INTEVAC INC
Form 10-Q
August 03, 2010

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, DC 20549**
**FORM 10-Q**

**(MARK ONE)**

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

**For the quarterly period ended July 3, 2010**

**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)** | **(IRS Employer Identification No.)** |

**3560 Bassett Street**
**Santa Clara, California 95054**
**(Address of principal executive office, including Zip Code)**
**Registrant s telephone number, including area code: (408) 986-9888**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 (Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

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

On August 3, 2010, 22,430,470 shares of the Registrant s Common Stock, $0.001 par value, were outstanding.

**INTEVAC, INC.**
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## PART I. FINANCIAL INFORMATION

**Item 1.** *Financial Statements*

### INTEVAC, INC.
### CONDENSED CONSOLIDATED BALANCE SHEETS

| | July 3, 2010 | December 31, 2009 |
|---|---|---|
| | (Unaudited) (In thousands) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 26,807 | $ 17,592 |
| Short-term investments | | 6,000 |
| Trade and other accounts receivable, net of allowances of $55 at July 3, 2010 and $133 at December 31, 2009 | 63,583 | 44,756 |
| Inventories | 42,551 | 19,100 |
| Prepaid expenses and other current assets | 7,595 | 6,687 |
| Deferred income tax assets | 1,326 | 1,515 |
| Total current assets | 141,862 | 95,650 |
| Property, plant and equipment, net | 11,927 | 12,351 |
| Long-term investments | 61,632 | 66,249 |
| Goodwill | 7,905 | 7,905 |
| Other intangible assets, net of amortization of $1,526 at July 3, 2010 and $1,248 at December 31, 2009 | 3,258 | 3,537 |
| Deferred income taxes and other long-term assets | 15,571 | 17,686 |
| Total assets | $ 242,155 | $ 203,378 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 16,173 | $ 4,701 |
| Accrued payroll and related liabilities | 7,737 | 2,784 |
| Other accrued liabilities | 15,328 | 11,104 |
| Customer advances | 14,502 | 13,180 |
| Total current liabilities | 53,740 | 31,769 |
| Other long-term liabilities | 766 | 252 |
| Stockholders equity: | | |
| Common stock, $0.001 par value | 22 | 22 |
| Additional paid-in capital | 136,834 | 134,071 |
| Accumulated other comprehensive loss | (2,066) | (1,828) |
| Retained earnings | 52,859 | 39,092 |
| Total stockholders equity | 187,649 | 171,357 |

| | | |
|---|---|---|
| Total liabilities and stockholders equity | $ 242,155 | $ 203,378 |

Note: Amounts as of December 31, 2009 are derived from the December 31, 2009 audited consolidated financial statements.

See accompanying notes to the condensed consolidated financial statements.

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**INTEVAC, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| | (Unaudited) | | | |
| | (In thousands, except per share amounts) | | | |
| Net revenues: | | | | |
| Systems and components | $ 63,967 | $ 8,981 | $ 92,878 | $ 17,658 |
| Technology development | 4,631 | 3,337 | 8,862 | 6,968 |
| Total net revenues | 68,598 | 12,318 | 101,740 | 24,626 |
| Cost of net revenues: | | | | |
| Systems and components | 36,425 | 5,758 | 52,327 | 11,815 |
| Technology development | 3,139 | 2,047 | 5,901 | 4,033 |
| Total cost of net revenues | 39,564 | 7,805 | 58,228 | 15,848 |
| Gross profit | 29,034 | 4,513 | 43,512 | 8,778 |
| Operating expenses: | | | | |
| Research and development | 7,011 | 7,385 | 13,555 | 15,415 |
| Selling, general and administrative | 7,558 | 5,394 | 14,125 | 11,103 |
| Total operating expenses | 14,569 | 12,779 | 27,680 | 26,518 |
| Income (loss) from operations | 14,465 | (8,266) | 15,832 | (17,740) |
| Interest income and other, net | 72 | 228 | 463 | 658 |
| Income (loss) before income taxes | 14,537 | (8,038) | 16,295 | (17,082) |
| Provision for (benefit from) income taxes | 2,200 | (3,551) | 2,528 | (6,822) |
| Net income (loss) | $ 12,337 | $ (4,487) | $ 13,767 | $ (10,260) |
| Net income (loss) per share: | | | | |
| Basic | $ 0.55 | $ (0.20) | $ 0.62 | $ (0.47) |
| Diluted | $ 0.54 | $ (0.20) | $ 0.60 | $ (0.47) |
| Weighted average common shares outstanding: | | | | |
| Basic | 22,286 | 21,930 | 22,241 | 21,906 |
| Diluted | 22,931 | 21,930 | 22,953 | 21,906 |

See accompanying notes to the condensed consolidated financial statements.

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**INTEVAC, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Six months ended | |
|---|---|---|
| | July 3, 2010 | June 27, 2009 |
| | (Unaudited) | |
| | (In thousands) | |
| **Operating activities** | | |
| Net income (loss) | $ 13,767 | $ (10,260) |
| Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by (used in) operating activities: | | |
| Depreciation and amortization | 2,922 | 2,578 |
| Equity-based compensation | 1,583 | 2,709 |
| Deferred income taxes | 2,094 | (3,771) |
| Loss on disposal of equipment | 122 | |
| Changes in operating assets and liabilities | (20,396) | (988) |
| Total adjustments | (13,675) | 528 |
| Net cash and cash equivalents provided by (used in) operating activities | 92 | (9,732) |
| **Investing activities** | | |
| Purchases of investments | (2,999) | (14,982) |
| Proceeds from maturities of investments | 13,200 | 6,500 |
| Purchases of leasehold improvements and equipment | (2,342) | (1,453) |
| Net cash and cash equivalents provided by (used in) investing activities | 7,859 | (9,935) |
| **Financing activities** | | |
| Net proceeds from issuance of common stock | 1,231 | 513 |
| Repayment of note payable | | (2,000) |
| Net cash and cash equivalents provided by (used in) financing activities | 1,231 | (1,487) |
| Effect of exchange rate changes on cash | 33 | (57) |
| Net increase (decrease) in cash and cash equivalents | 9,215 | (21,211) |
| Cash and cash equivalents at beginning of period | 17,592 | 39,201 |
| Cash and cash equivalents at end of period | $ 26,807 | $ 17,990 |

See accompanying notes to the condensed consolidated financial statements.

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**INTEVAC, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation and Significant Accounting Policy**

***Basis of Presentation***

In the opinion of management, the unaudited interim condensed consolidated financial statements of Intevac, Inc. and its subsidiaries (Intevac or the Company) included herein have been prepared on a basis consistent with the December 31, 2009 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Intevac s Annual Report on Form 10-K for the fiscal year ended December, 31, 2009 (2009 Form 10-K). Intevac s results of operations for the three and six months ended July 3, 2010 are not necessarily indicative of future operating results.

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

***Revenue Recognition***

In 2009, the Financial Accounting Standards Board ( FASB ) issued amended revenue recognition guidance for arrangements with multiple deliverables and certain software sold with tangible products. This new guidance eliminates the residual method of revenue recognition and allows the use of management s best estimate of selling price ( ESP ) for individual elements of an arrangement when vendor specific objective evidence ( VSOE ) or third party evidence ( TPE ) is unavailable. Intevac implemented this guidance prospectively beginning in the first quarter of fiscal 2010 for transactions that were initiated or materially modified during fiscal 2010. The implementation of the new guidance had an insignificant impact on reported net sales as compared to net sales under previous guidance, as the new guidance did not change the units of accounting within sales arrangements, and the elimination of the residual method for the allocation of arrangement consideration had an inconsequential impact on the amount and timing of reported net sales.

