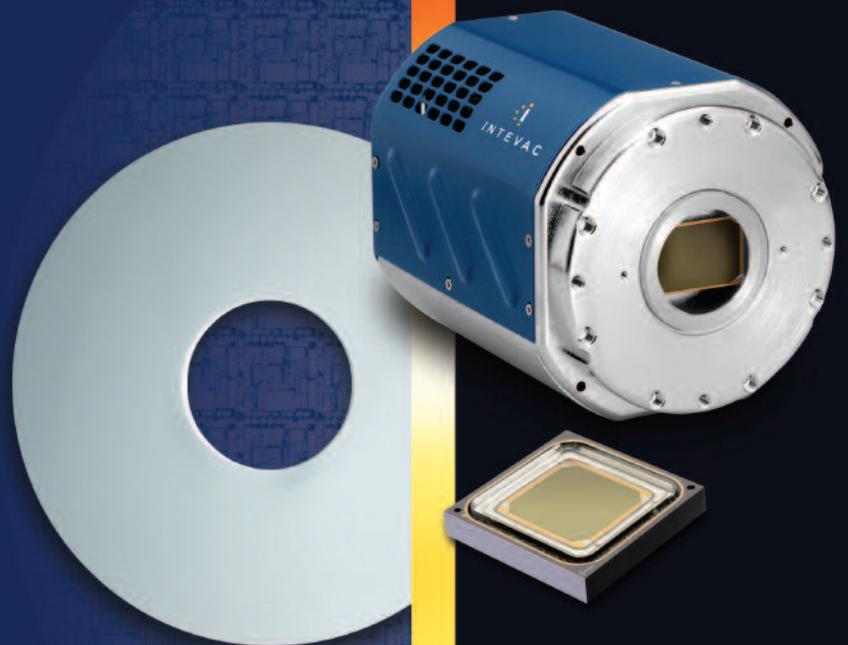




INTEVAC



ANNUAL REPORT 2006

COMPANY PROFILE

We are the world's leading provider of disk sputtering equipment to manufacturers of magnetic media used in hard disk drives and we are developing equipment that we plan to sell to semiconductor manufacturers. We also develop and provide leading technology for extreme low light imaging sensors, cameras and systems. We operate two businesses: Equipment and Imaging.

Our Equipment business designs, manufactures, markets and services complex capital equipment which deposits, or sputters, highly engineered thin-films onto magnetic disks used in hard disk drives. We believe our systems represent approximately 60% of the installed capacity of disk sputtering systems worldwide. Our customers are manufacturers of magnetic disks for hard disk drives, and include Fuji Electric, Hitachi Global Storage Technologies and Seagate Technology. We believe the rapid growth of the storage of digital data, including new consumer applications, such as personal audio and video recorders, emerging HDTV applications, streaming video and video game platforms; increasing enterprise data storage requirements; the proliferation of personal computers into emerging markets in Asia and Eastern Europe; along with new technology advances in the industry, provide us with a significant opportunity to sell magnetic media manufacturing equipment. In addition, we plan to enter the market for complex capital equipment sold to the semiconductor manufacturing industry. The vast majority of our revenue is currently derived from our Equipment business, and we expect that the majority of our revenues for the next several years will continue to be derived from our Equipment business.

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 imaging or analytical detection in extreme low light situations. We develop imaging technology and equipment for military applications. To date, our revenues have been derived primarily from research and development contracts funded by the U.S. government, rather than product sales. Applications for our imaging technology include sensors and cameras for use in extreme low light situations and systems for positive identification of targets at long range. We also develop and market commercial cameras and systems addressing markets within life science, physical science, industrial inspection and security.

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 projected revenues, gross margin, profitability and cash flow; Asian expansion plans; timing of the introduction of new products and the estimated size and growth of markets they address; the transition to perpendicular media and the effect it will have on sales of the 200 Lean; and 2007 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 our new products such as our new semiconductor equipment product line or our imaging products for military and commercial markets; inability to accurately forecast and develop new markets for our products; inability to achieve cost reduction goals, gross margin improvement goals or revenue growth goals; a delay in the expected timing of the introduction of perpendicular technology into volume production, a decrease in the rate of growth in the market for hard disk drives, inability to continue to fund our growth out of retained earnings 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..

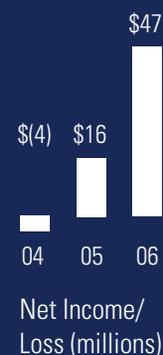
Letter to Our Shareholders

2006 was another great year for Intevac as we increased our revenues by 89% to a record \$260 million. This was on top of 97% revenue growth in 2005 and 92% revenue growth in 2004. Growth was driven by multiple customers deploying our next generation magnetic media deposition system, the 200 Lean®. Our order backlog at the end of 2006 totaled \$125 million, setting Intevac up for a flying start to 2007.

