



INTEVAC



ANNUAL REPORT 2003

COMPANY PROFILE

OUR EQUIPMENT BUSINESS DESIGNS, MANUFACTURES, MARKETS AND SERVICES COMPLEX CAPITAL EQUIPMENT WHICH DEPOSITS, OR SPUTTERS, HIGHLY ENGINEERED THIN-FILMS ONTO DISKS USED IN HARD DISK DRIVES. OUR SYSTEMS PRODUCED APPROXIMATELY HALF OF ALL THIN-FILM DISKS MADE WORLDWIDE IN 2003. OUR CUSTOMERS INCLUDE THE WORLD'S LEADING THIN-FILM DISK MANUFACTURERS, SUCH AS HITACHI GLOBAL STORAGE TECHNOLOGIES, KOMAG, MAXTOR AND SEAGATE TECHNOLOGY.

IN 2003 WE INTRODUCED THE INTEVAC® 200 LEAN, A MODULAR THIN-FILM DISK SPUTTERING SYSTEM, WITH SIGNIFICANTLY ENHANCED CAPABILITIES RELATIVE TO THE INSTALLED BASE OF INTEVAC® MDP-250B THIN-FILM DISK SPUTTERING SYSTEMS.

OUR IMAGING BUSINESS DEVELOPS AND MANUFACTURES ELECTRO-OPTICAL SENSORS, CAMERAS, AND SYSTEMS THAT PERMIT HIGHLY SENSITIVE DETECTION OF PHOTONS IN THE VISIBLE AND NEAR INFRARED PORTIONS OF THE SPECTRUM, ALLOWING VISION IN EXTREME LOW LIGHT SITUATIONS.

TO DATE, OUR IMAGING REVENUES HAVE BEEN DERIVED PRIMARILY FROM RESEARCH AND DEVELOPMENT CONTRACTS FUNDED BY THE U.S. GOVERNMENT. APPLICATIONS FOR OUR IMAGING TECHNOLOGY INCLUDE SYSTEMS FOR POSITIVE IDENTIFICATION OF TARGETS AT LONG RANGE AND SENSORS AND CAMERAS FOR USE IN EXTREME LOW LIGHT SITUATIONS. MORE RECENTLY, WE BEGAN DEVELOPING PRODUCTS FOR USE IN THE COMMERCIAL SECTOR, SPECIFICALLY THE SECURITY, LIFE SCIENCE AND PHYSICAL SCIENCE MARKETS.

FORWARD LOOKING STATEMENTS

This annual shareholder letter comments upon future events and expectations and makes projections about our future performance, including statements related to our products, markets and outlook and priorities. We wish to caution you that these are forward looking statements that are based upon our current expectations, and that actual results could differ materially as a result of various risks and uncertainties, including, without limitation, the following: inability to develop and deliver new products as planned, such as the Intevac® 200 Lean, and imaging products for military and commercial markets; inability to accurately forecast and develop new markets for our products; inability to achieve significant growth in 2004 revenues, the timing of the introduction of perpendicular technology into volume production, the rate of growth in the market for hard disk drives and other risk factors discussed in documents filed by us with the Securities and Exchange Commission, including our Annual report on form 10-K, which should be read together with this letter. Intevac undertakes no obligation to update these forward looking statements.

CORPORATE HEADQUARTERS

3560 Bassett Street
Santa Clara, CA 95054-2704
408-986-9888

INVESTOR INFORMATION

The Company's Annual Report, its 10-K and 10-Q reports to the SEC, and other information about Intevac, Inc. are available by phone at (408) 987-2500 or by e-mail to sthompson@intevac.com. The Company's Internet home page can be found at www.intevac.com.

INVESTOR RELATIONS CONTACT

CHARLES B. EDDY
(408) 986-9888

EUGENE HELLER, SILVERMAN HELLER ASSOCIATES
(310) 208-2550

REGISTRAR AND TRANSFER AGENT

EQUISERVE TRUST COMPANY, N.A.
P.O. Box 43023
Providence, RI 02940-3023
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INDEPENDENT AUDITORS

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P.O. Box 6779
San Jose, CA 95150-6779

GENERAL COUNSEL

WILSON SONSINI GOODRICH & ROSATI
650 Page Mill Road
Palo Alto, CA 94304-1050

COMMON STOCK

The Company's Common Stock trades on the Nasdaq National Market® tier of the Nasdaq Stock Market® under the symbol IVAC.