In 2010, the FASB issued guidance for the milestone method of revenue recognition. Under the milestone method, consideration earned from achievement of the milestone is viewed as being indicative of the value provided to the customer through either (1) the efforts performed or (2) a specific outcome resulting from the performance to achieve that specific milestone. Under the milestone method, contingent arrangement consideration earned from the achievement of a milestone is recognized in its entirety in the period in which the milestone is achieved. Under this new method of accounting, a milestone must be substantive before the method can be applied; that is, at the inception of the arrangement there is a substantial uncertainty about the achievement of the milestone, substantive effort is required to achieve the milestone, and none of the payment for the milestone is refundable. Intevac implemented this guidance prospectively beginning in the first quarter of fiscal 2010 for transactions that were initiated or materially modified during fiscal 2010. Implementation of this new guidance had an insignificant impact on reported net sales as compared to net sales under previous guidance.

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.

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**INTEVAC, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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, 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 until delivery of the deferred elements. When a sales arrangement contains multiple elements, Intevac allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its VSOE if available, TPE if VSOE is not available, or ESP if neither VSOE nor TPE is available. Intevac generally utilizes the ESP due to the nature of its products. 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 relative sales price of the parts upon shipment and transfer of title, and recognizes revenue for the relative sales price 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. In addition, Intevac uses the installment method to record revenue based on cash receipts in situations where the account receivable is collected over an extended period of time and in management s judgment the degree of collectibility is uncertain.

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 recognized on a milestone method or percentage-of-completion method of contract accounting. For contracts structured as milestone agreements, revenue is recognized when a specified milestone is achieved, provided that (1) the milestone event is substantive in nature and there is substantial uncertainty about the achievement of the milestone at the inception of the agreement, (2) the milestone payment is non-refundable, and (3) there is no continuing performance obligations associated with the milestone payment. Any milestone payments received prior to satisfying these revenue recognition criteria are deferred. Intevac generally determines the percentage completed based on the percentage of costs incurred to date in relation to total estimated costs expected through completion of the contract. When estimates of total costs to be incurred on a contract exceed estimates of total revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined.

**2. New Accounting Pronouncement**

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 July 2, 2011 quarterly report on Form 10-Q. Intevac is currently evaluating the impact of XBRL reporting on its financial reporting process.

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**INTEVAC, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Inventories**

Inventories are stated at the lower of average cost or market and consist of the following:

| | July 3, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Raw materials | $ 20,204 | $ 10,147 |
| Work-in-progress | 11,349 | 4,421 |
| Finished goods | 10,998 | 4,532 |
| | $ 42,551 | $ 19,100 |

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

**4. Equity-Based Compensation**

At July 3, 2010, Intevac had equity-based awards outstanding under the 2004 Equity Incentive Plan (the 2004 Plan ) and the 2003 Employee Stock Purchase Plan (the ESPP ). Intevac s stockholders approved both of these plans.

The 2004 Plan permits the grant of incentive or non-statutory stock options, restricted stock, stock appreciation rights, performance units and performance shares. During the three months ended July 3, 2010, Intevac granted 507,500 stock options with an estimated total grant-date fair value of $3.3 million. Of this amount, estimated awards of $769,000 are not expected to vest. During the six months ended July 3, 2010, Intevac granted 595,000 stock options with an estimated total grant-date fair value of $4.0 million. Of this amount, estimated awards of $964,000 are not expected to vest.

The ESPP provides that eligible employees may purchase Intevac s common stock through payroll deductions at a price equal to 85% of the lower of the fair market value at the 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. During the six months ended July 3, 2010, Intevac granted purchase rights with an estimated total grant-date fair value of $48,000.

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**INTEVAC, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Compensation Expense***

The effect of recording equity-based compensation for the three and six months ended July 3, 2010 and June 27, 2009 was as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| | (In thousands) | | | |
| Equity-based compensation by type of award: | | | | |
| Stock options | $ 836 | $ 1,105 | $ 1,299 | $ 2,217 |
| Employee stock purchase plan | 109 | 216 | 233 | 450 |
| Amounts released to cost of sales | 21 | (9) | 51 | 42 |
| Total equity-based compensation | 966 | 1,312 | 1,583 | 2,709 |
| Tax effect on equity-based compensation | (309) | (382) | (502) | (786) |
| Net effect on net income (loss) | $ 657 | $ 930 | $ 1,081 | $ 1,923 |

***Valuation Assumptions***

The fair value of share-based payment awards is estimated at the grant date using the Black-Scholes option valuation model. The determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the expected term of the awards, and actual employee stock option exercise behavior.

The weighted-average estimated value of employee stock options granted during the three months ended July 3, 2010 and June 27, 2009 was $6.46 per share and $3.95 per share, respectively. The weighted-average estimated value of employee stock options granted during the six months ended July 3, 2010 and June 27, 2009 was $6.79 per share and $2.47 per share, respectively. The weighted-average estimated fair value of employee stock purchase rights granted pursuant to the ESPP during the six months ended July 3, 2010 and June 27, 2009 was $4.78 and $2.60 per share, respectively. No purchase rights were granted under the ESPP during either the three months ended July 3, 2010 or June 27, 2009. The fair value of each option and employee stock purchase right grant is estimated on the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| Stock Options: | | | | |
| Expected volatility | 67.87% | 68.82% | 67.94% | 67.15% |
| Risk free interest rate | 1.61% | 2.23% | 1.73% | 2.00% |
| Expected term of options (in years) | 4.5 | 4.3 | 4.5 | 4.5 |
| Dividend yield | None | None | None | None |

| | Six Months Ended | |
|---|---|---|
| | July 3, 2010 | June 27, 2009 |
| Stock Purchase Rights: | | |

| | | |
|---|---|---|
| Expected volatility | 55.48% | 82.23% |
| Risk free interest rate | 0.44% | 0.9% |
| Expected term of purchase rights (in years) | 0.75 | 2.0 |
| Dividend yield | None | None |

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**INTEVAC, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

As the equity-based compensation expense recognized in the Condensed Consolidated Statements of Operations is based on awards ultimately expected to vest, such amount has been reduced for estimated forfeitures. Forfeitures were estimated based on Intevac s historical experience, which Intevac believes to be indicative of Intevac s future experience.

**5. Goodwill and Purchased Intangible Assets, Net**

Goodwill and indefinite-life intangible assets are tested for impairment on an annual basis or more frequently upon the occurrence of circumstances that indicate that goodwill and indefinite-life intangible assets may be impaired. In the fourth quarter of fiscal 2009, Intevac performed its annual impairment analysis and the results of the analysis indicated that Intevac s goodwill and purchased intangible assets with an indefinite useful life were not impaired. At July 3, 2010, Intevac had a total of $7.9 million of goodwill and $120,000 of indefinite-life intangible assets. At July 3, 2010, all goodwill is attributed to the Intevac Photonics segment.

