

INTEVAC INC

FORM 10-Q (Quarterly Report)

Filed 05/02/17 for the Period Ending 04/01/17

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|-------------|---|
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended April 1, 2017

OR

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

For the transition period from _____ to _____

Commission file number 0-26946

INTEVAC, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3125814
(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. Yes 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). Yes No

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

| | | | |
|-------------------------|--|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input checked="" type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

On May 2, 2017, 21,431,768 shares of the Registrant's Common Stock, \$0.001 par value, were outstanding.

INTEVAC, INC.

INDEX

| <u>No.</u> | | <u>Page</u> |
|-----------------|---|-------------|
| | <u>PART I. FINANCIAL INFORMATION</u> | |
| Item 1. | Financial Statements (unaudited) | |
| | Condensed Consolidated Balance Sheets | 3 |
| | Condensed Consolidated Statements of Operations | 4 |
| | Condensed Consolidated Statements of Comprehensive Income (Loss) | 5 |
| | Condensed Consolidated Statements of Cash Flows | 6 |
| | Notes to Condensed Consolidated Financial Statements | 7 |
| Item 2. | Management’s Discussion and Analysis of Financial Condition and Results of Operations | 21 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 27 |
| Item 4. | Controls and Procedures | 28 |
| | <u>PART II. OTHER INFORMATION</u> | |
| Item 1. | Legal Proceedings | 29 |
| Item 1A. | Risk Factors | 29 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 36 |
| Item 3. | Defaults Upon Senior Securities | 36 |
| Item 4. | Mine Safety Disclosures | 36 |
| Item 5. | Other Information | 36 |
| Item 6. | Exhibits | 37 |
| | <u>SIGNATURES</u> | 38 |

PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

INTEVAC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | April 1, 2017 | December 31, 2016 |
|--|-------------------------------------|----------------------|
| | (Unaudited) | |
| | (In thousands, except par value) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 25,577 | \$ 27,043 |
| Short-term investments | 15,227 | 17,602 |
| Trade and other accounts receivable, net of allowances of \$0 at both April 1, 2017 and at December 31, 2016 | 21,630 | 17,447 |
| Inventories | 24,077 | 24,876 |
| Prepaid expenses and other current assets | 2,103 | 1,768 |
| Total current assets | 88,614 | 88,736 |
| Property, plant and equipment, net | 11,883 | 11,237 |
| Long-term investments | 4,038 | 3,593 |
| Restricted cash | 1,450 | 1,602 |
| Intangible assets, net of amortization of \$6,342 at April 1, 2017 and \$6,129 at December 31, 2016 | 2,045 | 2,258 |
| Deferred income taxes and other long-term assets | 698 | 898 |
| Total assets | <u>\$108,728</u> | <u>\$ 108,324</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 6,824 | \$ 5,323 |
| Accrued payroll and related liabilities | 4,029 | 4,220 |
| Other accrued liabilities | 6,429 | 17,011 |
| Customer advances | 11,572 | 5,422 |
| Total current liabilities | 28,854 | 31,976 |
| Other long-term liabilities | 3,288 | 3,082 |
| Stockholders' equity: | | |
| Common stock, \$0.001 par value | 21 | 21 |
| Additional paid-in capital | 173,865 | 171,314 |
| Treasury stock, 4,845 shares at both April 1, 2017 and December 31, 2016 | (28,489) | (28,489) |
| Accumulated other comprehensive income | 359 | 321 |
| Accumulated deficit | (69,170) | (69,901) |
| Total stockholders' equity | 76,586 | 73,266 |
| Total liabilities and stockholders' equity | <u>\$108,728</u> | <u>\$ 108,324</u> |

Note: Amounts as of December 31, 2016 are derived from the December 31, 2016 audited consolidated financial statements.

See accompanying notes.

INTEVAC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | <u>Three months ended</u> | |
|---|--|-------------------|
| | <u>April 1,</u> | <u>April 2,</u> |
| | <u>2017</u> | <u>2016</u> |
| | (Unaudited) | |
| | (In thousands, except per share amounts) | |
| Net revenues: | | |
| Systems and components | \$28,423 | \$13,282 |
| Technology development | 1,965 | 382 |
| Total net revenues | <u>30,388</u> | <u>13,664</u> |
| Cost of net revenues: | | |
| Systems and components | 15,674 | 8,950 |
| Technology development | 1,667 | 858 |
| Total cost of net revenues | <u>17,341</u> | <u>9,808</u> |
| Gross profit | 13,047 | 3,856 |
| Operating expenses: | | |
| Research and development | 4,682 | 5,176 |
| Selling, general and administrative | 6,274 | 4,996 |
| Total operating expenses | <u>10,956</u> | <u>10,172</u> |
| Income (loss) from operations | 2,091 | (6,316) |
| Interest income and other income (expense), net | 110 | 37 |
| Income (loss) before income taxes | 2,201 | (6,279) |
| Provision for income taxes | 372 | 26 |
| Net income (loss) | <u>\$ 1,829</u> | <u>\$ (6,305)</u> |
| Net income (loss) per share: | | |
| Basic | \$ 0.09 | \$ (0.31) |
| Diluted | \$ 0.08 | \$ (0.31) |
| Weighted average common shares outstanding: | | |
| Basic | 21,216 | 20,551 |
| Diluted | 22,790 | 20,551 |

See accompanying notes.

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

| | <u>Three months ended</u> | |
|--|--------------------------------|--------------------------------|
| | <u>April 1,</u> <u>2017</u> | <u>April 2,</u> <u>2016</u> |
| | (Unaudited) | |
| | (In thousands) | |
| Net income (loss) | \$ 1,829 | \$ (6,305) |
| Other comprehensive income, before tax: | | |
| Change in unrealized net gain (loss) on available-for-sale investments | 4 | 44 |
| Foreign currency translation gains | 34 | 67 |
| Other comprehensive income, before tax | <u>38</u> | <u>111</u> |
| Income tax provision related to items in other comprehensive income | — | — |
| Other comprehensive income, net of tax | <u>38</u> | <u>111</u> |
| Comprehensive income (loss) | <u>\$ 1,867</u> | <u>\$ (6,194)</u> |

See accompanying notes.

INTEVAC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | <u>Three Months Ended</u> | |
|---|---------------------------|-----------------|
| | <u>April 1,</u> | <u>April 2,</u> |
| | <u>2017</u> | <u>2016</u> |
| | (Unaudited) | |
| | (In thousands) | |
| Operating activities | | |
| Net income (loss) | \$ 1,829 | \$ (6,305) |
| Adjustments to reconcile net income (loss) to net cash and cash equivalents used in operating activities: | | |
| Depreciation and amortization | 1,015 | 1,176 |
| Net amortization of investment premiums and discounts | 28 | 36 |
| Equity-based compensation | 1,077 | 1,111 |
| Change in the fair value of acquisition-related contingent consideration | 80 | 16 |
| Changes in operating assets and liabilities | (6,010) | 1,518 |
| Total adjustments | <u>(3,810)</u> | <u>3,857</u> |
| Net cash and cash equivalents used in operating activities | (1,981) | (2,448) |
| Investing activities | | |
| Purchases of investments | (3,944) | (2,109) |
| Proceeds from sales and maturities of investments | 5,850 | 13,305 |
| Decrease in restricted cash | 152 | — |
| Purchases of leasehold improvements and equipment | <u>(1,448)</u> | <u>(1,250)</u> |
| Net cash and cash equivalents provided by investing activities | 610 | 9,946 |
| Financing activities | | |
| Proceeds from issuance of common stock | 1,083 | 711 |
| Taxes paid related to net share settlement | (1,210) | (222) |
| Payment of acquisition-related contingent consideration | (2) | — |
| Net cash and cash equivalents provided by (used in) financing activities | <u>(129)</u> | <u>489</u> |
| Effect of exchange rate changes on cash and cash equivalents | 34 | 67 |
| Net increase (decrease) in cash and cash equivalents | <u>(1,466)</u> | <u>8,054</u> |
| Cash and cash equivalents at beginning of period | <u>27,043</u> | <u>13,746</u> |
| Cash and cash equivalents at end of period | <u>\$25,577</u> | <u>\$21,800</u> |

See accompanying notes.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. 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, 2016 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, 2016 (“2016 Form 10-K”). Intevac’s results of operations for the three months ended April 1, 2017 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.

2. Recent Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. ASU 2017-08 amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. This update becomes effective and will be adopted by Intevac in the first quarter of fiscal 2019. Intevac does not expect the adoption of this update to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates Step 2 from the goodwill impairment test. Under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This update becomes effective and will be adopted by Intevac in the first quarter of fiscal 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Intevac does not expect the adoption of this update to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. We have adopted these amendments beginning in the first quarter of 2017. Starting this quarter, stock-based compensation excess tax benefits or deficiencies are reflected in the Consolidated Statements of Operations as a component of the provision for income taxes, whereas they previously were recognized in equity. Additionally, our Consolidated Statements of Cash Flows now presents excess tax benefits as an operating activity. Finally, we have elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The net cumulative effect of this change was recognized as a \$1.1 million charge to the accumulated deficit as of January 1, 2017. In the first quarter of 2017, stock-based compensation excess tax benefits of \$47,000 were reflected in the Consolidated Statements of Operations as a component of the provision for income taxes.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)**3. Inventories**

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

| | April 1, 2017 | December 31, 2016 |
|------------------|------------------|----------------------|
| | (In thousands) | |
| Raw materials | \$11,000 | \$ 10,290 |
| Work-in-progress | 10,351 | 6,470 |
| Finished goods | 2,726 | 8,116 |
| | <u>\$24,077</u> | <u>\$ 24,876</u> |

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

4. Equity-Based Compensation

At April 1, 2017, Intevac had equity-based awards outstanding under the 2012 Equity Incentive Plan and the 2004 Equity Incentive Plan (together, the “Plans”) and the 2003 Employee Stock Purchase Plan (the “ESPP”). Intevac’s stockholders approved all of these plans. The Plans permit the grant of incentive or non-statutory stock options, restricted stock, stock appreciation rights, restricted stock units (“RSUs”) and performance shares.

The ESPP provides that eligible employees may purchase Intevac’s common stock through payroll deductions at a price equal to 85% of the lower of the fair market value at the entry date of the applicable offering period or at the end of each applicable purchase interval. Offering periods are generally two years in length, and consist of a series of six-month purchase intervals. Eligible employees may join the ESPP at the beginning of any six-month purchase interval. Under the terms of the ESPP, employees can choose to have up to 15% of their base earnings withheld to purchase Intevac common stock.

Compensation Expense

The effect of recording equity-based compensation for the three-month periods ended April 1, 2017 and April 2, 2016 was as follows:

| | Three Months Ended | |
|---|--------------------|-----------------|
| | April 1, 2017 | April 2, 2016 |
| | (In thousands) | |
| Equity-based compensation by type of award: | | |
| Stock options | \$ 255 | \$ 276 |
| RSUs | 718 | 634 |
| Employee stock purchase plan | 104 | 201 |
| Total equity-based compensation | <u>\$ 1,077</u> | <u>\$ 1,111</u> |

Equity-based compensation expense is based on awards ultimately expected to vest and such amount has been reduced for estimated forfeitures. Beginning January 1, 2017, Intevac accounts for forfeitures as they occur, rather than estimate expected forfeitures. The net cumulative effect of this change was recognized as a \$1.1 million increase to the accumulated deficit as of January 1, 2017.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)**Stock Options and ESPP**

The fair value of stock options and ESPP awards is estimated at the grant date using the Black-Scholes option valuation model. The determination of fair value of stock options and ESPP awards on the date of grant using an option-pricing model is affected by Intevac's 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 term of the awards, and actual employee stock option exercise behavior.

Option activity as of April 1, 2017 and changes during the three months ended April 1, 2017 were as follows:

| | <u>Shares</u> | <u>Weighted Average Exercise Price</u> |
|--|------------------|--|
| Options outstanding at December 31, 2016 | 2,740,364 | \$ 7.00 |
| Options granted | 30,625 | \$ 7.89 |
| Options cancelled and forfeited | (21,405) | \$ 6.60 |
| Options exercised | (57,657) | \$ 6.03 |
| Options outstanding at April 1, 2017 | <u>2,691,927</u> | \$ 7.03 |
| Options exercisable at April 1, 2017 | 1,783,825 | \$ 7.78 |

Intevac issued 195,184 shares under the ESPP during the three months ended April 1, 2017.

Intevac estimated the weighted-average fair value of stock options and employee stock purchase rights using the following weighted-average assumptions:

| | <u>Three Months Ended</u> | |
|---|---------------------------|----------------------|
| | <u>April 1, 2017</u> | <u>April 2, 2016</u> |
| Stock Options: | | |
| Weighted-average fair value of grants per share | \$ 4.56 | \$ 1.50 |
| Expected volatility | 41.78% | 42.96% |
| Risk free interest rate | 1.38% | 1.04% |
| Expected term of options (in years) | 2.54 | 3.96 |
| Dividend yield | None | None |
| Stock Purchase Rights: | | |
| Weighted-average fair value of grants per share | \$ 2.74 | \$ 1.54 |
| Expected volatility | 40.66% | 39.33% |
| Risk free interest rate | 1.14% | 0.76% |
| Expected term of purchase rights (in years) | 0.74 | 1.93 |
| Dividend yield | None | None |

The computation of the expected volatility assumptions used in the Black-Scholes calculations for new stock option grants and ESPP purchase rights is based on the historical volatility of Intevac's stock price, measured over a period equal to the expected term of the stock option 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

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

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.