STOCK PRICE HISTORY

Closing prices for quarter ended:

	3/29/03	6/28/03	9/27/03	12/31/03
High	\$5.07	\$6.87	\$9.95	\$17.35
Low	\$3.52	\$3.75	\$6.72	\$ 9.70

DIVIDENDS

The Company does not currently anticipate paying any cash dividends.

ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders will be held at the Company's offices at 10:00 a.m. PDT on Friday, May 14, 2004.

BOARD OF DIRECTORS

DAVID S. DURY (2002)^{1,3}

Co-Founder Mentor Capital Group LLC

KEVIN P. FAIRBAIRN (2002)

Chief Executive Officer and President

STANLEY J. HILL (2004)³

Retired Chairman and Chief Executive Officer of

Kaiser Aerospace & Electronics Corporation

DAVID N. LAMBETH (1996)²

Professor of Electrical and Computer Engineering,

and Professor of Materials Science and Engineering

at Carnegie Mellon University

ROBERT LEMOS (2002)^{1,2}

Retired

Former Chief Financial Officer, Varian Associates

ARTHUR L. MONEY (2003)¹

Former Assistant Secretary of Defense (ASD/C3I)

for Command, Control, Communications and Intelligence

NORMAN H. POND (1990)

Chairman

¹ MEMBER OF AUDIT COMMITTEE

² MEMBER OF COMPENSATION COMMITTEE

³ MEMBER OF NOMINATING AND GOVERNANCE COMMITTEE

0 INDICATES YEAR JOINED BOARD OF DIRECTORS

CORPORATE INFORMATION

OFFICERS

VERLE W. AEBI (1991)

President, Photonics Technology Division

CHARLES B. EDDY (1991)

Vice President, Finance and Administration,

Chief Financial Officer, Treasurer and Secretary

KEVIN P. FAIRBAIRN (2002)

Chief Executive Officer and President

HARI PONNEKANTI (2003)

Vice President, Engineering

TIMOTHY E. JUSTYN (1991)

Vice President, Operations

RALPH KERNS (2003)

Vice President, Business Development, Equipment Products

CHRISTOPHER T. LANE (2002)

Vice President, General Manager, Intensified Imaging Division

ROBERT WEISS (1991)

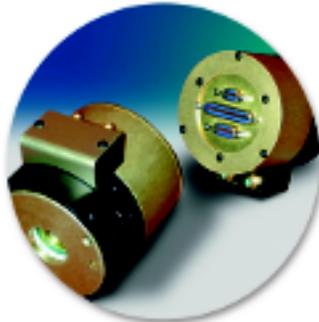
Vice President, Chief Technology Officer

0 INDICATES YEAR JOINED INTEVAC

EQUIPMENT

The major achievement of our equipment group was the development and shipment of the Intevac® 200 Lean, our next-generation thin-film disk manufacturing system. The modular nature of the 200 Lean is designed to provide the flexibility needed by thin-film disk manufacturers to transition from today's longitudinal recording technology to perpendicular technology. We expect thin-film disk manufacturers to begin volume production utilizing perpendicular technology in 2005.

With the 200 Lean, Intevac won the industry's first major contract for next-generation production systems from one of the largest suppliers of hard disk drives. Under this contract, we shipped the first 200 Lean in fourth-quarter 2003 and are scheduled to ship 10 more systems in the first half of 2004.



IMAGING

To date, the majority of our revenues in the Imaging business have been derived from contract research and development for the U.S. government, its agencies and its contractors. Our imaging efforts remain focused on the development of two technologies for sale to government and commercial users: 1) LIVAR® long-range identification cameras; and 2) extreme-low-light digital sensors and cameras for use in night vision, surveillance, physical sciences, and life sciences applications.

In 2003, we shipped our first LIVAR cameras under the Army's Cost Effective Targeting System (CETS) program for use in unmanned surveillance vehicles. LIVAR is a compact intensified imaging technology that can covertly identify targets at long distance. These CETS cameras are unique in their use of a low-cost CMOS imaging chip, as opposed to earlier LIVAR cameras that used more expensive CCD chips.

Another significant milestone was the manufacture of the first LIVAR sensors with our proprietary automated vacuum packaging system, which we believe will enable dramatic improvements in production throughput and costs.