Total amortization expense of finite-lived intangibles for the three and six months ended July 3, 2010 was $139,000, and $278,000 respectively. As of July 3, 2010, future amortization expense is expected to be $275,000 for the remainder of 2010, $541,000 for 2011, $541,000 for 2012, $541,000 for 2013, $363,000 for 2014 and $878,000 thereafter. Intangible assets by segment are as follows: Equipment: $2.2 million and Intevac Photonics: $1.0 million.

**6. Warranty**

Intevac provides for the estimated cost of warranty when revenue is recognized. Intevac s warranty is per contract terms and for its systems the warranty typically ranges between 12 and 24 months from customer acceptance. For systems sold through a distributor, Intevac offers a 3 month warranty. The remainder of any warranty period is the responsibility of the distributor. During this warranty period any defective non-consumable parts are replaced and installed at no charge to the customer. The warranty period on consumable parts is limited to their reasonable usable lives. Intevac uses estimated repair or replacement costs along with its historical warranty experience to determine its warranty obligation. Intevac generally provides a twelve month warranty on its Intevac Photonics products. The provision for the estimated future costs of warranty is based upon historical cost and product performance experience. Intevac exercises judgment in determining the underlying estimates.

On the Condensed Consolidated Balance Sheets, the short-term portion of the warranty provision is included in other accrued liabilities, while the long-term portion is included in other long-term liabilities. The expense associated with product warranties issued or adjusted is included in cost of net revenues on the Condensed Consolidated Statements of Operations.

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**INTEVAC, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table displays the activity in the warranty provision account for the three- and six-month periods ended July 3, 2010 and June 27, 2009:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| | (in thousands) | | | |
| Beginning balance | $ 1,854 | $ 1,463 | $ 1,602 | $ 1,695 |
| Expenditures incurred under warranties | (523) | (423) | (1,114) | (759) |
| Accruals for product warranties issued during the reporting period | 1,589 | 147 | 2,353 | 448 |
| Adjustments to previously existing warranty accruals | 66 | (4) | 145 | (201) |
| Ending balance | $ 2,986 | $ 1,183 | $ 2,986 | $ 1,183 |

The following table displays the balance sheet classification of the warranty provision account at July 3, 2010 and at December 31, 2009:

| | July 3, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Other accrued liabilities | $ 2,220 | $ 1,550 |
| Other long-term liabilities | 766 | 52 |
| Total warranty provision | $ 2,986 | $ 1,602 |

**7. Guarantees**

***Officer and Director Indemnifications***

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

***Other Indemnifications***

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

**8. Cash, Cash Equivalents and Investments**

Cash and cash equivalents are comprised of short-term, highly liquid investments with original maturities of 90 days or less from the date of purchase. Investments are comprised of both available-for-sale securities, which are

recorded at estimated fair value, and held-to-maturity securities, which are carried at amortized cost. Unrealized gains

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**INTEVAC, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and losses associated with Intevac s available-for-sale investments, if any, are reported in stockholders equity. Included in accounts payable is $1.5 million and $722,000 of book overdraft at July 3, 2010 and December 31, 2009, respectively.

The table below presents the estimated fair value or amortized principal amount and major security type for Intevac s investments:

| | July 3, 2010 | December 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Carrying value: | | |
| Short-term investments-U.S. treasury bills | $ | $ 6,000 |
| Long-term investments-Auction rate securities ( ARS ) | 61,632 | 66,249 |
| Total investments in debt securities | $ 61,632 | $ 72,249 |
| Approximate fair value of investments in debt securities | $ 61,632 | $ 72,249 |

As of July 3, 2010, financial assets measured utilizing Level 1 inputs were valued based on quoted market prices in active markets for identical securities and included money market funds in the amount of $6.1 million and U.S. treasury bills in the amount of $6.0 million.

As of July 3, 2010, Intevac s investment portfolio included $65.8 million par value in ARS. All of the ARS are student loan structured issues, where the loans have been originated under the U.S. Department of Education s Federal Family Education Loan Program. The principal and interest are 97-98% reinsured by the U.S. Department of Education and the collateral ratios range from 102% to 115%. Securities with a par value of $54.0 million are rated AAA/Aaa, securities with a par value of $8.8 million are rated AAA/A3 and a security with a par value of $3.0 million is rated AAA/Baa3. These investments have experienced failed auctions beginning in February 2008. The investments in ARS will not be accessible until a successful auction occurs, they are restructured into a more liquid security, a buyer is found outside of the auction process, or the underlying securities have matured.

As of July 3, 2010, 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. At July 3, 2010, the fair value of the ARS was estimated at $61.6 million based on a valuation by Houlihan Smith & Company, Inc. using discounted cash flow models and management applying 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. 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. These securities are classified as long-term assets, as management believes that the ARS market will not become liquid within the next year. Potentially, it could take until the final maturity of the underlying notes (ranging from 21 years to 37 years) to realize these investments recorded values.

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 these securities 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. A temporary impairment charge results in an unrealized loss being recorded in the other comprehensive income component of stockholders equity. Such an unrealized loss does not reduce net income for the applicable accounting period, because the loss is not viewed as other-than-temporary. The factors evaluated to differentiate between temporary and other-than-temporary include the projected future cash flows, credit ratings

actions, and assessment of the credit quality of the underlying collateral. Factors considered in

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**INTEVAC, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

determining whether a loss is temporary include length of time and the extent to which the investment s fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer, and Intevac s intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery of fair value. As of July 3, 2010, management has no reason to believe that any of the underlying issuers of Intevac s ARS or their insurers are presently at risk or that the underlying credit quality of the assets backing Intevac s ARS has been impacted by the reduced liquidity of these investments. As of July 3, 2010, based on the Level 3 valuation performed, Intevac determined that there was a temporary decline in fair value of its ARS of $4.1 million.

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 requested 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. The arbitration proceedings were completed on June 10, 2010. On June 29, 2010, Intevac received a favorable ruling from the arbitration panel whereby Citigroup was ordered to rescind the sale of the $54.8 million par value in outstanding ARS investments. On July 27, 2010, Intevac received $54.8 million from the repurchase of the securities by Citigroup at par including interest and will recognize the reversal of a $3.3 million temporary impairment charge in other comprehensive loss in the third quarter of fiscal year 2010.

The following table presents the changes in Level 3 instruments measured on a recurring basis for the three and six months ended July 3, 2010 and June 27, 2009. Investments in ARS are Intevac s only Level 3 instruments and are classified as available-for-sale with changes in fair value recorded in equity.

Changes in Level 3 instruments (in thousands):

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| | (in thousands) | | | |
| Beginning balance | $ 65,329 | $ 66,961 | $ 66,249 | $ 66,328 |
| Net unrealized gains (losses) included in other comprehensive loss | 253 | 2,626 | (417) | 3,359 |
| Redemptions at par | (3,950) | (3,400) | (4,200) | (3,500) |
| Ending balance | $ 61,632 | $ 66,187 | $ 61,632 | $ 66,187 |

**9. Borrowing Facility**

On March 5, 2008, Intevac entered into an agreement with Citigroup for a secured revolving loan facility. This loan facility could be terminated at the discretion of Citigroup and amounts outstanding were payable on demand. It was secured by Intevac s ARS held at Citigroup. Approximately $18.3 million of credit was available pursuant to the loan facility at July 3, 2010. The interest rate on the loan facility was prime minus 1.5 percent. No amounts were outstanding under this credit facility at July 3, 2010. This borrowing facility was terminated upon the rescission of the ARS sale discussed above.