RSUs

A summary of the RSU activity is as follows:

| | <u>Shares</u> | <u>Weighted Average Grant Date Fair Value</u> |
|--------------------------------------|----------------|---|
| Non-vested RSUs at December 31, 2016 | 949,455 | \$ 4.64 |
| Granted | 142,749 | \$ 9.67 |
| Vested | (325,796) | \$ 4.21 |
| Cancelled and forfeited | (2,910) | \$ 5.77 |
| Non-vested RSUs at April 1, 2017 | <u>763,498</u> | <u>\$ 5.75</u> |

Time-based RSUs are converted into shares of Intevac common stock upon vesting on a one-for-one basis. Time-based RSUs typically are scheduled to vest over four years. Vesting of time-based RSUs is subject to the grantee's continued service with Intevac. The compensation expense related to these awards is determined using the fair market value of Intevac common stock on the date of the grant, and the compensation expense is recognized over the vesting period.

Market condition-based RSUs vest upon the achievement of certain market conditions (our stock performance) during a set performance period (typically five years) subject to the grantee's continued service with Intevac through the date the applicable market condition is achieved. The fair value is based on the values calculated under the Monte Carlo simulation model on the grant date. Compensation cost is not adjusted in future periods for subsequent changes in the expected outcome of market related conditions. The compensation expense is recognized over the derived service period. We granted 125,000 of such awards to certain executive officers in the three months ended April 2, 2016. These awards have a derived service period of 2.8 years.

Intevac estimated the weighted-average fair value of market condition-based RSUs using the following weighted-average assumptions:

| | <u>Three Months Ended April 2, 2016</u> |
|---|---|
| Weighted-average fair value of grants per share | \$ 2.46 |
| Expected volatility | 47.65% |
| Risk free interest rate | 1.35% |
| Expected term (in years) | 4.79 |
| Dividend yield | None |

In fiscal 2016, the annual bonus for certain participants in the Company's annual incentive plan was settled with RSUs with one-year vesting. The Company accrued for the payment of bonuses at the expected company-wide payout percentage amount at April 2, 2016, which amounts were less than the target bonus amounts for each participant. The bonus accrual was classified as a liability until the number of shares is determined on the date the awards were granted, at which time the Company classified the awards into equity. In February 2017, the annual 2016 bonus for certain participants was settled with RSUs with one-year vesting. 33 participants were granted stock

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

awards to receive an aggregate of 134,000 shares of common stock with a weighted average grant date fair value of \$9.63 per share. In February 2016, the annual 2015 bonus for certain participants was settled with RSUs with one-year vesting. 34 participants were granted stock awards to receive an aggregate of 266,000 shares of common stock with a weighted average grant date fair value of \$4.40 per share. The Company recorded equity-based compensation expense related to the annual incentive plans of \$102,000 and \$115,000 for the three months ended April 1, 2017 and April 2, 2016, respectively.

5. Purchased Intangible Assets

Details of finite-lived intangible assets by segment as of April 1, 2017, are as follows.

| | April 1, 2017 | | |
|---------------------|-----------------------------|---|---------------------------|
| | Gross Carrying Amount | Accumulated Amortization (In thousands) | Net Carrying Amount |
| Thin-film Equipment | \$ 7,172 | \$ (5,318) | \$ 1,854 |
| Photonics | 1,215 | (1,024) | 191 |
| | <u>\$ 8,387</u> | <u>\$ (6,342)</u> | <u>\$ 2,045</u> |

Total amortization expense of finite-lived intangibles for the three months ended April 1, 2017 was \$213,000.

As of April 1, 2017, future amortization expense is expected to be as follows.

| (In thousands) | |
|----------------|----------------|
| 2017 | \$ 541 |
| 2018 | 615 |
| 2019 | 615 |
| 2020 | 274 |
| | <u>\$2,045</u> |

6. Acquisition-Related Contingent Consideration

In connection with the acquisition of Solar Implant Technologies, Inc. ("SIT"), Intevac agreed to pay to the selling shareholders a revenue earnout in cash on Intevac's net revenue from commercial sales of certain products over a specified period, up to an aggregate of \$9.0 million. Intevac estimated the fair value of this contingent consideration on April 1, 2017 based on probability-based forecasted revenues reflecting Intevac's own assumptions concerning future revenue from such products. As of April 1, 2017, payments made associated with the revenue earnout obligation have not been significant.

The fair value measurement of contingent consideration is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Any change in fair value of the contingent consideration subsequent to the acquisition date is recognized in operating income within the condensed consolidated statements of operations. The following table represents a reconciliation of the change in the fair value measurement of the contingent consideration liability for the three-month periods ended April 1, 2017 and April 2, 2016:

| | Three Months Ended | |
|-----------------------|--------------------|---------------|
| | April 1, 2017 | April 2, 2016 |
| | (In thousands) | |
| Opening balance | \$ 759 | \$ 890 |
| Changes in fair value | 80 | 16 |
| Cash payments made | (2) | — |
| Closing balance | <u>\$ 837</u> | <u>\$ 906</u> |

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

The following table displays the balance sheet classification of the contingent consideration liability account at April 1, 2017 and at December 31, 2016:

| | April 1, 2017 | December 31, 2016 |
|--|------------------|----------------------|
| | (In thousands) | |
| Other accrued liabilities | \$ 198 | \$ 329 |
| Other long-term liabilities | 639 | 430 |
| Total acquisition-related contingent consideration | <u>\$ 837</u> | <u>\$ 759</u> |

The following table represents the quantitative range of the significant unobservable inputs used in the calculation of fair value of the contingent consideration liability as of April 1, 2017. Significant increases or decreases in any of these inputs in isolation would result in a significantly lower (higher) fair value measurement.

| | Quantitative Information about Level 3 Fair Value Measurements at April 1, 2017 | | | Range (Weighted Average) |
|-----------------|---|----------------------|---|--------------------------------|
| | Fair Value | Valuation Technique | Unobservable Input (In thousands, except for percentages) | |
| Revenue Earnout | \$ 837 | Discounted cash flow | Weighted average cost of capital Probability weighting of achieving revenue forecasts | 15.3% 10.0% - 80.0% (31.9%) |

7. Warranty

Intevac provides for the estimated cost of warranty when revenue is recognized. Intevac's warranty is per contract terms and for its disk manufacturing, solar photovoltaic ("PV") manufacturing and display cover panel ("DCP") manufacturing systems the warranty typically ranges between 12 and 24 months from customer acceptance. During this warranty period any defective non-consumable parts are replaced and installed at no charge to the customer. 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 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.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

The following table displays the activity in the warranty provision account for the three-month periods ended April 1, 2017 and April 2, 2016:

| | Three Months Ended | |
|--|--------------------|---------------|
| | April 1, 2017 | April 2, 2016 |
| | (In thousands) | |
| Opening balance | \$ 1,007 | \$ 982 |
| Expenditures incurred under warranties | (142) | (198) |
| Accruals for product warranties issued during the reporting period | 250 | 114 |
| Adjustments to previously existing warranty accruals | (9) | (122) |
| Closing balance | <u>\$ 1,106</u> | <u>\$ 776</u> |

The following table displays the balance sheet classification of the warranty provision account at April 1, 2017 and at December 31, 2016:

| | April 1, | December 31, |
|-----------------------------|-----------------|-----------------|
| | 2017 | 2017 |
| | (In thousands) | |
| Other accrued liabilities | \$ 935 | \$ 829 |
| Other long-term liabilities | 171 | 178 |
| Total warranty provision | <u>\$ 1,106</u> | <u>\$ 1,007</u> |

8. Guarantees

Officer and Director Indemnifications

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

Other Indemnifications

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

Letters of Credit

As of April 1, 2017, we had letters of credit and bank guarantees outstanding totaling \$1.5 million, including the standby letter of credit outstanding under the Santa Clara, California facility lease and various other guarantees with our bank. These letters of credit and bank guarantees are collateralized by \$1.5 million of restricted cash.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

9. Cash, Cash Equivalents and Investments

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

| | April 1, 2017 | | | |
|---|-------------------|--------------------------------|---------------------------------|-----------------|
| | Amortized Cost | Unrealized Holding Gains | Unrealized Holding Losses | Fair Value |
| (In thousands) | | | | |
| Cash and cash equivalents: | | | | |
| Cash | \$ 15,290 | \$ — | \$ — | \$15,290 |
| Money market funds | 8,414 | — | — | 8,414 |
| Commercial paper | 1,273 | — | — | 1,273 |
| Municipal bonds | 600 | — | — | 600 |
| Total cash and cash equivalents | <u>\$ 25,577</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$25,577</u> |
| Short-term investments: | | | | |
| Certificates of deposit | \$ 1,000 | \$ — | \$ — | \$ 1,000 |
| Commercial paper | 1,597 | — | — | 1,597 |
| Corporate bonds and medium-term notes | 8,231 | — | 9 | 8,222 |
| U.S. treasury and agency securities | 4,410 | — | 2 | 4,408 |
| Total short-term investments | <u>\$ 15,238</u> | <u>\$ —</u> | <u>\$ 11</u> | <u>\$15,227</u> |
| Long-term investments: | | | | |
| Corporate bonds and medium-term notes | \$ 1,948 | \$ — | \$ 5 | \$ 1,943 |
| Municipal bonds | 500 | — | 2 | 498 |
| U.S. treasury and agency securities | 1,597 | — | — | 1,597 |
| Total long-term investments | <u>\$ 4,045</u> | <u>\$ —</u> | <u>\$ 7</u> | <u>\$ 4,038</u> |
| Total cash, cash equivalents, and investments | <u>\$ 44,860</u> | <u>\$ —</u> | <u>\$ 18</u> | <u>\$44,842</u> |

| | December 31, 2016 | | | |
|---|-------------------|--------------------------------|---------------------------------|-----------------|
| | Amortized Cost | Unrealized Holding Gains | Unrealized Holding Losses | Fair Value |
| (in thousands) | | | | |
| Cash and cash equivalents: | | | | |
| Cash | \$ 18,726 | \$ — | \$ — | \$18,726 |
| Money market funds | 8,317 | — | — | 8,317 |
| Total cash and cash equivalents | <u>\$ 27,043</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$27,043</u> |
| Short-term investments: | | | | |
| Commercial paper | \$ 1,992 | \$ — | \$ 1 | \$ 1,991 |
| Corporate bonds and medium-term notes | 8,586 | — | 6 | 8,580 |
| Municipal bonds | 600 | — | — | 600 |
| U.S. treasury and agency securities | 6,432 | — | 1 | 6,431 |
| Total short-term investments | <u>\$ 17,610</u> | <u>\$ —</u> | <u>\$ 8</u> | <u>\$17,602</u> |
| Long-term investments: | | | | |
| Corporate bonds and medium-term notes | \$ 2,510 | \$ — | \$ 11 | \$ 2,499 |
| Municipal bonds | 500 | — | 4 | 496 |
| U.S. treasury and agency securities | 597 | 1 | — | 598 |
| Total long-term investments | <u>\$ 3,607</u> | <u>\$ 1</u> | <u>\$ 15</u> | <u>\$ 3,593</u> |
| Total cash, cash equivalents, and investments | <u>\$ 48,260</u> | <u>\$ 1</u> | <u>\$ 23</u> | <u>\$48,238</u> |

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

The following table provides the fair market value of Intevac’s investments with unrealized losses that are not deemed to be other-than temporarily impaired as of April 1, 2017.

| | April 1, 2017 | | | |
|---------------------------------------|---|-------------------------------|--|-------------------------------|
| | In Loss Position for Less than 12 Months | | In Loss Position for Greater than 12 Months | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| | (in thousands) | | | |
| Corporate bonds and medium-term notes | \$ 9,105 | \$ 14 | \$ — | \$ — |
| Municipal bonds | 498 | 2 | — | — |
| U.S. treasury and agency securities | 4,408 | 2 | — | — |
| | <u>\$ 14,011</u> | <u>\$ 18</u> | <u>\$ —</u> | <u>\$ —</u> |

The contractual maturities of available-for-sale securities at April 1, 2017 are presented in the following table.

| | Amortized Cost | Fair Value |
|---------------------------------|-------------------|------------------|
| | (In thousands) | |
| Due in one year or less | \$ 25,525 | \$ 25,514 |
| Due after one through two years | 4,045 | 4,038 |
| | <u>\$ 29,570</u> | <u>\$ 29,552</u> |

All prices for the fixed maturity securities including U.S. Treasury and agency securities, certificates of deposit, commercial paper, corporate bonds and municipal bonds are received from independent pricing services utilized by Intevac’s outside investment manager. This investment manager performs a review of the pricing methodologies and inputs utilized by the independent pricing services for each asset type priced by the vendor. In addition, on at least an annual basis, the investment manager conducts due diligence visits and interviews with each pricing vendor to verify the inputs utilized for each asset class. The due diligence visits include a review of the procedures performed by each vendor to ensure that pricing evaluations are representative of the price that would be received for a security in an orderly sale. Any pricing where the input is based solely on a broker price is deemed to be a Level 3 price. Intevac uses the pricing data obtained from its outside investment manager as the primary input to make its assessments and determinations as to the ultimate valuation of the above-mentioned securities and has not made, during the periods presented, any material adjustments to such inputs.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

The following table represents the fair value hierarchy of Intevac's available-for-sale securities measured at fair value on a recurring basis as of April 1, 2017.

| | Fair Value Measurements at April 1, 2017 | | |
|---|---|-----------------|-----------------|
| | Total | Level 1 | Level 2 |
| | (In thousands) | | |
| Recurring fair value measurements: | | | |
| Available-for-sale securities | | | |
| Money market funds | \$ 8,414 | \$ 8,414 | \$ — |
| U.S. treasury and agency securities | 6,005 | 2,098 | 3,907 |
| Certificates of deposit | 1,000 | — | 1,000 |
| Commercial paper | 2,870 | — | 2,870 |
| Corporate bonds and medium-term notes | 10,165 | — | 10,165 |
| Municipal bonds | 1,098 | — | 1,098 |
| Total recurring fair value measurements | <u>\$29,552</u> | <u>\$10,512</u> | <u>\$19,040</u> |

10. Derivative Instruments

The Company uses foreign currency forward contracts to mitigate variability in gains and losses generated from the re-measurement of certain monetary assets and liabilities denominated in foreign currencies and to offset certain operational exposures from the impact of changes in foreign currency exchange rates. These derivatives are carried at fair value with changes recorded in interest income and other, net in the consolidated statements of operations. Changes in the fair value of these derivatives are largely offset by re-measurement of the underlying assets and liabilities. Cash flows from such derivatives are classified as operating activities. The derivatives have original maturities of approximately 30 days.

