ 6,794

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Lease Costs:

The components of lease costs were as follows:

	2022	2021
	(in thousands)	
Operating lease cost	$1,624	$2,944
Operating lease cost subleased / assigned property	974	—
Short-term lease cost	43	98
Less: sublease income	(974)	—
Total lease cost, net	$1,667	$3,042

As of December 31, 2022 the maturity of operating lease liabilities was as follows:

	Continuing Operations	Discontinued Operations	Total
		(in thousands)	
2023	$ 1,819	1,769	$3,588
2024	655	296	951
2025	408	—	408
2026	100	—	100
Total lease payments	$ 2,982	$ 2,065	5,047
Less: Interest	(143)	(83)	(226)
Present value of lease liabilities	$ 2,839	$ 1,982	4,821

The operating lease liabilities in discontinued operations represent the lease obligations that were assigned to EOTECH but which are being accounted for as a sublease as the Company has not been relieved of its primary obligations with the landlord.

Lease Term and Discount Rate:

	December 31, 2022	January 1, 2022
Weighted-average remaining lease term (in years)	1.69	2.11
Weighted-average discount rate	5.81%	6.40%

Other information:

Supplemental cash flow information related to leases was as follows (in thousands):

	2022	2021
	(in thousands)	
Operating cash outflows from operating leases	$1,757	$3,382
ROU asset impairment expense (reported in discontinued operations)	$ —	$1,246
ROU assets obtained in exchange for new operating lease liabilities	$1,122	$ —

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 December 31, 2022, we had letters of credit and bank guarantees outstanding totaling $786,000, including the standby letter of credit outstanding under the Santa Clara, California facility lease and various other guarantees with its bank. These letters of credit and bank guarantees are collateralized by $786,000 of restricted cash.

Warranty

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

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

The following table displays the activity in the warranty provision account for fiscal 2022 and 2021:

	2022	2021
	(in thousands)	
Beginning balance	$ 346	$ 480
Expenditures incurred under warranties	(312)	(622)
Expenditures incurred under warranties included in discontinued operations	—	(89)
Accruals for product warranties	147	502
Accruals for product warranties included in discontinued operations	—	122
Adjustments to previously existing warranty accruals	(18)	31
Adjustments to previously existing warranty accruals included in discontinued operations	—	(31)
Sale of Photonics division	—	(47)
Ending balance	$ 163	$ 346

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 of these other 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.

13. Restructuring Charges

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 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.

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 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 consolidated balance sheets.

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

The following table summarizes the significant activities within, and components of, the restructuring liabilities.

	Employee Termination Costs	Other Exit Costs	Total
		(in thousands)	
Balance at January 2, 2021	$ —	$ —	$ —
Provision for restructuring charges under the 2021 Cost Reduction Plan	319	—	319
Cash payments made	(319)	—	(319)
Provision for restructuring charges associated with Photonics sale (a)	693	1,911	2,604
Cash payments made	(96)	—	(96)
Non-cash utilization	(239)(b)	(1,246)(c)	(1,485)
Balance at January 1, 2022	$ 358(d)	$ 665	$ 1,023
Provision for restructuring charges under the 2022 Cost Reduction Plan	1,232	—	1,232
Cash payments made	(1,269)	—	(1,269)
Non-cash utilization	37(b)	—	37
Provision for restructuring charges associated with Photonics sale (a)	112	15	127
Cash payments made	(395)	(362)	(757)
Non-cash utilization	(75)(b)	—	(75)
Balance at December 31, 2022	$ —	$ 318	$ 318

(a) Included in income from discontinued operations (See note 2).
(b) Acceleration of equity awards.
(c) Impairment of ROU asset.
(d) Liability for employee termination costs is included in accrued payroll and related liabilities.

14. Related Party Transaction

A member of the Company's Board of Directors through November 2022, Mark Popovich, rendered professional services to the Company, at a rate of $3,125 per week plus expenses commencing May 23, 2022 through October 7, 2022. The Company incurred charges of approximately $62,500 associated with the professional services arrangement with Mr. Popovich in fiscal 2022.

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 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 and was accrued in the fourth quarter of 2022. Upon recognition, the amount, including the tax effect of $67,000, is included in the measurement of the acquired asset. The technology intangible assets are being amortized on a straight-line basis over a period of 8.3 years. Total amortization expense during fiscal 2022 was $42,000. Annual amortization expense related to the acquired technology intangible assets in each of the succeeding years is estimated to be approximately $136,000 per year from fiscal 2023 through fiscal 2030.