We earned record net income of \$46.7 million, or \$2.13 per diluted share, significantly up from \$16.2 million, or \$0.76 per diluted share, in 2005. The profit improvement was driven by a combination of higher revenues and increased gross margins. Gross margins improved to 39% from 32% in 2005 as a result of our cost reduction efforts, increased average selling prices for the 200 Lean and higher revenues in our equipment business. Ongoing efforts to reduce system costs are expected to yield further gross margin improvements in 2007.

Cash and short term investments roughly doubled during 2006 to \$95 million in spite of dramatically higher business levels and continued heavy investment in our new semiconductor equipment product line. We remain well capitalized to execute our business growth plan and expect to generate cash again in 2007.

FINANCIAL HIGHLIGHTS



Products

EQUIPMENT

We continued to make excellent progress in our Equipment business during 2006.

Our operations team proved they could produce as many systems as the market needed and shipped a total of 46 200 Lean systems, all on time. In Q3, our Singapore manufacturing facility became operational and played a key role in helping us achieve our record revenue. We plan to continue increasing production levels in Singapore and focus our Santa Clara operations team on the introduction of new products.

We continued to strengthen our global customer support teams. New field offices were opened in Malaysia, Korea and Japan. During 2006, the percentage of our employees based in Asia increased to 26%, up from 14% in 2005. We also added staff in our existing Singapore and Shenzhen, China locations.

Significant progress was made developing a dielectric etch system to address the semiconductor equipment market. Feedback from semiconductor manufacturers on this new system platform, and the advanced etch process chamber, has been very encouraging.



IMAGING

We began to transition from a government contract research and development based business to a product based business with product revenues up 89% and contract R&D revenues up 38%. Gross margin improved to 33% from 12% in 2005 as a result of an increasing contribution from higher margin product sales, more favorable terms on our development contracts and favorable revenue adjustments related to closing out 2003 and 2004 government rate audits.



We made significant progress in the head mounted night vision market where traditional analog direct view night vision goggles are expected to be replaced by digital sensor solutions. The size of this market today is in excess of \$600 million and is expected to remain at a similar level in future. We entered into a purchasing agreement with a major NATO defense contractor, whose customer will be the first to deploy this new digital technology. The agreement calls for delivery of 32,000 camera modules over seven years, valued in excess of \$50 million. Export approval was obtained to ship initial pre-production camera modules for field-testing in Q1 2007. We also established a joint program with DRS Technologies to develop a head-mounted night vision goggle for the U.S. Army. Several prototypes were delivered to the U.S. Army for field-testing in Q1 2007.

Improving sensor yields and releasing products to production were major activities for our operations group in 2006 in support of our product margin improvement plans. We released our MOSIR™ spectroscopy camera into production in late 2006.

In January 2007, we completed the acquisition of DeltaNu, a company that pioneered development of miniature, low cost Raman spectrometer systems. DeltaNu products enable the real-time, non-destructive identification of liquids and solids outside of the laboratory and are well suited to applications such as hazardous materials, forensics, homeland security, geology, gemology, medical, pharmaceutical, and industrial quality assurance. The combination of DeltaNu's Raman system design with our capabilities in near infrared sensors should enable a new class of portable, high-performance Raman systems.

EQUIPMENT

Equipment sales in 2007 will be principally derived from new 200 Lean sales supporting growth in demand for hard drives and retooling of the installed base of legacy systems to support the transition to “perpendicular” magnetic media technology. Revenues from semiconductor equipment are expected in 2008 with 2007 being a year of product qualification.

The end market for hard drives continues to grow and means more equipment like our 200 Lean will be needed. Demand for digital storage is growing at a faster rate than improvements in areal density (bits stored per area), which leads to continuing demand for more and more hard drives. End markets driving this increasing demand are information technology, the sale of Microsoft® Windows Vista™ operating system based computers in 2007/2008, and consumer hard drive applications such as video storage.

The hard drive industry is transitioning to perpendicular magnetic media technology. Historically, hard drives used longitudinal media technology, where magnetic bits are recorded horizontally on the disk. In order to continue increasing areal density, and the resulting storage capacity of disks, perpendicular media technology has been developed, where the magnetic bits are placed perpendicular to the surface of the disk. The tighter packing made possible by the perpendicular orientation enables substantially higher storage capacity.

Optimal production of perpendicular media requires equipment, like our 200 Lean, that can economically deposit the thicker magnetic films required by perpendicular recording. The majority of the installed base of legacy equipment, primarily Intevac® MDP-250B and other manufacturers’ systems, is not well suited for economic production of these thicker films. Use of legacy equipment leads to a reduction in throughput and more system downtime as the sputter targets have to be replaced more frequently compared to longitudinal production. Net output can be potentially halved, resulting in a significant reduction in plant capacity.