The following table summarizes the Company's outstanding derivative instruments on a gross basis as recorded in its condensed consolidated balance sheets as of April 1, 2017 and December 31, 2016:

| Derivative Instrument | Notional Amounts | | Derivative Liabilities | | | |
|------------------------------------|------------------|----------------------|--|---------------|--------------------------|---------------|
| | April 1, 2017 | December 31, 2016 | April 1, 2017 | | December 31, 2016 | |
| | | | Balance Sheet Line (in thousands) | Fair Value | Balance Sheet Line | Fair Value |
| <u>Undesignated Hedges:</u> | | | | | | |
| Forward Foreign Currency Contracts | \$ 1,286 | \$ 1,146 | (a) | \$ 6 | (a) | \$ 8 |
| Total Hedges | <u>\$ 1,286</u> | <u>\$ 1,146</u> | | <u>\$ 6</u> | | <u>\$ 8</u> |

(a) Other accrued liabilities

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

11. Equity

Stock Repurchase Program

On November 21, 2013, Intevac's Board of Directors approved a stock repurchase program authorizing up to \$30.0 million in repurchases. At April 1, 2017, \$1.5 million remains available for future stock repurchases under the repurchase program. Intevac did not make any stock repurchases during the three months ended April 1, 2017 and April 2, 2016, respectively.

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

Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income by component for the three months ended April 1, 2017 and April 2, 2016, are as follows.

| | Three Months Ended | | | Three Months Ended | | |
|--|---|----------------|--------------|---|-------------|--------------|
| | April 1, 2017 | | | April 2, 2016 | | |
| | Unrealized holding gains (losses) on available-for-sale investments | | | Unrealized holding gains (losses) on available-for-sale investments | | |
| | Foreign currency | Total | | Foreign currency | Total | |
| (In thousands) | | | | | | |
| Beginning balance | \$ 343 | \$ (22) | \$321 | \$ 452 | \$ (40) | \$412 |
| Other comprehensive income before reclassification | 34 | 4 | 38 | 67 | 44 | 111 |
| Amounts reclassified from other comprehensive income | — | — | — | — | — | — |
| Net current-period other comprehensive income | 34 | 4 | 38 | 67 | 44 | 111 |
| Ending balance | <u>\$ 377</u> | <u>\$ (18)</u> | <u>\$359</u> | <u>\$ 519</u> | <u>\$ 4</u> | <u>\$523</u> |

12. Net Income (Loss) Per Share

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

| | Three Months Ended | |
|--|--------------------|-------------------|
| | April 1, 2017 | April 2, 2016 |
| (In thousands) | | |
| Net income (loss) | <u>\$ 1,829</u> | <u>\$ (6,305)</u> |
| Weighted-average shares – basic | 21,216 | 20,551 |
| Effect of dilutive potential common shares | 1,574 | — |
| Weighted-average shares – diluted | <u>22,790</u> | <u>20,551</u> |
| Net income (loss) per share – basic | <u>\$ 0.09</u> | <u>\$ (0.31)</u> |
| Net income (loss) per share – diluted | <u>\$ 0.08</u> | <u>\$ (0.31)</u> |

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

The following potentially dilutive securities were excluded (as common stock equivalents) from the computation of diluted net income (loss) per share for the periods presented as their effect would have been antidilutive:

| | April 1, 2017 | April 2, 2016 |
|--|------------------|------------------|
| | (In thousands) | |
| Stock options to purchase common stock | 452 | 2,423 |
| RSUs | — | 940 |
| Employee stock purchase plan | — | 81 |

13. Segment Reporting

Intevac's two reportable segments are: Thin-film Equipment and 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 April 1, 2017 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, gains and losses on divestitures and sales of intellectual property, and unallocated costs in measuring the performance of the reportable segments.

The Thin-film Equipment segment designs, develops and markets vacuum process equipment solutions for high-volume manufacturing of small substrates with precise thin-film properties, such as for the hard drive, solar cell and DCP industries, as well as other adjacent thin-film markets.

The Photonics segment develops compact, cost-effective, high-sensitivity digital-optical products for the capture and display of low-light images. Intevac provides sensors, cameras and systems for government applications such as night vision.

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

Information for each reportable segment for the three months ended April 1, 2017 and April 2, 2016 is as follows:

Net Revenues

| | <u>Three Months Ended</u> | |
|----------------------------|---------------------------|--------------------------|
| | <u>April 1, 2017</u> | <u>April 2, 2016</u> |
| | (In thousands) | |
| Thin-film Equipment | \$21,484 | \$ 5,580 |
| Photonics | 8,904 | 8,084 |
| Total segment net revenues | <u>\$30,388</u> | <u>\$13,664</u> |

Operating Income (Loss)

| | <u>Three Months Ended</u> | |
|---|---------------------------|--------------------------|
| | <u>April 1, 2017</u> | <u>April 2, 2016</u> |
| | (In thousands) | |
| Thin-film Equipment | \$ 1,859 | \$(5,445) |
| Photonics | 1,465 | 407 |
| Total segment operating profit (loss) | 3,324 | (5,038) |
| Unallocated costs | (1,233) | (1,278) |
| Income (loss) from operations | 2,091 | (6,316) |
| Interest income and other income (expense), net | 110 | 37 |
| Income (loss) before income taxes | <u>\$ 2,201</u> | <u>\$(6,279)</u> |

Total assets for each reportable segment as of April 1, 2017 and December 31, 2016 are as follows:

Assets

| | <u>April 1, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|------------------------------|
| | (In thousands) | |
| Thin-film Equipment | \$ 41,862 | \$ 39,503 |
| Photonics | 17,291 | 16,071 |
| Total segment assets | <u>59,153</u> | <u>55,574</u> |
| Cash, cash equivalents and investments | 44,842 | 48,238 |
| Restricted cash | 1,450 | 1,602 |
| Deferred income taxes | 3 | 3 |
| Other current assets | 1,001 | 997 |
| Common property, plant and equipment | 1,608 | 1,039 |
| Other assets | 671 | 871 |
| Consolidated total assets | <u>\$108,728</u> | <u>\$ 108,324</u> |

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

14. Income Taxes

Intevac recorded income tax provisions of \$372,000 for the three months ended April 1, 2017 and of \$26,000 for the three months ended April 2, 2016. The income tax provisions for the three month periods are based upon estimates of annual income (loss), annual permanent differences and statutory tax rates in the various jurisdictions in which Intevac operates. For the three month period ended April 1, 2017 Intevac utilized net operating loss carry-forwards to reduce taxable U.S. income to the AMT level and recorded discrete items for audit considerations in foreign jurisdictions and stock-based compensation excess tax benefits. Intevac did not recognize benefits on the U.S. net operating loss or on the Singapore net operating loss for the three month period ended April 2, 2016 due to having full valuation allowances on the U.S. deferred tax assets and on the Singapore deferred tax assets. Intevac's tax rate differs from the applicable statutory rates due primarily to establishment of a valuation allowance, the utilization of deferred and current credits and the effect of permanent differences and adjustments of prior permanent differences. Intevac's future effective income tax rate depends on various factors, including the level of Intevac's projected earnings, the geographic composition of worldwide earnings, tax regulations governing each region, net operating loss carry-forwards, availability of tax credits and the effectiveness of Intevac's tax planning strategies. Management carefully monitors these factors and timely adjusts the effective income tax rate.

The Inland Revenue Authority of Singapore ("IRAS") is currently conducting a review of the fiscal 2009 through 2012 tax returns of the Company's wholly-owned subsidiary, Intevac Asia Pte. Ltd. IRAS has challenged the Company's tax position with respect to certain aspects of the Company's transfer pricing. Under Singapore tax law, the Company must pay all contested taxes and the related interest to have the right to defend its position. The contested tax deposits of \$671,000 at April 1, 2017 and \$871,000 at December 31, 2016 are included in other long-term assets on the condensed consolidated balance sheets. The Company's management and its advisors continue to believe that the Company is "more likely than not" to successfully defend that the tax treatment was proper and in accordance with Singapore tax regulations. Presently, there are no other active income tax examinations in the jurisdictions where Intevac operates.

15. Commitments and 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.

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 2017 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 and the Company’s ability to achieve cost savings. 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 15, 2017, and our periodic Form 10-Q’s and Form 8-K’s.

Overview

Intevac is a provider of vacuum deposition equipment for a wide variety of thin-film applications, and a leading provider of digital night-vision technologies and products to the defense industry. The Company leverages its core capabilities in high-volume manufacturing of small substrates to provide process manufacturing equipment solutions to the hard disk drive (“HDD”), display cover panel (“DCP”), and solar cell industries. Intevac also provides sensors, cameras and systems for government applications such as night vision. Intevac’s customers include manufacturers of hard disk media, DCPs and solar cells as well as the U.S. government and its agencies, allies and contractors. Intevac reports two segments: Thin-film Equipment and Photonics.

Product development and manufacturing activities occur in North America and Asia. Intevac has field offices in Asia to support its Thin-film Equipment customers. Intevac’s products are highly technical and are sold primarily through Intevac’s direct sales force. Intevac also sells its products through distributors in Japan and China.

Intevac’s results are driven by a number of factors including success in its equipment growth initiatives in the DCP and solar markets and by worldwide demand for HDDs. Demand for HDDs depends on the growth in digital data creation and storage, the rate of areal density improvements, the end-user demand for PCs, enterprise data storage, nearline “cloud” applications, video players and video game consoles that include such drives. Intevac continues to execute its strategy of equipment diversification into new markets by introducing new products, such as for a thin-film PVD application for protective coating for DCP manufacturing and a thin-film PVD application for PV solar cell manufacturing. Intevac believes that expansion into these markets will result in incremental equipment revenues for Intevac and decrease Intevac’s dependence on the HDD industry. Intevac’s equipment business is subject to cyclical industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for HDDs, cell phones, and PV cells as well as other factors such as global economic conditions and technological advances in fabrication processes.

The following table presents certain significant measurements for the three months ended April 1, 2017 and April 2, 2016:

| | Three Months Ended | | |
|-------------------------------------|--|------------------|-----------------------------|
| | April 1, 2017 | April 2, 2016 | Change over prior period |
| | (In thousands, except percentages and per share amounts) | | |
| Net revenues | \$ 30,388 | \$ 13,664 | \$ 16,724 |
| Gross profit | \$ 13,047 | \$ 3,856 | \$ 9,191 |
| Gross margin percent | 42.9% | 28.2% | 14.7 points |
| Net income (loss) | \$ 1,829 | \$ (6,305) | \$ 8,134 |
| Net income (loss) per diluted share | \$ 0.08 | \$ (0.31) | \$ 0.39 |

Table of Contents

Net revenues increased during the first quarter of fiscal 2017 compared to the same period in the prior year primarily due to higher Thin-film Equipment sales and higher Photonics technology development contracts, offset in part by lower Photonics product sales. Thin-film Equipment recognized revenue on four VERTEX™ coating systems for DCP and one 200 Lean® HDD system in the first quarter of fiscal 2017 compared to one VERTEX coating system in the first quarter of fiscal 2016. The net income for the first quarter of fiscal 2017 increased compared to the same period in the prior year due to higher revenues and higher gross margins, offset in part by higher operating expenses as the Company recorded higher variable compensation expenses as a result of the return to profitability.