The Hia acquisition was treated for tax purposes as a nontaxable transaction and, as such, the historical tax bases of the acquired assets and assumed liabilities, net operating losses, and other tax attributes of Hia will carryover. As a result, there is no step-up to fair value of the underlying tax bases of the acquired net assets in connection with the Hia acquisition. The acquisition method of accounting includes the establishment of a net deferred tax asset or liability resulting from book tax basis differences related to assets acquired and liabilities assumed on the date of acquisition. When an acquisition of a group of assets is purchased in a transaction that is not accounted for as a business combination under ASC 805, "Business Combinations", a difference between the book and tax bases of the assets arises. ASC 740, "Income Taxes," requires the use of simultaneous equations to determine the assigned value of the asset and the related deferred tax asset or liability. As goodwill is not recognized in an asset acquisition, recognizing deferred tax assets or liabilities for temporary differences in an asset acquisition results in adjusting the carrying amount of the acquired assets and liabilities.

The purchase price was allocated to the technology intangible assets and the deferred tax asset and liability as follows:

	(In thousands)
Consideration:	
Cash payment	$ 702
Transaction costs	63
Less cash acquired	(2)
Total consideration	$ 763
Assets acquired:	
Technology intangible assets	$ 815
Deferred tax asset	119
Total assets acquired	$ 934
Liability assumed:	
Deferred tax liability	$ (171)
	$ 763

The following table represents a rollforward of the carrying amount of the technology intangible assets in fiscal 2022:

	(In thousands)
Initial cost of technology intangible assets recognized on the acquisition date	$ 815
Achievement of the first milestone and recognition of contingent consideration payable	250
Deferred tax liability associated with the recognition of the first milestone	67
Gross carrying amount at December 31, 2022	1,132
Accumulated amortization	(42)
Net carrying amount at December 31, 2022	$ 1,090

Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Management's Report on Assessment of Internal Controls Over Financial Reporting

Evaluation of Disclosure Controls and Procedures

Based on Intevac's management's evaluation with the participation of the Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), as of the end of the period covered by this Annual Report, Intevac's CEO and CFO have concluded that Intevac's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act") are effective to ensure that information required to be disclosed by Intevac in reports that Intevac files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to Intevac's management, including Intevac's CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for Intevac. Internal control over financial reporting is a process designed 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. Internal control over financial reporting (as defined in Rule 13a-15(f) ender the Exchange Act) includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management (with the participation of the CEO and CFO) conducted an evaluation of the effectiveness of Intevac's internal control over financial reporting based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Intevac's internal control over financial reporting was effective as of December 31, 2022.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during our fourth quarter of fiscal 2023 that has materially affected, or is reasonably likely to materially affect, Intevac's internal control over financial reporting.

Item 9B. ***Other Information***

None.

Item 9C. ***Disclosure Regarding Foreign Jurisdictions that Prevent Inspections***

Not applicable.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this item relating to the Company’s directors and nominees, disclosure relating to compliance with Section 16(a) of the Securities Exchange Act of 1934, and information regarding Intevac’s code of ethics, audit committee and stockholder recommendations for director nominees is included under the captions “Election of Directors,” “Nominees,” “Business Experience of Nominees for Election as Directors,” “Board Meetings and Committees,” “Corporate Governance Matters,” “Delinquent Section 16(a) Reports ” and “Code of Business Conduct and Ethics” in the Company’s Proxy Statement for the 2023 Annual Meeting of Stockholders and is incorporated herein by reference. The information required by this item relating to the Company’s executive officers and key employees is included under the caption “Executive Officers of the Registrant” under Item 1 in Part I of this Annual Report on Form 10-K.

Item 11. *Executive Compensation*

The information required by this item is included under the caption “Executive Compensation and Related Information” in the Company’s Proxy Statement for the 2023 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item is included under the caption “Ownership of Securities” in the Company’s Proxy Statement for the 2023 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item is included under the captions “Certain Transactions” and “Corporate Governance Matters” in the Company’s Proxy Statement for the 2023 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

The information required by this item is included under the caption “Fees Paid To Accountants For Services Rendered During 2022” in the Company’s Proxy Statement for the 2023 Annual Meeting of Stockholders and is incorporated herein by reference.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements:

See "Index to Consolidated Financial Statements" in Part II, Item 8 of this Form 10-K.

All other schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule or because the information required is included in the consolidated financial statements or notes thereto.

