INTEVAC INC
Form 10-K
February 26, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

or

o **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	**Name of Each Exchange on Which Registered**
Common Stock ($0.001 par value)	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. o Yes þ 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. o Yes þ 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. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). o Yes o No

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

The aggregate market value of voting stock held by non-affiliates of the Registrant, as of June 27, 2009 was approximately $104,262,779 (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, director, and holder of 5% or more of the outstanding Common Stock 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 24, 2010, 22,220,746 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 2010 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.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information in this Annual Report on Form 10-K (report or Form 10-K) of Intevac, Inc. and its subsidiaries (Intevac 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 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, compensation practices, 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, expe plan, anticipate, believe, estimate, predict, potential and continue, the negative of these terms, or other con 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 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 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 report.

PART I

Item 1. *Business*

Overview

Intevac s business consists of two reportable segments:

Equipment: Intevac is a leader in the design, development and marketing of high-productivity magnetic media processing systems to the hard drive industry, and offers high-productivity technology solutions to the photovoltaic (PV) and semiconductor industries.

Intevac Photonics: Intevac is a leader in the development and manufacture of leading edge, high-sensitivity imaging products and vision systems, as well as table-top and handheld Raman instruments. Markets addressed include military, law enforcement, industrial, medical and scientific.

Intevac was incorporated in October 1990 in California and completed a leveraged buyout of a number of divisions of Varian Associates in February 1991. Intevac was reincorporated in Delaware in 2007.

Equipment Segment

Hard Disk Drive Equipment Market

Intevac designs, manufactures, markets and services complex capital equipment used to deposit thin films onto magnetic disks that are used in hard disk drives, and also equipment to lubricate these disks. 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 60% of the installed capacity of disk sputtering systems worldwide. Intevac s systems are used by manufacturers such as Fuji Electric, Hitachi Global Storage Technologies, Seagate Technology, Showa Denko and Western Digital.

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Hard disk drives are a primary storage medium for digital data and are used in products and applications such as personal computers, enterprise data storage, personal audio and video players and video game platforms. Intevac believes that hard disk drive shipments will continue to grow over time, driven by growth in digital storage, by new and emerging applications, and by the proliferation of personal computers into emerging economies. Continued growth in hard disk drive shipments is a key factor in determining demand for magnetic disks used in hard disk drives.

Demand for Intevac s disk manufacturing products is driven by a number of factors, including unit demand for hard disk drives, market share, the average number of magnetic disks used in each hard drive, utilization and productivity of disk manufacturers installed base of magnetic disk manufacturing equipment and obsolescence of the installed base. The introduction of perpendicular recording technology by disk manufacturers had a significant impact on the equipment market, and increased demand both for new equipment, such as Intevac s 200 Lean® disk sputtering system, and for technology upgrades to the installed base of Intevac s legacy MDP-250 systems from 2005 through 2007.

Intevac expects that hard disk drive manufacturers will extend planar perpendicular media for the next several years and the next major media technology for the hard drive industry will be patterned media. The transition to patterned media by disk manufacturers, which introduces new processes and requires new equipment, will result in increased demand for Intevac s equipment. Although Intevac does not expect this transition to occur for several years, Intevac introduced the 200 Lean Gen II etch and deposition system in 2009 which is being used by the industry for patterned media application development.

Hard Disk Drive Equipment Products

Disk Sputtering Systems

Disk sputtering is the process of depositing a thin film of various materials on a substrate. Intevac equipment deposits magnetic, non-magnetic and protective carbon-based overcoat using sputtering or chemical vapor deposition (CVD) technologies.

Intevac s first generation 200 Lean systems began shipping in 2003 with the installed base reaching over 120 systems by the end of 2009. Intevac estimates that approximately 90% of these systems are used in production with the balance used for research and development.

In 2008, Intevac shipped the first 200 Lean Gen II, Intevac s latest generation disk sputtering system. It is designed to deliver 25% higher throughput than the original 200 Lean. This increase in throughput enables Intevac customers to manufacture more magnetic disks per square foot of factory floor space, further reducing overall cost per disk.

In 2009, Intevac shipped the first 200 Lean Gen II etch and deposition system to be used for patterned media. Intevac provides a cost-effective solution for high-volume manufacturing by providing new etch and associated process modules on the high-productivity 200 Lean Gen II platform.

From 1994 through 2005, Intevac shipped approximately 110 MDP-250 s. As of the end of 2009, Intevac believes that approximately 65% of these systems are still being used for production. The balance of these systems are being used by customers for research and development, are in storage or have been retired from service.

Disk Lubrication Systems

Disk lubrication is the manufacturing step that follows deposition of thin films. During lubrication, a microscopic layer of lubricant is applied to the disk s surface to improve durability and reduce surface friction between the disk and the read/write head assembly.

The Intevac DLS-100 disk lubrication system provides Intevac s customers with a lubrication process by dipping disks into a lubricant/solvent mixture. Intevac has been manufacturing dip lubrication systems similar to the DLS-100 since 1996.

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The Intevac AccuLuber[tm] disk lubrication system lubricates disks by depositing a thin film of lubricant on the disk while it is under vacuum. This eliminates the use of solvents during the lubrication process, which are environmentally hazardous and are expensive to procure, store and dispose.

Deposition System

The Intevac LithoPrime[tm] is used in patterned media applications and deposits a priming film on the disk before it goes into a third party lithography tool which deposits resist track patterns on the disk. This tool enables patterning on hard disks by providing an adhesion layer between the disk and the resist. In 2009, Intevac shipped three LithoPrime tools.

Non-Systems Business

Intevac also provides installation, maintenance and repair services, technology upgrades, spare parts and consumables to Intevac s system customers. Non-system business as a percentage of Equipment revenues was 36% in 2007, 45% in 2008 and 51% in 2009.

Semiconductor Equipment Market

A wide range of manufacturing equipment is used to fabricate semiconductor chips including: atomic layer deposition, chemical vapor deposition, physical vapor deposition, electrochemical plating, etch, ion implantation, rapid thermal processing, chemical mechanical planarization, wafer wet cleaning, wafer metrology and inspection, and systems that etch, measure and inspect circuit patterns on masks used in the photolithography process.

Most chips are built on a silicon wafer base and include a variety of circuit components, such as transistors and other devices, that are connected by multiple layers of wiring (interconnects). To build a chip, the transistors, capacitors and other circuit components are first created on the surface of the wafer by performing a series of processes to deposit and selectively remove successive film layers. Similar processes are then used to build the layers of wiring structures on the wafer.

Most chips are currently fabricated using 65 nanometer (nm) and larger linewidth dimensions. Over time, Intevac believes that 45 nm, and then 32 nm, are likely to be the next line width nodes to be implemented as manufacturers work to squeeze more and more components onto each chip. As the density of the circuit components increases to enable greater computing power in the same or smaller area, the complexity of building the chip also increases, necessitating more process steps to form smaller structures and more intricate wiring schemes.

Intevac is utilizing its expertise in the design, manufacturing, and marketing of complex manufacturing equipment and the prior experience of Intevac s management team in the semiconductor manufacturing equipment business to develop products for the semiconductor manufacturing market.

Semiconductor Manufacturing Products

In 2007, Intevac announced the dielectric etch semiconductor manufacturing system, the Lean Etch[tm]. The Lean Etch is a 300 mm system designed to address the need for significant productivity improvement and provide enabling etch technology at 45 nm nodes and below. During 2009, Intevac delivered an evaluation system to its alliance partner, TES Co., Ltd. (TES), a Korean equipment company and TES actively demonstrated the system to semiconductor manufacturers in the Korean market.

Intevac is in the early stages of offering its wafer handling mainframe to third parties.

To date, Intevac has not yet recognized any revenue from shipments of any of its semiconductor products.

Solar Market

A related application for Intevac is in the solar market. In 2009 Intevac began offering 200 Lean tools to manufacturers of Copper indium gallium (di)selenide (CIGS) thin film solar cells. A significant amount of new research and spending is required to develop solar technologies as an alternative energy solution. The solar industry requires massive investment to create solar cell manufacturing infrastructure. Today, without government subsidies,

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solar power cannot compete effectively with conventional sources of electrical energy. For solar power to become an effective competitor, a more efficient solar manufacturing process must be implemented. While many of today s solar panels are based upon older silicon technologies, thin film CIGS offers the potential for lower manufacturing costs, has the highest efficiency of the thin film technologies and can be manufactured on rigid or flexible substrates. Since PV manufacturers often build their own equipment, there is a market opportunity emerging for equipment suppliers such as Intevac. CIGS solar panels have broad-based end market applications for solar farms, integrated building PV, rooftop grids and portable devices.

Thin film PV manufacturing processes can be used in the solar industry by combining state-of-the-art, magnetic media thin film manufacturing technologies used by the hard disk drive industry with proven thin film PV processes. Thin film technology is a lower cost alternative to solar cell production using silicon wafer technologies. Intevac believes thin film manufacturing technologies will increase cell efficiency, improve production speeds and yields, and lower the cost for solar cells.

Solar Manufacturing Product

In 2009, Intevac began offering a high-efficiency, low-cost thin film solar cell equipment solution for PV applications, LEAN SOLAR™ which performs single substrate processing for precise process control. LEAN SOLAR s sequential processing performs deposition and processes standard cell sizes for glass, silicon, and metal substrates. LEAN SOLAR can be used in CIGS applications, on glass or stainless steel substrates, as well as depositing front and back conductive layer coatings for crystalline silicon PV cells. Intevac did not recognize any revenue from LEAN SOLAR shipments in 2009.

Intevac Photonics Segment

Intevac Photonics Market

Intevac develops, manufactures and sells compact, cost-effective, high-sensitivity digital-optical products for the capture and display of low-light images and the optical analysis of materials. Intevac provides sensors, cameras, near-eye displays and systems for military applications such as night vision, long-range target identification and simulation training. Intevac also provides commercial products that include compact Raman instruments and cameras for commercial applications in the inspection, medical, and scientific markets, and for government applications in law enforcement and in the chemical, biological and explosives threat-detection markets. The majority of Intevac s Photonics revenue has been derived from contracts related to the development of low-light electro-optical sensors and cameras, funded by the U.S. government, its agencies and contractors. However, the percentage of Intevac Photonics revenue derived from product sales grew from 29% in 2007 to 37% in 2008 and 40% in 2009.

Military Products

Night Vision Systems

Since 1995, the U.S. military has funded Intevac s development of digital night vision sensor technology based on Intevac s patented Electron Bombarded Active Pixel Sensor (EBAPS) design. The EBAPS design utilizes Complementary Metal-Oxide-Semiconductor (CMOS) technology to produce a compact, lightweight, low-light level digital sensor, which provides the U.S. military size and weight advantages, as well as the many benefits associated with digital imaging compared to analog Generation-III night vision tubes. During 2009, Intevac reached agreement with a major NATO defense contractor for high volume production, with a ramp that began in late 2009, and is expected to continue for the next five years. Intevac completed the development of a two-megapixel digital night vision sensor and delivered cameras using this sensor to multiple branches of the U.S. military for evaluation in a

number of ground and avionics applications. Additionally, Intevac won the first product-based contract for this sensor to be built into a camera and evaluated for deployment as a digital upgrade for a large-volume, existing avionics platform. Intevac Photonics also received initial funding for a next-generation four-megapixel digital low-light sensor for panoramic night vision viewing applications.

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Digital Enhanced Night Vision Goggle

The U.S. military is also funding development of a compact, head-mounted digital imaging system, or Digital Enhanced Night Vision Goggle (DENVG). DENVG integrates a visible imager, a thermal imager and a video display. This approach allows low-light level and thermal imagery to be viewed individually, or to be overlaid (digitally fused), and enables connectivity to a wireless network for distribution of the imagery and other information. The U.S. Army plans to begin procurement of this type of system in 2013. Intevac is developing the DENVG goggle system along with its partner DRS. In addition, Intevac s sensor is being used in a competitor s system.

Night Port

In 2008, Intevac began the development of Night Port™, the first digital night vision viewer utilizing Intevac s EBAPS technology. Night Port combines digital sensor and near-eye display technology to create a compact, monocular system that provides full digital night vision viewing and recording capabilities. The Night Port system is designed to replace legacy night vision goggles for military and commercial applications for ground and avionics night vision. In 2009, Intevac Photonics received several contracts for development of Night Port derivative products, including a digital binocular and target identification system for use by ground troops.

LIVAR

Intevac Photonics Laser Illuminated Viewing and Ranging (LIVAR®) camera enables the development of long range military nighttime surveillance systems which can identify targets at distances of up to twenty kilometers. Presently, Intevac Photonics LIVAR camera is being incorporated into U.S. military programs that deploy long-range target identification in land-based and airborne applications. During 2008, Intevac delivered pre-production LIVAR cameras for both land-based and airborne applications and received an initial low-level production order for LIVAR for an airborne application. During 2009, Intevac received a production order for an airborne application and began delivering production quantities against this order. Intevac also received an initial LIVAR camera order for a second airborne application, which is expected to lead to production orders.

Intensified Photodiodes

Intevac continues to develop, under a number of research and development contracts, intensified photodiode technology that enables single photon detection at extremely high data rates, which is designed for use in target identification and other military applications.

Near-Eye Display Systems

Intevac provides high-performance, micro-display products for near-eye, portable viewing of video in military and commercial markets. Intevac s eyeglass-mounted display systems provide high definition and a wide field-of-view in miniaturized light-weight and portable designs. I-Port™ is a removable display module which snaps onto eyewear via a novel ball/socket mount to ensure optimum placement of the image to the viewer s eye through simple adjustments. I-Port provides digital night vision solutions for such diverse markets as medical, industrial, commercial, and military, including training and simulation.

Commercial Products

Raman spectrometer systems are used to identify the chemical composition of solid materials, powders and liquids by illuminating the sample with a laser and measuring the characteristic spectrum of light scattered from the tested sample. Raman spectroscopy is used in HAZMAT, forensics, homeland security, geology, gemology, medical,

pharmaceutical and industrial quality assurance applications. Intevac provides bench-top and handheld Raman instruments, designed by DeltaNu®, that perform non-destructive identification of liquids and solids in the field and in the laboratory. In 2009, Intevac received contract awards for the development of handheld Raman instruments which will incorporate Intevac s core near infrared (NIR) sensors to enable the detection of critical materials in the growing chemical, biological, and explosives threat detection market.