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**INTEVAC, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Other Comprehensive Loss**

The components of accumulated other comprehensive loss, at July 3, 2010 and December 31, 2009 were as follows:

| | July 3, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Accumulated net unrealized holding loss on available-for-sale investments, net of tax | $ (2,676) | $ (2,405) |
| Foreign currency translation gains | 610 | 577 |
| Total accumulated other comprehensive loss | $ (2,066) | $ (1,828) |

The changes in the components of comprehensive income (loss) for the three and six month periods ended July 3, 2010 and June 27, 2009 were as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| | (In thousands) | | | |
| Net income (loss) | $ 12,337 | $ (4,487) | $ 13,767 | $ (10,260) |
| Unrealized holding gains (losses) on available-for-sale investments, net of taxes | | | | |
| (Increase) decrease in unrealized holding losses on available-for-sale investments | 253 | 2,626 | (417) | 3,359 |
| Income tax benefit (expense) | (89) | (918) | 146 | (1,175) |
| | 164 | 1,708 | (271) | 2,184 |
| Foreign currency translation gains (losses) | 13 | 221 | 33 | (148) |
| Total comprehensive income (loss) | $ 12,514 | $ (2,558) | $ 13,529 | $ (8,224) |

**11. Net Income (Loss) Per Share**

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

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| | (In thousands) | | | |
| Numerator: | | | | |
| Numerator for diluted earnings per share income (loss) available to common stockholders | $ 12,337 | $ (4,487) | $ 13,767 | $ (10,260) |
| Denominator: | | | | |
| Denominator for basic earnings per share weighted-average shares | 22,286 | 21,930 | 22,241 | 21,906 |
| Effect of dilutive securities: | | | | |

| | | | | |
|---|---|---|---|---|
| Employee stock options (1) | 645 | | 712 | |
| Dilutive potential common shares | 645 | | 712 | |
| Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversions | 22,931 | 21,930 | 22,953 | 21,906 |

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**INTEVAC, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(1) Potentially dilutive securities, consisting of shares issuable upon exercise of employee stock options, are excluded from the calculation of diluted EPS when their effect would be anti-dilutive. The weighted average number of employee stock options excluded for the three-month periods ended July 3, 2010 and June 27, 2009 was 1,555,343 and 3,240,360, respectively, and the number of employee stock options excluded for the six-month periods ended July 3, 2010 and June 27, 2009 was 1,354,985 and 2,560,645, respectively.

**12. Segment Reporting**

Intevac s two reportable segments are Equipment and Intevac Photonics. Intevac s chief operating decision-maker has been identified as the President and CEO, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon Intevac s management organization structure as of July 3, 2010 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to the reportable segments disclosed.

Each reportable segment is separately managed and has separate financial results that are reviewed by Intevac s chief operating decision-maker. Each reportable segment contains closely related products that are unique to the particular segment. Segment operating profit is determined based upon internal performance measures used by the

chief operating decision-maker.

Intevac derives the segment results from its internal management reporting system. The accounting policies Intevac uses to derive reportable segment results are substantially the same as those used for external reporting purposes. Management measures the performance of each reportable segment based upon several metrics, including orders, net revenues and operating income. Management uses these results to evaluate the performance of, and to assign resources to, each of the reportable segments. Intevac manages certain operating expenses separately at the corporate level. Intevac allocates certain of these corporate expenses to the segments in an amount equal to 3% of net revenues. Segment operating income excludes interest income/expense and other financial charges and income taxes according to how a particular reportable segment s management is measured. Management does not consider impairment charges and unallocated costs in measuring the performance of the reportable segments.

The Equipment segment designs, develops and markets manufacturing equipment and solutions to the hard disk drive industry and offers high-productivity technology solutions to the photovoltaic ( PV ) and semiconductor industries. In 2009, the Equipment segment began offering high-productivity thin film solar cell manufacturing equipment to PV cell manufacturers. Historically, the majority of Intevac s revenue has been derived from the Equipment segment and Intevac expects that the majority of its revenues for at least the next several years will continue to be derived from the Equipment segment.

The Intevac Photonics segment develops 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 and systems for government applications such as night vision and long-range target identification and for commercial applications in the inspection, law enforcement, scientific and medical industries.

Information for each reportable segment for the three and six months ended July 3, 2010 and June 27, 2009 is as follows:

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**INTEVAC, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Net Revenues***

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| | (in thousands) | | | |
| Equipment | $ 60,028 | $ 6,066 | $ 85,585 | $ 12,184 |
| Intevac Photonics | 8,570 | 6,252 | 16,155 | 12,442 |
| Total segment net revenues | $ 68,598 | $ 12,318 | $ 101,740 | $ 24,626 |

***Operating Income (Loss)***

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| | (in thousands) | | | |
| Equipment | $ 16,776 | $ (5,659) | $ 20,656 | $ (12,470) |
| Intevac Photonics | (1,441) | (1,399) | (2,625) | (2,620) |
| Total income (loss) from segment operations | 15,335 | (7,058) | 18,031 | (15,090) |
| Unallocated costs | (870) | (1,208) | (2,199) | (2,650) |
| Income (loss) from operations | 14,465 | (8,266) | 15,832 | (17,740) |
| Interest income and other, net | 72 | 228 | 463 | 658 |
| Income (loss) before income taxes | $ 14,537 | $ (8,038) | $ 16,295 | $ (17,082) |

Total assets for each reportable segment as of July 3, 2010 and December 31, 2009 are as follows:

***Assets***

| | July 3, 2010 | December 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Equipment | $ 102,154 | $ 61,136 |
| Intevac Photonics | 27,549 | 25,529 |
| Total segment assets | 129,703 | 86,665 |
| Cash, cash equivalents and investments | 88,439 | 89,841 |
| Deferred income taxes | 15,962 | 18,056 |
| Other current assets | 5,149 | 5,171 |
| Common property, plant and equipment | 2,269 | 2,802 |
| Other assets | 633 | 843 |
| Consolidated total assets | $ 242,155 | $ 203,378 |

**13. Income Taxes**

Intevac s effective income tax rate for the three and six months ended July 3, 2010 was 15.2% and 15.3%, respectively. Intevac s effective income tax rate for the three and six months ended June 27, 2009 was 44.2% and 45.9%, respectively. Intevac adjusts its effective income tax rate each quarter to be consistent with the estimated annual effective income tax rate. The effective income tax rate differs from the applicable statutory rates due primarily to the utilization of deferred and current credits, the effect of permanent differences and the geographical composition of Intevac s worldwide earnings. Intevac s effective income tax rate is highly dependent on the availability of tax credits and the geographic composition of Intevac s worldwide earnings.

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**INTEVAC, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Intevac enjoys a tax holiday in Singapore through the tax years ending in 2015. The tax holiday provides a lower income tax rate on certain classes of income and the agreement requires that certain thresholds of business investment and employment levels be met in Singapore in order to maintain this holiday.

During the first quarter of 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 during the period.

Intevac is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, Intevac is not subject to U.S. federal, state and local, or international jurisdictions income tax examinations by tax authorities for the years before 2004. The Company currently has a California income tax examination for fiscal years ended 2005, 2006 and 2007. In 2009, the Internal Revenue Service conducted a field review of the fiscal year 2008 tax return and the examination is pending approval from the U.S. Joint Committee on Taxation. Presently, there are no other active income tax examinations in the jurisdictions where Intevac operates.