2. Exhibits

Exhibit Number	Description
2.1 (17)	Asset Purchase Agreement, dated as of December 30, 2021, by and between Intevac, Inc., Intevac Photonics, Inc. and EOTECH, LLC
2.2 (23)	First Amendment to Asset Purchase Agreement, dated March 7, 2022, by and among Intevac, Inc., Intevac Photonics, Inc. and EOTECH, LLC
3.1 (1)	Certificate of Incorporation of the Registrant
3.2 (2)	Bylaws of the Registrant, as amended
4.1 (4)	Description of the Registrant's Common Stock
10.1+ (18)	The Registrant's 2003 Employee Stock Purchase Plan, as amended February 17, 2021
10.2+ (6)	The Registrant's 2012 Equity Incentive Plan, as amended
10.3+ (7)	Form of Restricted Stock Unit Agreement for 2012 Equity Incentive Plan
10.4+ (7)	Form of Restricted Stock Agreement for 2012 Equity Incentive Plan
10.5+ (7)	Form of Stock Option Agreement for 2012 Equity Incentive Plan
10.6+ (8)	Form of Performance Based Stock Option Agreement for 2012 Equity Incentive Plan
10.7+ (8)	Form of Outside Director Restricted Stock Unit Agreement for 2012 Equity Incentive Plan
10.8 (9)	Lease dated March 20, 2014 regarding the space located at 3544, 3560, 3570 and 3580 Bassett Street, Santa Clara, California
10.9 (22)	Lease Assignment Agreement dated as of December 30, 2021, by and between Intevac, Inc., and EOTECH, LLC
10.10+ (5)	The Registrant's 2020 Equity Incentive Plan
10.11+ (10)	Form of Restricted Stock Unit Agreement for 2020 Equity Incentive Plan
10.12+ (10)	Form of 2020 Performance Based Restricted Stock Unit Agreement for 2020 Equity Incentive Plan
10.13+ (10)	Form of Stock Option Agreement for 2020 Equity Incentive Plan
10.14+ (10)	Form of Outside Director Restricted Stock Unit Agreement for 2020 Equity Incentive Plan
10.15+ (11)	Form of 2021 Performance Based Restricted Stock Unit Agreement for 2020 Equity Incentive Plan
10.16+ (12)	Intevac, Inc. 2022 Inducement Equity Incentive Plan
10.17+ (12)	Form of RSU Agreement under the Intevac, Inc. 2022 Inducement Equity Incentive Plan
10.18+ (3)	The Registrant's 401(k) Profit Sharing Plan (P)
10.19+ (13)	Director and Officer Indemnification Agreement
10.20+ (5)	The Registrant's Executive Incentive Plan
10.21+ (12)	Employment Agreement, dated January 18, 2022, by and between Nigel Hunton and Intevac, Inc.
10.22+ (14)	Separation Agreement and Release, dated January 27, 2022, by and between Wendell Blonigan and Intevac, Inc.

Exhibit Number	Description
10.23 (26)	Severance Agreement and Release of Claims, dated February 28, 2022, by and between Jay Cho and Intevac, Inc.
10.24+ (15)	Offer Letter with James Moniz
10.25+ (15)	Change in Control Agreement with James Moniz dated October 29, 2014
10.26+ (16)	Form of Change in Control Agreement
10.27+ (19)	Form of PRSU Award Agreement (Company Stock Price Hurdle) under the 2022 Inducement Equity Incentive Plan
10.28+ (19)	Form of PRSU Award Agreement (Company Stock Price Hurdle) under the 2020 Equity Incentive Plan
10.29+ (20)	Consulting Agreement with Mark Popovich
10.30+ (21)	Offer letter, effective as of October 6, 2022, between Intevac and Mark Popovich
10.32+ (21)	Change in Control Agreement, effective as of October 6, 2022, between Intevac and Mark Popovich
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney (see signature page)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Vice-President, Finance and Administration, Chief Financial Officer and Treasurer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications Pursuant to U.S.C. 1350, adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial statements from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2022, formatted in Inline XBRL (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