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Handheld Raman Materials Identification Instruments

ReporteR™ is a palm-sized spectrometer that identifies materials for the HAZMAT and law enforcement industries. ReporteR identifies substances by comparing unique molecular fingerprints to reference materials stored in its library. RAPID ID™ is a palm-sized, lightweight materials identification tool designed to analyze and identify industrial plastics for use in the automotive, consumer products and medical device industries. Observer™ is a stand-off materials identification tool that operates at distances from three meters to twenty meters.

Laboratory Instruments

The Advantage product line of low-cost, high-performance bench-top spectrometers are available at 532 nm, 633 nm, 785 nm NIR or 1064 nm excitation wavelengths for education and research use. ExamineR™ is a modular Raman microscopy system designed for applications that require precise spectral characterization at 532 nm, 785 nm, or 1064 nm wavelengths.

Low-Light Cameras

Intevac Photonics MicroVista® product line of commercial low-light CMOS cameras provides high sensitivity in the ultraviolet, visible, or NIR regions of the spectrum by using proprietary fabrication technology in back-thinning CMOS sensors. MicroVista s compact and lightweight camera design is used in industrial inspection, bio-medical, and scientific applications. Intevac also provides a high-sensitivity NIR MOSIR® camera that is used in scientific spectroscopy applications where high signal-to-noise is achieved through Intevac s EBAPS design.

Backlog

Intevac s backlog of orders at December 31, 2009 was $73.8 million, as compared to $20.2 million at December 31, 2008. Backlog at December 31, 2009 consisted of $57.5 million of Equipment backlog and $16.3 million of Intevac Photonics backlog. Backlog at December 31, 2008 consisted of $11.4 million of Equipment backlog and $8.8 million of Intevac Photonics backlog. The increase in Equipment backlog was primarily the result of increased orders for 200 Lean disk sputtering systems. Backlog at December 31, 2009 includes ten 200 Lean systems, as compared to one 200 Lean system in backlog at December 31, 2008. Backlog includes only customer orders with scheduled delivery dates.

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. In both 2009 and 2008 sales to Seagate and Hitachi Global Storage Technologies each accounted for more than 10% of Intevac s revenues. In 2007 sales to Seagate, Matsubo -Intevac s Japanese distributor, Hitachi Global Storage Technologies, and Fuji Electric each accounted for more than 10% of Intevac s revenues. In the aggregate sales to these customers accounted for 58%, 80% and 90% of revenues in 2009, 2008 and 2007, respectively. Intevac expects that sales of Intevac s products to relatively few customers will continue to account for a high percentage of Intevac s revenues in the foreseeable future.

Foreign sales accounted for 50% of revenue in 2009, 69% of revenue in 2008, and 82% of revenue in 2007. 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 sales to these international customers will continue to be a significant portion of Intevac s Equipment revenues. Intevac s disk sputtering equipment customers include magnetic disk manufacturers, such as Fuji Electric and Showa Denko, and vertically integrated hard disk drive manufacturers, such as Hitachi Global Storage Technology, Seagate, and Western Digital. Intevac s customers manufacturing facilities are primarily located in California, China, Japan, Malaysia and Singapore.

Competition

The principal competitive factors affecting the markets for Intevac Equipment products include price, product performance and functionality, ease of integration, customer support and service, reputation and reliability. Intevac has historically experienced intense worldwide competition for magnetic disk sputtering equipment from

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companies that have sold substantial numbers of systems worldwide, including Anelva Corporation. Intevac is attempting to enter the semiconductor equipment market, and Intevac faces competition from large established competitors including Applied Materials, LAM Research and Tokyo Electron. Intevac is attempting to enter the PV equipment market, and faces competition from large established competitors including Veeco Instruments, Centrotherm Photovoltaics, Von Ardenne as well as cell module manufacturers that are internally developing manufacturing equipment that may be sold externally in the future. These competitors all 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.

The principal competitive factors affecting Intevac Photonics products include price, extreme low-light level detection performance, power consumption, resolution, size, ease of integration, reliability, reputation and customer support and service. Intevac faces substantial competition for Intevac Photonics products, many with substantially greater resources and brand recognition. In the military market, ITT Industries, is a large and well-established defense contractor and is a primary U.S. manufacturer of image intensifier tubes used in Generation-III night vision devices and their derivative products. Intevac s digital night vision sensors, cameras and systems are intended to displace Generation-III night vision based products. Intevac expects that ITT, Fairchild Imaging and other companies will develop digital night vision products and aggressively promote their sales. Furthermore, Intevac s LIVAR target identification sensors and cameras face competition from CMC Electronics, DRS, FLIR Systems, Goodrich and Raytheon, established companies that manufacture infrared sensors and cameras which are presently used in long-range target identification systems. Within the near-eye display market, Intevac also faces competition from Rockwell-Collins, Vuzix and Oasys, all of which can offer cost-competitive products. In the commercial markets, companies such as Andor, Dalsa, E2V, Hamamatsu, Texas Instruments and Roper offer competitive sensor and camera products, and companies such as Ahura, B&W Tek, GE Security, Horiba-Jobin Yvon, Ocean Optics, Renishaw, Thermo Scientific and Smiths Detection offer competitive Raman spectrometer products.

Marketing and Sales

Equipment sales are made through Intevac s direct sales force, with the exception of in Japan, where Intevac sells its products through a distributor, Matsubo. Sales of Intevac s Lean Etch system will be made by TES, Intevac s alliance partner, in Korea and China and by Intevac s direct sales force elsewhere. The selling process for Intevac s Equipment products is multi-level and long-term, involving individuals from marketing, engineering, operations, customer service and senior management. The process involves making sample disks or wafers for the prospective customer and responding to their needs for moderate levels of machine customization. Customers often require a significant number of product presentations and demonstrations before making a purchasing decision.

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. After making a decision to select Intevac s equipment, Intevac s customers typically purchase one or more engineering systems to develop and qualify their production process prior to ordering and taking delivery of multiple production systems. Accordingly, 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. In some cases Intevac manufactures subsystems and/or complete systems prior to receipt of a customer order to smooth Intevac s

production flow and/or reduce lead time.

Intevac maintains inventories of spare parts in the United States, Singapore 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

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due upon completing installation and acceptance of the system at the customer s factory. All customer product payments are recorded as customer advances, which are released into revenue in accordance with Intevac s revenue recognition policy.

Intevac provides process and applications support, customer training, installation, start-up assistance and emergency service support to Intevac s Equipment customers. Intevac conducts training classes for Intevac s customers process engineers, machine operators and machine service personnel. Additional training is also given to Intevac s customers during equipment installation. Intevac has field offices in Singapore, China, and Malaysia to support Intevac s customers in Asia. Intevac generally adds additional support centers as necessary to maintain close proximity to Intevac s customers factories as they deploy Intevac s systems.

Warranty for Intevac s Equipment typically ranges between 12 and 24 months from customer acceptance. During this warranty period any necessary non-consumable parts are supplied and installed without charge. Intevac s employees provide field service support in the United States, Singapore, Malaysia, China and Japan. In Japan, field service support is also supplemented by Intevac s distributor, Matsubo.

Sales of Intevac Photonics products for military applications are primarily made to the end user through Intevac s direct sales force. Intevac sells to leading defense contractors such as Lockheed Martin Corporation, Northrop Grumman Corporation, Raytheon, DRS Technologies, BAE and Sagem.

Intevac is subject to long sales cycles in the Photonics segment because many of Intevac s products, such as Intevac s night vision systems, typically must be designed into Intevac s customers products, which are often complex and state-of-the-art. These development cycles are often multi-year, and Intevac s sales are contingent on Intevac s customer successfully integrating Intevac s product into its product, completing development of its product and then obtaining production orders for its product. Sales of these products are also often dependent on ongoing funding of defense programs by the U.S. government and its allies. Additionally, sales to international customers are contingent on issuance of export licenses by the U.S. government.

Sales of Intevac Photonics commercial products are made through a combination of direct sales, system integrators, distributors and value added resellers and can also be subject to long sales cycles.

Intevac Photonics generally invoices its research and development customers either as costs are incurred, or as program milestones are achieved, depending upon the particular contract terms. As a government contractor, Intevac invoices customers using estimated annual rates approved by the Defense Contracts Audit Agency (DCAA).

Research and Development and Intellectual Property

Intevac s long-term growth strategy requires continued development of new products. Intevac works closely with Intevac s global 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 invested $28.1 million (36.0% of net revenues) in fiscal 2009, $35.1 million (31.8% of net revenues) in fiscal 2008, and $40.1 million (18.6% of net revenues) in fiscal 2007 for product development and engineering programs to create new products and to improve existing technologies and products. Intevac has spent an average of 18.4% of net revenues on product development and engineering over the last five years.

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. Intevac has a substantial number of patents in the United States and other countries, and additional applications are pending for new inventions. 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.

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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, in several of Intevac s products, of certain patented technologies. Intevac also receives, from time to time, royalties from licenses granted to third parties. Royalties received from or paid to third parties have not been material to Intevac s consolidated results of operations.

In the normal course of business, Intevac periodically receives and makes inquiries regarding possible patent infringement. 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 Equipment products at its facilities in California and Singapore. Intevac s Equipment manufacturing operations include electromechanical assembly, mechanical and vacuum assembly, fabrication of sputter sources, and system assembly, alignment and testing. Intevac makes extensive use of the local supplier infrastructure serving the semiconductor equipment business. Intevac purchases vacuum pumps, valves, instrumentation and fittings, power supplies, printed wiring board assemblies, computers and control circuitry, and custom mechanical parts made by forging, machining and welding.

Intevac Photonics products are manufactured at Intevac s facilities in California and Wyoming. Intevac Photonics manufactures advanced photocathodes and sensors, cameras, integrated camera systems, compact Raman spectrometry instruments and near-eye display systems using advanced manufacturing techniques and equipment. Intevac s operations include vacuum, electromechanical and optical system assembly. Intevac uses the supplier infrastructure serving the semiconductor, laser, camera and optics manufacturing industries. In manufacturing Intevac s sensors, Intevac purchases wafers, components, processing supplies and chemicals. In manufacturing Intevac s camera systems and near-eye displays, Intevac purchases printed circuit boards, electromechanical components and assemblies, mechanical components and enclosures, optical components and computers.

Employees

At December 31, 2009, Intevac had 370 employees, including 15 contract employees.

Compliance with Environmental Regulations

Intevac is 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. Intevac treats 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, Wyoming and Singapore are rigorous and set a high standard of compliance. Intevac believes its costs of compliance with these regulations and standards are comparable to other companies operating similar facilities in these jurisdictions.

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Executive Officers of the Registrant

Certain information about our executive officers as of February 26, 2010 is listed below:

Name	Age	Position
Executive Officers:		
Norman H. Pond	71	Chairman of the Board
Kevin Fairbairn	56	President and Chief Executive Officer
Jeffrey Andreson	48	Executive Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary
Michael Russak	63	Executive Vice President and General Manager, Hard Disk Equipment Products
Luke Marusiak	47	Executive Vice President and General Manager, Emerging Equipment Products
Kimberly Burk	44	Vice President, Human Resources
Joseph Pietras	55	Executive Vice President and General Manager, Intevac Photonics
Other Key Officers:		
Verle Aebi	55	Chief Technology Officer, Intevac Photonics
James Birt	45	Vice President, Manufacturing and Customer Support, Equipment Products
Terry Bluck	50	Vice President, Technology, Equipment Products
Jerry Carollo	56	Vice President and General Manager, Intevac Vision Systems
Timothy Justyn	47	Vice President of Operations, Intevac Photonics
Michael Kayat	57	Vice President and General Manager, DeltaNu
Dave Kelly	47	Vice President, Engineering, Intevac Vision Systems

Mr. Pond is a founder of Intevac and has served as Chairman of the Board since February 1991. Mr. Pond served as President and Chief Executive Officer from February 1991 until July 2000 and again from September 2001 through January 2002. Mr. Pond holds a BS in physics from the University of Missouri at Rolla and an MS in physics from the University of California at Los Angeles.

Mr. Fairbairn joined Intevac as President and Chief Executive Officer in January 2002 and was appointed a director in February 2002. Before joining Intevac, Mr. Fairbairn was employed by Applied Materials from July 1985 to January 2002, most recently as Vice President and General Manager of the Conductor Etch Organization with responsibility for the Silicon and Metal Etch Divisions. From 1996 to 1999, Mr. Fairbairn was General Manager of Applied Materials Plasma Enhanced Chemical Vapor Deposition Business Unit and from 1993 to 1996, he was General Manager of Applied Materials Plasma Silane CVD Product Business Unit. Mr. Fairbairn holds an MA in engineering sciences from Cambridge University.

Mr. Andreson joined Intevac in June 2007 and has served as Executive Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary since August 2007. Before joining Intevac Mr. Andreson served as Managing Director and Controller of Applied Materials Global Services product group. Since joining Applied Materials in 1995, Mr. Andreson held a number of senior financial positions, including Managing Director, Global Financial Planning and Analysis; Controller, Metron Subsidiary; Controller, North American Sales and Service; and Controller, Volume Manufacturing. From 1989 through 1995, Mr. Andreson held various roles at Measurex

Corporation. Mr. Andreson holds an MBA from Santa Clara University and a BS in finance from San Jose State University.

Dr. Russak joined Intevac in July 2008 and currently serves as Executive Vice President and General Manager, Hard Disk Equipment Products. Before joining Intevac Dr. Russak served as President and Chief Technical Officer of Komag from 2000 to 2007. From 1993 to 2000, Dr. Russak served as Vice President of Research and

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Development at HMT Technology. Previously, Dr. Russak held management positions in the Research Division of IBM Corporation. Prior to IBM, Dr. Russak worked for Grumman Aerospace Corporation as a contributing scientist. Dr. Russak holds a BS in ceramic engineering and a PhD in materials science from Rutgers University.