We expect to begin shipping a new dielectric etch system to leading semiconductor manufacturers for qualification in 2007. Modest success in this market would lead to very meaningful revenues for Intevac starting in 2008, as the dielectric etch market is estimated to be approximately \$2 billion per year. We plan to add new applications to our reusable system platform over the next few years and believe we can address a market of approximately \$8 billion per year.

The semiconductor equipment market is new to Intevac. However, the market and customers are well known to the majority of Intevac management, most of whom have previously worked at other large semiconductor equipment companies. In their prior careers, our management team has been responsible for many of the successful products currently generating billions of dollars per year for other semiconductor equipment companies. We believe we have created a unique and differentiated product that will be very competitive.

IMAGING

We will continue our transition from a technology development focus to a product-centric business. We expect Imaging revenues to double in 2007 as we begin shipping internally developed commercial and military products in volume and ramp production at our new DeltaNu subsidiary.

The longer-term outlook is positive for our Imaging business with an estimated addressable market of approximately \$2 billion split between commercial and military markets. The commercial applications are in the rapidly growing areas of physical science, where our products enable more sophisticated analysis of materials, and in life sciences, where our products enable detection of low light transient events. Military applications are the head mounted night vision market, where our digital low light imaging products are being developed to replace today’s analog night vision tubes and the long distance target identification market, where our LIVAR® products provide a cost effective and compact solution.

We are well positioned in the head mounted night vision market. We are now shipping pre-production low light camera modules to our NATO customer for the first major deployment of digital night vision systems. Assuming ongoing export approval, we expect to ship pre-production units in 2007 and begin volume production in 2008. In the U.S., we are partnered with DRS Technology to develop a digital night vision product for the U.S. Army. This product “fuses” imagery from Intevac’s low light camera with imagery from DRS’s thermal camera and displays it in front of the soldier’s eye. The next phase of the program will be to deliver products with improved performance relative to the prototypes we delivered to the Army in Q1 2007. We plan to continue to partner with DRS Technologies as we pursue this next phase of business. The situation is competitive and we will have to provide a solution that is competitive on imaging performance, power consumption and price.

Our LIVAR cameras for long distance target identification are well positioned on multiple programs ranging from man portable to aircraft based applications. We plan to introduce a more capable camera with a new CMOS sensor and begin the pre-production ramp of this new product.

In the physical science market, we expect to ramp sales of our MOSIR camera product for use in high-end spectrometer systems. We will extend the MOSIR product line by introducing cameras that address other parts of the light spectrum. Our DeltaNu business addresses mobile spectrometer applications for real time, anywhere, material analysis and the laboratory Raman spectrometry markets. We expect to ramp sales of the DeltaNu products by expanding their sales capabilities.

We also plan to introduce a camera utilizing high performance CMOS sensors that address applications in the life sciences and industrial inspection markets. This camera will take advantage of our proprietary back-thinning technology to deliver an extremely sensitive, high speed, CMOS based camera.

Priorities

EQUIPMENT

- Keep our 200 Lean customers satisfied by ensuring timely delivery of quality product to support their capacity expansions and equipment retooling plans.
- Introduce new capabilities on the 200 Lean to address our customers' technology and productivity needs.
- Continue to ramp our Singapore facility to enhance our manufacturing capability.
- Achieve customer qualification and follow on orders for our new dielectric etch semiconductor system.

IMAGING

- Develop, in partnership with DRS Technologies, a digital head-mounted night vision system to meet the needs of the US Army.
- Improve yields and ramp production of our low light camera modules in support of our NATO customer's head-mounted night vision program.
- Develop and release an improved LIVAR camera and proliferate LIVAR cameras into additional military programs.
- Ramp revenues for the MOSIR spectrometer camera and introduce new MOSIR derivative cameras.
- Ramp revenues for the DeltaNu Raman spectrometer product line by increasing sales capabilities.
- Develop a low light imaging camera to address the life sciences market.

Summary

Intevac is well positioned for ongoing profitable growth. Our Equipment business is profitable and we have a path to profitability in Imaging with potential for high growth. We have demonstrated our ability to significantly ramp our revenues without the need to raise cash or take on debt. Our new product pipelines are full and positioned to deliver products in both businesses that address new growing markets. We continue to substantially enhance the capability of our organization by key hires, globally, in all areas of our business. Our initiative to ramp our Singapore manufacturing facility proceeded on plan and delivered on its objectives. We greatly expanded our Asian field operations so we can better serve our Equipment customers. We have set clear and achievable priorities in order to pursue the many identified opportunities, and we are looking forward to realizing these opportunities in 2007 and beyond.

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 Fairbairn

President and Chief Executive Officer



CORPORATE INFORMATION

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 at www.intevac.com or by e-mail to jdiener@intevac.com.