**14. Contingencies**

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

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

This Quarterly Report on Form 10-Q contains forward-looking statements, which involve risks and uncertainties. Words such as believes, expects, anticipates and the like indicate forward-looking statements. These forward-looking statements include comments related to Intevac s shipments, projected revenue recognition, product costs, gross margin, operating expenses, interest income, income taxes, cash balances and financial results in 2010 and beyond; projected customer requirements for Intevac s new and existing products, and when, and if, Intevac s customers will place orders for these products; Intevac s ability to proliferate its Photonics technology into major military programs and to develop and introduce commercial imaging products; the timing of delivery and/or acceptance of the systems and products that comprise Intevac s backlog for revenue; legal proceedings; and internal controls. Intevac s actual results may differ materially from the results discussed in the forward-looking statements for a variety of reasons, including those set forth under Risk Factors and in other documents we file from time to time with the Securities and Exchange Commission, including our Annual Report on Form 10-K filed on February 26, 2010, and our periodic Form 10-Q s and Form 8-K s.

**Overview**

Intevac provides manufacturing equipment and solutions to the hard disk drive industry and offers high-productivity and inspection 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 shipped the first LEAN SOLAR system to a customer in the second quarter of 2010. In 2010 Intevac also began offering inspection equipment to PV cell manufacturers. In the semiconductor market, Intevac stopped offering its Lean Etch product and refocused its efforts on a wafer handling platform solution and in the second quarter of 2010 introduced Continuum , a high-productivity wafer handling system. To date, Intevac has not yet recognized any revenue from shipments of its semiconductor and PV products. 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, and 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.

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.

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, semiconductors, and other electronic devices, as well as other factors, such as global economic conditions and technological advances in fabrication processes.

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The following table presents certain significant measurements for the three and six months ended July 3, 2010 and June 27 2009:

| | Three months ended | | | Six months ended | | |
|---|---|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | % Change | July 3, 2010 | June 27, 2009 | % Change |
| | (in thousands, except percentages and per share amounts) | | | | | |
| Net revenues | $68,598 | $12,318 | 456.9% | $101,740 | $ 24,626 | 313.1% |
| Gross profit | $29,034 | $ 4,513 | 543.3% | $ 43,512 | $ 8,778 | 395.7% |
| Gross margin percent | 42.3% | 36.6% | 6 points | 42.8% | 35.7% | 7 points |
| Net income (loss) | $12,337 | $ (4,487) | 375.0% | $ 13,767 | $(10,260) | 234.2% |
| Earnings (loss) per diluted share | $ 0.54 | $ (0.20) | 370.0% | $ 0.60 | $ (0.47) | 227.7% |

Financial results for the second quarter and first six months for fiscal 2010 improved as Intevac s Equipment customers took delivery of systems to increase their production capacity in response to growing demand for digital storage. Net sales increased during the second quarter and first six months of fiscal 2010 primarily due to higher equipment sales to disk manufacturers and increased Intevac Photonics technology development contracts and product sales. Net income for the second quarter and first six months of fiscal 2010 increased compared to the same periods in the prior year due to higher net sales, partially offset by higher selling, general and administrative expenses, and higher income tax expense. The increase in selling, general and administrative expenses was a result of profit sharing and bonus accruals as the Company resumed recording variable compensation expenses as a result of its return to profitability.

Although hard drive customers are continuing to take delivery of capacity systems, Intevac expects its Equipment revenue for the third quarter of 2010 to be down from the second quarter of 2010 due to a lower level of shipments. Intevac expects Intevac Photonics revenues in the third quarter of 2010 to increase from the second quarter of 2010 as Photonics continues to increase its product shipments, and penetrate new major military program opportunities.

Intevac s trademarks, include the following: 200 Lean®, AccuLuber, Continuum®, DeBAP®, EBAPS, ExaminerR, I-Port, LEAN SOLAR, LithoPrime®, MicroVista®, MOSIR®, NanoVista, NightVista®, Night Port, and RAPID-ID

**Results of Operations**

*Net revenues*

| | Three months ended | | | Six months ended | | |
|---|---|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | % Change | July 3, 2010 | June 27, 2009 | % Change |
| | (in thousands, except percentages) | | | | | |
| Equipment | $ 60,028 | $ 6,066 | 889.6% | $ 85,585 | $ 12,184 | 602.4% |
| Intevac Photonics | 8,570 | 6,252 | 37.1% | 16,155 | 12,442 | 29.8% |
| Total net revenues | $ 68,598 | $ 12,318 | 456.9% | $ 101,740 | $ 24,626 | 313.1% |

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

Equipment revenue for the three and six months ended July 3, 2010 increased over the same periods in the prior year as a result of higher sales of disk sputtering systems, technology upgrades and spare parts. During the second

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quarter of 2010 Intevac recognized revenue on twelve 200 Lean systems, disk equipment technology upgrades and spare parts. During the second quarter of 2009 Intevac recognized revenue on one AccuLuber™ system, disk equipment technology upgrades and spare parts. Equipment revenue for the six months ended July 3, 2010 included revenue recognition for fourteen 200 Lean systems, upgrades and spare parts. Equipment revenue for the three and six months ended June 27, 2009 did not include any 200 Lean systems. 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 Photonics revenue for the three and six months ended July 3, 2010 increased over the same periods in the prior year which was the result of increased contract research and development work and increased product sales. Intevac Photonics revenues for the three months ended July 3, 2010 consisted of $4.6 million of research and development contract revenue and $3.9 million of product sales as compared to $3.3 million of research and development contract revenue and $2.9 million of product sales for the three months ended June 27, 2009. Intevac Photonics revenues for the six months ended July 3, 2010 consisted of $8.9 million of research and development contract revenue and $7.3 million of product sales as compared to $7.0 million of research and development contract revenue and $5.5 million of product sales for the six months ended June 27, 2009. The increase in product revenue resulted from higher sales of digital night-vision camera modules, systems and commercial products. The increase in contract research and development revenue was the result of a higher volume of contracts. Intevac expects that in 2010, Intevac Photonics revenues will grow driven by government spending as well as growth in commercial products. Substantial growth in future Intevac Photonics revenues is dependent on 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 July 3, 2010 was $113.8 million, compared to $73.8 million at December 31, 2009 and $44.0 million at June 27, 2009. The $113.8 million of backlog at July 3, 2010 consisted of $90.9 million of Equipment backlog and $22.9 million of Intevac Photonics backlog. The $73.8 million of backlog at December 31, 2009 consisted of $57.5 million of Equipment backlog and $16.3 million of Intevac Photonics backlog. Backlog at July 3, 2010 included fourteen 200 Lean systems as compared to ten at December 31, 2009 and five at June 27, 2009.

International sales increased by 931.9% to $60.8 million for the three months ended July 3, 2010 from $5.9 million for the three months ended June 27, 2009 and by 559.4% to $77.9 million for the six months ended July 3, 2010 from $11.8 million for the six months ended June 27, 2009. International sales include products shipped to overseas operations of U.S. companies. The increase in international sales was primarily due to an increase in net revenues from disk sputtering systems, upgrades and spare parts. Substantially all of Intevac s international sales are to customers in Asia. International sales constituted 88.6% of net revenues for the three months ended July 3, 2010 and 47.8% of net revenues for the three months ended June 27, 2009. International sales constituted 76.6% of net revenues for the six months ended July 3, 2010 and 48.0% of net revenues for the six months ended June 27, 2009. The mix of domestic versus international sales will change from period to period depending on the location of Intevac s largest customers in each period.