Mr. Marusiak rejoined Intevac as Executive Vice President and General Manager, Emerging Equipment Products in January 2010. Mr. Marusiak had previously served as Intevac s Chief Operating Officer from 2004 through 2008. From October 2008 through December 2009, Mr. Marusiak served as the Chief Executive Officer of MDC Vacuum Products, LLC. Before joining Intevac, Mr. Marusiak was employed by Applied Materials from July 1991 to April 2004, most recently as Senior Director of North American Operations. From 1984 to 1991, Mr. Marusiak served as a signal officer in the U.S. Army. Mr. Marusiak holds a BS in electrical engineering from Gannon University and an MS in teleprocessing science from the University of Southern Mississippi.

Ms. Burk joined Intevac in May 2000 and currently serves as Vice President of Human Resources. Prior to joining Intevac, Ms. Burk served as Human Resources Manager of Moen, Inc. from 1999 to 2000 and as Human Resources Manager of Lawson Mardon from 1994 to 1999. Ms. Burk holds a BS in sociology from Northern Illinois University.

Dr. Pietras joined Intevac as Executive Vice President and General Manager of the Intevac Photonics Business in August 2006. Before joining Intevac, Dr. Pietras was employed by the Sarnoff Corporation from March 2005 to July 2006 as General Manager of Sarnoff Imaging Systems. From September 1998 to March 2005, he was employed by Roper Scientific as Vice President, Operations. Dr. Pietras holds a BS in physics from the Stevens Institute of Technology and a MA and PhD in physics from Columbia University.

Mr. Aebi has served as Chief Technology Officer of the Intevac Photonics business since August 2006. Previously, Mr. Aebi served as President of the Photonics Division from July 2000 to July 2006 and as General Manager of the Photonics Division since May 1995. Mr. Aebi was elected as a Vice President of the Company in September 1995. From 1988 through 1994, Mr. Aebi was the Engineering Manager of the night vision business Intevac acquired from Varian Associates in 1991, where he was responsible for new product development in the areas of advanced photocathodes and image intensifiers. Mr. Aebi holds a BS in physics and an MS in electrical engineering from Stanford University.

Mr. Birt joined Intevac in September 2004 and currently serves as Vice President, Manufacturing and Customer Support of the Equipment Products Division. Before joining Intevac, Mr. Birt was employed by Applied Materials from July 1992 to September 2004, most recently as Director, Field Operations/Quality North America. Mr. Birt holds a BS in electrical engineering from Texas A&M University.

Mr. Bluck rejoined Intevac as Vice President, Technology of the Equipment Products Division in August 2004. Mr. Bluck had previously worked at Intevac from December 1996 to November 2002 in various engineering positions. The business unit Mr. Bluck worked for was sold to Photon Dynamics in November 2002, and he was employed there as Vice President, Rapid Thermal Process Product Engineering until August 2004. Mr. Bluck holds a BS in physics from San Jose State University.

Mr. Carollo joined Intevac in November 2007 as Vice President and General Manager of Intevac s Creative Display Systems subsidiary and currently serves as Vice President and General Manager, Intevac Vision Systems. Prior to joining Intevac, Mr. Carollo was founder, President and Chief Executive Officer of Creative Display Systems. Prior to founding Creative Display Systems Mr. Carollo worked for Rockwell-Collins Optronics Electro-Optics from 1993 to 2006 where his most recent position was General Manager. Mr. Carollo holds numerous patents in the area of optics, display systems and optical communications, a MS in optics from the University of Rochester and a BS in physics from the State University of New York.

Mr. Justyn has served as Vice President of Operations, Intevac Photonics from October 2008. Mr. Justyn served as Vice President, Equipment Manufacturing from April 1997 to October 2008. Mr. Justyn joined Intevac in February 1991 and has served in various roles in the Equipment Products Division and the former night vision business. Mr. Justyn holds a BS in chemical engineering from the University of California, Santa Barbara.

Dr. Kayat joined Intevac in June 2009 as Vice President and General Manager of DeltaNu, a division of Intevac Photonics. Before joining Intevac Photonics, Dr. Kayat served as Vice President of Sales and Marketing at Ocean

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Optics from January 2008 to May 2009. Previously, he served as President of the ICC Division at UTEK Corporation from January 2005 to January 2008, and Vice President of Sales and Marketing at Exa Corporation from June 1998 to January 2001. Dr. Kayat s experience also includes senior sales roles at two start-ups which were subsequently acquired. He began his industrial career as a management consultant for aerospace and defense systems at LogicaCMG. Dr. Kayat received his Ph.D. in physics from the University of Leicester and MBA from Pepperdine University.

Mr. Kelly joined Intevac in December 2006 and currently serves as Vice President, Engineering, Intevac Vision Systems. Before joining Intevac, Mr. Kelly was employed by Redlake MASD LLC, a division of Roper Industries from January 2004 to December 2006, most recently as Vice President, Engineering and Custom Service. From November 2000 to December 2003, he was employed by Fast Technology AG as Vice President, Engineering. Mr. Kelly holds a BS and a MS in mechanical engineering from the University of Michigan.

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.

Trade Marks

200 Lean®, AccuLube™, DeltaNu®, EBAPS®, Examiner®, I-Port™, Lean Etch™, LEAN SOLAR™, LithoPrime™, LIVAR®, MicroVista®, MOSIR®, NightVista®, Night Port™, and RAPID-ID™ among others, are our trademarks.

Item 1A. ***Risk Factors***

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

The industries we serve are cyclical, volatile and unpredictable.

The majority of our revenue is derived from the sale of equipment used to manufacture technology commodity products such as disk drives and our target new markets include other technology commodity markets including semiconductors and photovoltaic (PV) cells. This subjects us to business cycles, the timing, length and volatility of which can be difficult to predict. When demand for technology commodity products exceeds production capacity, then demand for new capital equipment such as ours tends to be amplified. Conversely, when supply of technology commodity products exceeds demand, then demand for new capital equipment such as ours tends to be depressed. For example, sales of systems for magnetic disk production were severely depressed from mid-1998 until mid-2003 and grew rapidly from 2004 through 2006. The number of new systems delivered declined sequentially in 2007, 2008 and 2009. We cannot predict with any certainty when these cycles will begin or end, although we entered into a downturn in the cycle in late 2007 which continued through 2009.

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. The magnetic disk and semiconductor

manufacturing industries have from time to time made significant additions to their production capacity. Our customers generally reduce their level of capital investment during downturns in the overall economy, or during a downturn in their industries.

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

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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.

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, customization of our product and installation of evaluation systems in the factories of our prospective customers. We do not 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.

Intevac Photonics business is also subject to long sales cycles because many of its products, such as our military imaging products, often must be designed into the customers end products, which are often complex state-of-the-art products. These development cycles are often multi-year, and our sales are contingent on our customers successfully integrating our product into their product, completing development of their product and then obtaining production orders for their product from the U.S. government or its allies.

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. For example, some of our 200 Lean customers continue to use legacy systems for the production of perpendicular media, which delays the replacement of such systems with new 200 Lean systems.

Our 200 Lean 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. 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.

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. In 2009, two of our customers accounted for 55% of total revenues, and four customers in aggregate accounted for 65% of total revenues. The same four customers, in aggregate, accounted for 83% of our net accounts receivable at December 31, 2009. This concentration of customers can lead to extreme variability in revenue and financial results from period to period. For example, over the last eight quarters, our revenues per quarter have fluctuated between $12.3 million and $34.2 million.

Industry consolidation can limit the number of potential customers for our products. For example, Seagate acquired Maxtor in 2006, Western Digital acquired Komag in 2007, and Toshiba acquired Fujitsu s hard drive business in 2009. 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 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, could have a material and adverse

effect on our revenues.

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 Gen II system, our Lean Etch system, 200 Lean systems for PV applications and our digital night-vision products.

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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 semiconductor market for our Lean Etch system, and the PV market. To date Intevac has not received revenue from our Lean Etch or PV manufacturing products. Failure to correctly assess the size of the markets, to successfully develop cost effective products to address the markets or to establish effective sales and support of the new products would have a material adverse effect on future revenues and profits.

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

Over the last eight quarters, our quarterly revenues have fluctuated between $12.3 million and $34.2 million and our operating income (loss) as a percentage of revenues has fluctuated between approximately (120.2%) and 12.0% of revenues. Over the same period, the price of our common stock has fluctuated between $3.43 and $17.46 per share.

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 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 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.

The liquidity of our auction rate securities is impaired, which could impact our ability to meet cash requirements and require additional debt financing.

At December 31, 2009, we held auction rate securities (ARS) with a par value of $70.0 million. The market for these securities had historically been highly liquid, even though the ARS that we hold have underlying maturities ranging from 23 to 39 years. The liquidity was achieved through auctions, which occurred every 7 or 28 days depending on the security, in which the interest paid on each security was reset to current market rates. We never intended to hold these securities to maturity, but rather to use the auction feature to sell the securities as needed to provide liquidity. Since February 2008, all of these ARS have failed auction. The ARS will continue to be illiquid until a successful auction process is reinstated, they are restructured into a more liquid security, or a buyer is found outside of the

auction process. We do not know when, or if, this will occur. All of the auction rate securities held by us are student loan structured issues, originated under the U.S. Department of Education s Federal Family Education Loan Program with principal and interest 97% 98% reinsured by the U.S. Department of Education. As of December 31, 2009, all of these securities are currently rated investment grade but there is no assurance that

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these ratings will continue in the future. As of December 31, 2009, securities with a par value of $57.7 million are rated AAA/Aaa, securities with a par value of $9.3 million are rated AAA/A3 and a security with a par value of $3.0 million is rated AAA/Baa3. These securities are classified as long-term investments and we recorded an impairment charge of $3.7 million. If: (1) the issuers of the ARS are unable to successfully resume auctions; or (2) the issuers do not redeem the ARS; or (3) a liquid market for the ARS does not develop; or (4) the U.S. Department of Education fails to support its guaranty of the obligations; or (5) these or any other valuation metrics or processes change, then Intevac may be required to further adjust the carrying value of the ARS and/or record an other-than-temporary impairment charge. On March 19, 2009, Intevac filed a statement of claim under the Financial Industry Regulatory Authority dispute resolution process against Citigroup Inc. and Citigroup Global Markets, Inc. (collectively, Citigroup) with respect to alleged fraud and market manipulation by Citigroup related to ARS. The statement of claim requests that Citigroup accept Intevac s tender of its ARS at par value and that Intevac receive compensatory, consequential and punitive damages and costs and expenses. Citigroup responded denying Intevac s claims. Intevac is currently in the discovery stage of this matter. An arbitration date of May 13, 2010 has been agreed upon for commencement of the arbitration of this dispute. We could incur significant legal costs associated with the legal action and there can be no guarantee our efforts would be successful.

In order to increase our liquidity we entered into a line of credit with Citigroup, secured by $55.8 million in par value of our ARS. At December 31, 2009, approximately $18.5 million of credit is available pursuant to the loan facility. This loan facility may be terminated at the discretion of Citigroup and amounts outstanding are payable on demand. If we are unable to maintain this line of credit, or if the interest rate of the line of credit is prohibitive or the amount of the line of credit is insufficient, we could experience difficulties in meeting our cash requirements until the market for the ARS becomes liquid again and we could have to seek additional debt funding to finance our operations, which may not be available on attractive terms, if at all.

Adverse economic conditions and volatility and disruption of the capital and credit markets may negatively impact our revenues and our ability to access financing.

Economic conditions worldwide have contributed to decreased spending by our customers and a slowdown in the hard disk drive industry. These factors have adversely impacted our operating results in prior periods, including most recently during fiscal 2009, and have caused us to be cautious about our future outlook. Although market conditions improved in the latter half of 2009, market conditions remain volatile and our customers continue to remain cautious. Negative macroeconomic and global recessionary factors, further volatility or disruption in the capital and credit markets or further uncertainty or weakening in key markets could negatively impact spending for our products and may materially adversely affect our business, operating results and financial condition.

In addition, while we intend to finance operations with existing cash, cash flow from operations and, if necessary, borrowing under our existing credit facility, we may require additional financing to support our continued operations. Due to the existing uncertainty in the capital and credit markets, our access to capital may not be available on terms acceptable to us or at all.

We may be subject to additional impairment charges due to potential declines in the fair value of our assets.

As a result of our acquisitions, we have significant goodwill and intangible assets on our balance sheet. We test goodwill and intangible assets for impairment on a periodic basis as required, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The events or changes that could require us to test our goodwill and intangible assets for impairment include: a reduction in our stock price, and as a result market capitalization, changes in our estimated future cash flows, as well as changes in rates of growth in our industry or in any of our reporting units. In the fourth quarter of 2008, we recorded an impairment charge of $10.5 million for goodwill due to a decline in our market capitalization and certain purchased technology intangible assets due to lower

revenue expectations in light of current operating performance and future operating expectations. We will continue to evaluate the carrying value of our remaining goodwill and intangible assets and if we determine in the future that there is a potential further impairment in any of our reporting units, we may be required to record additional charges to earnings which could materially adversely affect our financial results and could also materially adversely affect our business. See Note 6. Goodwill and Purchased Intangible Assets, Net in the Notes

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to the Consolidated Financial Statements for additional information related to impairment of goodwill and intangible assets.

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

In the market for our disk sputtering systems, we have experienced competition from Anelva Corporation, a subsidiary of Canon, which has sold substantial numbers of systems worldwide. In the market for semiconductor equipment we are attempting to enter a market dominated by competitors such as Applied Materials, LAM Research and Tokyo Electron. Intevac is attempting to enter the PV equipment market, and faces competition from large established competitors including Veeco Instruments, Centrotherm Photovoltaics, Von Ardenne and cell module manufacturers that are internally developing manufacturing equipment that may be sold externally in the future. In the market for our military imaging products we experience competition from companies such as ITT Industries and Fairchild Imaging. In the markets for our commercial imaging products we compete with companies such as Andor, Dalsa, E2V, Hamamatsu, Texas Instruments and Roper Industries for sensor and camera products, and with companies such as Ahura, B&W Tek, GE Security, Horiba-Jobin Yvon, Ocean Optics, Renishaw, Thermo Scientific, and Smiths Detection for Raman spectrometer products. Our competitors have substantially greater financial, technical, marketing, manufacturing and other resources than we do, especially in the semiconductor equipment market where we have not previously offered a product. We cannot ensure that our competitors will not develop enhancements to, or future generations of, competitive products that offer superior price or performance features. Likewise, we cannot ensure that new competitors will not 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 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, especially Intevac Photonics products, require export licenses from U.S. government agencies under the Export Administration Act, the Trading with the Enemy Act of 1917, the Arms Export Act of 1976 or the International Traffic in Arms Regulations. 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. Exports to countries that are not considered by the U.S. government to be allies are likely to be prohibited, and even sales to U.S. allies may be limited. Failure to obtain export licenses or 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.