Given the momentum we have built in our business, we believe that we are currently on the path to profitability in fiscal 2017. In 2017, Intevac expects higher sales of new Thin-film Equipment products as Intevac recognized revenue on four VERTEX coating systems for DCP in the first quarter and has fifteen solar implant systems in backlog of which two are currently undergoing installation activities at our customer site. Intevac expects that HDD equipment sales will be approximately at the same levels as 2016, as Intevac recognized revenue on one 200 Lean HDD system in the first quarter and as a HDD manufacturer takes delivery of the three 200 Lean systems in backlog. For fiscal 2017, Intevac expects that Photonics business levels will be about the same levels as 2016 as Photonics continues to deliver production shipments of the pilot night-vision systems for the Apache helicopter and night-vision camera modules for the F35 Joint Strike Fighter program.

Intevac's trademarks, include the following: "200 Lean®," "AccuLuber™," "EBAPS®," "ENERG i™," "I-Port™," "LIVAR®," "INTEVAC LSMA™," "INTEVAC MATRIX™," "MicroVista®," "NightVista®," "Night Port™," "oDLC™" and "INTEVAC VERTEX™".

Results of Operations

Net revenues

| | Three Months Ended | | |
|---------------------|--------------------|------------------|-----------------------------|
| | April 1, 2017 | April 2, 2016 | Change over prior period |
| Thin-film Equipment | \$21,484 | \$ 5,580 | \$ 15,904 |
| Photonics | | (In thousands) | |
| Products | 6,939 | 7,702 | (763) |
| Contract R&D | 1,965 | 382 | 1,583 |
| | <u>8,904</u> | <u>8,084</u> | <u>820</u> |
| Total net revenues | <u>\$30,388</u> | <u>\$13,664</u> | <u>\$ 16,724</u> |

Thin-film Equipment revenue for the three months ended April 1, 2017 included revenue recognized for four VERTEX coating systems for DCP and one 200 Lean HDD system, disk equipment technology upgrades and spare parts. Thin-film Equipment revenue for the three months ended April 2, 2016 included revenue recognized for one VERTEX coating system for DCP, disk equipment technology upgrades and spare parts.

Photonics revenue for the three months ended April 1, 2017 increased over the same period in the prior year as a result of higher contract research and development ("R&D") work, offset by lower product sales.

[Table of Contents](#)

Backlog

| | April 1, 2017 | December 31, 2016 | April 2, 2016 |
|---------------------|------------------|----------------------|------------------|
| | | (In thousands) | |
| Thin-film Equipment | \$56,233 | \$ 46,283 | \$18,347 |
| Photonics | 16,731 | 22,244 | 26,377 |
| Total backlog | <u>\$72,964</u> | <u>\$ 68,527</u> | <u>\$44,724</u> |

Thin-film Equipment backlog at April 1, 2017 included three 200 Lean HDD systems, fourteen ENER*G i* solar ion implant systems and one INTEVAC MATRIX solar implant pilot system. Backlog at December 31, 2016 included four 200 Lean HDD systems, four INTEVAC VERTEX systems for DCP, one INTEVAC MATRIX solar implant pilot system, and two ENER*G i* solar ion implant systems. Backlog as of April 2, 2016 included one INTEVAC MATRIX PVD solar system, one INTEVAC MATRIX solar pilot system and one ENER*G i* solar ion implant system.

Revenue by geographic region

| | Three Months Ended | | |
|--------------------|--------------------|------------------|-----------------------------|
| | April 1, 2017 | April 2, 2016 | Change over prior period |
| | | (In thousands) | |
| United States | \$ 9,202 | \$ 8,143 | \$ 1,059 |
| Asia | 20,871 | 5,295 | 15,576 |
| Europe | 315 | 226 | 89 |
| Total net revenues | <u>\$30,388</u> | <u>\$13,664</u> | <u>\$ 16,724</u> |

International sales include products shipped to overseas operations of U.S. companies. The increase in sales to the U.S. region in 2017 versus 2016 reflected higher Photonics contract R&D work, offset in part by lower Photonics product sales. Sales to the Asia region in 2017 included four VERTEX coating systems for DCP and one 200 Lean system versus one VERTEX coating system in 2016. Sales to the Europe region in 2017 versus 2016 were essentially flat.

Gross profit

| | Three Months Ended | | |
|---------------------------------------|--------------------|------------------------------------|-----------------------------|
| | April 1, 2017 | April 2, 2016 | Change over prior period |
| | | (In thousands, except percentages) | |
| Thin-film Equipment gross profit | \$ 9,255 | \$ 504 | \$ 8,751 |
| % of Thin-film Equipment net revenues | 43.1% | 9.0% | |
| Photonics gross profit | \$ 3,792 | \$3,352 | \$ 440 |
| % of Photonics net revenues | 42.6% | 41.5% | |
| Total gross profit | <u>\$13,047</u> | <u>\$3,856</u> | <u>\$ 9,191</u> |
| % of net revenues | 42.9% | 28.2% | |

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

Thin-film Equipment gross margin was 43.1% in the three months ended April 1, 2017 compared to 9.0% in the three months ended April 2, 2016. The increase in margins was due to higher revenue levels, higher factory absorption, and lower provisions for excess and obsolete inventory. Gross margins in the Thin-film Equipment business will vary depending on a number of factors, including revenue levels, product mix, product cost, system configuration and pricing, factory utilization, and provisions for excess and obsolete inventory.

[Table of Contents](#)

Photonics gross margin was 42.6% in the three months ended April 1, 2017 compared to 41.5% in the three months ended April 2, 2016. Photonics gross margins for the three months ended April 2, 2016 reflected lower margins on contract R&D as a result of a cost overrun on a cost plus fixed fee contract that was completed in the first quarter of 2016.

Research and development

| | Three Months Ended | | |
|----------------------------------|--------------------|------------------|-----------------------------|
| | April 1, 2017 | April 2, 2016 | Change over prior period |
| | (In thousands) | | |
| Research and development expense | \$4,682 | \$5,176 | \$ (494) |

Research and development spending in Thin-film Equipment during the three months ended April 1, 2017 was essentially flat compared to the three months ended April 2, 2016. Thin-film Equipment spending consisted primarily of PV and DCP development. Research and development spending decreased in Photonics during the three months ended April 1, 2017 as compared to the three months ended April 2, 2016. Photonics spending during the three months ended April 2, 2016 reflected incremental spending on demonstrators developed for evaluation by the U.S. Army and U.S. Navy which were self-funded by Intevac. Research and development expenses do not include costs of \$1.7 million and \$858,000 for the three-month periods ended April 1, 2017 and April 2, 2016, respectively, which are related to customer-funded contract R&D programs in Photonics and therefore included in cost of net revenues.

Selling, general and administrative

| | Three Months Ended | | |
|---|--------------------|------------------|-----------------------------|
| | April 1, 2017 | April 2, 2016 | Change over prior period |
| | (In thousands) | | |
| Selling, general and administrative expense | \$6,274 | \$4,996 | \$ 1,278 |

Selling, general and administrative expense consists primarily of selling, marketing, customer support, financial and management costs. Selling, general and administrative expenses for the three months ended April 1, 2017 increased compared to the three months ended April 2, 2016 primarily due to higher variable compensation costs as a result of the Company's return to profitability, increased legal expenses for patent applications and increased spending for strategic consulting.

Interest income and other income (expense), net

| | Three Months Ended | | |
|---|--------------------|------------------|-----------------------------|
| | April 1, 2017 | April 2, 2016 | Change over prior period |
| | (In thousands) | | |
| Interest income and other income (expense), net | \$ 110 | \$ 37 | \$ 73 |

Interest income and other income (expense), net in the three months ended April 1, 2017 included \$56,000 of interest income on investments, \$45,000 of earnout income from a divestiture and various other income of \$53,000, offset in part by \$44,000 of foreign currency losses. Interest income and other income (expense), net in the three months ended April 2, 2016 included \$48,000 of interest income on investments and various other income of \$49,000, offset in part by \$60,000 of foreign currency losses. The increase in interest income in the three months ended April 1, 2017 resulted from higher interest rates offset in part by lower invested balances.

[Table of Contents](#)*Income tax provision*

| | Three Months Ended | | |
|----------------------|---------------------------|--------------------------|-------------------------------------|
| | April 1, 2017 | April 2, 2016 | Change over prior period |
| | (In thousands) | | |
| Income tax provision | \$ 372 | \$ 26 | \$ 346 |

Intevac recorded income tax provisions of \$372,000 for the three months ended April 1, 2017 and of \$26,000 for the three months ended April 2, 2016. The income tax provisions for the three month periods are based upon estimates of annual income (loss), annual permanent differences and statutory tax rates in the various jurisdictions in which Intevac operates. For the three month period ended April 1, 2017 Intevac utilized net operating loss carry-forwards to reduce taxable U.S. income to the AMT level and recorded discrete items for audit considerations in foreign jurisdictions and stock-based compensation excess tax benefits. Intevac did not recognize benefits on the U.S. net operating loss and on the Singapore net operating loss for the three month period ended April 2, 2016 due to having full valuation allowances on the U.S. deferred tax assets and on the Singapore deferred tax assets. Intevac's tax rate differs from the applicable statutory rates due primarily to establishment of a valuation allowance, the utilization of deferred and current credits and the effect of permanent differences and adjustments of prior permanent differences. Intevac's future effective income tax rate depends on various factors, including the level of Intevac's projected earnings, the geographic composition of worldwide earnings, tax regulations governing each region, net operating loss carry-forwards, availability of tax credits and the effectiveness of Intevac's tax planning strategies. Management carefully monitors these factors and timely adjusts the effective income tax rate.

Liquidity and Capital Resources

At April 1, 2017, Intevac had \$44.8 million in cash, cash equivalents, and investments compared to \$48.2 million at December 31, 2016. During the first three months of 2017, cash, cash equivalents and investments decreased by \$3.4 million due primarily to cash used by operating activities, purchases of fixed assets and tax payments related to the net share settlement of restricted stock units partially offset by 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:

| | April 1, 2017 | December 31, 2016 |
|--|--------------------------|------------------------------|
| | (In thousands) | |
| Cash and cash equivalents | \$25,577 | \$ 27,043 |
| Short-term investments | 15,227 | 17,602 |
| Long-term investments | 4,038 | 3,593 |
| Total cash, cash equivalents and investments | <u>\$44,842</u> | <u>\$ 48,238</u> |

Operating activities used cash of \$2.0 million during the first three months of 2017 and used cash of \$2.4 million during the first three months of 2016. The improvement in operating cash flows was due primarily to higher net income as a result of the return to profitability, offset in part by additional investments in working capital during the first three months of 2017.

Accounts receivable totaled \$21.6 million at April 1, 2017 compared to \$17.4 million at December 31, 2016 primarily as a result of billings for customer advances. At April 1, 2017, customer advances for products that had not been shipped to customers and included in accounts receivable were \$4.5 million. Net inventories totaled \$24.1 million at April 1, 2017 compared to \$24.9 million at December 31, 2016. The decrease was due primarily to recognition of previously deferred revenue on four VERTEX systems that were undergoing installation and acceptance testing and included in finished goods at December 31, 2016, offset in part by higher levels of production inventories for planned 2017 shipments. Accounts payable totaled \$6.8 million at April 1, 2017

[Table of Contents](#)

compared to \$5.3 million at December 31, 2016. Accrued payroll and related liabilities decreased to \$4.0 million at April 1, 2017 compared to \$4.2 million at December 31, 2016 due primarily to the settlement of 2016 bonuses. Other accrued liabilities decreased to \$6.4 million at April 1, 2017 compared to \$17.0 million at December 31, 2016 due primarily to the recognition of previously deferred revenue. Customer advances increased from \$5.4 million at December 31, 2016 to \$11.6 million at April 1, 2017, primarily due to the receipt of new customer orders.

Investing activities generated cash of \$610,000 during the first three months of 2017. Proceeds from sales of investments net of purchases totaled \$1.9 million. Capital expenditures for the three months ended April 1, 2017 were \$1.4 million.

Financing activities used cash of \$129,000 in the first three months of 2017. The sale of Intevac common stock to Intevac's employees through Intevac's employee benefit plans generated cash of \$1.1 million. Tax payments related to the net share settlement of restricted stock units were \$1.2 million.

Intevac's investment portfolio consists principally of investment grade money market mutual funds, U.S. Treasury and agency securities, certificates of deposit, commercial paper, municipal bonds and corporate bonds. Intevac regularly monitors the credit risk in its investment portfolio and takes measures, which may include the sale of certain securities, to manage such risks in accordance with its investment policies.

As of April 1, 2017, approximately \$6.0 million of cash and cash equivalents were domiciled in foreign tax jurisdictions. Intevac expects a significant portion of these funds to remain offshore in the short term. If the Company chose to repatriate these funds to the United States, it would be required to accrue and pay additional taxes on any portion of the repatriation where no United States income tax had been previously provided.

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 \$6.0 million to \$7.0 million in capital expenditures during the remainder of 2017.

Off-Balance Sheet Arrangements

Off-balance sheet firm commitments relating to outstanding letters of credit amounted to approximately \$1.5 million as of April 1, 2017. These letters of credit and bank guarantees are collateralized by \$1.5 million of restricted cash. We do not maintain any other off-balance sheet arrangements, transactions, obligations, or other relationships that would be expected to have a material current or future effect on the consolidated financial statements.

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 15, 2017. 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.