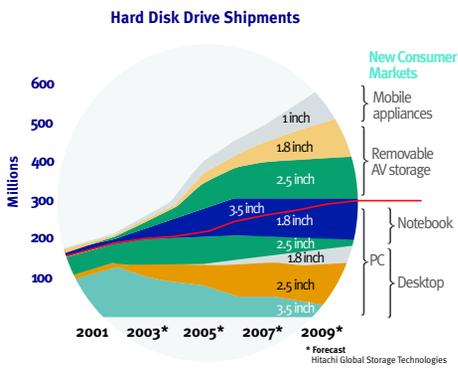
The U.S. Army's current technology roadmap includes a transition from today's bulky direct-view night vision systems to miniature head-mounted digital imaging systems, based upon extreme-low-light video cameras and displays. In the second half of 2003, we delivered a prototype low-light miniature camera to the Army. Moving forward, we are now designing a more advanced version of our miniature camera for this application.

In 2003, we also developed and released the first version of our NightVista™ low-light camera for security and surveillance applications. The electronics and software for this camera will be the building blocks for low-light cameras we are planning for both commercial and military applications. We plan to introduce a higher-performance version of our NightVista camera late in 2004.

EQUIPMENT

We believe that we are just beginning to experience a period of rising demand for thin-film disk manufacturing systems. Demand is currently being driven by the industry's need to increase production capacity. Additionally, in 2005 we believe our customers will need to begin replacing their installed base of thin-film disk manufacturing systems to accommodate the transition from longitudinal to perpendicular recording.

There was an excess of thin-film disk manufacturing capacity from late 1998 until early 2003. This was primarily caused by a rapid increase in the areal density of disks that allowed the storage capacity of hard drives to grow rapidly. The increase in capacity allowed hard drive manufacturers to significantly reduce the number of disks per hard drive, in many cases to a single disk per hard drive. Even though hard drive shipments were increasing, disk consumption was flat, so there was no need for new capacity.

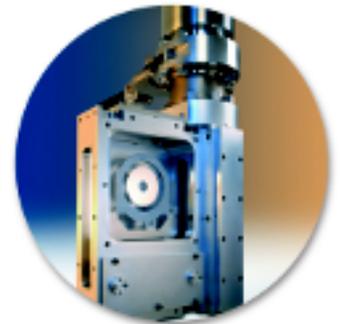


We believe demand for hard drives is now accelerating due to resurgence in demand for computer related applications and the introduction of many consumer products, such as digital video recorders, using hard drives. Growth in hard drive shipments will directly increase the number of disks that need to be manufactured and, therefore, the need for more thin-film disk manufacturing systems, such as our new Intevac® 200 Lean and our earlier Intevac® MDP-250B.

We also expect a major technology transition to drive the demand for thin-film disk manufacturing systems. Currently, our customers produce thin-film disks for use with "longitudinal"

recording techniques, where magnetic bits are recorded horizontally on the disk. In order to continue to increase the areal density, and resulting storage capacity, of disks, our customers predict that by 2005 they will begin producing thin-film disks for use with "perpendicular" recording techniques, where the magnetic bits are placed perpendicular to the surface of the disk. This vertical alignment will allow data to be stored in a way that uses less surface space than before, thereby permitting substantially higher storage capacity.

The installed base of equipment, primarily Intevac® MDP-250Bs and other manufacturers' systems, can support up to 12 disk manufacturing steps. This installed base was not designed for the production of perpendicular media, which can require as many as 20 manufacturing steps. The Intevac® 200 Lean addresses this need for more manufacturing steps and also operates at higher throughput than the Intevac® MDP-250B system. Therefore, we expect to see a significant retooling of the existing installed base of thin-film disk manufacturing equipment over the next three to five years.



IMAGING

The U.S. military has seen that its low-light imaging technology creates a significant strategic advantage in night-time combat. To maintain its lead over potential adversaries, the military is transitioning to highly mobile, information-centric warfare, which includes the use of advanced night-time imaging. Our LIVAR® technology, which utilizes the near infrared portion of the spectrum, addresses their long-range target identification needs. Our extreme-low-light cameras, which utilize the visible spectrum, address their short- to medium-range identification needs. We are developing products incorporating these leading technologies and building up our production capabilities.

We believe significant markets also exist for extreme low-light cameras for security, physical sciences, and life sciences applications. Our technology brings unique capabilities to these markets; for example, in the security market, it is our cost versus performance metrics. In the larger physical and life science markets, our technology offers potential solutions that provide higher frame-rates at low-light levels, and spectral responses farther into the near infrared than today's CCD-based low-light cameras.