The Intevac Photonics business is dependent on U.S. government contracts, which are subject to fixed pricing, immediate termination and a number of procurement rules and regulations.

We sell many of our imaging products and services directly to the U.S. government, as well as to prime contractors for various U.S. government programs. Our revenues from government contracts totaled $14.8 million, $14.8 million, and $14.1 million in 2009, 2008, and 2007, respectively. Funding of multi-year government programs is subject to congressional appropriations, and there is no guarantee that the U.S. government will make further appropriations, particularly given the U.S. government s recent focus on spending in other areas. Sales to the U.S. government and its prime contractors may also be affected by changes in procurement policies, budget considerations and political developments in the United States or abroad. For example, if the U.S. government is less focused on defense spending or there is a decrease in hostilities, demand for our products could decrease. The loss of funding for a government program would result in a loss of future revenues attributable to that program. The influence of any of these factors, which are beyond our control, could negatively impact our results of operations.

A significant portion of our U.S. government revenue is derived from fixed-price development and production contracts. Under fixed-price contracts, unexpected increases in the cost to develop or manufacture a product, whether due to inaccurate estimates in the bidding process, unanticipated increases in material costs, reduced production volumes, inefficiencies or other factors, are borne by us. We have experienced cost overruns in the past

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that have resulted in losses on certain contracts, and may experience additional cost overruns in the future. We are required to recognize the total estimated impact of cost overruns in the period in which they are first identified. Such cost overruns could have a material adverse effect on our results of operations.

Generally, government contracts contain provisions permitting termination, in whole or in part, without prior notice at the government s convenience upon the payment of compensation only for work done and commitments made at the time of termination. We cannot ensure that one or more of the government contracts under which we, or our customers, operate will not be terminated under these circumstances. Also, we cannot ensure that we, or our customers, would be able to procure new government contracts to offset the revenues lost as a result of any termination of existing contracts, nor can we ensure that we, or our customers, will continue to remain in good standing as federal contractors.

As a U.S. government contractor we must comply with specific government rules and regulations and are subject to routine audits and investigations by U.S. government agencies. If we fail to comply with these rules and regulations, the results could include: (1) reductions in the value of our contracts; (2) reductions in amounts previously billed and recognized as revenue; (3) contract modifications or termination; (4) the assessment of penalties and fines; and (5) suspension or debarment from government contracting or subcontracting for a period of time or permanently.

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

As a global company, we are subject to taxation in the United States 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.

We booked a significant tax benefit in both 2009 and 2008 based on management s belief that we could both carryback losses to years Intevac paid income taxes and carryforward tax credits to future years where we would generate taxable income. Intevac will need to generate approximately $48 million of taxable income in order to realize the Federal deferred tax assets recorded as of December 31, 2009. If our expectations of future income are incorrect, we could be required to establish a valuation allowance against some or all of the deferred tax assets.

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

In 2009, approximately 50% of our revenues came 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, Wyoming 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, including the weakening relative position of the U.S. dollar; (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 spares 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.

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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 generally do not have employment contracts with our key employees. Further, 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. Additionally, our operating results depend, in large part, upon our ability to retain and attract qualified management, engineering, marketing, manufacturing, customer support, sales and administrative personnel. Furthermore, we compete with industries, such as the hard disk drive, semiconductor, and solar industries, for skilled employees. Failure to retain 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 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 sub-assemblies used in our products from a single supplier or a limited group of suppliers. If any of our suppliers fail to deliver quality parts on a timely basis, we may experience delays in manufacturing, which could result in delayed product deliveries, 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 given recent economic conditions.

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.

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. For example, in March 2009, Intevac filed a statement of claim under the Financial Industry Regulatory Authority dispute resolution process against Citigroup with respect to alleged fraud and market manipulation by Citigroup related to ARS. The statement of claim requests that Citigroup accept Intevac s tender of its ARS at par value and that Intevac receive compensatory, consequential and punitive damages and costs and expenses. Citigroup responded denying Intevac s claims. Intevac is currently in the discovery stage of this matter. An arbitration date of May 13, 2010 has been agreed upon for commencement of the

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arbitration of this dispute. 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.

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

We have completed a number of acquisitions during our operating history. For example, in 2007, we acquired certain assets of DeltaNu, LLC and certain assets of Creative Display Systems, LLC and in 2008 we acquired certain assets of OC Oerlikon Balzers Ltd. 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.

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

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

Business interruptions could adversely affect our operations.

Our operations are vulnerable to interruption by fire, earthquake 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 are 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 and cause international currency markets to fluctuate. This same instability 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 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. Beginning in 2004, our Form 10-K has included a report by management of

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their assessment of the adequacy of such internal control. Additionally, our independent registered public accounting firm must publicly attest to the effectiveness of our internal control.

We have completed the evaluation of our internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act. Although our assessment, testing, and evaluation resulted in our conclusion that as of December 31, 2009, our internal controls over financial reporting were effective, we cannot predict the outcome of our testing in future periods. Ongoing compliance with this requirement is complex, costly and time-consuming. If: (1) Intevac fails to maintain effective internal control over financial reporting; (2) our management does not timely assess the adequacy of such internal control; or (3) our independent registered public accounting firm does not deliver an unqualified opinion as to the effectiveness of our internal control over financial reporting, then we could be subject to: (1) restatement of previously reported financial results, (2) regulatory sanctions and (3) 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, CA	169,583	Corporate Headquarters; Equipment and Intevac Photonics Marketing, Manufacturing, Engineering and Customer Support
Fremont, CA	9,505	Intevac Photonics Sensor Fabrication
Laramie, WY	12,000	Intevac Photonics Raman Spectrometer Manufacturing
Carlsbad, CA	10,360	Intevac Photonics Micro Display Product Manufacturing
Singapore	31,947	Equipment Manufacturing and Customer Support
Malaysia	1,291	Equipment Customer Support
Shenzhen, China	2,568	Equipment Customer Support

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.

On March 19, 2009, Intevac filed a statement of claim under the Financial Industry Regulatory Authority dispute resolution process against Citigroup Inc. and Citigroup Global Markets, Inc. (collectively, Citigroup) with respect to alleged fraud and market manipulation by Citigroup related to ARS. The statement of claim requests that

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Citigroup accept Intevac s tender of its ARS at par value and that Intevac receive compensatory, consequential and punitive damages and costs and expenses. Citigroup responded denying Intevac s claims. Intevac is currently in the discovery stage of this matter. An arbitration date of May 13, 2010 has been agreed upon for commencement of the arbitration of this dispute.

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

None.

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PART II

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

Price Range of Common Stock

Intevac common stock is traded on The Nasdaq National Market (NASDAQ Global Select) under the symbol IVAC. As of February 24, 2010, there were 117 holders of record. In fiscal years 2009 and 2008 Intevac did not declare or pay cash dividends to its stockholders. Intevac currently has no plans to declare or pay cash dividends.

The following table sets forth the high and low closing sale prices per share as reported on The Nasdaq National Market for the periods indicated.

	High	Low
Fiscal 2009:		
First Quarter	$ 5.73	$ 3.43
Second Quarter	8.65	5.02
Third Quarter	13.14	7.45
Fourth Quarter	13.45	10.00
Fiscal 2008:		
First Quarter	$ 14.28	$ 10.14
Second Quarter	17.46	11.16
Third Quarter	13.32	9.50
Fourth Quarter	10.64	3.93

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Performance Graph

The following graph compares the cumulative total stockholder return on Intevac s Common Stock with that of the NASDAQ Stock Market Total Return Index, a broad market index published by the Center for Research in Security Prices (CRSP), and the NASDAQ Computer Manufacturers Stock Total Return Index compiled by CRSP. The comparison for each of the periods assumes that $100 was invested on December 31, 2004 in Intevac s Common Stock, the stocks included in the NASDAQ Stock Market Total Return Index and the stocks included in the NASDAQ Computer Manufacturers Stock Total Return Index. These indices, which reflect formulas for dividend reinvestment and weighting of individual stocks, do not necessarily reflect returns that could be achieved by individual investors.

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COMPARISON OF CUMULATIVE TOTAL RETURN SINCE DECEMBER 31, 2004 AMONG INTEVAC, NASDAQ STOCK MARKET TOTAL RETURN INDEX AND NASDAQ COMPUTER MANUFACTURERS TOTAL RETURN INDEX

	12/31/04	12/31/05	12/30/06	12/29/07	12/31/08	12/31/09
Intevac, Inc.	$ 100	$ 175	$ 343	$ 192	$ 67	$ 152
Nasdaq Stock Market Total Return Index	100	102	112	122	59	84
Nasdaq Computer Manufacturers Total Return Index	100	102	105	153	64	141

Item 6. ***Selected Financial Data***

The following selected financial information has been derived from Intevac s historical audited consolidated financial statements and should be read in conjunction with the consolidated financial statements, the accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations for the corresponding fiscal years.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(In thousands, except per share data)				
Net revenues	$ 77,981	$ 110,307	$ 215,834	$ 259,875	$ 137,229
Gross profit	$ 32,720	$ 43,339	$ 96,043	$ 100,959	$ 43,578
Operating income (loss)	$ (17,347)	$ (30,471)	$ 27,436	$ 47,999	$ 14,717
Net income (loss)	$ (10,077)	$ (15,345)	$ 27,345	$ 46,698	$ 16,151
Earnings (loss) per share:					
Basic	$ (0.46)	$ (0.71)	$ 1.28	$ 2.22	$ 0.79
Diluted	$ (0.46)	$ (0.71)	$ 1.23	$ 2.13	$ 0.76
At year end:					
Total assets	$ 203,378	$ 189,169	$ 215,413	$ 206,003	$ 130,444
Long-term debt	$	$	$ 1,898	$	$

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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, contractual obligations and financial position.

Critical Accounting Policies: a discussion of critical accounting policies that require the exercise of judgments and estimates.

Overview

Intevac provides manufacturing equipment and solutions to the hard disk drive industry and offers high-productivity solutions to the photovoltaic (PV) and semiconductor industries. In 2009, Intevac announced a high-productivity thin film solar cell manufacturing system for PV applications, LEAN SOLAR™ and began offering equipment to PV cell manufacturers. Intevac also provides sensors, cameras and systems for commercial applications in the inspection, medical, scientific and security industries and for government applications such as night vision and long-range target identification. Intevac s customers and potential customers include manufacturers of hard disk drives, semiconductor chips and wafers, PV cells as well as medical, scientific and security companies, law enforcement and the U.S. government and its contractors. Intevac reports two segments: Equipment and Intevac Photonics. Effective in the second quarter of 2008, Intevac renamed the Imaging Instrumentation segment to Intevac Photonics. During the third quarter of 2008, Intevac completed the acquisition of certain assets and liabilities of the magnetic media equipment business of OC Oerlikon Balzers Ltd. (Oerlikon).

Product development and manufacturing activities occur in North America and Asia. Intevac has field offices in Asia to support its equipment customers. Intevac s equipment and service products are highly technical and, with the exception of Japan, are sold primarily through a direct sales force. In Japan, sales are typically made by Intevac s Japanese distributor, Matsubo. In Korean and China, Intevac s Lean Etch™ system is sold by TES Co., Ltd. (TES), a Korean equipment manufacturer. To date, Intevac has not yet recognized any revenue from shipments of its Lean Etch product.

Intevac s results are driven primarily by worldwide demand for hard disk drives, which in turn depends on end-user demand for personal computers, enterprise data storage, personal audio and video players and video game platforms. Intevac s business is subject to cyclical industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for hard disk drives, chips, and other electronic devices, as well as other factors, such as global economic conditions and technological advances in fabrication processes.

Fiscal Year	2009	2008	2007	% Change 2008 vs. 2007	% Change 2009 vs. 2008

				2009 vs. 2008	
	(In thousands, except percentages and per share amounts)				
Net revenues	$ 77,981	$ 110,307	$ 215,834	(29.3)%	(48.9)%
Gross profit	32,720	43,339	96,043	(24.5)%	(54.9)%
Gross margin percent	42.0%	39.3%	44.5%	2.7%	(5.2)%
Net income (loss)	(10,077)	(15,345)	27,345	34.3%	(156.1)%
Earnings (loss) per diluted share	$ (0.46)	$ (0.71)	$ 1.23	35.2%	(157.7)%

Fiscal 2007 financial results reflected good conditions in the hard disk drive industry driven by end-user demand for hard drives in personal computers and consumer electronic products. During 2007 the hard drive industry completed the technology transition to perpendicular media which began in 2005. This technology

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transition resulted in increased Equipment sales. During this period Intevac expanded its photonics product portfolio with the acquisitions of DeltaNu, LLC, (Delta Nu) and Creative Display Systems, LLC (CDS).

Fiscal 2008 financial results reflected a difficult environment as Intevac s customers reduced or delayed capital expenditures as a result of industry consolidation, price erosion, lower growth and global economic conditions. In this period, Intevac focused on lowering costs, improving efficiencies, and bringing new products to market. In 2008, Intevac acquired certain assets and liabilities of OC Oerlikon Balzers Ltd. (Oerlikon) s magnetic media equipment business. In the fourth quarter of fiscal 2008, in response to the deteriorating economic conditions, Intevac announced and executed a global cost reduction plan that reduced its cost structure and its cash burn, while still enabling Intevac to invest in products that will drive future growth. Also during the fourth quarter of fiscal 2008, Intevac s market capitalization and financial outlook were adversely impacted by the current macroeconomic business environment. This triggered Intevac s performing interim impairment tests on its goodwill and intangible assets; and as a result Intevac recorded non-cash goodwill and intangible impairment charges of $10.5 million.

Fiscal 2009 financial results reflected a challenging environment that resulted from the economic slowdown. Demand in the hard disk drive industry was flat compared to fiscal 2008 and Intevac s Equipment customers did not require capacity additions. During fiscal 2009, demand for new equipment resulted primarily from the retirement of some legacy systems and customer research and development activities, including patterned media. At the end of 2009 Intevac s hard drive customers began taking delivery of systems for 2010 capacity needs. In 2009, Intevac Photonics business grew, driven by government spending plus incorporation of Intevac products into development, pre-production and some early stage production programs.