[Table of Contents](#)

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

For further information about Intevac's other critical accounting policies, see the discussion of critical accounting policies in Intevac's 2016 Form 10-K. Beginning January 1, 2017, Intevac accounts for forfeitures on stock-based compensation as they occur, rather than estimate expected forfeitures. Except for the change in accounting policy for the timing of recognition of forfeitures, management believes that there has been no significant change during the three months ended April 1, 2017 to the items identified as critical accounting policies in Intevac's 2016 Form 10-K.

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. The Company has adopted an investment policy and established guidelines relating to credit quality, diversification and maturities of its investments in order to preserve principal and maintain liquidity. All investment securities in Intevac's portfolio have an investment grade credit rating. Investments typically consist of certificates of deposit, commercial paper, obligations of the U.S. government and its agencies, corporate debt securities and municipal bonds.

The table below presents principal amounts and related weighted-average interest rates by year of expected maturity for Intevac's investment portfolio at April 1, 2017.

| | 2017 | 2018 | 2019 | Total | Fair Value |
|----------------------------|------------------------------------|---------|---------|----------|------------|
| | (In thousands, except percentages) | | | | |
| Cash equivalents | | | | | |
| Variable rate amounts | \$ 8,414 | \$ — | \$ — | \$ 8,414 | \$ 8,414 |
| Weighted-average rate | 0.64% | — | — | | |
| Fixed rate amounts | \$ 1,873 | — | — | \$ 1,873 | \$ 1,873 |
| Weighted-average rate | 0.72% | — | — | | |
| Short-term investments | | | | | |
| Fixed rate amounts | \$12,235 | \$3,003 | \$ — | \$15,238 | \$15,227 |
| Weighted-average rate | 1.77% | 1.53% | — | | |
| Long-term investments | | | | | |
| Fixed rate amounts | \$ — | \$1,601 | \$2,444 | \$ 4,045 | \$ 4,038 |
| Weighted-average rate | — | 1.27% | 2.15% | | |
| Total investment portfolio | \$22,522 | \$4,604 | \$2,444 | \$29,570 | \$29,552 |

Foreign exchange risk. From time to time, Intevac enters into foreign currency forward exchange contracts to hedge certain of its anticipated foreign currency re-measurement exposures and to offset certain operational exposures from the impact of changes in foreign currency exchange rates. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on Intevac's operating results. The derivatives have original maturities of approximately 30 days. The notional amount of Company's foreign currency derivatives was \$1.3 million at April 1, 2017 and \$1.1 million at December 31, 2016.

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 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 April 1, 2017, 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 (the “CEO” and “CFO”), 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 April 1, 2017.

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 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.

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.

A significant portion of our revenue is derived from the sale of equipment used to manufacture commodity technology products such as disk drives, PV solar cells and cell phones. This subjects us to business cycles, the timing, length and volatility of which can be difficult to predict. When demand for commodity technology products exceeds production capacity, then demand for new capital equipment such as ours tends to be amplified. Conversely, when supply of commodity technology products exceeds demand, then demand for new capital equipment such as ours tends to be depressed. For example, sales of systems for magnetic disk production were depressed from late 2007 through 2009. The number of new systems delivered increased in 2010 as customers increased their production capacity in response to increased demand for data storage, but decreased in 2011 through 2015 as the hard disk drive industry did not add the same level of capacity that it did in 2010. We cannot predict with any certainty when these cycles will begin or end. Our sales of systems for magnetic disk production increased modestly in 2016 as a customer upgraded the technology level of its manufacturing capacity. 2017 sales of systems for magnetic disk production are expected to be at the same levels as 2016.

Our equipment represents only a portion of the capital expenditure that our customers incur when they upgrade or add production capacity. Accordingly, our customers generally commit to making large capital expenditures far in excess of the cost of our systems alone when they decide to purchase our systems. The magnitude of these capital expenditures requires our customers to have access to large amounts of capital. Our customers generally reduce their level of capital investment during downturns in the overall economy or during a downturn in their industries. In addition, in recent years the photovoltaic market has undergone a downturn, which is likely to impact our sales of PV products.

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 and customization of our products. We do not typically enter into long-term contracts with our customers, and until an order is actually submitted by a customer there is no binding commitment to purchase our systems.

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

The 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 typically 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.

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

In the market for our disk sputtering systems, we experience competition primarily from Canon Anelva, which has sold a substantial number of systems worldwide. In the PV equipment market, Intevac faces competition from large established competitors including Applied Materials, Centrotherm Photovoltaics, Amtech, Jusun and Von Ardenne. In the market for our military imaging products we experience competition from companies such as Harris Corporation and L-3 Communications. Some of our competitors have substantially greater financial, technical, marketing, manufacturing and other resources than we do, especially in the DCP and PV equipment markets. Our competitors may develop enhancements to, or future generations of, competitive products that offer superior price or performance features, and new competitors may enter our markets and develop such enhanced products. Moreover, competition for our customers is intense, and our competitors have historically offered substantial pricing concessions and incentives to attract our customers or retain their existing customers.

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 and other PVD systems, our coating systems for DCP, our solar systems for PV applications, our digital night-vision products and our near-eye display 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 PV and cell phone cover glass markets. Our expansion into the PV market is dependent upon the success of our customers' development plans. To date we have not recognized material revenue from such products. Failure to correctly assess the size of the 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. In addition, if we invest in products for which the market does not develop as anticipated, we may incur significant charges related to such investments.

Rapid technological change in our served markets requires us to rapidly develop new technically advanced products. Our future success depends in part on our ability to develop and offer new products with improved capabilities and to continue to enhance our existing products. If new products have reliability or quality problems, our performance may be impacted by reduced orders, higher manufacturing costs, delays in acceptance and payment for new products and additional service and warranty expenses.

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, when combined with changes in the customers' specific capacity plans and market share shifts can lead to extreme variability in our revenue and financial results from period to period.

The concentration of our customer base may enable our customers to demand pricing and other terms unfavorable to Intevac, and makes us more vulnerable to changes in demand by 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 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, cyclicalities and other factors in the markets for computer systems, storage subsystems and consumer electronics containing disks as well as cell phones and PV solar cells 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 time and attention.

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 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 comply with export control laws, including identification and reporting of all exports and re-exports of controlled technology or exports made without correct license approval or improper license use could result in severe penalties and revocation of licenses. Failure to obtain export licenses, delays in obtaining licenses, or revocation of previously issued licenses would prevent us from selling the affected products outside the United States and could negatively impact our results of operations.

The 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 our Photonics products and services directly to the U.S. government, as well as to prime contractors for various U.S. government programs. The U.S. government is considering significant changes in the level of existing, follow-on or replacement programs. We cannot predict the impact of potential changes in priorities due to military transformations and/or the nature of future war-related activities. A shift of government priorities to programs in which we do not participate and/or reductions in funding for or the termination of programs in which we do participate, unless offset by other programs and opportunities, could have a material adverse effect on our financial position, results of operations, or cash flows.

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 and spending reductions. Sales to the U.S. government and its prime contractors may also be affected by changes in procurement policies, budget considerations and political developments in the United States or abroad. For example, if the U.S. government is less focused on defense spending or there is a decrease in hostilities, demand for our products could decrease. The loss of funding for a government program would result in a loss of future revenues attributable to that program. The influence of any of these factors, which are beyond our control, could negatively impact our results of operations.

A significant portion of our U.S. government revenue is derived from fixed-price development and production contracts. Under fixed-price contracts, unexpected increases in the cost to develop or manufacture a product, whether due to inaccurate estimates in the bidding process, unanticipated increases in material costs, reduced production volumes, inefficiencies or other factors, are borne by us. We have experienced cost overruns in the past 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, Singapore and various other countries. Significant judgment is required to determine and estimate worldwide tax liabilities. Our future effective tax rate could be affected by: (1) changes in tax laws; (2) the allocation of earnings to countries with differing tax rates; (3) changes in worldwide projected annual earnings in current and future years; (4) accounting pronouncements; or (5) changes in the valuation of our deferred tax assets and liabilities. Although we believe our tax estimates are reasonable, there can be no assurance that any final determination will not be different from the treatment reflected in our historical income tax provisions and accruals, which could result in additional payments by Intevac.

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

In previous years, the majority of our revenues have come from regions outside the United States. Most of our international sales are to customers in Asia, which includes products shipped to overseas operations of U.S. companies. We currently have manufacturing facilities in California and Singapore and international customer support offices in Singapore, China, and Malaysia. We expect that international sales will continue to account for a significant portion of our total revenue in future years. Certain of our suppliers are also located outside the United States.

Managing our global operations presents challenges including, but not limited to, those arising from: (1) global trade issues; (2) variations in protection of intellectual property and other legal rights in different countries; (3) concerns of U.S. governmental agencies regarding possible national commercial and/or security issues posed by growing manufacturing business in Asia; (4) fluctuation of interest rates, raw material costs, labor and operating costs, and exchange rates; (5) variations in the ability to develop relationships with suppliers and other local businesses; (6) changes in the laws and regulations of the United States, including export restrictions, and other countries, as well as their interpretation and application; (7) the need to provide technical and 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.

We must regularly assess the size, capability and location of our global infrastructure and make appropriate changes to address these issues.

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

We have completed a number of acquisitions and dispositions during our operating history. For example, in 2007, we acquired certain assets of DeltaNu, LLC and certain assets of Creative Display Systems, LLC, in 2008 we acquired certain assets of OC Oerlikon Balzers Ltd., in 2010 we acquired the outstanding shares of SIT, in 2012 we completed the sale of certain semiconductor mainframe technology assets and in 2013 we completed the sale of the assets of DeltaNu. We have spent and may continue to spend significant resources identifying and pursuing future acquisition opportunities. Acquisitions involve numerous risks including: (1) difficulties in integrating the operations, technologies and products of the acquired companies; (2) the diversion of our management's attention from other business concerns; and (3) the potential loss of key employees of the acquired companies. Failure to achieve the anticipated benefits of the prior and any future acquisitions or to successfully integrate the operations of the companies we acquire could have a material and adverse effect on our business, financial condition and results of operations. Any future acquisitions could also result in potentially dilutive issuance of equity securities, acquisition or divestiture-related write-offs or the assumption of debt and contingent liabilities. In addition, we have made and will continue to consider making strategic divestitures. With any divestiture, there are risks that future operating results could be unfavorably impacted if targeted objectives, such as cost savings, are not achieved or if other business disruptions occur as a result of the divestiture or activities related to the divestiture.

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 intangible assets and had significant goodwill on our balance sheet. We test these 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 intangible assets for impairment include: a significant 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 2012, as a result of a decline in our market capitalization and a reduction in our revenue expectations we recorded a goodwill impairment charge in the amount of \$18.4 million. We will continue to evaluate the carrying value of our intangible assets and if we determine in the future that there is a potential further impairment, we may be required to record additional charges to earnings which could materially adversely affect our financial results and could also materially adversely affect our business.

Our success is dependent on recruiting and retaining a highly talented work force.

Our employees are vital to our success, and our key management, engineering and other employees are difficult to replace. We do not maintain key person life insurance on any of our employees. The expansion of high technology companies worldwide has increased demand and competition for qualified personnel, and has made companies increasingly protective of prior employees. It may be difficult for us to locate employees who are not subject to non-competition agreements and other restrictions.

The majority of our U.S. operations are located in California where the cost of living and of recruiting employees is high. Our operating results depend, in large part, upon our ability to retain and attract qualified management, engineering, marketing, manufacturing, customer support, sales and administrative personnel. Furthermore, we compete with industries such as the hard disk drive, semiconductor, and solar industries for skilled employees. Failure to retain existing key personnel, or to attract, assimilate or retain additional highly qualified employees to meet our needs in the future, could have a material and adverse effect on our business, financial condition and results of operations.

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.

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. 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.

We are subject to risks of non-compliance with environmental and other governmental regulations.

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

We are also subject to a variety of other governmental regulations and may incur significant costs associated with the compliance with these regulations. For example rules adopted by the SEC to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act impose diligence and disclosure requirements regarding the use of “conflict” minerals mined from the Democratic Republic of Congo and adjoining countries in the products we manufacture. Compliance with these regulations is likely to result in additional costs and expenses or may affect the sourcing and availability of the components used in the products we manufacture.

Business interruptions could adversely affect our operations.

Our operations are vulnerable to interruption by fire, earthquake, floods or other natural disaster, quarantines or other disruptions associated with infectious diseases, national catastrophe, terrorist activities, war, disruptions in our computing and communications infrastructure due to power loss, telecommunications failure, human error, physical or electronic security breaches and computer viruses, and other events beyond our control. We do not have a detailed disaster recovery plan. Despite our implementation of network security measures, our tools and servers may be vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems and tools located at customer sites. Political instability could cause us to incur increased costs in transportation, make such transportation unreliable, increase our insurance costs or cause international currency markets to fluctuate. All these unforeseen disruptions and instabilities could have the same effects on our suppliers and their ability to timely deliver their products. In addition, we do not carry sufficient business interruption insurance to compensate us for all losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business and results of operations. For example, we self-insure earthquake risks because we believe this is the prudent financial decision based on the high cost of the limited coverage available in the earthquake insurance market. An earthquake could significantly disrupt our operations, most of which are conducted in California. It could also significantly delay our research and engineering effort on new products, most of which is also conducted in California. We take steps to minimize the damage that would be caused by business interruptions, but there is no certainty that our efforts will prove successful.