(1) Previously filed as an exhibit to the Company's Report on Form 8-K filed July 23, 2007
(2) Previously filed as an exhibit to the Company's Report on Form 8-K filed March 15, 2012
(3) Previously filed as an exhibit to the Registration Statement on Form S-1 (No. 33-97806)
(4) Previously filed as an exhibit to the Company's Form 10-K filed February 12, 2020
(5) Previously filed as an exhibit to the Company's Definitive Proxy Statement filed April 7, 2020.
(6) Previously filed as an exhibit to the Company's Definitive Proxy Statement filed April 11, 2018
(7) Previously filed as an exhibit to the Company's Form 10-Q filed May 1, 2012
(8) Previously filed as an exhibit to the Company's Form 10-Q filed July 30, 2019
(9) Previously filed as an exhibit to the Company's Form 10-Q filed April 29, 2014
(10) Previously filed as an exhibit to the Registration Statement on Form S-8 filed May 14, 2020 (No. 33-238262)
(11) Previously filed as an exhibit to the Company's Form 10-Q filed August 3, 2021
(12) Previously filed as an exhibit to the Company's Report on Form 8-K filed January 20, 2022
(13) Previously filed as an exhibit to the Company's Form 10-K filed March 14, 2008
(14) Previously filed as an exhibit to the Company's Report on Form 8-K filed February 1, 2022
(15) Previously filed as an exhibit to the Company's Report on Form 8-K filed October 31, 2014
(16) Previously filed as an exhibit to the Company's Form 10-Q filed May 1, 2018
(17) Previously filed as an exhibit to the Company's Report on Form 8-K filed January 3, 2022
(18) Previously filed as an exhibit to the Company's Definitive Proxy Statement filed April 14, 2021
(19) Previously filed as an exhibit to the Company's Report on Form 8-K filed May 19, 2022
(20) Previously filed as an exhibit to the Company's Form 10-Q filed August 4, 2022
(21) Previously filed as an exhibit to the Company's Report on Form 8-K filed October 12, 2022
(22) Previously filed as an exhibit to the Company's Form 10-K filed February 17, 2022

(23) Previously filed as an exhibit to the Company's Form 10-Q filed May 10, 2022
(P) Paper exhibit.
\+ Management compensatory plan or arrangement

Item 16. ***Form 10-K Summary***

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on February 16, 2023.

INTEVAC, INC.

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

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Nigel D. Hunton and James Moniz and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ NIGEL D. HUNTON (Nigel D. Hunton)	President, Chief Executive Officer and Director (Principal Executive Officer)	February 16, 2023
/s/ JAMES MONIZ (James Moniz)	Executive Vice President, Finance and Administration, Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	February 16, 2023
/s/ DAVID S. DURY (David S. Dury)	Chairman of Board	February 16, 2023
/s/ KEVIN D. BARBER (Kevin D. Barber)	Director	February 16, 2023
/s/ DOROTHY D. HAYES (Dorothy D. Hayes)	Director	February 16, 2023
/s/ MICHELE F. KLEIN (Michele F. Klein)	Director	February 16, 2023

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

1. Intevac Photonics, Inc. – Delaware
2. Intevac Pacific Group Holdings Ltd. Pte – Singapore
3. Lotus Technologies, Inc. – Santa Clara, California
4. IRPC, Inc. – Santa Clara, California
5. Intevac Foreign Sales Corporation – Barbados
6. Intevac Asia Private Limited – Singapore
7. Intevac Malaysia Sdn Bhd – Malaysia
8. Intevac Limited – Hong Kong
9. Intevac (Shenzhen) Co. Ltd. – China

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-262822, 333-258132, 333-238262, 333-232730, 333-226262, 333-219405, 333-212647, 333-205368, 333-197700, 333-190250, 333-181929, 333-175979, 333-160596, 333-134422, 333-109260, and 333-106960) of Intevac, Inc. of our report dated February 16, 2023 relating to the consolidated financial statements, which appears in this Annual Report on Form 10-K.

/s/ BPM LLP

San Jose, California
February 16, 2023

Exhibit 31.1

Certifications

I, Nigel D. Hunton, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 controls 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;

   (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 controls over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

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

Date: February 16, 2023

/s/ Nigel D. Hunton

Nigel D. Hunton
President, Chief Executive Officer and Director

Exhibit 31.2

Certifications

I, James Moniz, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 controls 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;

    (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 controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: February 16, 2023

/s/ James Moniz

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

**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 D. 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 Annual Report of Intevac, Inc. on Form 10-K for the period ended December 31, 2022 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-K fairly presents in all material respects the financial condition and results of operations of Intevac, Inc.

Date: February 16, 2023

/s/ Nigel D. Hunton
Nigel D. Hunton
President, Chief Executive Officer and Director

I, James Moniz, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Intevac, Inc. on Form 10-K for the period ended December 31, 2022 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-K fairly presents in all material respects the financial condition and results of operations of Intevac, Inc.

Date: February 16, 2023

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

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