Intevac expects the business environment to improve in fiscal 2010. Demand for hard disk drives is expected to increase driven by the need for corporations to replace and update employee computers, increased information technology spending, growth in digital storage and the proliferation of personal computers into emerging economies. Intevac believes that due to delayed spending during the recent economic downturn, increased demand for hard drives and technology transitions, the hard drive industry will need to add capacity to meet increased production requirements. Intevac expects its hard drive customers will add new systems for capacity production as well as make selective purchases for technology development. In 2010, Intevac expects that the Intevac Photonics business will grow, driven by proliferation of our low-light sensors and cameras onto new platform programs, volume shipments of those products and increased demand from commercial and industrial customers as a result of the economic recovery.

Results of Operations

Net revenues

	Years Ended December 31,			% Change 2009 vs. 2008	% Change 2008 vs. 2007
	2009	2008	2007		
	(In thousands, except percentages)				
Equipment	$ 51,389	$ 87,469	$ 196,686	(41.2)%	(55.5)%
Intevac Photonics	26,592	22,838	19,148	16.4%	19.3%
Total net revenues	$ 77,981	$ 110,307	$ 215,834	(29.3)%	(48.9)%

Net revenues consist primarily of sales of equipment used to develop and manufacture thin film disks, and, to a lesser extent, related equipment and system components; contract research and development related to the development of sensors, cameras and systems; low-light imaging products and Raman spectrometers.

The decrease in Equipment revenues in 2009 was due primarily to a reduction in the number of 200 Lean systems delivered. In 2009, Intevac delivered four 200 Lean systems compared to eleven 200 Lean systems in 2008 and twenty-nine 200 Lean systems in 2007. Equipment revenue in 2009 also included six disk lubrication systems compared to eleven disk lubrication systems in 2008 and four disk lubrication in 2007. Revenues from disk equipment technology upgrades and spare parts decreased in 2009 versus 2008 and 2007. Fiscal 2008 new system capacity additions in the hard disk drive market were lower due to the upgrade and reuse of approximately twenty legacy tools previously in storage. The reuse of these systems substantially met the incremental capacity

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requirements of one of our largest customers. During 2007, Intevac sold a D-Star® flat panel technology license for $1.3 million. Equipment revenues in 2010 are expected to exceed 2009 levels due to increased capital spending by hard drive customers for capacity additions and technology purchases to support growth in the hard drive market. Equipment revenues are dependent on the demand for magnetic media, Intevac s customers capacity expansion plans, and obsolescence of the installed base of Intevac s customers existing equipment.

Intevac Photonics revenues increased by 16.4% to $26.6 million in 2009, which consisted of $10.5 million of product revenue and $16.1 million of contract research and development revenue. Intevac Photonics 2008 revenues of $22.8 million consisted of $8.5 million of product revenue and $14.3 million of contract research and development revenue. Intevac Photonics 2007 revenue of $19.1 million consisted of $5.6 million of product revenue and $13.5 million of contract research and development revenue. The increase in product revenues resulted from higher sales of low-light sensors and cameras used in military night vision and long-range imaging as well as commercial applications such as Intevac s table-top and portable Raman instruments and near-eye display products. The increase in contract research and development revenue was the result of a higher volume of contracts and incremental revenue generated from contract close-outs. In 2010, Intevac Photonics revenue is expected to grow due to government spending on development and deployment of digital night vision technology and continued expansion of Intevac s low-light camera and sensor products in military and commercial applications. Substantial growth in future Intevac Photonics revenues is dependent on the proliferation of Intevac s technology into major military programs, continued defense spending, the ability to obtain export licenses for foreign customers, obtaining production subcontracts for these programs, and development and sale of commercial products.

Intevac s backlog of orders at December 31, 2009 was $73.8 million, as compared to $20.2 million at December 31, 2008 and $34.2 million at December 31, 2007. Equipment backlog at December 31, 2009 was $57.5 million compared to $11.4 at December 31, 2008 and $28.4 million at December 31, 2007. Intevac Photonics backlog at December 31, 2009 was $16.3 million compared to $8.8 million at December 31, 2008 and $5.8 million at December 31, 2007. Equipment backlog at December 31, 2009 includes ten 200 Lean systems, as compared to one 200 Lean system at December 31, 2008, and two 200 Lean systems at December 31, 2007.

Significant portions of Intevac s revenues in any particular period have been attributable to sales to a limited number of customers. In 2009, sales to Seagate and Hitachi Global Storage Technologies each accounted for more than 10% of Intevac s revenues and in the aggregate sales to these customers accounted for 55% of revenues. In 2008, sales to Seagate and Hitachi Global Storage Technologies each accounted for more than 10% of Intevac s revenues and in the aggregate sales to these customers accounted for 69% of revenues. In 2007, sales to Seagate, Matsubo Intevac s Japanese distributor, Hitachi Global Storage Technologies, and Fuji Electric each accounted for more than 10% of Intevac s revenues. In the aggregate sales to these customers accounted for 90% of revenues in 2007. The magnetic disk manufacturing industry consists of a small number of large manufacturers. Seagate acquired Maxtor in 2006, Western Digital acquired Komag in 2007, and Toshiba acquired Fujitsu s hard drive business in 2009, all of which further concentrated the customer base in the industry.

International sales totaled $39.2 million, $76.5 million, and $177.0 million in 2009, 2008, and 2007, respectively, accounting for 50%, 69%, and 82% of net revenues. The decreases in international sales in 2009 and 2008 were primarily due to decreases in net revenues from disk sputtering systems. Substantially all of Intevac s international sales are to customers in Asia, which includes products shipped to overseas operations of U.S. companies.

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Gross margin

	Years Ended December 31,			% Change 2009 vs. 2008	% Change 2008 vs. 2007
	2009	2008	2007		
	(In thousands, except percentages)				
Equipment gross profit	$ 23,266	$ 35,797	$ 87,885	(35.0)%	(59.3)%
% of Equipment net revenues	45.3%	40.9%	44.7%		
Intevac Photonics gross profit	$ 9,454	$ 7,542	$ 8,158	25.4%	(7.6)%
% of Intevac Photonics net revenues	35.6%	33.0%	42.6%		
Total gross profit	$ 32,720	$ 43,339	$ 96,043	(24.5)%	(54.9)%
% of net revenues	42.0%	39.3%	44.5%		

Cost of net revenues consists primarily of purchased materials and costs attributable to contract research and development, and also includes fabrication, assembly, test and installation labor and overhead, customer-specific engineering costs, warranty costs, royalties, provisions for inventory reserves and scrap. Cost of net revenues for 2009, 2008 and 2007 included $353,000, $781,000 and $638,000 of equity-based compensation expense, respectively.

Equipment gross margin was 45.3% in 2009 compared to 40.9% in 2008 and 44.7% in 2007. Fiscal 2009 gross margins improved over fiscal 2008 due to product mix, improved systems margins, and savings from cost reduction programs, which were partially offset by lower volume and unabsorbed factory utilization. Fiscal 2008 gross margins declined over fiscal 2007 due to lower volume, product mix, unabsorbed factory utilization and costs from acquired businesses, which were offset in part by cost reduction programs. Gross margins in the Equipment business will vary depending on a number of additional factors, including product mix, product cost, system configuration and pricing, factory utilization, and provisions for excess and obsolete inventory.

Intevac Photonics gross margin was 35.6% in 2009 compared 33.0% in 2008 and 42.6% in 2007. The increase in gross margin in 2009 resulted primarily from higher technology development margins, higher volume and factory utilization, partially offset by higher manufacturing costs of new products. The decrease in gross margin in 2008 resulted primarily from increased provisions for inventory and warranty and increased costs from acquired businesses.

Research and development

	Years Ended December 31,			% Change 2009 vs. 2008	% Change 2008 vs. 2007
	2009	2008	2007		
	(In thousands, except percentages)				
Research and development expense	$ 28,064	$ 35,083	$ 40,137	(20.0)%	(12.6)%
% of net revenues	36.0%	31.8%	18.6%		

Research and development expense consists primarily of prototype materials, salaries and related costs of employees engaged in ongoing research, design and development activities for disk sputtering equipment, semiconductor equipment, PV cell manufacturing equipment and Intevac Photonics products. Research and development costs for 2009, 2008 and 2007 included $1.4 million, $2.0 million and $2.1 million of equity-based compensation expense, respectively.

Research and development spending decreased for Equipment during 2009 as compared to 2008 and 2007. The decrease in Equipment spending during 2009 was due primarily to a reduction in spending on the Lean Etch product line (as the product design phase is substantially complete and on-going efforts are primarily related to continuous improvement) and savings from the global cost reduction plan implemented in the fourth quarter of 2008, offset by investment in PV development. The decrease in Equipment spending during 2008 was due primarily to lower spending on the development of Intevac s Lean Etch product line, and to a lesser extent, reductions in incentive compensation expense. Intevac Photonics increased research and development spending levels in 2009 and 2008 for sensor yield improvements, sensor development and digital night vision goggle development.

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Research and development expenses do not include costs of $9.1 million, $8.5 million, and $7.4 million, in 2009, 2008, and 2007, respectively, which are related to customer-funded contract research and development programs and included in cost of net revenues.

Selling, general and administrative

	Years Ended December 31,			% Change 2009 vs. 2008	% Change 2008 vs. 2007
	2009	2008	2007		
	(In thousands, except percentages)				
Selling, general and administrative expense	$ 22,003	$ 28,229	$ 28,470	(22.1)%	(0.9)%
% of net revenues	28.2%	25.6%	13.2%		

Selling, general and administrative expense consists primarily of selling, marketing, customer support, financial and management costs and also includes production of customer samples, travel, liability insurance, legal and professional services and bad debt expense. All domestic sales and international sales of disk sputtering products in Asia, with the exception of Japan, are typically made by Intevac s direct sales force, whereas sales in Japan of disk sputtering products and other products are typically made by Intevac s Japanese distributor, Matsubo, which provides services such as sales, installation, warranty and customer support. Intevac also has subsidiaries in Singapore and in Hong Kong, along with field offices in Malaysia and Shenzhen, China to support Intevac s equipment customers in Asia. Selling, general and administrative costs for 2009, 2008 and 2007 included $2.5 million, $3.8 million and $3.5 million of equity-based compensation expense, respectively.

Selling, general and administrative expenses decreased in 2009 over the amount spent in 2008 due primarily to the global cost reduction plan implemented in the fourth quarter of 2008, decreased costs related to customer service and support for the Equipment business, partially offset by business development expenses in the Intevac Photonics business. Selling, general and administrative spending in 2008 was flat compared to 2007 levels as a result of cost reduction activities, and lower provisions for employee profit sharing and bonus plans, partially offset by increased costs related to business development, customer service and support in both the Equipment and Intevac Photonics businesses and higher equity-based compensation expense.

Global cost reduction plan

During the fourth quarter of fiscal 2008, Intevac announced a global cost reduction plan (the Plan) to reduce the global workforce by fifteen percent. Implementation of the Plan was completed in the fourth quarter. The total cost of implementing the Plan was $386,000 and was reported under cost of products sold and operating expenses. Substantially all cash outlays in connection with the Plan occurred in the fourth quarter of fiscal 2008. Implementation of the Plan reduced expenses by approximately $15 million on an annual basis.

Impairment of goodwill and intangibles

Goodwill and Intevac s indefinite life intangible asset are tested for impairment on an annual basis or more frequently upon the occurrence of circumstances that indicate that goodwill and the indefinite life intangible asset may be impaired. In the fourth quarter of 2009, Intevac performed its 2009 annual assessment of impairment which did not result in an impairment of goodwill or Intevac s indefinite life intangible asset. Intevac s reporting units for goodwill impairment testing purposes are consistent with the reportable segments: Equipment and Intevac Photonics. Intevac

tested goodwill for possible impairment by first determining the fair value of the related reporting unit and then comparing this value to the recorded net assets of the reporting unit. At December 31, 2009, Intevac had a total of $7.9 million of goodwill and $120,000 of indefinite-life intangible assets. All goodwill is attributed to the Intevac Photonics segment.

The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgment. Intevac used two valuation methodologies to determine the fair value for its reporting units, with each approach given equal weighting: the income approach and the market approach. Using the income approach, the fair value of each reporting unit was calculated based on the present value of estimated future cash flows, which were formed by evaluating historical trends, current budgets, operating plans and industry data. Estimates of the

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future cash flows associated with the businesses are critical to these assessments. The assumptions used in the fair value calculation included revenue growth rates, operating margins, risk adjusted discount rates and future economic and market conditions. Changes in these assumptions based on changed economic conditions or business strategies could result in material impairment charges in future periods. The market analysis looked at the valuations of comparable public companies which Intevac selected based upon similar industries and products. Intevac evaluated the reasonableness of the fair value calculations of the reporting units by reconciling the total of the fair values of the two reporting units to Intevac s total market capitalization, taking into account an appropriate control premium. Intevac compared the carrying value of the reporting units to the fair value calculations.

The results of the test for goodwill impairment, as of September 26, 2009, showed that the estimated fair values of the Equipment and Intevac Photonics reporting units exceeded their carrying values by more than $50 million and $30 million, respectively. There was no impairment of goodwill during the year ended December 31, 2009.

Intevac also performed the annual impairment review of a tradename, an indefinite life intangible asset during the fourth quarter of 2009 using a discounted cash flow model and the relief-from-royalty method. Based on the discounted cash flow model Intevac determined the fair value of the tradename exceeded its carrying value.

In the fourth quarter of fiscal 2008, Intevac experienced a significant decline in its stock price and as a result of the decline in its stock price, Intevac s market capitalization fell significantly below the recorded value of its consolidated net assets. Based on the results of its assessment of goodwill for impairment, Intevac determined that the fair value of its Equipment reporting unit was less than the carrying value and impairment existed. Therefore, Intevac performed the second step of the impairment test to determine the implied fair value of goodwill. The analysis indicated that there would be no remaining implied value attributable to goodwill in the Equipment reporting unit and accordingly, during fiscal 2008, Intevac wrote off all $9.7 million of goodwill in its Equipment reporting unit. The goodwill associated with the Intevac Photonics reporting unit was not impaired. As a result of the intangible assets impairment test, in fiscal 2008, Intevac recorded an $808,000 impairment charge related to the write-down to fair value of the net carrying value of certain purchased technology intangible assets in the Equipment and Intevac Photonics segments due to lower revenue expectations and future operating expectations.