We could be negatively affected as a result of a proxy contest and the actions of activist stockholders.

A proxy contest with respect to election of our directors, or other activist stockholder activities, could adversely affect our business because: (i) responding to a proxy contest and other actions by activist stockholders can be costly and time-consuming, disruptive to our operations and divert the attention of management and our employees; (ii) perceived uncertainties as to our future direction caused by activist activities may result in the loss of potential business opportunities, and may make it more difficult to attract and retain qualified personnel and business partners; and (iii) if individuals are elected to our Board of Directors with a specific agenda, it may adversely affect our ability to effectively and timely implement our strategic plans.

[Table of Contents](#)

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, 2016, 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*

On November 21, 2013, Intevac's Board of Directors approved a stock repurchase program authorizing up to \$30.0 million in repurchases. At April 1, 2017, \$1.5 million remains available for future stock repurchases under the repurchase program. Intevac did not make any common stock repurchases during the three months ended April 1, 2017.

Item 3. *Defaults upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

None.

[Table of Contents](#)

Item 6. Exhibits

The following exhibits are filed herewith:

| Exhibit Number | Description |
|----------------|--|
| 10.1 | The Registrant's 2003 Employee Stock Purchase Plan, as amended (1) + |
| 10.2 | The Registrant's 2012 Equity Incentive Plan, as amended (1) + |
| 10.3 | Form of Restricted Stock Unit Agreement for 2012 Equity Incentive Plan + |
| 10.4 | Form of Restricted Stock Agreement for 2012 Equity Incentive Plan + |
| 10.5 | Form of Stock Option Agreement for 2012 Equity Incentive Plan + |
| 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. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

(1) Previously filed as an exhibit to the Company's Definitive Proxy Statement filed April 12, 2017.

+ Management compensatory plan or arrangement required to be filed as an exhibit.

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: May 2, 2017

By: /s/ WENDELL T. BLONIGAN
Wendell T. Blonigan
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: May 2, 2017

By: /s/ JAMES MONIZ
James Moniz
Executive Vice President, Finance and Administration,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

INTEVAC, INC.

2012 EQUITY INCENTIVE PLAN

RESTRICTED STOCK UNIT AGREEMENT

Unless otherwise defined herein, the terms defined in the Intevac, Inc. 2012 Equity Incentive Plan (the “ *Plan* ”) will have the same defined meanings in this Restricted Stock Unit Agreement (the “ *Agreement* ”), which includes the Notice of Restricted Stock Unit Grant (the “Notice of Grant”) and Terms and Conditions of Restricted Stock Unit Grant, attached hereto as Exhibit A.

I. NOTICE OF RESTRICTED STOCK UNIT GRANT

Participant:

Address:

Participant has been granted the right to receive an Award of Restricted Stock Units, subject to the terms and conditions of the Plan and this Agreement, as follows:

| | |
|----------------------------------|-------|
| Grant Number | _____ |
| Date of Grant | _____ |
| Vesting Commencement Date | _____ |
| Number of Restricted Stock Units | _____ |

Vesting Schedule :

Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock Units will vest in accordance with the following schedule:

[INSERT VESTING SCHEDULE, e.g.: Twenty-five percent (25%) of the Restricted Stock Units will vest on the one (1) year anniversary of the Vesting Commencement Date, and thereafter on each annual anniversary of such date, the Participant shall become fully vested in that number of restricted stock units equal to 25% of the shares subject to the Award, such that on the 4-year anniversary of the Vesting Commencement Date the Participant shall be fully vested in all the restricted units subject to the Award, provided Participant remains a Service Provider through the applicable vesting date.]

In the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the Restricted Stock Units, the Restricted Stock Units and Participant’s right to acquire any Shares hereunder will immediately terminate.

By Participant’s signature and the signature of the representative of Intevac, Inc. (the “ *Company* ”) below, Participant and the Company agree that this Award of Restricted Stock Units is granted under and governed by the terms and conditions of the Plan and this Agreement,

including the Terms and Conditions of Restricted Stock Unit Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Plan and Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT:

INTEVAC, INC.

Signature

By

Print Name

Title

Residence Address :

EXHIBIT A

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT GRANT

1. Grant. The Company hereby grants to the individual (the “*Participant*”) named in the Notice of Grant of Award and Award Agreement (the “*Notice of Grant*”) under the Intevac, Inc. 2012 Equity Incentive Plan (the “*Plan*”) an Award of Restricted Stock Units, subject to all of the terms and conditions in this Agreement and the Plan, which is incorporated herein by reference. Subject to Section 20 of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan will prevail. Unless otherwise defined herein, the terms defined in the Plan will have the same defined meanings in this Restricted Stock Unit Agreement (the “*Agreement*” or “*Award Agreement*”), which includes the Notice of Grant and Terms and Conditions of Restricted Stock Unit Grant.

2. Company’s Obligation to Pay. Each Restricted Stock Unit represents the right to receive a Share on the date it vests. Unless and until the Restricted Stock Units will have vested in the manner set forth in Section 3 or 4, Participant will have no right to payment of any such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Units will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company. Any Restricted Stock Units that vest in accordance with Sections 3 or 4 will be paid to Participant (or in the event of Participant’s death, to his or her estate) in whole Shares, subject to Participant satisfying any applicable tax withholding obligations as set forth in Section 7. Subject to the provisions of Section 4, such vested Restricted Stock Units will be paid in whole Shares as soon as practicable after vesting, but in each such case within sixty (60) days following the vesting date. In no event will Participant be permitted, directly or indirectly, to specify the taxable year of the payment of any Restricted Stock Units payable under this Agreement. No fractional Shares will be issued under this Agreement.

3. Vesting Schedule. Except as provided in Section 4, and subject to any acceleration provisions contained in the Plan or set forth in this Agreement, and subject to Section 5, the Restricted Stock Units awarded by this Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Restricted Stock Units scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs. In the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the Restricted Stock Units, the Restricted Stock Units and Participant’s right to acquire any Shares hereunder will immediately terminate.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock Units at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Administrator. The payment of Shares vesting pursuant to this Section 4 shall in all cases be paid at a time or in a manner that is exempt from or complies with Section 409A.

Notwithstanding anything in the Plan or this Agreement to the contrary, if the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units is accelerated in connection with Participant's termination as a Service Provider (provided that such termination is a "separation from service" within the meaning of Section 409A, as determined by the Company), other than due to death, and if (x) Participant is a "specified employee" within the meaning of Section 409A at the time of such separation from service and (y) the payment of such accelerated Restricted Stock Units will result in the imposition of additional tax under Section 409A if paid to Participant on or within the six (6) month period following Participant's separation from service, then the payment of such accelerated Restricted Stock Units will not be made until the date six (6) months and one (1) day following the date of Participant's separation from service, unless the Participant dies following his or her termination as a Service Provider, in which case, the Restricted Stock Units will be paid in Shares to the Participant's estate as soon as practicable following his or her death. It is the intent of this Agreement that it and all payments and benefits hereunder be exempt from or comply with the requirements of Section 409A so that none of the Restricted Stock Units provided under this Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to be so exempt or so comply. Each payment payable under this Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2). For purposes of this Agreement, "**Section 409A**" means Section 409A of the Code, and any final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Agreement, the balance of the Restricted Stock Units that have not vested as of the time of Participant's termination as a Service Provider for any or no reason and Participant's right to acquire any Shares hereunder will immediately terminate.

6. Death of Participant. Any distribution or delivery to be made to Participant under this Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Regardless of any action the Company or Participant's employer (the "Employer") takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding which the Company determines must be withheld or collected with respect to this Award and/or the Shares thereunder ("Tax-Related Items"), Participant acknowledges that the ultimate liability for all Tax-Related Items legally due by him or her is and remains Participant's responsibility and that the Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Unit grant, including the grant, vesting or settlement of the Restricted Stock Units, the subsequent sale of Shares acquired pursuant to such settlement and the receipt of any dividends; and (2) do not commit to structure the terms of the grant or any aspect of the Restricted Stock Units to reduce or eliminate Participant's liability for Tax-Related Items.

Notwithstanding any contrary provision of this Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of Tax-Related Items. Prior to vesting and/or settlement of the Restricted Stock Units, Participant will pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all obligations of the Company and/or the Employer for Tax-Related Items. In this regard, Participant authorizes the Company and/or the Employer to withhold all applicable Tax-Related Items legally payable by Participant from his or her wages or other cash compensation paid to Participant by the Company and/or the Employer or from proceeds of the sale of Shares. Alternatively, or in addition, if permissible under applicable local law, the Company may, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require Participant to satisfy such Tax-Related Items, in whole or in part (without limitation) by (a) paying cash (or cash equivalent), (b) electing to have the Company withhold otherwise deliverable cash or Shares having a fair market value equal to the minimum statutory amount required to be withheld or such greater amount as the Administrator may determine if such amount would not have adverse accounting consequences, as the Administrator determines in its sole discretion, (c) delivering to the Company already-owned Shares having a fair market value equal to the minimum statutory amount required to be withheld or such greater amount as the Administrator may determine if such amount would not have adverse accounting consequences, as the Administrator determines in its sole discretion, or (d) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld for Tax-Related Items. The Company, in its sole discretion, will have the right (but not the obligation) to satisfy any Tax-Related Items by reducing the number of Shares otherwise deliverable to Participant and, until determined otherwise by the Company, this will be the method by which such obligations for Tax-Related Items are satisfied. If Participant fails to make satisfactory arrangements for the payment of any required Tax-Related Items hereunder at the time any applicable Restricted Stock Units otherwise are scheduled to vest pursuant to Sections 3 or 4 or Tax-Related Items related to the Restricted Stock Units otherwise are due, Participant will permanently forfeit such Restricted Stock Units and any right to receive Shares thereunder and the Restricted Stock Units will be returned to the Company at no cost to the Company.

8. Acknowledgements.

(a) Participant acknowledges receipt of a copy of the Plan (including any applicable appendixes or sub-plans thereunder) and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Award of Restricted Stock Units subject to all of the terms and provisions thereof. Participant has reviewed the Plan (including any applicable appendixes or sub-plans thereunder) and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Award. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated in the Notice of Grant.

(b) The Company (which may or may not be Participant's Employer) is granting the Restricted Stock Units. The Company may administer the Plan from outside Participant's country of residence, and United States law will govern all Restricted Stock Units granted under the Plan.

(c) Participant acknowledges that benefits and rights provided under the Plan are wholly discretionary and, although provided by the Company, do not constitute regular or periodic payments. Unless otherwise required by Applicable Laws, the benefits and rights provided under the Plan are not to be considered part of Participant's salary or compensation for purposes of calculating any severance, resignation, redundancy or other end of service payments, vacation, bonuses, long-term service awards, indemnification, pension or retirement benefits, or any other payments, benefits or rights of any kind. Participant waives any and all rights to compensation or damages as a result of the termination of employment with the Company for any reason whatsoever insofar as those rights result or may result from:

- (i) the loss or diminution in value of such rights under the Plan, or
- (ii) Participant ceasing to have any rights under, or ceasing to be entitled to any rights under the Plan as a result of such termination.

(d) The grant of the Restricted Stock Units, and any future grant of Restricted Stock Units under the Plan is entirely voluntary, and at the complete discretion of the Company. Neither the grant of the Restricted Stock Units nor any future grant of Restricted Stock Units by the Company will be deemed to create any obligation to grant any further Restricted Stock Units, whether or not such a reservation is explicitly stated at the time of such a grant. The Company has the right, at any time to amend, suspend or terminate the Plan.

(e) The Plan will not be deemed to constitute, and will not be construed by Participant to constitute, part of the terms and conditions of employment, and the Company will not incur any liability of any kind to Participant as a result of any change or amendment, or any cancellation, of the Plan at any time.

(f) Participation in the Plan will not be deemed to constitute, and will not be deemed by Participant to constitute, an employment or labor relationship of any kind with the Company.

9. **Data Privacy.** By entering into this Agreement, and as a condition of the grant of the Restricted Stock Units, Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this document by and among, as applicable, the Employer, and Company and its Subsidiaries and affiliates for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.

Participant understands that the Company and the Employer, its Parent or any Subsidiary may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other

entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor, for the purpose of implementing, administering and managing the Plan ("Data"). Participant understands that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in Participant's country or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than Participant's country. Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting Participant's local human resources representative. Participant authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing Participant's participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom Participant may elect to deposit any shares of stock acquired upon settlement of the Restricted Stock Units. Participant understands that Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan. Participant understands that he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing Participant's local human resources representative. Participant understands, however, that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative.

10. English Language. Participant has received the terms and conditions of this Agreement and any other related communications, and Participant consents to having received these documents in English. If Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the translated version is different than the English version, the English version will control.

11. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

12. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE RESTRICTED STOCK UNITS PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS AWARD OF RESTRICTED STOCK UNITS OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN

DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

13. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company, in care of its Secretary at Intevac, Inc., 3560 Bassett Street, Santa Clara CA 95054, or at such other address as the Company may hereafter designate in writing.