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*Gross profit*

| | Three months ended | | | Six months ended | | |
|---|---|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | % Change | July 3, 2010 | June 27, 2009 | % Change |
| | (in thousands, except percentages) | | | | | |
| Equipment gross profit | $26,963 | $2,379 | 1,033.4% | $39,415 | $4,207 | 836.9% |
| % of Equipment net revenues | 44.9% | 39.2% | | 46.1% | 34.5% | |
| Intevac Photonics gross profit | $ 2,071 | $2,134 | (3.0)% | $ 4,097 | $4,571 | (10.4)% |
| % of Intevac Photonics net revenues | 24.2% | 34.1% | | 25.4% | 36.7% | |
| Total gross profit | $29,034 | $4,513 | 543.3% | $43,512 | $8,778 | 395.7% |
| % of net revenues | 42.3% | 36.6% | | 42.8% | 35.6% | |

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

Equipment gross margin was 44.9% in the three months ended July 3, 2010 compared to 39.2% in the three months ended June 27, 2009 and was 46.1% in the six months ended July 3, 2010 compared to 34.5% in the six months ended June 27, 2009. The higher gross margin was due primarily to higher revenues and higher factory utilization, partially offset by changes in product mix. Gross margins in the Equipment business will vary depending on a number of factors, including product mix, product cost, system configuration and pricing, factory utilization, and provisions for excess and obsolete inventory.

Intevac Photonics gross margin was 24.2% in the three months ended July 3, 2010 compared to 34.1% in the three months ended June 27, 2009 and was 25.4% in the six months ended July 3, 2010 compared to 36.7% in the six months ended June 27, 2009. The decrease in gross margin resulted primarily from higher costs, as Intevac Photonics ramps to high-volume production of its digital night-vision camera module for a NATO customer, lower margins on development contracts and increased warranty provisions.

*Research and development*

| | Three months ended | | | Six months ended | | |
|---|---|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | % Change | July 3, 2010 | June 27, 2009 | % Change |
| | (in thousands, except percentages) | | | | | |
| Research and development expense | $7,011 | $7,385 | (5.1)% | $13,555 | $15,415 | (12.1)% |
| % of net revenues | 10.2% | 60.0% | | 13.3% | 62.6% | |

Research and development spending decreased in both Equipment and Intevac Photonics during the three and six months ended July 3, 2010 as compared to the three and six months ended June 27, 2009. The decrease in Equipment spending was due primarily to a reduction in spending on semiconductor products, offset by increased investment in photovoltaic development. The decrease in Intevac Photonics research and development reflected decreased spending for sensor yield improvements, sensor development and digital night vision goggle development. Research and development expenses do not include costs of $3.1 million and $5.9 million for the three and six months ended July 3, 2010 respectively, or $2.0 million and $4.0 million for the three and six months ended June 27, 2009, respectively, which are related to Intevac Photonics contract research and development and included in cost of net revenues.

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*Selling, general and administrative*

| | Three months ended | | | Six months ended | | |
|---|---|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | % Change | July 3, 2010 | June 27, 2009 | % Change |
| | (in thousands, except percentages) | | | | | |
| Selling, general and administrative expense | $7,558 | $5,394 | 40.1% | $14,125 | $11,103 | 27.2% |
| % of net revenues | 11.0% | 43.8% | | 13.9% | 45.1% | |

Selling, general and administrative expense consists primarily of selling, marketing, customer support, financial and management costs. The increase in selling, general and administrative spending in the three and six months ended July 3, 2010 compared to the three and six months ended June 27, 2009 was primarily the result of bonus and profit sharing accruals and legal expenses associated with the auction rate securities ( ARS ) arbitration, offset in part by lower equity-based compensation expense.

*Interest income and other, net*

| | Three months ended | | | Six months ended | | |
|---|---|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | % Change | July 3, 2010 | June 27, 2009 | % Change |
| | (in thousands, except percentages) | | | | | |
| Interest income and other, net | $72 | $228 | (68.4)% | $463 | $658 | (29.6)% |

Interest income and other, net consists primarily of interest income on investments and foreign currency gains and losses. The decrease in interest and other income in the three and six months ended July 3, 2010 resulted from lower average invested balances, lower interest rates and fluctuations in foreign currency gains and losses.

*Income tax provision (benefit)*

| | Three months ended | | | Six months ended | | |
|---|---|---|---|---|---|---|
| | July 3, 2010 | June 27, 2009 | % Change | July 3, 2010 | June 27, 2009 | % Change |
| | (in thousands, except percentages) | | | | | |
| Income tax provision (benefit) | $2,200 | $(3,551) | 162.0% | $2,528 | $(6,822) | 137.1% |

Intevac s effective income tax rate for the three and six months ended July 3, 2010 was 15.2% and 15.3%, respectively. Intevac s effective income tax rate for the three and six months ended June 27, 2009 was 44.2% and 45.9%, respectively. Intevac adjusts its effective income tax rate each quarter to be consistent with the estimated annual effective income tax rate. The effective income tax rate differs from the applicable statutory rates due primarily to the utilization of deferred and current credits, the effect of permanent differences and the geographical composition of Intevac s worldwide earnings. Intevac s effective income tax rate is highly dependent on the availability of tax credits and the geographic composition of Intevac s worldwide earnings.

Intevac enjoys a tax holiday in Singapore through the tax years ending in 2015. The tax holiday provides a lower income tax rate on certain classes of income and the agreement requires that certain thresholds of business investment and employment levels be met in Singapore in order to maintain this holiday.

During the first quarter of 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

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of the change in valuation allowance as a discrete item during the period.

Intevac is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, Intevac is not subject to U.S. federal, state and local, or international jurisdictions income tax examinations by tax authorities for the years before 2004. The Company currently has a California income tax examination for fiscal years ended 2005, 2006 and 2007. In 2009, the Internal Revenue Service conducted a field review of the fiscal year 2008 tax return and the examination is pending approval from the U.S. Joint Committee on Taxation. Presently, there are no other active income tax examinations in the jurisdictions where Intevac operates.

**Liquidity and Capital Resources**

At July 3, 2010, Intevac had $88.4 million in cash, cash equivalents, and investments compared to $89.8 million at December 31, 2009. During the first six months of 2010, cash and cash equivalents and investments decreased by $1.4 million due primarily to investments in working capital and purchases of fixed assets, partially offset by net income and cash received from the sale of Intevac common stock to Intevac s employees through Intevac s employee benefit plans.

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

| | July 3, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Cash and cash equivalents | $ 26,807 | $ 17,592 |
| Short-term investments | | 6,000 |
| Long-term investments | 61,632 | 66,249 |
| Total cash, cash equivalents and investments | $ 88,439 | $ 89,841 |

Operating activities generated cash of $92,000 during the first six months of 2010 and used cash of $9.7 million during the first six months of 2009. The increase in cash generated by operating activities was due primarily to the increase in net income, offset by increased working capital during the first six months of 2010.