EQUIPMENT

- Work closely with our first Intevac® 200 Lean customer to ensure timely and successful implementation of volume thin-film disk production on the Intevac® 200 Lean.
- Win the majority of expected future orders from other manufacturers for thin-film disk sputtering equipment for capacity expansion and for advanced perpendicular-capable systems.
- Expand operations in Singapore to grow our consumables, spares and service offerings.
- Grow revenue and profits significantly while controlling operating expenses.

THE FIRST
INTEVAC® 200 LEAN
SHIPMENT

IMAGING

- Continue to proliferate LIVAR® cameras into additional military programs.
- Develop a whole-wafer silicon sensor manufacturing process for LIVAR® and for extreme low light sensors to support our cost goals.
- Develop a state-of-the-art extreme-low-light sensor and associated camera electronics to address the head-mounted vision system needs of the military, security, and surveillance markets.
- Develop and market a low-light imaging camera to address the unique requirements of the physical sciences market.

SUMMARY

We have successfully weathered the equipment industry's severe downturn of the last several years and believe we are now well positioned to participate in the coming upturn. Notably, in late 2003 we received significant equipment orders, which give us good sales visibility into 2004, and indications of the potential for significant year-over-year growth in equipment revenues. In addition, our imaging business continues to progress toward production and sales. Furthermore, Intevac's financial condition is solid, with potential to improve further as sales volumes rise and as operational and cost efficiencies move us toward profitability. We have set clear and achievable priorities in order to pursue the many opportunities we have identified, and we are looking forward to realizing these opportunities in 2004.

Finally, I would like to express my sincere appreciation and thanks to all Intevac employees for their commitment, hard work, and creativity, as well as to our customers and shareholders for their continuing support.

Kevin Fairbairn

Kevin P. Fairbairn

President and Chief Executive Officer





LETTER TO OUR SHAREHOLDERS

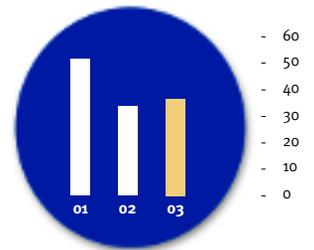
2003 was a major transition year for Intevac. In Equipment, we designed, developed, and shipped our first next-generation manufacturing system, the Intevac® 200 Lean, which is used to deposit highly engineered thin-films onto thin-film disks used in hard disk drives. In Imaging, our emphasis shifted to product engineering and preproduction activities, after many years and much investment in basic technology development.

Revenues for 2003 increased by 7% to \$36 million from \$34 million in 2002. More significantly, we increased our backlog of orders by 138% to \$43 million from \$18 million at the beginning of the year. With most of this backlog scheduled for delivery in the first half of 2004, we expect significant revenue growth in 2004, compared to 2003.

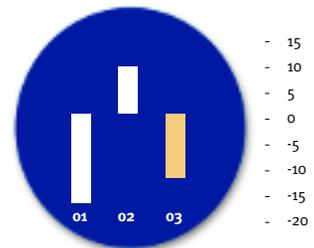
Operating losses were \$11 million, about the same as in 2002. Our reported net loss of \$12 million was, however, a significant change from the \$9 million of net income we posted in 2002. In 2002 we had generated \$15 million of other income from the sale of our rapid thermal processing product line and also benefited from \$7 million of income tax refunds.

We have substantially improved the quality of our balance sheet as the result of the conversion of \$30 million of our 2009 convertible notes to equity in late 2003, and the sale of common stock in a secondary offering completed early in 2004, which raised \$42 million in cash.

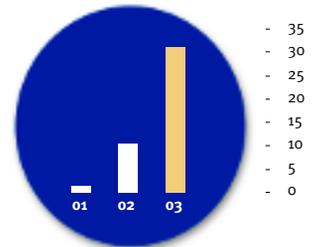
REVENUE
\$ Millions



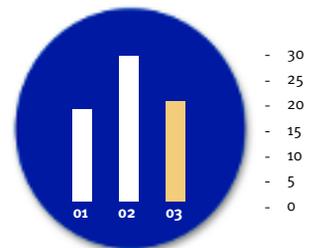
NET
INCOME/LOSS
\$ Millions



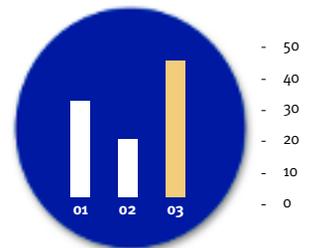
NET WORTH
\$ Millions



CASH AND
MARKETABLE
SECURITIES
\$ Millions



BACKLOG
\$ Millions





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