INVESTOR RELATIONS CONTACT

CHARLES B. EDDY
(408) 986-9888

REGISTRAR AND TRANSFER AGENT

COMPUTERSHARE TRUST COMPANY, N.A.
P.O. Box 43078
Providence, RI 02940-3078
www.computershare.com

INDEPENDENT AUDITORS

GRANT THORNTON LLP
150 Almaden Blvd.
Suite 600
San Jose, CA 95113

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 the quarter ended:

	4/1/06	7/1/06	9/30/06	12/31/06
High	\$ 28.80	\$ 30.60	\$ 25.35	\$ 27.94
Low	\$ 13.42	\$ 18.86	\$ 14.81	\$ 16.29

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 9:00a.m. PDT on Tuesday May 15, 2007.

CORPORATE OFFICERS

VERLE W. AEBI (1991)

Chief Technology Officer, Imaging

MICHAEL S. BARNES (2006)

Vice President, Chief Technical Officer, Equipment

JAMES P. BIRT (2004)

Vice President, Customer Support, Equipment

TERRY M. BLUCK (2004)

Vice President, Technology, Equipment

KIMBERLY M. BURK (2000)

Senior Director, Human Resources

CHARLES B. EDDY (1991)

Vice President, Finance and Administration,
Chief Financial Officer, Treasurer and Secretary

KEVIN P. FAIRBAIRN (2002)

Chief Executive Officer and President

TIMOTHY E. JUSTYN (1991)

Vice President, Manufacturing, Equipment

DAVID L. KELLY (2006)

Vice President, Engineering, Imaging

RALPH C. KERNS (2003)

Vice President, Business Development, Equipment

LUKE A. MARUSIAK (2004)

Chief Operating Officer

JOSEPH S. PIETRAS (2006)

Vice President and General Manager, Imaging

NORMAN H. POND (1990)

Chairman

() INDICATES YEAR JOINED INTEVAC

BOARD OF DIRECTORS

DAVID S. DURY (2002) ^{1,4}

Co-Founder, Capital Group LLC

KEVIN P. FAIRBAIRN (2002)

Chief Executive Officer and President

STANLEY J. HILL (2004) ^{1,3}

Former Chairman and Chief Executive Officer of
Kaiser Aerospace & Electronics Corporation

ROBERT A. LEMOS (2002) ^{1,2}

Former Chief Financial Officer, Varian Associates

ARTHUR L. MONEY (2003) ^{2,3}

Former Assistant Secretary of Defense (ASD/C31)
For Command, Control, Communications
and Intelligence

NORMAN H. POND (1990)

Chairman

PING YANG (2006) ²

Former Vice President of Research and Development for
Taiwan Semiconductor Manufacturing Company (TSMC)

1 MEMBER OF THE AUDIT COMMITTEE

2 MEMBER OF THE COMPENSATION COMMITTEE

3 MEMBER OF THE NOMINATING AND GOVERNANCE COMMITTEE

4 LEAD INDEPENDENT DIRECTOR

() INDICATES YEAR JOINED BOARD OF DIRECTORS



INTEVAC

Intevac, Inc.

3560 Bassett Street
Santa Clara, CA 95054
Phone: (408) 986-9888
Fax: (408) 988-8145
www.intevac.com

Intevac Asia Pte., Ltd.

6, Marsiling Lane
Block C # 01-00
Singapore 739145
Phone: 65-6368-6863
Fax: 65-6368-5601

Intevac Shenzhen Co. Ltd.

P.O. Box 40, Shen Fu Bao Building
Suite 1708-1710, Shen Fu Bao Building
8 Rong Hua Road, Futian Free Trade Zone
Shenzhen, Guangdong, P.R. China 518038
Phone: 86-755-8348-4020
Fax: 86-755-8348-4035

Intevac Japan K. K.

Takuei Yokohama Nishiguchi Bldg. 6F
3-30-5 Tsuruya-cho Kanagawa-ku Yokohama
Kanagawa Japan 221-0835
Phone: 81-45-317-3455
Fax: 81-45-312-3535

Intevac Malaysia Sdn. Bhd.

Suite 10 & 11, First Floor,
Techno Centre, Kulim Hi-Tech Park,
09000 Kulim, Kedah Darul Aman, Malaysia
Phone: 60-4-403-7880
Fax: 60-4-403-4882

IVAC Co., Ltd.

#10-02 Owners Towers, 16-5 Sunae-dong
Bundang-gu Seongnam-si Gyeonggi-do,
463-835 South Korea
Phone: 82-31-713-5055
Fax: 82-31-713-2377

Delta Nu, Inc.

628 Plaza Lane
Laramie, WY 82070
Phone: (307) 745-9148
Fax: (307) 745-9152