Accounts receivable totaled $63.6 million at July 3, 2010, compared to $44.8 million at December 31, 2009. The increase of $18.8 million in the receivable balance was due to invoicing on increased customer shipments. Total net inventories increased to $42.6 million at July 3, 2010, compared to $19.1 million at December 31, 2009 primarily as a result of increased business levels. Accounts payable increased to $16.2 million at July 3, 2010 compared to $4.7 million at December 31, 2009 in line with increased manufacturing activities. Accrued payroll and related liabilities increased by $5.0 million during the six months ended July 3, 2010 primarily related to bonus and profit sharing accruals. Customer advances increased by $1.3 million during the first six months of 2010, as new advances received from Intevac s customers were higher than liquidations related to revenue recognition.

Investing activities in the first six months of 2010 generated cash of $7.9 million. Proceeds from maturities of investments, net of purchases of investments totaled $10.2 million. Capital expenditures for the six months ended July 3, 2010 were $2.3 million.

Financing activities generated cash of $1.2 million in the first six months of 2010 from the sale of Intevac common stock to Intevac s employees through Intevac s employee benefit plans.

As of July 3, 2010, Intevac s available-for-sale securities represented $65.8 million par value of ARS, less a temporary valuation adjustment of $4.1 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

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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 the first six months of 2010, $4.2 million of ARS were redeemed at par.

As described in Note 8 of Notes to Condensed Consolidated Financial Statements, at July 3, 2010, the fair value of the ARS was estimated at $61.6 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 July 3, 2010, 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 requested 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. The arbitration proceedings were completed on June 10, 2010. On June 29, 2010, Intevac received a favorable ruling from the arbitration panel whereby Citigroup was ordered to rescind the sale of the $54.8 million par value in outstanding ARS investments. On July 27, 2010, Intevac received $54.8 million from the repurchase of the securities by Citigroup at par including interest and will recognize the reversal of a $3.3 million temporary impairment charge in other comprehensive loss in the third quarter of fiscal year 2010.

Intevac entered into a line of credit with Citigroup under which approximately $18.3 million was available at July 3, 2010. This borrowing facility was terminated upon the rescission of the ARS sale discussed above.

Intevac believes that its existing cash, cash equivalents and investments will be sufficient to meet its cash requirements for the foreseeable future. Intevac intends to undertake approximately $6 to $7 million in capital expenditures during the remainder of 2010.

**Critical Accounting Policies and Estimates**

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ( US GAAP ) requires management to make judgments, assumptions and estimates that affect the amounts reported. Intevac s significant accounting policies are described in Note 1 to the consolidated financial statements included in Item 8 of Intevac s Annual Report on Form 10-K filed on February 26, 2010. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

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

Estimates and assumptions about future events and their effects cannot be determined with certainty. Intevac bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as Intevac s operating environment changes. These changes have historically been minor and have

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been included in the consolidated financial statements as soon as they become known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. Many of these uncertainties are discussed in the section below entitled Risk Factors. Based on a critical assessment of Intevac s accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that Intevac s consolidated financial statements are fairly stated in accordance with US GAAP, and provide a meaningful presentation of Intevac s financial condition and results of operation.

In 2009, the Financial Accounting Standards Board ( FASB ) issued amended revenue recognition guidance for arrangements with multiple deliverables and certain software sold with tangible products. This new guidance eliminates the residual method of revenue recognition and allows the use of management s best estimate of selling price ( ESP ) for individual elements of an arrangement when vendor specific objective evidence ( VSOE ) or third party evidence ( TPE ) is unavailable. Intevac implemented this guidance prospectively beginning in the first quarter of fiscal 2010 for transactions that were initiated or materially modified during fiscal 2010. The implementation of the new guidance had an insignificant impact on reported net sales as compared to net sales under previous guidance, as the new guidance did not change the units of accounting within sales arrangements and the elimination of the residual method for the allocation of arrangement consideration had an inconsequential impact on the amount and timing of reported net sales.

In 2010, the FASB issued guidance for the milestone method of revenue recognition. Under the milestone method, consideration earned from achievement of the milestone is viewed as being indicative of the value provided to the customer through either (1) the efforts performed or (2) a specific outcome resulting from the performance to achieve that specific milestone. Under the milestone method contingent arrangement consideration earned from the achievement of a milestone is recognized in its entirety in the period in which the milestone is achieved. Under this new method of accounting a milestone must be substantive before the method can be applied; that is, at the inception of the arrangement there is a substantial uncertainty about the achievement of the milestone, substantive effort is required to achieve the milestone, and none of the payment for the milestone is refundable. Intevac implemented this guidance prospectively beginning in the first quarter of fiscal 2010 for transactions that were initiated or materially modified during fiscal 2010. Implementation of this new guidance had an insignificant impact on reported net sales as compared to net sales under previous guidance.

As a result of implementing the above new accounting guidance, during the first fiscal quarter of 2010, Intevac revised its critical accounting policy for Revenue Recognition. The revised policy is provided below.

***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, 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 until delivery of the deferred elements. When a sales arrangement contains multiple elements, Intevac allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its VSOE if available, TPE if VSOE is not available, or ESP if neither VSOE nor TPE is available. Intevac generally utilizes the ESP due to the nature of its products. 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 relative sales price of the parts upon shipment and transfer of title, and recognizes revenue for the relative sales price 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. In addition, Intevac

uses the installment method to record revenue based on cash receipts in situations where the account receivable is collected over an extended period of time and in management s judgment the degree of collectibility is uncertain.

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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 recognized on a milestone method or percentage-of-completion method of contract accounting. For contracts structured as milestone agreements, revenue is recognized when a specified milestone is achieved, provided that (1) the milestone event is substantive in nature and there is substantial uncertainty about the achievement of the milestone at the inception of the agreement, (2) the milestone payment is non-refundable, and (3) there is no continuing performance obligations associated with the milestone payment. Any milestone payments received prior to satisfying these revenue recognition criteria are deferred. Intevac generally determines the percentage completed based on the percentage of costs incurred to date in relation to total estimated costs expected through completion of the contract. When estimates of total costs to be incurred on a contract exceed estimates of total revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined.

For further information about Intevac s other critical accounting policies, see the discussion of critical accounting policies in Intevac s 2009 Form 10-K. Management believes that there has been no significant change during the three and six months ended July 3, 2010 to the items identified as critical accounting policies in Intevac s 2009 Form 10-K except as set forth above.

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

*Interest rate risk.* Intevac s exposure to market risk for changes in interest rates relates primarily to its investment portfolio. Intevac does not use derivative financial instruments in Intevac s investment portfolio. Intevac places its investments with high quality credit issuers and, by policy, limits the amount of credit exposure to any one issuer. Investments typically consist of auction rate securities 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 July 3, 2010.

| | 2010 | 2011 | 2012 | Beyond | Total | Fair Value |
|---|---|---|---|---|---|---|
| | (in thousands, except percentages) | | | | | |
| Cash equivalents | | | | | | |
| Fixed rate amounts | $ 6,000 | | | | $ 6,000 | $ 6,000 |
| Weighted-average rate | 0.06% | | | | | |
| Variable rate amounts | $ 6,139 | | | | $ 6,139 | $ 6,139 |
| Weighted-average rate | 0.11% | | | | | |
| Long-term investments | | | | | | |
| Fixed rate amounts | | | | $65,750 | $65,750 | $61,632 |
| Weighted-average rate | | | | 1.70% | | |
| Total investment portfolio | $12,139 | | | $65,750 | $77,889 | $73,771 |

At July 3, 2010, 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 July 3, 2010, Intevac had $61.6 million in ARS in the condensed consolidated balance sheet, which is net of a temporary unrealized loss of $4.1 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 will not be required to sell the ARS before the recovery of their par amount. The unrealized loss is included in other comprehensive loss.