14. Grant is Not Transferable. Except to the limited extent provided in Section 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

15. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any state, federal or foreign law, the tax code and related regulations or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate) hereunder, such issuance will not occur unless and until such listing, registration, qualification, rule compliance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. Where the Company determines that the delivery of the payment of any Shares will violate federal securities laws or other applicable laws, the Company will defer delivery until the earliest date at which the Company reasonably anticipates that the delivery of Shares will no longer cause such violation. The Company will make all reasonable efforts to meet the requirements of any such state, federal or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange.

17. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Agreement will have the meaning set forth in the Plan.

18. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and

application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

19. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

20. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

21. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

22. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A in connection to this Award of Restricted Stock Units.

23. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock Units under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

24. Governing Law. This Agreement will be governed by the laws of the State of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock Units or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation will be conducted in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock Units is made and/or to be performed.

INTEVAC, INC.

2012 EQUITY INCENTIVE PLAN

RESTRICTED STOCK AGREEMENT

Unless otherwise defined herein, the terms defined in the Intevac, Inc. 2012 Equity Incentive Plan (the "Plan") will have the same defined meanings in this Restricted Stock Agreement (the "Agreement"), which includes the Notice of Restricted Stock Grant (the "Notice of Grant") and Terms and Conditions of Restricted Stock Grant, attached hereto as Exhibit A.

NOTICE OF RESTRICTED STOCK GRANT

Participant: _____

Address: _____

Participant has been granted the right to receive an Award of Restricted Stock, subject to the terms and conditions of the Plan and this Agreement, as follows:

Grant Number _____

Date of Grant _____

Vesting Commencement Date _____

Total Number of Shares Granted _____

Vesting Schedule :

Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock will vest and the Company's right to reacquire the Restricted Stock will lapse in accordance with the following schedule:

[INSERT VESTING SCHEDULE]

By Participant's signature and the signature of the representative of Intevac, Inc. (the "Company") below, Participant and the Company agree that this Award of Restricted Stock is granted under and governed by the terms and conditions of the Plan and this Agreement, including the Terms and Conditions of Restricted Stock Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Plan and Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT

INTEVAC, INC.

Signature

Signature

Print Name

Print Name

Residence Address:

EXHIBIT A

TERMS AND CONDITIONS OF RESTRICTED STOCK GRANT

1. Grant of Restricted Stock. The Company hereby grants to the Participant named in the Notice of Grant (the "Participant") under the Plan for past services and as a separate incentive in connection with his or her services and not in lieu of any salary or other compensation for his or her services, an Award of Shares of Restricted Stock, subject to all of the terms and conditions in this Agreement and the Plan, which is incorporated herein by reference. Subject to Section 20(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan will prevail.

2. Escrow of Shares.

(a) All Shares of Restricted Stock will, upon execution of this Agreement, be delivered and deposited with an escrow holder designated by the Company (the "Escrow Holder"). The Shares of Restricted Stock will be held by the Escrow Holder until such time as the Shares of Restricted Stock vest or the date Participant ceases to be a Service Provider.

(b) The Escrow Holder will not be liable for any act it may do or omit to do with respect to holding the Shares of Restricted Stock in escrow while acting in good faith and in the exercise of its judgment.

(c) Upon Participant's termination as a Service Provider for any reason, the Escrow Holder, upon receipt of written notice of such termination, will take all steps necessary to accomplish the transfer of the unvested Shares of Restricted Stock to the Company. Participant hereby appoints the Escrow Holder with full power of substitution, as Participant's true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including, without limitation, stock powers which may be necessary to transfer the certificate or certificates evidencing such unvested Shares of Restricted Stock to the Company upon such termination.

(d) The Escrow Holder will take all steps necessary to accomplish the transfer of Shares of Restricted Stock to Participant after they vest following Participant's request that the Escrow Holder do so.

(e) Subject to the terms hereof, Participant will have all the rights of a stockholder with respect to the Shares while they are held in escrow, including without limitation, the right to vote the Shares and to receive any cash dividends declared thereon.

(f) In the event of any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares, the Shares of Restricted Stock will be increased, reduced or otherwise changed, and by virtue of any such change Participant will in his or her capacity as owner of unvested Shares of Restricted Stock be entitled to new or additional or different shares

of stock, cash or securities (other than rights or warrants to purchase securities); such new or additional or different shares, cash or securities will thereupon be considered to be unvested Shares of Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the unvested Shares of Restricted Stock pursuant to this Agreement. If Participant receives rights or warrants with respect to any unvested Shares of Restricted Stock, such rights or warrants may be held or exercised by Participant, provided that until such exercise any such rights or warrants and after such exercise any shares or other securities acquired by the exercise of such rights or warrants will be considered to be unvested Shares of Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the unvested Shares of Restricted Stock pursuant to this Agreement. The Administrator in its absolute discretion at any time may accelerate the vesting of all or any portion of such new or additional shares of stock, cash or securities, rights or warrants to purchase securities or shares or other securities acquired by the exercise of such rights or warrants.

(g) The Company may instruct the transfer agent for its Common Stock to place a legend on the certificates representing the Restricted Stock or otherwise note its records as to the restrictions on transfer set forth in this Agreement.

3. Vesting Schedule. Except as provided in Section 4, and subject to Section 5, the Shares of Restricted Stock awarded by this Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Shares of Restricted Stock scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock will be considered as having vested as of the date specified by the Administrator.

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Agreement, the balance of the Shares of Restricted Stock that have not vested as of the time of Participant's termination as a Service Provider for any or no reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company upon the date of such termination and Participant will have no further rights thereunder. Participant will not be entitled to a refund of the price paid for the Shares of Restricted Stock, if any, returned to the Company pursuant to this Section 5. Participant hereby appoints the Escrow Agent with full power of substitution, as Participant's true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including, without limitation, stock powers which may be necessary to transfer the certificate or certificates evidencing such unvested Shares to the Company upon such termination of service.

6. Death of Participant. Any distribution or delivery to be made to Participant under this Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Regardless of any action the Company or Participant's employer (the "Employer") takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding which the Company determines must be withheld or collected with respect to this Award and/or the Shares thereunder ("Tax-Related Items"), Participant acknowledges that the ultimate liability for all Tax-Related Items legally due by him or her is and remains Participant's responsibility and that the Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock grant, including the grant, vesting or issuance of shares under the Restricted Stock grant, the subsequent sale of Shares acquired pursuant to such settlement and the receipt of any dividends; and (2) do not commit to structure the terms of the grant or any aspect of the Restricted Stock to reduce or eliminate Participant's liability for Tax-Related Items.

Notwithstanding any contrary provision of this Agreement, no certificate representing the Shares of Restricted Stock may be released from the escrow established pursuant to Section 2, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of Tax-Related Items. Prior to vesting of the Restricted Stock, Participant will pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all obligations of the Company and/or the Employer for Tax-Related Items. In this regard, Participant authorizes the Company and/or the Employer to withhold all applicable Tax-Related Items legally payable by Participant from his or her wages or other cash compensation paid to Participant by the Company and/or the Participant's employer or from proceeds of the sale of Shares. Alternatively, or in addition, if permissible under applicable local law, the Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require Participant to satisfy such Tax-Related Items, in whole or in part (without limitation) by (a) paying cash (or cash equivalent), (b) electing to have the Company withhold otherwise deliverable Shares having a fair market value equal to the minimum statutory amount required to be withheld or such greater amount as the Administrator may determine if such amount would not have adverse accounting consequences, as the Administrator determines in its sole discretion, (c) delivering to the Company already-owned Shares having a fair market value equal to the minimum statutory amount required to be withheld or such greater amount as the Administrator may determine if such amount would not have adverse accounting consequences, as the Administrator determines in its sole discretion, or (d) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld for Tax-Related Items. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any for Tax-Related Items by reducing the number of Shares otherwise deliverable to Participant and, until determined otherwise by the Company, this will be the method by which such obligations for Tax-Related Items are satisfied. If Participant fails to make satisfactory arrangements for the payment of any required Tax-Related Items hereunder at the time any applicable Shares otherwise are scheduled to vest pursuant to Sections 3 or 4 or Tax-Related Items related to the applicable Shares otherwise are due, Participant will permanently forfeit such Shares and the Shares will be returned to the Company at no cost to the Company.

8. Acknowledgements.

(a) Participant acknowledges receipt of a copy of the Plan (including any applicable appendixes or sub-plans thereunder) and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Award of Restricted Stock subject to all of the terms and provisions thereof. Participant has reviewed the Plan (including any applicable appendixes or sub-plans thereunder) and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Award. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

(b) The Company (which may or may not be Participant's Employer) is granting the Restricted Stock. The Company may administer the Plan from outside Participant's country of residence, and United States law will govern all Awards of Restricted Stock granted under the Plan.

(c) Participant acknowledges that benefits and rights provided under the Plan are wholly discretionary and, although provided by the Company, do not constitute regular or periodic payments. Unless otherwise required by Applicable Laws, the benefits and rights provided under the Plan are not to be considered part of Participant's salary or compensation for purposes of calculating any severance, resignation, redundancy or other end of service payments, vacation, bonuses, long-term service awards, indemnification, pension or retirement benefits, or any other payments, benefits or rights of any kind. Participant waives any and all rights to compensation or damages as a result of the termination of employment with the Company for any reason whatsoever insofar as those rights result or may result from:

(i) the loss or diminution in value of such rights under the Plan, or

(ii) Participant ceasing to have any rights under, or ceasing to be entitled to any rights under the Plan as a result of such termination.

(d) The grant of the Restricted Stock, and any future grant of Restricted Stock under the Plan is entirely voluntary, and at the complete discretion of the Company. Neither the grant of the Restricted Stock nor any future grant of Restricted Stock by the Company will be deemed to create any obligation to grant any further Restricted Stock, whether or not such a reservation is explicitly stated at the time of such a grant. The Company has the right, at any time to amend, suspend or terminate the Plan.

(e) The Plan will not be deemed to constitute, and will not be construed by Participant to constitute, part of the terms and conditions of employment, and the Company will not incur any liability of any kind to Participant as a result of any change or amendment, or any cancellation, of the Plan at any time.

(f) Participation in the Plan will not be deemed to constitute, and will not be deemed by Participant to constitute, an employment or labor relationship of any kind with the Company.

9. Data Privacy. By entering into this Agreement, and as a condition of the grant of the Restricted Stock, Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this document by and among, as applicable, the Employer, and Company and its Subsidiaries and affiliates for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.

Participant understands that the Company and the Employer, its Parent or any Subsidiary may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Restricted Stock or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor, for the purpose of implementing, administering and managing the Plan ("Data"). Participant understands that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in Participant's country or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than Participant's country. Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting Participant's local human resources representative. Participant authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing Participant's participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom Participant may elect to deposit any shares of stock acquired under this Award. Participant understands that Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan. Participant understands that he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing Participant's local human resources representative. Participant understands, however, that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative.

10. English Language. Participant has received the terms and conditions of this Agreement and any other related communications, and Participant consents to having received these documents in English. If Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the translated version is different than the English version, the English version will control.

11. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant or the Escrow Agent. Except as provided in Section 2(f), after such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

12. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE SHARES OF RESTRICTED STOCK PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS RESTRICTED STOCK OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

13. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company at Intevac, Inc., 3560 Bassett Street, Santa Clara CA 95054, or at such other address as the Company may hereafter designate in writing.

14. Grant is Not Transferable. Except to the limited extent provided in Section 6, the unvested Shares subject to this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of any unvested Shares of Restricted Stock subject to this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

15. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Additional Conditions to Release from Escrow. The Company will not be required to issue any certificate or certificates for Shares hereunder or release such Shares from the escrow established pursuant to Section 2 prior to fulfillment of all the following conditions: (a) the admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Shares under,

and/or compliance with rules of, any state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body or the securities exchange on which the Shares are then registered, which the Administrator will, in its absolute discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any state or federal governmental agency, which the Administrator will, in its absolute discretion, determine to be necessary or advisable; and (d) the lapse of such reasonable period of time following the date of grant of the Restricted Stock as the Administrator may establish from time to time for reasons of administrative convenience.

17. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Agreement will have the meaning set forth in the Plan.

18. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares of Restricted Stock have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

19. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the Shares of Restricted Stock awarded under the Plan or future Restricted Stock that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

20. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

21. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

22. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Award of Restricted Stock.

23. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

24. Governing Law. This Agreement will be governed by the laws of the State of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation will be conducted in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock is made and/or to be performed.

INTEVAC, INC.

2012 EQUITY INCENTIVE PLAN

STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the Intevac, Inc. 2012 Equity Incentive Plan (the "Plan") will have the same defined meanings in this Stock Option Agreement (the "Agreement"), which includes the Notice of Stock Option Grant (the "Notice of Grant") and Terms and Conditions of Stock Option Grant, attached hereto as Exhibit A .

NOTICE OF STOCK OPTION GRANT

Participant: _____
Address: _____

Participant has been granted an Option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Agreement, as follows:

Grant Number _____
Date of Grant _____
Number of Shares Granted _____
Exercise Price per Share \$ _____
Total Exercise Price \$ _____
Type of Option _____ Incentive Stock Option
_____ Nonstatutory Stock Option
Term/Expiration Date _____

Vesting Schedule :

Subject to any acceleration provisions contained in the Plan or set forth below, this Option will be exercisable, in whole or in part, in accordance with the following schedule:

[INSERT VESTING SCHEDULE, e.g.: Twenty-five percent (25%) of the Shares subject to the Option shall vest on the one (1) year anniversary of the Date of Grant, and thereafter on each 12 month anniversary of such date the optionee shall become fully vested in that number of shares equal to 25% of the shares subject to the Option, such that on the 4-year anniversary of the Grant Date the optionee shall be fully vested in all the optioned shares, in each case subject to the optionee remaining a Service Provider through the applicable vesting date.]