Intevac will continue to evaluate the carrying value of goodwill and intangible assets and if it is determined that there is a potential impairment, Intevac may record additional charges to earnings which would adversely affect its financial results. For further details, see Note 6 of Notes to Consolidated Financial Statements.

Interest income and other, net

	Years Ended December 31,			% Change	% Change
	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
	(In thousands, except percentages)				
Interest income and other, net	$ 1,254	$ 3,932	$ 8,142	(68.1)%	(51.7)%

Interest income and other, net in 2009 included $1.4 million of interest income on investments, partially offset by $92,000 in net other expense and $16,000 in interest expense. Interest income and other, net in 2008 included $4.0 million of interest income on investments, and $84,000 in net other income, partially offset by $120,000 in interest expense. Interest income and other, net in 2007 included a $1.5 million gain on the redemption of Intevac s preferred interest in 601 California Avenue LLC, $6.5 million of interest income on investments and $129,000 in net other income. The decrease in interest income in 2009 and 2008 was driven by lower interest rates on Intevac s investments and lower average invested balances.

Provision for (benefit from) income taxes

	Years Ended December 31,			% Change 2009 vs. 2008	% Change 2008 vs. 2007
	2009	2008	2007		
	(In thousands, except percentages)				
Provision for (benefit from) income taxes	$ (6,016)	$ (11,194)	$ 8,233	46.3%	(236.0)%

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Intevac s effective income tax provision rate was 37.4% for fiscal 2009, 42.2% for fiscal 2008, and 23.1% for fiscal 2007. Intevac s tax rate differs from the applicable statutory rates due primarily to the utilization of deferred and current credits and the effect of permanent differences and adjustments of prior permanent differences. Intevac s future effective income tax rate depends on various factors including, the level of Intevac s projected earnings, the geographic composition of worldwide earnings, tax regulations governing each region, net operating loss carryforwards, availability of tax credits and the effectiveness of Intevac s tax planning strategies. Management carefully monitors these factors and timely adjusts the effective income tax rate accordingly. Management believes that the valuation allowances for Intevac s deferred tax assets are adequate based on several factors including: (1) degree to which Intevac s 2009 and 2008 losses were attributable to unusual items or charges; (2) long duration of Intevac s deferred tax assets; and (3) expectation of improved earnings in the long term.

During 2009, Intevac established an additional valuation allowance to fully reserve its California state deferred tax assets due to the impact of California tax legislation that was enacted in February 2009. This additional valuation allowance decreased the income tax benefit by $1.0 million. Intevac recognized the effect of the change in valuation allowance as a discrete item.

Business Combinations

On July 14, 2008, Intevac acquired certain assets and liabilities of OC Oerlikon Balzers Ltd. (Oerlikon) s magnetic media equipment business for a purchase price of $15.1 million in cash, net of cash acquired. In addition Intevac agreed to pay contingent consideration to Oerlikon in the form of a royalty on Intevac s net revenue from commercial sales of certain products. This agreement terminates on July 13, 2011. Intevac has made no payments to Oerlikon under this agreement through December 31, 2009. As part of the acquisition, Intevac also entered into a settlement agreement with Oerlikon related to a patent infringement lawsuit filed by Intevac against Unaxis USA, Inc., a wholly owned subsidiary of Oerlikon, and all claims in the litigation were dismissed.

On November 9, 2007, Intevac acquired the assets and certain liabilities of Creative Display Systems, LLC (CDS) for a purchase price of $4.8 million in cash, net of cash acquired. The acquired business is a supplier of high-performance micro-display products for near-eye and portable applications in defense and commercial markets.

On January 31, 2007, Intevac acquired the assets and certain liabilities of DeltaNu, LLC (DeltaNu) for a purchase price of $5.8 million of which $2 million was paid in cash at the close of the acquisition, $2 million was paid on January 31, 2008 and $2 million was paid on January 31, 2009, which was in the form of a non interest-bearing note. Interest was imputed, and the related note payable was recorded at a discount in the accompanying Consolidated Balance Sheets. The acquired business is a supplier of small footprint and handheld Raman spectrometry instruments.

For further details, see Note 7 of Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements

In January 2009, the Securities and Exchange Commission (SEC) issued Release No. 33-9002, Interactive Data to Improve Financial Reporting. The final rule requires companies to provide their financial statements and financial statement schedules to the SEC and on their corporate websites in interactive data format using the eXtensible Business Reporting Language (XBRL). The rule was adopted by the SEC to improve the ability of financial statement users to access and analyze financial data. The SEC adopted a phase-in schedule indicating when registrants must furnish interactive data. Under this schedule, Intevac will be required to submit filings with financial statement information using XBRL commencing with its June 25, 2011 quarterly report on Form 10-Q. Intevac is currently evaluating the impact of XBRL reporting on its financial reporting process.

In October 2009, the Financial Accounting Standards Board (FASB) amended revenue recognition guidance for arrangements with multiple deliverables. The guidance eliminates the residual method of revenue recognition and allows the use of management s best estimate of selling price for individual elements of an arrangement when vendor specific objective evidence (VSOE), vendor objective evidence (VOE) or third-party evidence (TPE) is unavailable. This guidance should be applied on a prospective basis for revenue arrangements entered into or

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materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. Full retrospective application of the guidance is optional. Intevac is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

In October 2009, the FASB issued guidance which amends the scope of existing software revenue recognition accounting. Tangible products containing software components and non-software components that function together to deliver the product s essential functionality would be scoped out of the accounting guidance on software and accounted for based on other appropriate revenue recognition guidance. This guidance should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. Full retrospective application of the new guidance is optional. This guidance must be adopted in the same period that Intevac adopts the amended accounting for arrangements with multiple deliverables described in the preceding paragraph. Intevac is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

In January 2010, the FASB issued guidance which clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements. Intevac must implement these new requirements in its first quarter of fiscal 2010. Certain additional disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measures are not effective until fiscal years beginning after December 15, 2010. Other than requiring additional disclosures, implementation of this new guidance will not have a material impact on Intevac s consolidated financial statements.

Liquidity and Capital Resources

At December 31, 2009, Intevac had $89.8 million in cash, cash equivalents, and investments compared to $105.5 million at December 31, 2008. During fiscal 2009, cash, cash equivalents and investments decreased by $15.7 million due primarily to cash used by operating activities, purchases of fixed assets and a scheduled payment to the owners of DeltaNu, LLC, partially offset by cash received from the sale of Intevac common stock to employees through employee benefit plans.

Cash, cash equivalents and investments consist of the following:

	December 31, 2009	December 31, 2008
	(In thousands)	
Cash and cash equivalents	$ 17,592	$ 39,201
Short-term investments	6,000	
Long-term investments	66,249	66,328
Total cash, cash-equivalents and investments	$ 89,841	$ 105,529

Cash used by operating activities totaled $16.6 million in 2009 compared to $8.2 million in 2008. Cash generated by operating activities totaled $40.6 million in 2007. Lower operating cash flow was a result of a net loss adjusted to exclude the effect of non-cash charges including, depreciation, amortization and equity-based compensation. This decrease in cash from operating activities was also affected by changes in working capital. Intevac continues to carefully manage working capital. Intevac believes that its efforts to reduce costs through its global cost reduction plan and headcount restructuring activity implemented in the fourth quarter of 2008 reduced its cash loss from

operations to a level sustainable until market conditions and Intevac s business improves.

Accounts receivable totaled $44.8 million at December 31, 2009 compared to $15.0 million at December 31, 2008. The number of days outstanding for Intevac s accounts receivable were 136 at December 31, 2009 compared to 45 at December 31, 2008. The increase in the receivable balance and days outstanding was due primarily to invoicing the deposits on orders for eight 200 Lean systems as well as having three 200 Lean systems recognized as revenue late in the fourth quarter of 2009. Net inventories increased by $1.4 million during 2009 due primarily to an increase in finished goods related to the deferred revenue system discussed below. Inventory turns were 2.5 in fiscal 2009 compared to 3.4 in fiscal 2008. Accounts payable totaled $4.7 million at December 31, 2009 compared to $4.2 million at December 31, 2008. The increase of $487,000 relates to the increase in inventory purchases as a result of increased business levels. Accrued payroll and related liabilities decreased by $611,000 during 2009 to

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$2.8 million. Other accrued liabilities increased from $3.2 million at December 31, 2008 to $11.1 million at December 31, 2009, primarily due to deferral of revenue on a 200 Lean system shipment in the fourth quarter until customer acceptance and demonstration of product specifications. Customer advances increased from $2.8 million at December 31, 2008 to $13.2 million at December 31, 2009 due to the increase in backlog at December 31, 2009.

Investing activities in 2009 used cash of $4.1 million, generated cash of $19.6 million in 2008 and used cash of $59.4 million in 2007. In 2009, purchases of investments, net of proceeds from sales and maturities, totaled $1.5 million. In 2008 proceeds from maturities of investments, net of purchases, totaled $38.9 million. In 2007, purchases of investments, net of proceeds from sales and maturities, totaled $49.2 million. During 2008, Intevac invested $15.1 million in the acquisition of certain assets from Oerlikon. During 2007, Intevac invested $6.9 million in the acquisitions of DeltaNu and CDS, and Intevac sold Intevac s investment in 601 California Avenue LLC. Capital expenditures totaled $2.6 million in 2009, compared to $4.2 million in 2008, and $5.7 million in 2007.

Financing activities used cash of $809,000 in 2009 and generated cash of $165,000 in 2008 and $6.9 million in 2007. The sale of Intevac common stock to Intevac s employees through Intevac s employee benefit plans provided $1.1 million in 2009, $1.8 million in 2008, and $3.9 million in 2007. Intevac realized tax benefits from equity-based compensation of $3.0 million in 2007. In 2009 and 2008, Intevac made scheduled payments of $2.0 million each to the former owners of DeltaNu.

As of December 31, 2009, Intevac s available-for-sale securities represented $70.0 million par value of auction rate securities (ARS), less a temporary valuation adjustment of $3.7 million to reflect their current lack of liquidity. Management believes that the impairment of the ARS investments is temporary. Due to current market conditions, these investments have experienced failed auctions beginning in mid-February 2008. These failed auctions result in a lack of liquidity in the securities, but do not affect the underlying collateral of the securities. Intevac does not anticipate that any potential lack of liquidity in these ARS will affect its ability to finance its operations and planned capital expenditures. Intevac continues to monitor efforts by the financial markets to find alternative means for restoring the liquidity of these investments. These investments are classified as non-current assets until Intevac has better visibility as to when their liquidity will be restored. The classification and valuation of these securities will continue to be reviewed quarterly. During fiscal 2009 and 2008, $4.5 million and $14.1 million, respectively of ARS were redeemed at par.

As described in Note 8 of Notes to Consolidated Financial Statements, at December 31, 2009, the fair value of the ARS was estimated at $66.2 million based on a valuation by Houlihan Smith & Company, Inc., using discounted cash flow models and applying management s internal analysis to the valuation. The estimates of future cash flows are based on certain key assumptions, such as discount rates appropriate for the type of asset and risk, which are significant unobservable inputs. As of December 31, 2009, there was insufficient observable market information for the ARS held by Intevac to determine the fair value. Therefore Level 3 fair values were estimated for these securities by incorporating assumptions that market participants would use in their estimates of fair value. Some of these assumptions included credit quality, collateralization, final stated maturity, estimates of the probability of being called or becoming liquid prior to final maturity, redemptions of similar ARS, previous market activity for the same investment security, impact due to extended periods of maximum auction rates and valuation models.

On March 19, 2009, Intevac filed a statement of claim under the Financial Industry Regulatory Authority dispute resolution process against Citigroup Inc. and Citigroup Global Markets, Inc. (collectively, Citigroup) with respect to alleged fraud and market manipulation by Citigroup related to ARS. The statement of claim requests that Citigroup accept Intevac s tender of its ARS at par value and that Intevac receive compensatory, consequential and punitive damages and expenses. Citigroup responded denying Intevac s claims. Intevac is currently in the discovery stage of this matter and an arbitration date of May 13, 2010 has been agreed upon for commencement of the arbitration of this dispute.

Intevac has entered into a line of credit with Citigroup Global Markets Inc. under which approximately $18.5 million is available. Intevac intends to use this line to help secure its ability to fund cash requirements until Intevac is able to liquidate its ARS holdings. For additional information on this borrowing facility, see Note 10 of Notes to Consolidated Financial Statements.

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Intevac believes that Intevac s existing cash, cash equivalents and investments will be sufficient to meet Intevac s cash requirements for the foreseeable future. Intevac intends to undertake approximately $6.5 million in capital expenditures during the next 12 months.

Contractual Obligations

The following table summarizes Intevac s contractual obligations as of December 31, 2009:

	Payments Due by Period				
	Total	< 1 Year	1-3 Years	3-5 Years	> 5 Years
			(In thousands)		
Operating lease obligations	$ 5,422	$ 2,340	$ 3,082	$	$
Purchase obligations and commitments(1)	13,071	13,071			
Other long-term liabilities(2)	252	252			
Total(3)	$ 18,745	$ 15,663	$ 3,082	$	$

(1) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on Intevac and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty. These purchase obligations are related principally to inventory and other items.

(2) Intevac is unable to reliably estimate the timing of future payments related to uncertain tax positions; therefore, $782,000 of unrecognized tax benefits has been excluded from the table above.

(3) Total excludes contractual obligations already recorded on the consolidated balance sheet as current liabilities (except other long-term liabilities) and certain purchase obligations.

Off-Balance Sheet Arrangements

As of December 31, 2008, Intevac did not have any material off-balance sheet arrangements (as defined in Item 303(a)(4)(ii) of Regulation S-K).

Critical Accounting Policies

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.