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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 hedge certain of its anticipated foreign currency transaction, translation and re-measurement exposures. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on Intevac s operating results. At July 3, 2010, Intevac had no foreign currency forward exchange contracts.

**Item 4.** ***Controls and Procedures***

**Evaluation of disclosure controls and procedures**

Intevac maintains a set of disclosure controls and procedures that are designed to ensure that information relating to Intevac, Inc. required to be disclosed in periodic filings under the Securities Exchange Act of 1934, or Exchange Act, is recorded, processed, summarized and reported in a timely manner under the Exchange Act. In connection with the filing of this Form 10-Q for the quarter ended July 3, 2010, as required under Rule 13a-15(b) of the Exchange Act, an evaluation was carried out under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of Intevac s disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation, Intevac s Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of July 3, 2010.

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

**Definition of disclosure controls**

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

**Limitations on the effectiveness of controls**

Intevac s management, including the CEO and CFO, does not expect that Intevac s Disclosure Controls or Intevac s internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances

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of fraud, if any, within Intevac have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**Changes in internal controls over financial reporting**

There were no changes in our internal controls over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, Intevac s internal control over financial reporting.

## PART II. OTHER INFORMATION

**Item 1.** ***Legal Proceedings***

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

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 auction rate securities. The statement of claim requested that Citigroup accept Intevac s tender of its auction rate securities at par value and that Intevac receive compensatory, consequential and punitive damages and costs and expenses. Citigroup responded denying Intevac s claims. The arbitration proceedings were completed on June 10, 2010. On June 29, 2010, Intevac received a favorable ruling from the arbitration panel whereby Citigroup was ordered to rescind the sale of the $54.8 million par value in outstanding ARS investments. On July 27, 2010, Intevac received $54.8 million from the repurchase of the securities by Citigroup at par including interest.

**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 commodity technology products such as disk drives, and our target new markets include other commodity technology markets including semiconductor wafer fabrication equipment and photovoltaic ( PV ) cell manufacturers. This subjects us to business cycles, the timing, length and volatility of which can be difficult to predict. When demand for commodity technology products exceeds production capacity, then demand for new capital equipment such as ours tends to be amplified. Conversely, when supply of commodity technology products exceeds demand, then demand for new capital equipment such as ours tends to be depressed. 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, followed by a

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downturn in the cycle in late 2007 which continued through 2009. 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.

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 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 products, 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. This concentration of customers can lead to extreme variability in revenue and financial results from period to period.

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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 semiconductor products, 200 Lean systems for PV applications and our digital night-vision products. 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 wafer fabrication equipment, and the PV market. Our expansion into the PV market is dependent upon the success of our customers development plans, some of which are start-ups and in their preliminary stages of development, as well as their ability to raise capital to fund their future development and capacity expansion. To date Intevac has not received revenue from our semiconductor 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.***

Our quarterly revenues and common stock price have fluctuated significantly. We anticipate that our revenues, operating margins and common stock price will continue to fluctuate for a variety of reasons, including: (1) changes in the demand, due to seasonality, cyclicality and other factors in the markets for computer systems, storage subsystems and consumer electronics containing disks 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 July 3, 2010, we held auction rate securities ( ARS ) with a par value of $65.8 million. The market for these securities had historically been highly liquid, even though the ARS that we hold have underlying maturities ranging

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from 21 to 37 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 July 3, 2010, all of these securities are currently rated investment grade but there is no assurance that these ratings will continue in the future. As of July 3, 2010, securities with a par value of $54.0 million are rated AAA/Aaa, securities with a par value of $8.8 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 $4.1 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 requested 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. The arbitration proceedings were completed on June 10, 2010. On June 29, 2010, Intevac received a favorable ruling from the arbitration panel whereby Citigroup was ordered to rescind the sale of the $54.8 million par value in outstanding ARS investments. On July 27, 2010, Intevac received $54.8 million from the repurchase of the securities by Citigroup at par including interest and will recognize the reversal of a $3.3 million temporary impairment charge in other comprehensive loss in the third quarter of fiscal year 2010.

***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 macroeconomic and global market conditions improved in the latter half of 2009 and the first half of 2010, our customers continue to remain cautious as it relates to the sustainability of the recovery. 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, we may require 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

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additional charges to earnings which could materially adversely affect our financial results and could also materially adversely affect our business. See Note 5. Goodwill and Purchased Intangible Assets, Net in the Notes to the Condensed 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 with several large established competitors including Brooks Automation and Genmark Automation as well as competition from internally developed products at Applied Materials 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, 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. 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

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production volumes, inefficiencies or other factors, are borne by us. We have experienced cost overruns in the past 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 $45 million of taxable income in order to realize the Federal deferred tax assets recorded as of July 3, 2010. 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.***

The majority of our revenues come from regions outside the United States. Most of our international sales are to customers in Asia, which includes products shipped to overseas operations of U.S. companies. We currently have manufacturing facilities in California, 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 existing key personnel, or to attract, assimilate or retain additional highly qualified employees to meet our needs in the future, could have a material and adverse effect our business, financial condition and results of operations.

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

We are a manufacturing business. Purchased parts constitute the largest component of our product cost. Our ability to manufacture depends on the timely delivery of parts, components and subassemblies from suppliers. We obtain some of the key components and subassemblies used in our products from a single supplier or a limited group of suppliers. If any of our suppliers fail to deliver quality parts on a timely basis, we may experience delays in manufacturing, which could result in delayed product deliveries, increased costs to expedite deliveries or develop alternative suppliers, or require redesign of our products to accommodate alternative suppliers. Some of our suppliers are thinly capitalized and may be vulnerable to failure 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 requested that Citigroup accept Intevac s tender of its ARS at par value and that Intevac receive compensatory, consequential and punitive

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damages and costs and expenses. Citigroup responded denying Intevac s claims. The arbitration proceedings were completed on June 10, 2010. On June 29, 2010, Intevac received a favorable ruling from the arbitration panel whereby Citigroup was ordered to rescind the sale of the $54.8 million par value in outstanding ARS investments. On July 27, 2010, Intevac received $54.8 million from the repurchase of the securities by Citigroup at par including interest. 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 may be vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems and tools located at customer sites. Political instability could cause us to incur increased costs in transportation, make such transportation unreliable, increase our insurance costs or cause international currency markets to fluctuate. 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.

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***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 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 over financial reporting.

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: Intevac fails to maintain effective internal control over financial reporting; our management does not timely assess the adequacy of such internal control; or 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: restatement of previously reported financial results, regulatory sanctions and a decline in the public s perception of Intevac, which could have a material and adverse effect on our business, financial condition and results of operations.

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

None.

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

None.

**Item 4.** ***(Removed and Reserved)***

**Item 5.** ***Other Information***

None.

**Item 6.** ***Exhibits***

The following exhibits are filed herewith:

| Exhibit Number | Description |
|---|---|
| 23.2 | Consent of Independent Valuation Firm |
| 31.1 | Certification of President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Executive Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications Pursuant to U.S.C. 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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**SIGNATURES**

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

INTEVAC, INC.

Date: August 3, 2010

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

Date: August 3, 2010

By: /s/ JEFFREY ANDRESON
Jeffrey Andreson
Executive Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary
(Principal Financial and Accounting Officer)