Termination Period :

This Option will be exercisable for [three (3) months] after Participant ceases to be a Service Provider, unless such termination is due to Participant's death or Disability, in which case this Option will be exercisable for [twelve (12)] months after Participant ceases to be a Service Provider. Notwithstanding the foregoing sentence, in no event may this Option be exercised after the Term/Expiration Date as provided above and may be subject to earlier termination as provided in Section 15(c) of the Plan.

By Participant's signature and the signature of the representative of Intevac, Inc. (the "Company") below, Participant and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Agreement, including the Terms and Conditions of Stock Option Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Plan and Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT

INTEVAC, INC.

Signature

By

Print Name

Title

Residence Address :

EXHIBIT A

TERMS AND CONDITIONS OF STOCK OPTION GRANT

1. **Grant of Option**. The Company hereby grants to the individual named in the Notice of Grant (the "Participant") an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant of Stock Options and Option Agreement (the "Notice of Grant"), at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), subject to all of the terms and conditions in this Agreement and the Intevac, Inc. 2012 Equity Incentive Plan (the "Plan"), which is incorporated herein by reference. Subject to Section 20(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan will prevail. Unless otherwise defined herein, the terms defined in the Plan will have the same defined meanings in this Stock Option Agreement (the "Agreement" or "Option Agreement"), which includes the Notice of Grant and Terms and Conditions of Stock Option Grant and all exhibits to the Agreement.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an ISO under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). However, if this Option is intended to be an Incentive Stock Option, to the extent that it exceeds the \$100,000 rule of Code Section 422(d) it will be treated as a Non-Qualified Stock Option or Nonstatutory Stock Option ("NSO"). Further, if for any reason this Option (or portion thereof) will not qualify as an ISO, then, to the extent of such nonqualification, such Option (or portion thereof) shall be regarded as a NSO granted under the Plan. In no event will the Administrator, the Company or any Parent or Subsidiary or any of their respective employees or directors have any liability to Participant (or any other person) due to the failure of the Option to qualify for any reason as an ISO.

2. **Vesting Schedule and Termination Period**. Except as provided in Section 3 and subject to any acceleration provisions contained in the Plan or set forth in this Agreement, the Option awarded by this Agreement will vest and be exercisable, in whole or in part, in accordance with the vesting provisions set forth in the Notice of Grant. Shares scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

The Option will be exercisable for three (3) months after Participant ceases to be a Service Provider, unless such termination is due to Participant's death or Disability, in which case the Option will be exercisable for twelve (12) months after Participant ceases to be a Service Provider. Notwithstanding the foregoing sentence, in no event may the Option be exercised after the date of Expiration as set forth in the Notice of Grant and may be subject to earlier termination as provided in Section 15(c) of the Plan.

3. **Administrator Discretion**. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Option at any time, subject to the terms of the Plan. If so accelerated, such Option will be considered as having vested as of the date specified by the Administrator.

4. Exercise of Option.

(a) Right to Exercise. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Agreement.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit B (the "Exercise Notice") or in a manner and pursuant to such procedures as the Administrator may determine, which will state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice will be completed by Participant and delivered to the Company. The Exercise Notice will be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares together with any applicable tax withholding. This Option will be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

5. Method of Payment. Payment of the aggregate Exercise Price will be by any of the following, or a combination thereof, at the election of Participant:

(a) cash;

(b) check;

(c) consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

(d) surrender of other Shares which have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares, provided that accepting such Shares, in the sole discretion of the Administrator, will not result in any adverse accounting consequences to the Company.

6. Tax Obligations.

(a) Withholding of Taxes. Regardless of any action the Company or Participant's employer (the "Employer") takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding which the Company determines must be withheld or collected with respect to this Option and/or the Shares thereunder ("Tax-Related Items"), Participant acknowledges that the ultimate liability for all Tax-Related Items legally due by him or her is and remains Participant's responsibility and that the Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Option grant, including the grant, vesting or exercise of the Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (2) do not commit to structure the terms of the grant or any aspect of the Option to reduce or eliminate Participant's liability for Tax-Related Items.

(b) Notwithstanding any contrary provision of this Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of Tax-Related Items. Prior to exercise of the Option, Participant will pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all withholding and payment obligations of the Company and/or the Employer. In this regard, Participant authorizes the Company and/or the Employer to withhold all applicable Tax-Related Items legally payable by Participant from his or her wages or other cash compensation paid to Participant by the Company and/or the Employer or from proceeds of the sale of Shares. To the extent determined appropriate by the Company in its discretion, if permissible under applicable local law, it will have the right (but not the obligation) to satisfy Tax-Related Items by (1) selling or arranging for the sale of Shares that Participant acquires to meet the withholding obligation for Tax-Related Items having a fair market value equal to the minimum statutory amount required to be withheld or such greater amount as the Administrator may determine if such amount would not have adverse accounting consequences, as the Administrator determines in its sole discretion, and/or (2) reducing the number of Shares otherwise deliverable to Participant. Finally, Participant will pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of Participant's participation in the Plan or Participant's purchase of Shares that cannot be satisfied by the means previously described. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time of the Option exercise, Participant acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver the Shares if such Tax-Related Items are not delivered at the time of exercise.

(c) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Participant herein is an ISO, and if Participant sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (i) the date two (2) years after the Grant Date, or (ii) the date one (1) year after the date of exercise, Participant will immediately notify the Company in writing of such disposition. Participant agrees that Participant may be subject to income tax withholding by the Company on the compensation income recognized by Participant.

(d) Code Section 409A. Under Code Section 409A, an option that vests after December 31, 2004 (or that vested on or prior to such date but which was materially modified after October 3, 2004) that was granted with a per Share exercise price that is determined by the Internal Revenue Service (the "IRS") to be less than the Fair Market Value of a Share on the date of grant (a "Discount Option") may be considered "deferred compensation." For a Participant who is or becomes subject to U.S. Federal income taxation, a Discount Option may result in (i) income recognition by Participant prior to the exercise of the option, (ii) an additional twenty percent (20%) federal income tax, and (iii) potential penalty and interest charges. The Discount Option may also result in additional state income, penalty and interest charges to the Participant. Participant acknowledges that the Company cannot and has not guaranteed that the IRS will agree that the per Share exercise price of this Option equals or exceeds the Fair Market Value of a Share on the Date of Grant in a later examination. Participant agrees that if the IRS determines that the Option was granted with a per Share exercise price that was less than the Fair Market Value of a Share on the date of grant, Participant will be solely responsible for Participant's costs related to such a determination, if any.

7. Acknowledgements.

(a) Participant acknowledges receipt of a copy of the Plan (including any applicable appendixes or sub-plans thereunder) and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Participant has reviewed the Plan (including any applicable appendixes or sub-plans thereunder) and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Option. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated in the Notice of Grant.

(b) The Company (which may or may not be Participant's Employer) is granting the Option. The Company will administer the Plan from outside Participant's country of residence, and United States law will govern all Options granted under the Plan.

(c) Participant acknowledges that benefits and rights provided under the Plan are wholly discretionary and, although provided by the Company, do not constitute regular or periodic payments. Unless otherwise required by Applicable Law, the benefits and rights provided under the Plan are not to be considered part of Participant's salary or compensation for purposes of calculating any severance, resignation, redundancy or other end of service payments, vacation, bonuses, long-term service awards, indemnification, pension or retirement benefits, or any other payments, benefits or rights of any kind. Participant waives any and all rights to compensation or damages as a result of the termination of employment with the Company for any reason whatsoever insofar as those rights result or may result from:

(i) the loss or diminution in value of such rights under the Plan, or

(ii) Participant ceasing to have any rights under, or ceasing to be entitled to any rights under the Plan as a result of such termination.

(d) The grant of the Option, and any future grant of Options under the Plan is entirely voluntary, and at the complete discretion of the Company. Neither the grant of the Option nor any future grant of an Option by the Company will be deemed to create any obligation to grant any further Options, whether or not such a reservation is explicitly stated at the time of such a grant. The Company has the right, at any time to amend, suspend or terminate the Plan.

(e) The Plan will not be deemed to constitute, and will not be construed by Participant to constitute, part of the terms and conditions of employment, and the Company will not incur any liability of any kind to Participant as a result of any change or amendment, or any cancellation, of the Plan at any time.

(f) Participation in the Plan will not be deemed to constitute, and will not be deemed by Participant to constitute, an employment or labor relationship of any kind with the Company.

(g) In the event of termination of Participant's employment (whether or not in breach of local labor laws), Participant's right to receive the Option and vest in the Option under the Plan, if any, will terminate effective as of the date that Participant is no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.* , active employment would not include a period of "garden leave" or similar period pursuant to local law); furthermore, in the event of termination of employment (whether or not in breach of local labor laws), Participant's right to exercise the Option after termination of employment, if any, will be measured by the date of termination of Participant's active employment and will not be extended by any notice period mandated under local law; the Administrator shall have the exclusive discretion to determine when Participant is no longer actively employed for purposes of his or her Option grant.

8. Data Privacy. By entering into this Agreement, and as a condition of the grant of the Option, Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this document by and among, as applicable, the Employer, and Company and its Subsidiaries and affiliates for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.

Participant understands that the Company and the Employer, its Parent or any Subsidiary may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Options or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor, for the purpose of implementing, administering and managing the Plan ("Data"). Participant understands that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in Participant's country or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than Participant's country. Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting Participant's local human resources representative. Participant authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing Participant's participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom Participant may elect to deposit any shares of stock acquired upon exercise of the Option. Participant understands that Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan. Participant understands that he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing Participant's local human resources representative. Participant understands, however, that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative.

9. English Language. Participant has received the terms and conditions of this Agreement and any other related communications, and Participant consents to having received these documents in English. If Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the translated version is different than the English version, the English version will control.

10. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

11. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

12. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company at Intevac, Inc., 3560 Bassett Street, Santa Clara CA 95054, or at such other address as the Company may hereafter designate in writing.

13. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Participant only by Participant.

14. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

15. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any state, federal or foreign law, the tax code and related regulations or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the purchase by, or issuance of Shares to, Participant (or his or her estate) hereunder, such purchase or issuance will not occur unless and until such listing, registration, qualification, rule compliance, consent or approval will have been completed, effected or obtained free of any

conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such state, federal or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange. Assuming such compliance, for income tax purposes the Exercised Shares will be considered transferred to Participant on the date the Option is exercised with respect to such Exercised Shares.

16. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Agreement will have the meaning set forth in the Plan.

17. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares subject to the Option have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

18. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Options awarded under the Plan or future options that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

19. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

20. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

21. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Code Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Option.

22. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Option under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

23. Governing Law. This Agreement will be governed by the laws of the State of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Option or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation will be conducted in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Option is made and/or to be performed.

EXHIBIT B

INTEVAC, INC.

2012 EQUITY INCENTIVE PLAN

EXERCISE NOTICE

Intevac, Inc.
3560 Bassett Street
Santa Clara CA 95054

Attention: _____

1. Exercise of Option. Effective as of today, _____, _____, the undersigned ("Purchaser") hereby elects to purchase _____ shares (the "Shares") of the Common Stock of Intevac, Inc. (the "Company") under and pursuant to the 2012 Equity Incentive Plan (the "Plan") and the Stock Option Agreement dated _____ (the "Agreement"). The purchase price for the Shares will be \$ _____, as required by the Agreement.
2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price of the Shares and any required tax withholding to be paid in connection with the exercise of the Option.
3. Representations of Purchaser. Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Agreement and agrees to abide by and be bound by their terms and conditions.
4. Rights as Stockholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to the Option, notwithstanding the exercise of the Option. The Shares so acquired will be issued to Purchaser as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 15 of the Plan.
5. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. Entire Agreement; Governing Law. The Plan and Agreement are incorporated herein by reference. This Exercise Notice, the Plan and the Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of the State of California.

Submitted by:

PURCHASER

Signature

Print Name

Address :

Accepted by:

INTEVAC, INC.

By

Its

Date Received

I, Wendell Blonigan certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Intevac, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2017

/s/ WENDELL T. BLONIGAN

Wendell T. Blonigan

President, Chief Executive Officer and Director

I, James Moniz certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Intevac, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2017

/s/ JAMES MONIZ

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

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Wendell Blonigan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Intevac, Inc. on Form 10-Q for the quarterly period ended April 1, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Intevac, Inc.

Date: May 2, 2017

/s/ WENDELL T. BLONIGAN

Wendell T. Blonigan

President, Chief Executive Officer and Director

I, James Moniz, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Intevac, Inc. on Form 10-Q for the quarterly period ended April 1, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Intevac, Inc.

Date: May 2, 2017

/s/ JAMES MONIZ

James Moniz

Executive Vice President, Finance and Administration,

Chief Financial Officer and Treasurer

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