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

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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

Intevac recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred and title and risk of loss have passed to Intevac s customer or services have been rendered, the price is fixed or determinable, and collectibility is reasonably assured. Intevac s shipping terms are customarily FOB shipping point or equivalent terms. Intevac s revenue recognition policy generally results in revenue recognition at the following points: (1) for all transactions where legal title passes to the customer upon shipment, Intevac recognizes revenue upon shipment for all products that have been demonstrated to meet product specifications prior to shipment; the portion of revenue associated with certain installation-related tasks is deferred based on the estimated fair value, and that revenue is recognized upon completion of the installation-related tasks; (2) for products that have not been demonstrated to meet product specifications prior to shipment, revenue is recognized at customer acceptance; and (3) for arrangements containing multiple elements, the revenue relating to the undelivered elements is deferred at estimated fair value until delivery of the deferred elements. In certain cases, technology upgrade sales are accounted for as multiple-element arrangements usually split between delivery of the parts and installation on the customer s systems. In these cases, Intevac recognizes revenue for the fair market value of the parts upon shipment and transfer of title, and recognizes revenue for the fair market value of installation services when those services are completed. Revenue related to sales of spare parts is generally recognized upon shipment. Revenue related to services is generally recognized upon completion of the services.

Intevac performs research and development work under various government-sponsored research contracts. Revenue on cost-plus-fee contracts is recognized to the extent of costs actually incurred plus a proportionate amount of the fee earned. Intevac considers fixed fees under cost-plus-fee contracts to be earned in proportion to the allowable costs actually incurred in performance of the contract. Revenue on fixed-price contracts is generally recognized using the percentage-of-completion method of contract accounting. Intevac determines the percentage completed based on the percentage of costs incurred to date in relation to total estimated costs expected upon completion of the contract. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined.

Inventories

Inventories are priced using average actual costs and are stated at the lower of cost or market. The carrying value of inventory is reduced for estimated obsolescence by the difference between its cost and the estimated market 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.

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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 statutory 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 be sufficient to realize its deferred tax assets.

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 a valuation allowance 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.

Goodwill and Purchased Intangible Assets

Goodwill and purchased intangible assets with indefinite useful lives are not amortized, but are reviewed for impairment annually during the fourth quarter of each fiscal year and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For goodwill, Intevac performs a two-step impairment test. In the first step, Intevac compares the fair value of each reporting unit to its carrying value. Intevac s reporting units are consistent with the reportable segments identified in Note 14, based on the manner in which Intevac operates its business and the nature of those operations. Depending on the facts and circumstances Intevac determines the fair value of each of its reporting units based upon the most appropriate valuation technique using the income approach, the market approach or a combination thereof. The income and market approaches were selected as management believes these approaches generally provide the most reliable indications of fair value when the value of the operations is more dependent on the ability to generate earnings than on the value of the assets used in the production process. Under the income approach Intevac calculates the fair value of the reporting units based on the present value of estimated future cash flows. Under the market approach Intevac estimates the fair value based on market multiples of revenue or earnings for comparable companies. Each valuation technique has advantages and drawbacks, which must be considered when applying those techniques. The income approach closely correlates to management s expectations of future results but requires significant assumptions which can be highly sensitive. The market approach is relatively straightforward to measure, but it may be difficult to find directly comparable companies in the marketplace. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is performed. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then Intevac would perform the second step of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, Intevac would record an impairment loss equal to the difference. In the fourth quarter of 2008, Intevac recorded an impairment charge of $10.5 million for goodwill and purchased technology intangible assets due to a decline in market value and lower revenue expectations in light of current operating performance and future operating expectations. No impairment charges were recognized in fiscal 2009.

Intevac s methodology for allocating the purchase price relating to purchase acquisitions is determined through established and generally accepted valuation techniques. Goodwill is measured as the excess of the cost of the acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. Intevac assigns assets acquired (including goodwill) and liabilities assumed to a reporting unit as of the date of acquisition.

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Equity-Based Compensation

Intevac records compensation expense for equity-based awards under Accounting Standards Codification (ASC) 718, Compensation-Stock Compensation , using the Black-Scholes option pricing 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. ASC 718 also requires forfeiture estimates of equity-based awards. Estimating volatility, expected life and forfeitures requires significant judgment and an analysis of historical data. 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***

Interest rate risk. Intevac s exposure to market risk for changes in interest rates relates primarily to Intevac s investment portfolio. Intevac does not use derivative financial instruments in Intevac s investment portfolio. Intevac places investments with high quality credit issuers and, by policy, limits the amount of credit exposure to any one issuer. Investments typically consist of ARS and debt instruments issued by the U.S. government and its agencies.

The table below presents principal amounts and related weighted-average interest rates by year of maturity for Intevac s investment portfolio at December 31, 2009.

	2010	2011	2012	Beyond	Total	Fair Value
	(In thousands, except percentages)					
Cash equivalents						
Fixed rate amounts	$ 9,255				$ 9,255	$ 9,255
Weighted-average rate	0.02%					
Short-term investments						
Fixed rate amounts	$ 6,000				$ 6,000	$ 6,000
Weighted-average rate	0.06%					
Long-term investments						
Fixed rate amounts				$ 69,950	$ 69,950	$ 66,249
Weighted-average rate				1.9%		
Total investment portfolio	$ 15,255			$ 69,950	$ 85,205	$ 81,504

At December 31, 2009, Intevac held investments in ARS. With the liquidity issues experienced in global credit and capital markets, Intevac s ARS have experienced multiple failed auctions. Intevac continues to earn interest at the maximum contractual rate for each security. The estimated values of the ARS held by Intevac are no longer at par. As of December 31, 2009, Intevac had $66.2 million in ARS in the consolidated balance sheet, which is net of a temporary unrealized loss of $3.7 million. Management believes that the impairment of the ARS investments is temporary, primarily due to the government guarantee of the underlying securities and Intevac s ability to hold the ARS for the foreseeable future. Management believes that it is more likely than not that it would not be required to sell these securities before the recovery of their par amounts. The unrealized loss is included in other comprehensive loss.

Intevac continues to monitor the market for ARS and consider its impact (if any) on the fair market value of its investments. If the current market conditions continue, or the anticipated recovery in market values does not occur, Intevac may be required to record additional unrealized losses or record an other-than-temporary impairment charge in 2010.

Based on Intevac s ability to access its cash, its expected operating cash flows, and other sources of cash, Intevac does not anticipate that the lack of liquidity of these investments will affect Intevac s ability to operate its business in the ordinary course.

Foreign exchange risk. From time to time, Intevac enters into foreign currency forward exchange contracts to economically hedge certain of Intevac s anticipated foreign currency transaction, translation and re-measurement exposures. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on Intevac s operating results. Intevac had no foreign currency forward exchange contracts during any of the years ended December 31, 2009, 2008 and 2007.

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

INTEVAC, INC.

CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Intevac, Inc.

We have audited the accompanying consolidated balance sheets of Intevac, Inc. (a Delaware corporation) and subsidiaries (collectively, the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2009. Our audits of the basic financial statements included the financial statement schedule listed in the index appearing under Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Intevac, Inc. and subsidiaries as of December 31, 2009 and 2008 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Intevac, Inc. and subsidiaries internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 26, 2010 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ GRANT THORNTON LLP

San Jose, California
February 26, 2010

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INTEVAC, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2009	2008
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,592	$ 39,201
Short-term investments	6,000	
Trade and other accounts receivable, net of allowances of $133 and $145 at December 31, 2009 and 2008, respectively	44,756	15,014
Inventories	19,100	17,674
Prepaid expenses and other current assets	6,687	4,806
Deferred income tax assets	1,515	3,204
Total current assets	95,650	79,899
Property, plant and equipment, net	12,351	14,886
Long-term investments	66,249	66,328
Goodwill	7,905	7,905
Other intangible assets, net of amortization of $1,248 and $693 at December 31, 2009 and 2008, respectively	3,537	4,054
Deferred income taxes and other long-term assets	17,686	16,097
Total assets	$ 203,378	$ 189,169
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Note payable	$	$ 2,000
Accounts payable	4,701	4,214
Accrued payroll and related liabilities	2,784	3,395
Other accrued liabilities	11,104	3,175
Customer advances	13,180	2,807
Total current liabilities	31,769	15,591
Other long-term liabilities	252	509
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 22,079 and 21,805 at December 31, 2009 and 2008, respectively	22	22
Additional paid-in-capital	134,071	128,686
Accumulated other comprehensive loss	(1,828)	(4,808)

Retained earnings	39,092	49,169
Total stockholders equity	171,357	173,069
Total liabilities and stockholders equity	$ 203,378	$ 189,169

See accompanying notes.

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INTEVAC, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2009	2008	2007
	(In thousands, except per share amounts)		
Net revenues:			
Systems and components	$ 61,893	$ 95,962	$ 202,292
Technology development	16,088	14,345	13,542
Total net revenues	77,981	110,307	215,834
Cost of net revenues:			
Systems and components	36,172	58,503	112,376
Technology development	9,089	8,465	7,415
Total cost of net revenues	45,261	66,968	119,791
Gross profit	32,720	43,339	96,043
Operating expenses:			
Research and development	28,064	35,083	40,137
Selling, general and administrative	22,003	28,229	28,470
Impairment of goodwill and intangible assets		10,498	
Total operating expenses	50,067	73,810	68,607
Operating income (loss)	(17,347)	(30,471)	27,436
Interest income	1,362	3,968	6,544
Other income (expense), net	(108)	(36)	1,598
Income (loss) before income taxes	(16,093)	(26,539)	35,578
Provision (benefit) for income taxes	(6,016)	(11,194)	8,233
Net income (loss)	$ (10,077)	$ (15,345)	$ 27,345
Net income (loss) per share:			
Basic	$ (0.46)	$ (0.71)	$ 1.28
Diluted	$ (0.46)	$ (0.71)	$ 1.23
Weighted average shares outstanding:			
Basic	21,975	21,724	21,447
Diluted	21,975	21,724	22,150

See accompanying notes.

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INTEVAC, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated	Total Stockholders
	Shares	Amount	Capital	(Loss)	Deficit)	Equity
			(In thousands)			
Balance at December 31, 2006	21,188	$ 99,468	$ 7,319	$ 354	$ 37,169	$ 144,310
Shares issued in connection with:						
Exercise of stock options	313	2,141	353			2,494
Employee stock purchase plan	90	671	704			1,375
Reclassification of par value for Delaware		(102,258)	102,258			
Income tax benefits realized from activity in employee stock plans			3,009			3,009
Equity-based compensation expense			6,379			6,379
Net income					27,345	27,345
Foreign currency translation adjustment				251		251
Comprehensive income						27,596
Balance at December 31, 2007	21,591	$ 22	$ 120,022	$ 605	$ 64,514	$ 185,163
Shares issued in connection with:						
Exercise of stock options	48		322			322
Employee stock purchase plan	166		1,516			1,516
Income tax benefits realized from activity in employee stock plans			327			327
Equity-based compensation expense			6,499			6,499
Net loss					(15,345)	(15,345)
Unrealized loss on securities held as available-for-sale				(8,072)		(8,072)
Deferred taxes on unrealized loss on available-for-sale securities				2,825		2,825
Foreign currency translation adjustment				(166)		(166)

Comprehensive loss											(20,758)
Balance at December 31, 2008	21,805	$	22	$	128,686	$	(4,808)	$	49,169	$	173,069
Shares issued in connection with:											
Exercise of stock options	34				223						223
Employee stock purchase plan	240				899						899
Income tax benefits realized from activity in employee stock plans					69						69
Equity-based compensation expense					4,194						4,194
Net loss									(10,077)		(10,077)
Unrealized gain on securities held as available-for-sale							4,371				4,371
Deferred taxes on unrealized gain on available-for-sale securities							(1,529)				(1,529)
Foreign currency translation adjustment							138				138
Comprehensive loss											(7,097)
Balance at December 31, 2009	22,079	$	22	$	134,071	$	(1,828)	$	39,092	$	171,357

See accompanying notes.

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INTEVAC, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2009	2008	2007
	(In thousands)		
Operating activities			
Net income (loss)	$ (10,077)	$ (15,345)	$ 27,345
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by (used in) operating activities:			
Depreciation & amortization	5,031	4,709	4,203
Net accretion of investment premiums and discounts	(20)	(256)	(175)
Impairment of goodwill and intangible assets		10,498	
Amortization of intangible assets	554	700	218
Equity-based compensation	4,255	6,577	6,270
Deferred income taxes	(87)	(8,002)	(1,654)
Excess tax benefits from equity-based compensation	(69)	(327)	(3,009)
Loss on disposal of equipment	57	7	
Changes in assets and liabilities:			
Accounts receivable	(28,935)	765	26,687
Inventories	(1,411)	4,434	16,657
Prepaid expenses and other assets	(3,177)	(100)	(2,537)
Accounts payable	441	(3,468)	(8,671)
Accrued payroll and other accrued liabilities	6,902	(5,475)	(3,964)
Customer advances	9,967	(2,911)	(20,736)
Total adjustments	(6,492)	7,151	13,289
Net cash and cash equivalents provided by (used in) operating activities	(16,569)	(8,194)	40,634
Investing activities			
Purchase of investments	(26,979)	(7,000)	(175,624)
Proceeds from sales and maturities of investments	25,450	45,850	126,400
Sale of investment in 601 California Avenue LLC			2,431
Acquisition of Oerlikon assets, net of cash acquired		(15,093)	
Acquisition of DeltaNu, LLC, net of cash acquired			(2,083)
Acquisition of Creative Display Systems, LLC, net of cash acquired			(4,782)
Purchase of equipment	(2,615)	(4,185)	(5,735)
Net cash and cash equivalents provided by (used in) investing activities	(4,144)	19,572	(59,393)
Financing activities			
Proceeds from issuance of common stock	1,122	1,838	3,869
Repayment of note payable	(2,000)	(2,000)	
Excess tax benefits from equity-based compensation	69	327	3,009
Net cash and cash equivalents provided by (used in) financing activities	(809)	165	6,878
Effect of exchange rate changes on cash	(87)	(15)	114

Net increase (decrease) in cash and cash equivalents	(21,609)	11,528	(11,767)
Cash and cash equivalents at beginning of period	39,201	27,673	39,440
Cash and cash equivalents at end of period	$ 17,592	$ 39,201	$ 27,673
Cash paid (received) for:			
Income taxes	$ 713	$ 410	$ 11,644
Income tax refund	$ (2,821)	$ (3,717)	$ (259)
Other non-cash changes:			
Notes payable issued for the acquisition of DeltaNu, LLC	$	$	$ 3,720

See accompanying notes.

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INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Intevac, Inc. and its subsidiaries (Intevac or the Company) 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.

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, consisting solely of Auction Rate Securities (ARS), 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. Held-to-maturity securities are carried at amortized cost. The cost of investment securities sold is determined by the specific identification method.

Fair Value Measurement Definition and Hierarchy

Intevac reports certain financial assets and liabilities at fair value. Intevac measures fair value in accordance with Accounting Standards Codification (ASC) 820-10, Fair Value Measurements and Disclosures , which 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.

As of December 31, 2009, financial assets measured utilizing: (1) Level 1 inputs included money market funds in the amount of $9.3 million and U.S. Treasury Bills in the amount of $6.0 million which were valued based on quoted market prices in active markets for identical securities, and (2) Level 3 inputs in the amount of $66.2 million included long-term investments in ARS consisting of securities collateralized by student loans which were valued using a third-party valuation firm and management applying internal analysis to the valuation (see Note 8). At December 31, 2009, Intevac did not have any financial assets measured utilizing Level 2 inputs. Also at December 31, 2009, Intevac did not have any liabilities that were required to be measured at fair value.

Trade Receivables and Doubtful Accounts

Intevac evaluates the collectibility of trade receivables 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

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adequacy of the allowance for doubtful accounts. Customer accounts are written off against the allowance when the amount is deemed uncollectible.

Included in trade receivables are unbilled receivables related to government contracts of $2.1 million and $1.3 million at December 31, 2009 and December 31, 2008, respectively which includes $371,000 and $329,000 of fee retention, respectively.

Inventories

Inventories are generally stated at the lower of cost or market, 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.

Goodwill and Purchased Intangible Assets

Goodwill and purchased intangible assets with indefinite useful lives are not amortized, but are reviewed for impairment annually during the fourth quarter of each fiscal year and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For goodwill, Intevac performs a two-step impairment test. In the first step, Intevac compares the fair value of each reporting unit to its carrying value. Intevac s reporting units are consistent with the reportable segments identified in Note 14, based on the manner in which Intevac operates its business and the nature of those operations. Depending on the facts and circumstances Intevac determines the fair value of each of its reporting units based upon the most appropriate valuation technique using the income approach, the market approach or a combination thereof. The income and market approaches were selected as management believes these approaches generally provide the most reliable indications of fair value when the value of the operations is more dependent on the ability to generate earnings than on the value of the assets used in the production process. Under the income approach Intevac calculates the fair value of the reporting units based on the present value of estimated future cash flows. Under the market approach Intevac estimates the fair value based on market multiples of revenue or earnings for comparable companies. Each valuation technique has advantages and drawbacks, which must be considered when applying those techniques. The income approach closely correlates to management s expectations of future results but requires significant assumptions which can be highly sensitive. The market approach is relatively straightforward to measure, but it may be difficult to find directly comparable companies in the marketplace. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is performed. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then Intevac would perform the second step of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, Intevac would record an impairment loss equal to the difference. Intevac conducted these impairment tests in the fourth quarter of fiscal 2009 and the results of these tests indicated that Intevac s goodwill and purchased intangible asset with an indefinite useful live were not impaired.

In the fourth quarter of fiscal 2008, Intevac recorded an impairment charge of $10.5 million for goodwill and purchased technology intangible assets due to a decline in market value of Intevac s common stock and lower revenue expectations in light of current operating performance and future operating expectations.

Intevac s methodology for allocating the purchase price relating to purchase acquisitions is determined through established and generally accepted valuation techniques. Goodwill is measured as the excess of the cost of the

acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. Intevac assigns assets acquired (including goodwill) and liabilities assumed to a reporting unit as of the date of acquisition. Goodwill and indefinite life intangible assets are tested for impairment on an annual basis and between annual tests in certain circumstances, and written down when impaired. In the fourth quarter of fiscal 2008, based upon an interim impairment analysis Intevac wrote off all $9.7 million of goodwill in its Equipment segment.

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Purchased intangible assets other than goodwill are amortized over their useful lives unless these lives are determined to be indefinite. Purchased intangible assets are carried at cost, less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets, generally one to thirteen years using the straight line method.

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable 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. As a result of Intevac s projected undiscounted future cash flows related to certain of its intangible assets being less than the carrying value of those assets, Intevac recorded an impairment charge of $808,000 in fiscal 2008. No impairment charges were recognized in fiscal 2009.

Income Taxes

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.

On a quarterly basis, Intevac provides for income taxes based upon an annual effective income tax rate. 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

Intevac recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred and title and risk of loss have passed to Intevac s customer or services have been rendered, the price is fixed or determinable, and collectibility is reasonably assured. Intevac s shipping terms are customarily FOB shipping point or equivalent terms. Intevac s revenue recognition policy generally results in revenue recognition at the following points: (1) for all transactions where legal title passes to the customer upon shipment, Intevac recognizes revenue upon shipment for all

products that have been demonstrated to meet product specifications prior to shipment; the portion of revenue associated with certain installation-related tasks is deferred based on the estimated fair value, and that revenue is recognized upon completion of the installation-related tasks; (2) for products that have not been demonstrated to meet product specifications prior to shipment, revenue is recognized at customer acceptance; and (3) for arrangements containing multiple elements, the revenue relating to the undelivered elements is deferred at estimated fair value until delivery of the deferred elements. In certain cases, technology upgrade sales are accounted for as multiple-element arrangements usually split between delivery of the parts and installation on

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the customer s systems. In these cases, Intevac recognizes revenue for the fair market value of the parts upon shipment and transfer of title, and recognizes revenue for the fair market value of installation services when those services are completed. Revenue related to sales of spare parts is generally recognized upon shipment. Revenue related to services is generally recognized upon completion of the services.

Intevac performs research and development work under various government-sponsored research contracts. Revenue on cost-plus-fee contracts is recognized to the extent of costs actually incurred plus a proportionate amount of the fee earned. Intevac considers fixed fees under cost-plus-fee contracts to be earned in proportion to the allowable costs actually incurred in performance of the contract. Revenue on fixed-price contracts is generally recognized using the percentage-of-completion method of contract accounting. Intevac determines the percentage completed based on the percentage of costs incurred to date in relation to total estimated costs expected upon completion of the contract. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined.

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, with the exception of Hong Kong, is the local currency of the country in which the respective subsidiary operates. Hong Kong s functional currency is the U.S. dollar. 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 effect 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 in the determination of net income. Net gains or (losses) from foreign currency transactions were ($226,000), ($31,000) and $62,000 in 2009, 2008 and 2007, respectively.

Comprehensive Income

The components of accumulated other comprehensive income (loss), were as follows at December 31, 2009 and 2008:

	December 31,	
	2009	2008
	(In thousands)	
Accumulated net unrealized holding loss on available-for-sale investments, net of tax	$ (2,405)	$ (5,247)
Foreign currency translation gains and losses	577	439
Total accumulated other comprehensive income (loss)	$ (1,828)	$ (4,808)

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, restricted stock, stock appreciation rights, performance units and performance shares. In addition, these plans provide for the grant of non-statutory stock options 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 2 for a complete description of these plans and their accounting treatment.

Recent Accounting Pronouncements

In January 2009, the Securities and Exchange Commission (SEC) issued Release No. 33-9002, Interactive Data to Improve Financial Reporting. The final rule requires companies to provide their financial statements and financial statement schedules to the SEC and on their corporate websites in interactive data format using the

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eXtensible Business Reporting Language (XBRL). The rule was adopted by the SEC to improve the ability of financial statement users to access and analyze financial data. The SEC adopted a phase-in schedule indicating when registrants must furnish interactive data. Under this schedule, Intevac will be required to submit filings with financial statement information using XBRL commencing with its June 25, 2011 quarterly report on Form 10-Q. Intevac is currently evaluating the impact of XBRL reporting on its financial reporting process.

In October 2009, the Financial Accounting Standards Board (FASB) amended revenue recognition guidance for arrangements with multiple deliverables. The guidance eliminates the residual method of revenue recognition and allows the use of management s best estimate of selling price for individual elements of an arrangement when vendor specific objective evidence (VSOE), vendor objective evidence (VOE) or third-party evidence (TPE) is unavailable. This guidance should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. Full retrospective application of the guidance is optional. Intevac is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

In October 2009, the FASB issued guidance which amends the scope of existing software revenue recognition accounting. Tangible products containing software components and non-software components that function together to deliver the product s essential functionality would be scoped out of the accounting guidance on software and accounted for based on other appropriate revenue recognition guidance. This guidance should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. Full retrospective application of the new guidance is optional. This guidance must be adopted in the same period that Intevac adopts the amended accounting for arrangements with multiple deliverables described in the preceding paragraph. Intevac is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

In January 2010, the FASB issued guidance which clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements. Intevac must implement these new requirements in its first quarter of fiscal 2010. Certain additional disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measures are not effective until fiscal years beginning after December 15, 2010. Other than requiring additional disclosures, implementation of this new guidance will not have a material impact on Intevac s consolidated financial statements.

2. Equity-Based Compensation

Intevac accounts for share-based awards in accordance with the provisions of the revised 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, less expected forfeitures, is amortized over the awards service periods using the graded vesting attribution method. During the years ended December 31, 2009, 2008 and 2007 Intevac recognized equity-based compensation expense related to stock options and shares issued pursuant to its ESPP of $4.3 million, $6.6 million and $6.3 million, respectively.

Descriptions of Plans

2004 Equity Incentive Plan

In 2004, the Board of Directors and Intevac stockholders approved adoption of The 2004 Equity Incentive Plan (the 2004 Plan). The 2004 Plan serves as the successor equity incentive program to the 1995 Stock Option/Stock Issuance Plan (the 1995 Plan). Upon adoption of the 2004 Plan, all remaining shares available for issuance under the 1995 Plan

were transferred to the 2004 Plan.

The 2004 Plan is a broad-based, long-term retention program intended to attract and retain qualified management and employees, and align stockholder and employee interests. The 2004 Plan permits the grant of incentive or non-statutory stock options, restricted stock, stock appreciation rights, performance units and performance shares. To date only stock options have been issued pursuant to the 2004 Plan. Option price, vesting period, and other terms are determined by the administrator of the 2004 Plan, but the option price shall generally not

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be less than 100% of the fair market value per share on the date of grant. As of December 31, 2009, 3.6 million shares of common stock were authorized for future issuance under the 2004 Plan. Options granted under the 2004 Plan are exercisable upon vesting and vest over periods of up to five years. Options currently expire no later than ten years from the date of grant. The 2004 Plan expires no later than March 10, 2014.

During the year ended December 31, 2009, Intevac granted 536,000 stock options pursuant to the 2004 Plan with an estimated total grant-date fair value of $1.4 million. Of this amount, Intevac estimated that the equity-based compensation for option grants that will be forfeited, and are therefore not expected to vest, was $319,000. During the year ended December 31, 2008, Intevac granted 697,000 stock options pursuant to the 2004 Plan with an estimated total grant-date fair value of $4.3 million, including 7,500 shares granted to a consultant with a grant date fair value of $50,000. Of this amount, Intevac estimated that the equity-based compensation for option grants that will be forfeited, and are therefore not expected to vest, was $904,000. During the year ended December 31, 2007, Intevac granted 750,000 stock options with an estimated total grant-date fair value of $7.4 million, including 3,000 shares granted to a consultant with a grant date fair value of $24,000. Of this amount, Intevac estimated that the equity-based compensation for option grants that will be forfeited, and are therefore not expected to vest, was $1.6 million.

2003 Employee Stock Purchase Plan

In 2003, Intevac s stockholders approved adoption of the 2003 Employee Stock Purchase Plan (the ESPP), which serves as the successor to the Employee Stock Purchase Plan originally adopted in 1995. Upon adoption of the ESPP, all shares available for issuance under the prior plan were transferred to the ESPP. The ESPP provides that eligible employees may purchase Intevac common stock through payroll deductions at a price equal to 85% of the lower of the fair market value at the beginning 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 10% of their base earnings withheld to purchase Intevac common stock. Under the ESPP, Intevac sold 240,000, 166,000 and 90,000 shares to employees in 2009, 2008 and 2007, respectively. As of December 31, 2009, 491,000 shares remained available for issuance under the ESPP. During the years ended December 31, 2009, 2008, and 2007 Intevac granted purchase rights with an estimated total grant-date fair value of $328,000, $1.0 million and $2.0 million, respectively.

The effect of recording equity-based compensation for the years ended December 31, 2009, 2008 and 2007 was as follows (in thousands):

	2009	2008	2007
Equity-based compensation by type of award:			
Stock options	$ 3,418	$ 5,252	$ 5,517
Employee stock purchase plan	776	1,247	864
Amounts released to cost of sales (capitalized as inventory)	61	78	(111)
Total equity-based compensation	4,255	6,577	6,270
Tax effect on equity-based compensation	(1,224)	(1,785)	(1,882)
Net effect on net income	$ 3,031	$ 4,792	$ 4,388

Approximately $41,000 and $102,000 of equity-based compensation is included in inventory as of December 31, 2009 and 2008, respectively.

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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 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 weighted average assumptions used in the model are outlined in the following table:

	2009	2008	2007
Stock Options:			
Expected volatility	67.17%	65.60%	66.67%
Risk free interest rate	2.01%	2.87%	4.05%
Expected term of options (in years)	4.47	4.47	4.49
Dividend yield	None	None	None

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 weighted-average estimated fair value of employee stock options granted during the years ended December 31, 2009, 2008 and 2007 was $2.57, $6.12 and $9.89 per share, respectively.

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:

	2009	2008	2007
Stock Purchase Rights:			
Expected volatility	82.56%	62.65%	63.15%
Risk free interest rate	0.85%	1.68%	3.94%
Expected term of purchase rights (in years)	1.85	1.87	1.97
Dividend yield	None	None	None

The expected life of purchase rights is the period of time remaining in the current offering period. The weighted-average estimated fair value of employee stock purchase rights granted pursuant to the ESPP during the years ended December 31, 2009, 2008 and 2007 was $2.73, $5.40 and $8.23 per share, respectively.

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Stock Plan Activity

2004 Equity Incentive Plan

A summary of activity under the above captioned plan is as follows:

		Weighted Average Remaining
	Weighted Average	Contractual Term